HEIDELBERGCEMENT

Report

by the Chairman of the Managing Board of

HeidelbergCement

Dr. Bernd Scheifele

concerning the situation of the company

on the occasion of the Annual General Meeting

on 4 May 2005

in the Portland Forum am Herrenberg

in Leimen

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Translation – The spoken German word prevails.

Ladies and Gentlemen,

I am pleased that so many of you are able to be here today in our beautiful Festival Hall, or, as it is now called, the Portland Forum am Herrenberg.
On behalf of my colleagues on the Managing Board, I would like to sincerely welcome you to today's Annual General Meeting.

Chart: Overview

My report on the situation of the company is broken down into three parts:

1. Summary of the 2004 financial year
2. Current topics from this financial year
3. Prospects for 2005

1. Summary

Chart: Results for 2004 – Overview

- Adjusted turnover rose by 5.8%. This is comparatively healthy growth, which reflects the sound state of the worldwide cement market.
- HeidelbergCement increased its cement and clinker sales volumes by 28% to over 65 million tonnes. This is primarily attributable to the first-time consolidation of our Indonesian subsidiary, Indocement, which achieved cement sales volumes of approximately 12 million tonnes in 2004.
- Results in Germany improved. After three hard years, we succeeded in substantially increasing results in Germany and are operating in the black once again.
- I will talk about the additional ordinary result of EUR -674 million in more detail in the balance sheet section.
- Some changes took place in the Managing Board and Supervisory Board, which were partly due to the withdrawal of the banks. Deutsche Bank withdrew completely from HeidelbergCement, while the share held by Dresdner Bank, now part of Allianz, fell to below 5%. After the last Annual General Meeting, I was elected

Chairman of the Supervisory Board. Managing Board members Mr. Vanfrachem and Mr. Fernvik retired on 1 July 2004. Mr. Wolf, the former Chief Financial Officer, retired on 1 November and Mr. Bauer stepped down on 31 January 2005. The Supervisory Board then assigned me the position of Chairman of the Managing Board and elected Mr. Heckmann as Chairman of the Supervisory Board. On 6 April 2005, Mr. Hirth was appointed member of the Supervisory Board, as a shareholder representative, in place of me.

- We have improved the financing situation. The net indebtedness remained virtually stable despite the first-time consolidation of Indocement.
  In addition, we took out a new syndicated loan of EUR 1 billion in December 2004, which refinances the syndicated loan from the previous year under better conditions and lower financing costs. We are pleased to say that, as a result, the rating agencies have moved our long-term unsecured liabilities up two grades.

Chart: Share price performance

The price of our share recovered substantially in the 2004 financial year, with the upward trend continuing. After a temporary low of EUR 31.70 in January, the share price closed the year at EUR 44.30.

With a price increase of 32%, it performed considerably better than the DAX (+7%), MDAX (+20%) and the global industry index MSCI (World Construction Materials Index; +21%).

Chart: Key figures – Turnover and operating income before depreciation (OIBD)

Before adjustment for currency and consolidation effects, turnover increased by 8.8%. The increase in OIBD was 19%. This also reveals the typical seasonal structure of our business: As a result of weather and repairs, the first and fourth quarters are typically not as strong as the second and third quarters, when construction activity increases. Of course, this applies particularly to our markets in Europe and North America.

Chart: Cement and clinker sales volumes 2004

The cement and clinker sales volumes again indicate the enormous rise from just under 51 million tonnes to over 65 million tonnes, which is, first and foremost, attributable to Indocement. We recorded declines in Central Europe West and Western Europe. Our cement sales volumes were stable in Northern Europe and Central Europe East. We achieved an increase of 7% in North America and an impressive 191% in Africa-Asia-Turkey, this growth, of course, being heavily influenced by the consolidation of Indocement.

Chart: OIBD in the regions

In Central Europe West – which is basically Germany, but also includes Austria and Switzerland – you will notice a significant increase of EUR 64 million in OIBD, primarily due to price increases and cost savings. This shows that in Germany, we have succeeded in reversing the results trend, which sets us apart from one or the other player on the market.

At the end of 2004, we signed the agreement to purchase Teutonia Zementwerk Aktiengesellschaft near Hanover. This acquisition was authorised by the Cartel Office during the past week. We now hold more than 99% of the voting rights in Teutonia. It has decisively strengthened our position in Northern Germany, from Anneliese Zement in North Rhine-Westphalia to Königs Wusterhausen near Berlin.

In Western Europe, we recorded a decline in results, which was partly due to the falling cement prices in the Benelux countries. In the United Kingdom, results were impaired by project costs at Padeswood in Wales, where we are converting an obsolete wet cement plant to a dry kiln. The conversion will be completed in the summer.

Results also declined in Northern Europe**.** On the one hand, this is due to the fact that we have sold producers of prefabricated concrete elements and ready-mixed concrete companies in Finland. On the other hand, we have made extensive changes in our largest Norwegian plant in Brevik in Southern Norway, enabling us to increase the proportion of alternative fuels to 70-80%. Naturally, this conversion had an adverse effect on results.

Central Europe East recorded a rise of 13%. This figure is all the more impressive when you consider that the sale of our Bulgarian company, which took place in 2003, is already taken into account in this increase. Infrastructure measures are being taken in connection with the entry to the EU, providing a definite boost to cement sales volumes. We achieved positive developments in Poland, the Czech Republic and Hungary. However, this also applies to the countries that have not yet joined the EU. In Romania, large motorway projects are planned. In the Ukraine, where we are the market leader, we are not able to completely service the demand. It is now clear that we made the investments in Eastern Europe at the right time.

This year, North America is once again the strongest region in the Group. America is the second-largest cement market in the world, behind China. Unlike in Germany, where we have excess capacities, the market there is characterised by the fact that we have undercapacities, i.e. America has an annual net import requirement of approximately 20 million tonnes of cement.
Excluding exchange rate effects, the OIBD would have increased by 14% – an enormous result for a mature market. Even after conversion into EUR, the increase amounts to 4%. This shows that the American cement market is still in a very sound state.

Africa-Asia-Turkey was affected by the first-time consolidation of Indocement. This basically explains the leap from EUR 72 to 192 million. In Africa, sales volumes rose significantly. The Turkish market developed positively and the macroeconomic figures stabilised. In addition, Turkey is currently exporting 2 million tonnes to Iraq. This, too, has contributed to the fact that in Turkey, we experienced a significant increase in cement demand and better utilisation of our plants.

At maxit Group, cash flow rose by 6%, in line with our expectations. However, the picture at maxit Group is quite a varied one: In Germany, the market remains difficult. In other European countries, particularly in Scandinavia but also in Portugal, Spain and France, we experienced positive business development.

Trading in cement, clinker and fossil fuels is managed by Group Services. While the turnover in this unit rose by 21% as a result of the heavy increase in freight rates, OIBD fell from EUR 12 to 3 million as a result of internal restructuring within the Group.

Chart: OIBD – regional breakdown

North America is achieving the best results. Central Europe West, which is the traditional home market Germany, still accounts for just 9% of the OIBD, despite the addition of the acquisitions from 2003 and 2004. This speaks volumes about how much HeidelbergCement has changed, from a Southern German cement manufacturer to an international Group. You can see quite clearly that the growth markets have increased their share to 32%. This is primarily due to the fact that we have strong growth markets in our portfolio, with Central Europe East, Indocement and China. We have now set ourselves a new target of obtaining a mature to growth markets ratio of 50:50.

Chart: Employees 2004: 42,062 (2003: 37,774)

The increase in the number of employees is primarily attributable to the inclusion of Indocement in the consolidation scope. On balance, this increase is greater than the decline in personnel, which we recorded in the other regions as a result of restructuring measures and disinvestments.

On behalf of the Managing Board, I would like to thank all our employees, whose dedication and enthusiasm have contributed to the success of HeidelbergCement. Our thanks also go to the employee representatives, who have helped to make some difficult decisions for the Group in a year marked by change.

Chart: Profit and loss account

We now move on to the financial report. You will note that the figures are characterised by three influential factors:

1. solid operating activities
2. the first-time consolidation of Indocement
3. the elimination of balance sheet risks, amounting to around EUR 700 million

I have already talked about turnover and OIBD. As regards depreciation, the fundamental difference is that following a change in the accounting principles in accordance with IAS, annual goodwill amortisation in the region of EUR 170 million were discontinued. This also largely accounts for the increased operating income of EUR 735 million.

Chart: Additional ordinary result 2004

In order to eliminate balance sheet risks, we absorbed extraordinary charges in the order of around EUR 700 million. The majority of these measures are reflected in the additional ordinary result, which shows a negative balance, with expenditure of EUR 674 million. If we look at this figure more closely, it can be broken down into exceptional amortisation (impairment) of EUR 450 million and non-recurring expenses of around EUR 230 million.

For the exceptional amortisation of around EUR 446 million, we carried out impairment tests in accordance with the regulations of the IAS. This involves testing whether the assets shown in the balance sheet for a specific business unit within the Group earn sufficient profit to finance these levels of goodwill. These impairment tests established that, overall, these figures fell short by a value in the region of EUR 350 million. Consequently, we recorded impairment of EUR 350 million. This is the largest item you will see here. In addition, we recorded impairment on fixed assets of around EUR 100 million. The majority of this was due to the restructuring measures in Belgium and the Netherlands, where we have plans to decommission a kiln line in Maastricht.
The non-recurring expenses of around EUR 228 million included the formation of a provision for Indocement's financing costs. The second major amount was, once again, a provision for personnel reductions as part of the reorganisation plan for Belgium and the Netherlands. The plan involves cutting 400 jobs over a period of three to four years, requiring the formation of provisions for redundancy pay.

The amount of EUR -674 million recorded under additional ordinary result is obtained from the sum of impairment of EUR 446 million and the non-recurring expenses of EUR 228 million.

Chart: Profit and loss account (continued)

Including the results from participations, the earnings before interest and income taxes (EBIT) fall to EUR 128 million. The financial results change from EUR -222 to -280 million, primarily as a result of foreign exchange losses in Indonesia. This leads to a profit before tax of EUR -152 million.

Taxes on income rise to EUR 181 million, mainly as a result of the increased limitations in Germany on using tax losses carried forward. This produces a loss for the financial year of EUR 333 million and a Group share in results of EUR -366 million.

Chart: Cash flow statement 2004

The increase in net cash from operating activities from EUR 660 to 937 million shows the strength of our operating activities. Investments are another significant factor: They fell from EUR 612 million in the previous year to EUR 511 million in 2004. This is counterbalanced by proceeds from fixed asset disposals and cash from changes in the consolidation scope, bringing the total net cash used in investing activities to EUR 309 million.

Dividends of EUR 125 million were paid and we were able to reduce bonds and loans by around EUR 704 million, which resulted in a figure of EUR 829 million for net cash used in financing activities.

At the end of the year, cash and cash equivalents stood at EUR 305 million.

Chart: Investments 2004: EUR 511 million

Here you have another detailed view of the investments in tangible and financial fixed assets. In comparison with the previous year, they fell by around 17%. While investments in tangible fixed assets rose, investments in financial fixed assets fell heavily; these mainly related to the purchase of further shares in Anneliese Zementwerke AG and the Chinese company China Century Cement. Restraint in investments served mainly to reduce debts.

Chart: Balance sheet as of 31 December 2004

The balance sheet also reflects the effects of the influential factors I described in relation to the profit and loss account. As a result of the impairment, intangible fixed assets decreased from EUR 2.5 billion to around EUR 2.3 billion. Tangible fixed assets increased by around EUR 500 million to more than EUR 5 billion. This EUR 500 million arises primarily from Indocement. The counteractive effect can be seen in the financial fixed assets. Until 2003, Indocement was accounted for as participation. After its full consolidation, the participation no longer appears in the balance sheet; instead, the individual assets are recorded in the balance sheet. This has therefore reduced the financial fixed assets by around EUR 250 million.
Only small changes occurred in receivables: Cash and cash equivalents were reduced by EUR 300 million through improved cash management.

On the liabilities side, you will see that in shareholders' equity, the capital entitled to shareholders fell by EUR 500 million. This is essentially due to the dividend payment and the loss incurred in the 2004 financial year. The minority interests rose by EUR 275 million. The reason for this is the consolidation of Indocement. HeidelbergCement now holds a share of around 33% in Indocement. You will find the remaining 67% here, i.e. EUR 275 million. I have already explained the increase in provisions.
Overall, the financial liabilities decrease by EUR 237 million, in parallel to the cash and cash equivalents.
Despite the first-time consolidation of Indocement, we succeeded in reducing the balance sheet total slightly. Despite the additional liabilities taken over from Indocement, the net indebtedness remains virtually the same, even though the debt/equity ratio – known as the gearing – has increased once again as a result of the lower shareholders' equity.

Today, the Managing Board and Supervisory Board are proposing a reduced dividend of 55 cents per share, as you will see under item 2 on the agenda. We believe this reduction is appropriate in view of the heavy loss incurred by the Group. The savings in dividends will help the company – your company – to further strengthen its equity base and internal financing.

A fresh start

For you, the shareholders of HeidelbergCement, the results of the year 2004 - with a loss recorded for the first time in the postwar period - are of course disappointing. This year may be received as a year of transition in the history of the company.
With the balance sheet of the year 2004 and the measures described we draw a conclusion under the last three very difficult years for HeidelbergCement. Now we have clarity regarding the leadership of the Group and have clearly set the direction for the coming years in terms of personnel. The balance sheet is stable again. At the end of March, the equity ratio amounts to approx. 40 % and we have good liquidity.

2. Current topics

Chart: Sustainability Report

I will now move on to the current topics: On your seats you will find the first Group Sustainability Report. HeidelbergCement has made a commitment to sustainable development on the foundations of economy, ecology and social responsibility. For us, sustainable development is not merely a buzzword. We create value for our customers, employees and shareholders. We safeguard natural resources – the basis of our economic activity. We also perceive our social responsibility to our locations and employees. We have already achieved a great deal. The first Group-wide Sustainability Report makes this clear. However, we still have a lot to do. We will report to you, and an interested public, on our future progress.

Chart: Corporate Governance

I now move on to the subject of Corporate Governance. This concept is all about good corporate management and monitoring. In this regard, I would like to address several issues.

<u>Managing Board remuneration</u>: There will be changes in the remuneration awarded to management personnel. The variable portion of the Managing Board remuneration will

change from a dividend-related to a results-related component. This will make the remuneration more closely and directly linked to the Group's performance, while there are other aspects, unrelated to results, that come into play in the decision regarding the dividend, such as dividend continuity.

Along the same lines, as regards remuneration components with a long-term incentive effect – as you know, this is a requirement of the Corporate Governance Codex – the stock option plans will not be continued. Instead, an EVA-based system will be introduced. These components will therefore no longer be linked to performance-independent – or even Group-independent – factors relating to the development of the share price.

Based on the development of the share price in recent years, no shares or amounts in euro have yet been awarded to the Managing Board or other managers with this entitlement. The two most recent plans have only been "in-the-money" as a result of the positive price development over the last year and a half. Limited distributions will therefore be made on the basis of these plans.

<u>Supervisory Board remuneration</u>: We have also addressed both the fixed and the variable components of the Supervisory Board remuneration. In recent years, the Supervisory Board remuneration had developed to a level corresponding to that of the healthy DAX 30, which drew frequent criticism in the past, even from your ranks. This was caused by the steady, marked rise of the dividend in recent years, to which the development of the variable remuneration component is linked.

We would like to reduce the fixed portion of the Supervisory Board remuneration by just under a third, from EUR 20,000 to EUR 14,000. The variable portion will remain linked to the dividend, but the formula for calculating it will be changed to give a reduction of just under 20% based on the previous dividend of EUR 1.15, i.e. from around EUR 66,000 to around EUR 53,000. On the basis of the current dividend proposal of EUR 0.55, there will be a reduction of EUR 50,000 in the variable remuneration component this year, bringing the figure to just under EUR 16,000.

Publication of the Managing Board remuneration: Public interest in corporate governance matters raises another issue, that of the individualised publication of the Managing Board remuneration. Publishing the Managing Board salaries down to the last cent is regarded as a violation of the privacy of the members of the Managing Board, which could only be justified by a prevailing public interest. The general public's curiosity regarding what board members earn may be widespread and, in some cases, understandable; however, it cannot justify such a massive invasion of personal rights. In my opinion, this would not result in a reduction in the general level of remuneration, let alone more performance-related levels, but rather equalisation at a high level, which, in the end, is not what anyone wants. For this reason, we disagree with the law proposed by the Federal Government (Bundesregierung) on this matter.

Auditors: As you will have gathered from the agenda, we are again nominating Ernst & Young AG Wirtschaftsprüfungsgesellschaft for election as our independent auditors. In a difficult transitional year, Ernst & Young have performed good work once again, despite increased requirements and reduced fees. The extraordinary charges I have already talked about in detail are not due to any failings on the part of the auditors. They merely compensate, in part, for the fact that linear goodwill amortisation was discontinued for the first time. They are also connected with the changes in the tax laws and the restructuring decisions made during the past year. The impairment resulted from our normal business forecasts, which, based on our experiences over the last three years, were more conservative than in the past. In view of the considerable changes in the Group during 2004, continuity appears to be the most sensible approach at this time.

Chart: Capital increase

In March of this year, we successfully carried out a capital increase by issuing 7.8 million new shares at the price of EUR 35 per share. All shares were subscribed for. HeidelbergCement thus received a sum of around EUR 270 million.

The Managing Board has decided to use the net cash from the capital increase to repay 35% of the nominal amount of the EUR 700 million 7.375% high yield bond that matures in 2010. Early repayment means that we can reduce our financial expenditure in the coming financial year, as we would no longer have to pay the interest rate of 7.375%, which is significantly above market rates, on the full amount.

As a result of the capital increase, we have been able to decisively improve the credit ratios, the financial flexibility and the financial structure of HeidelbergCement.

Chart: Managing Board reorganisation

I would now like to focus on the issue of further developing the corporate and management structure. After all, you would be quite within reason to ask what changes the new Managing Board will bring. For this reason, we have held discussions in the Managing Board about what sort of organisational structure we want in the future. I would like to emphasise three points:

1. Firstly, that we have reorganised the responsibilities in the Managing Board. We now have a Managing Board member for Europe, namely Mr. Kern. As there were previously three or four Managing Board members for Europe, it was difficult to gain any benefit from synergies. Mr. Kern will be responsible for cement, ready-mixed concrete, sand and gravel in Europe. He will hand over responsibility for maxit to Dr. Näger. Mr. Gauthier will focus on our opportunities in the growth markets of Asia, Africa and the Mediterranean region. Because of the restructuring in Belgium and the Netherlands, he will continue to be responsible for these markets.

Chart: Transparent and efficient organisational structure

2. The second point is the concentration of our administrative locations. If you look at the map of HeidelbergCement, you will notice that, for historical reasons, we have several administrative locations. We have therefore decided to move the staff departments Group Strategy & Development, Group Internal Audit and Corporate Finance to Heidelberg. Until now, these departments have been located in Brussels and Malmö. However, these are important Group staff units that should be situated close to the Managing Board.
   The administrative centre in Singapore will be closed. Its responsibilities will, in future, be handled directly by our operating units in Asia. The administrative location

in Malmö – formerly the Scancem headquarters – will also close.
We will make a decision regarding the administrative location in Brussels following the conclusion of a detailed investigation.

3. In view of the reorganisation of the responsibilities within the Managing Board, we need to reorganise HeidelbergCement in Europe. The aim of the “win” project is to reduce complexity. We have therefore decided, together with the management consultancy firm Boston Consulting, to develop a more streamlined and efficient organisational and process structure for our European activities.
In the future, as part of this study, we will also establish uniform key performance indicators across the Group for our core business of cement and concrete, including sand and gravel. This will mean that in the future we can make more uniform evaluations and comparisons within the Group.

3. Prospects

Chart: Cement and clinker sales volumes Q1

We now move on to the current financial year and prospects. This morning, Dr. Näger and I explained the first quarter to the press and analysts. You can find the current interim report among your documents, so I will keep to the essentials.

In the first quarter of 2005, the cement and clinker sales volumes decreased by 2% to 12.7 million tonnes. Excluding consolidation effects, we recorded a decrease of 3.7%. The sales volumes in Western, Central and Eastern Europe were adversely affected by the long, cold winter. In contrast, we achieved increases in sales volumes in North America, Northern Europe and the Africa-Asia-Turkey region.

Chart: Profit and loss account Q1

The profit and loss account for the first quarter was affected by a long winter in Europe and non-recurring factors. Turnover increased slightly in the first quarter. OIBD and operating income fell by 5.5% and 6.6% respectively. The positive contribution to profits made by North America grew significantly once again. Northern Europe also recorded an

improvement despite the long winter, as our Norwegian Brevik plant was fully available again following its conversion to allow increased use of alternative fuels.
The additional ordinary profit of EUR -21 million essentially results from taking into account the prepayment penalty for the redemption of 35% of our high interest bond in the first quarter. Once again, our participation Vicat exerted a considerable influence on the pleasing results from participations, which amounted to EUR 11 million.
Mr Merceron-Vicat, we sincerely welcome you to our Annual General Meeting and look forward to continuing the successful cooperation.
Profit before tax rose to EUR -99 million. As a result of the revised German tax laws, no tax assets resulting from losses could be recognised. This produced a loss for the financial year of EUR 96 million and a Group share in results of EUR -105 million.

Chart: Prospects for HeidelbergCement

Despite a rather weak first quarter, we expect moderate increases in sales volumes and turnover in the current financial year. Once again, North America and the growing markets will provide strong impetus. Germany, where the number of building permits is continuously decreasing, will undoubtedly remain weak.

We will focus on increasing efficiency and reducing costs in all areas, not just in the plants but also the central functions. We will also strive to reduce costs in the finance area.
We will continue to take part in the process of consolidation taking place in the cement sector worldwide. We plan to make small or medium-sized acquisitions and will make sure we can improve further in existing markets.

HeidelbergCement has rarely experienced such an eventful financial year. In view of the difficult market environment in Germany and Western Europe, it may take a while before we return to a level of results in line with market conditions. However, the foundations have already been laid. For this reason, the Managing Board and I are convinced that we will succeed in this aim. Earnings-oriented growth and a performance-oriented corporate culture have priority. We would ask for your trust and invite you to accompany us on this journey.

Thank you for your attention.