

10 July 2007

Cement supplies and prices – the facts

'Unfounded, without substance and just plain wrong' was how Mike Gilbert, Chief Executive of the British Cement Association described the suggestions put forward by the British Aggregates Association (BAA) of possible anti-competitive behaviour in the cement industry.

Mr Gilbert went on to say 'it is disappointing that the BAA have opted to continue this programme of innuendo with their agents Cartel Damage Claims (CDC). We are not surprised that they have yet to reach any firm conclusions, as the BCA has absolutely no evidence that the cement market is functioning anything other than properly. If BAA had drawn its members concerns to us directly, we would have reviewed the following facts.

The facts are:

Demand

- Long term demand for cement has been rising steadily at around 1% a year; growth in 2007 is forecast at 1-1.5%
- Demand in Q4 2006 pushed up sales by 5%, at a time when cement producers are normally able to build up stocks in preparation for planned annual maintenance shutdowns which take place in Q1 - a period of traditionally low demand
- Strong demand has continued into 2007, with domestic consumption of cement in May up 12% on last year. This followed a 5% increase in demand in April 07. One BCA member reports demand in the South East rising by 14% in Q1 and by 10% alone in April
- Market reports indicate that mild weather conditions have fuelled the sudden increase in demand for BCA member's products. Added to this has been a reduction in the availability of slag, with a consequent increase in demand for cement for use in concrete.

This has resulted in an 'overnight' surge in demand for cement while demand for concrete appears not to have risen so sharply

Supply

- Since 2003, UK cement industry production capacity has increased by an additional 1 million tonnes per annum, up to 12.5 million tonnes, a rise of 8%.
- In 2006, BCA members produced their highest volume of cement since 2001
- Despite annual maintenance shutdowns and unforeseen production problems, BCA members produced more cement in Q4 2006 and Q1 2007 than for the corresponding periods in 2004, 2005 and 2006
- To supplement domestic production, BCA members have imported more product, equivalent to around 3% of production, from a European market itself experiencing strong demand for cement
- Cement sales in Q4 2006 and Q1 2007 exceeded cement production for these periods (Q4 06 production was 2,851,000 against sales of 2,945,000, Q1 2007 production was 2,678,000 against sales of 3,009,000)

Investment and Pricing

- The UK cement industry has invested around £200 million pounds in plant improvement and increased capacity in the last three years, with more to come
- Energy represents over 35% of the cost of cement manufacture. The considerable rise in energy costs in recent years has had a significant impact on the cement industry
- Pricing policy is a matter for individual companies
- Prices are determined by market forces and can be affected by local, regional, national and international circumstances.
- Over the last 10 years average UK cement prices have risen below the rate of inflation and they are in line with the average increase in material prices in the year to March 2007
- On average, material prices in the UK rose by 7.7% in the year to March 2007. The price of some other competing materials have risen more sharply, e.g. structural steel prices have risen by 11%
- Price calculations in other parts of Europe, such as Germany, are based on factory gate as opposed to in the UK where they are based on delivered prices which is often a cause for misunderstanding when making comparisons between countries
- International and other national cement prices do not reflect UK operating conditions, costs and investment programmes.

BCA members are acutely aware of the requirements of their customers and following the reported shortages earlier in the year are working closely with them to ensure their needs are met. All production facilities are operating to maximise supply to the market.'

ENDS

For further information:

Damian Testa, Head of Public Affairs and External Communications at the British Cement Association. Telephone 01276 608708, mobile 07866 388250, email dtesta@bca.org.uk

Notes to editors:

The British Cement Association (BCA) is the trade and research organisation that represents the interests of the United Kingdom's cement industry in its relations with Her Majesty's Government, the European Union and relevant organisations in the United Kingdom. The members of the BCA (Tarmac Buxton Lime and Cement, Castle Cement, Cemex UK Operations and Lafarge Cement UK) are the major domestic manufacturers of Portland cement producing over 90% of the cement sold in the UK.

The cement industry has an annual turnover of £775 million and is a major supplier to the construction industry. It employs around 3,400 people directly with a further 15,000 jobs depending upon its operations.

Attached to this press release is an updated economic briefing note.

BAA issued a press release on 19 March announcing that it had brought in a specialist firm, Cartel Damage Claims, to investigate claims that the UK cement market is not operating properly.

BCA issued a response to the BAA statement on 21 March.

British Cement Association Economic Briefing Note – June 2007

Long term demand steady: With a construction industry growing at 3-5% a year for the last few years, there has been a steady demand for cement rising at around 1% per year. Growth in 2007 is forecast at 1%-1.5%.

Short term cement shortages: Strong sales in Q4 2006 (up 5% on Q4 2005) meant that reserves normally built up in the autumn, in preparation for the planned annual maintenance shutdowns in early 2007, were not available. Cement producers plan annual maintenance shutdowns for this time of year when traditionally demand is relatively low. Demand for cement has however been higher than forecast this year due to the continued mild weather conditions and a shortage of slag supplies (reduced by 15-20%) which has increased the demand for cement in ready mix concrete. This demand pattern and several unplanned production issues experienced by some member companies, has meant that, at times, demand has outstripped supply this year.

The supply situation has improved following completion of the planned annual maintenance shutdowns with all plants working to maximise supply to the market but demand continues to be strong. Domestic consumption in May has increased by 12% compared to the same period last year, following a rise in demand of around 5% in April compared with last year. To help ensure supply, cement manufacturers have imported more product (around 3% of capacity). Demand for cement is increasing across the world, and is not unique to the UK. Indeed rising demand is being felt across the construction sector.

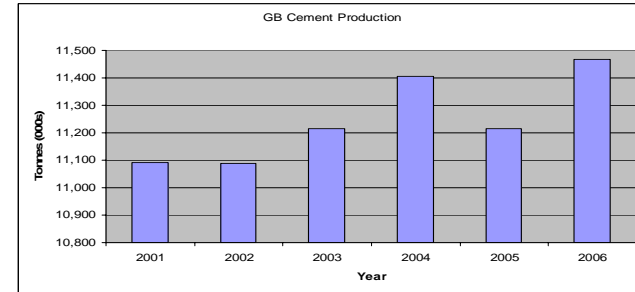
Today, the UK cement industry is delivering to meet demand. The current supply situation amongst BCA members is as follows:

Castle Cement

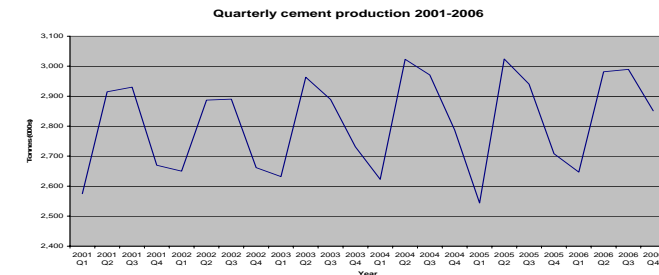
- All plants are running normally
- Bulk supplies are normal

CEMEX

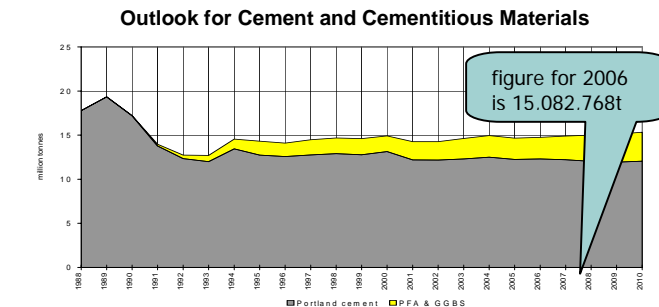
- Record performance at all three plants with world class efficiency levels of



Source: BCA



Source: BCA



Source: Leading Edge

95.4% between Jan-Jun 07, resulting in an increase in production of 13% compared to the same period last year.

Tarmac Buxton Lime and Cement

- Plant running normally

Lafarge Cement UK

- Seen a surge in demand: 8% increase in March alone and est. 10% in April (demand in South East has risen by 14% in Q1 07)
- All plants working to maximise supply to the market
- Has removed demand management measures at all plants with the exception of Cookstown in Northern Ireland

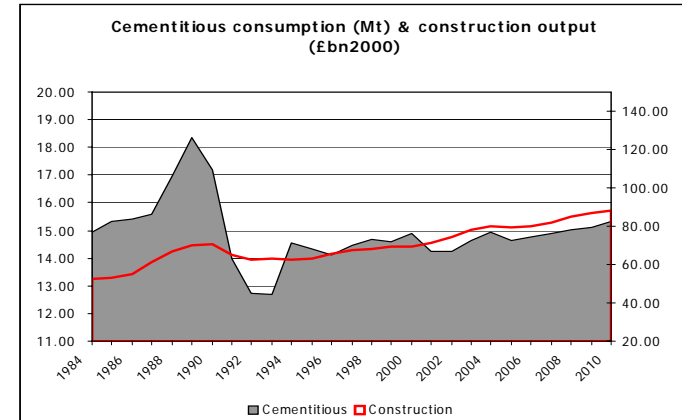
Increased investment and capacity: In order to meet energy, Climate Change Levy, IPPC, Waste Incineration Directive and other requirements the UK cement industry has invested over £100 million pounds in plant improvement and new kilns in the last 2 years. This has also boosted domestic capacity in order to help meet demand for cement through domestic production. Since 2003, UK cement industry production capacity has increased by an additional 1 million tonnes, up to 12.5 million tonnes, a rise of 8%.

The industry is continuing to invest to supply future demand growth:

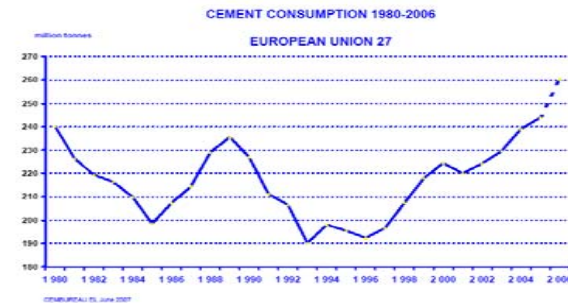
- CEMEX UK has started work on a £27 million grinding plant at Tilbury in Essex to increase the company's cement capacity by 20% from 2008
- Castle has announced it is increasing production capacity and by 2008 will have an additional 10% output compared to 2006
- Tarmac Buxton Lime and Cement has invested £650,000 in systems at its Tunstead operations to allow the recovery of process wastes from its lime kilns and lime hydration plants to provide raw materials for its cement making process on site
- LCUK has a £50 million capital investment budget for 2007 to improve efficiency

Costs up: The considerable rise in energy costs in recent years has had a significant impact on energy intensive industries such as cement manufacture.

Energy represents >35% of variable costs of cement manufacture. As cement is an internationally traded commodity, it is extremely difficult to recover rises in the cost of energy/ input prices without damaging competitiveness



Source: Leading Edge



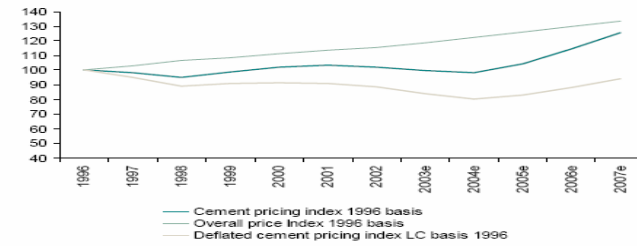
Source: CEMBUREAU

Price rises below inflation: Over the last 10 years UK cement prices have risen below the rate of inflation and they are in line with the average increase in material prices in the year to March 2007.

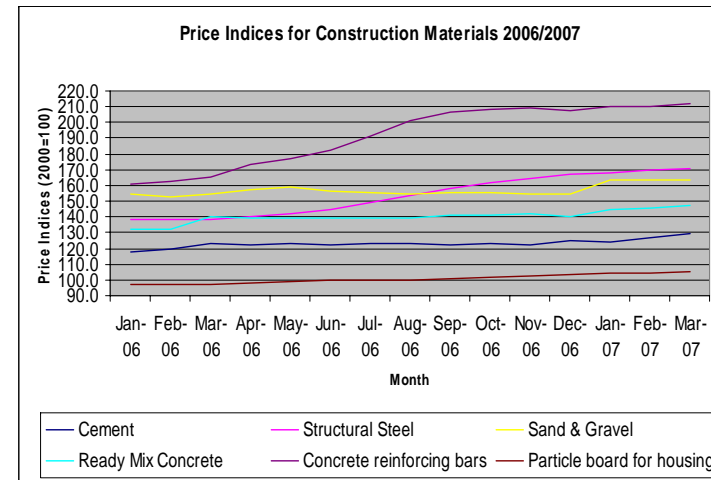
On average, material prices in the UK rose by 7.7% in the year to March 2007

The price of some other competing materials have risen more sharply, e.g. structural steel prices have risen by 11%

UK – cement prices (actual and deflated)



Source: Exane BNP Paribas

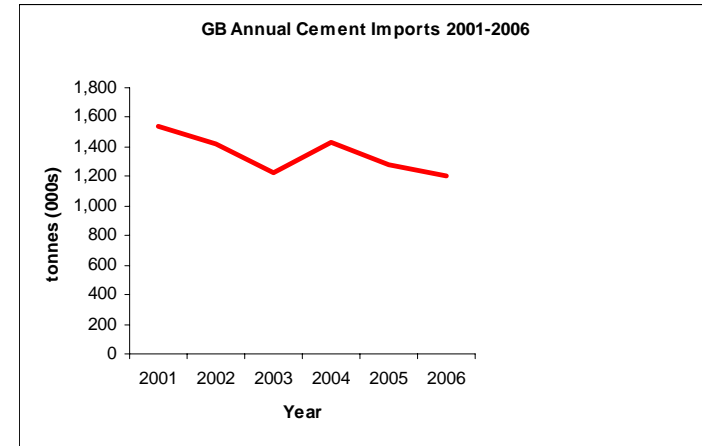


Source: DTI

The volume of cement imported into the UK has been steady in recent years, with imports comprising around 10% of the UK market.

There are around 10 suppliers of cement to the UK market including importers.

Imported cement adds transport CO₂ to the 'costs' of cement delivered in the UK. In 2006, around 90% of the cement imported to the UK was procured by non-BCA members.



Source: BCA