

# HeidelbergCement

## 2020 Second Quarter Results

### July 30<sup>th</sup>, 2020

#### – Presentation –

Christoph Beumelburg (Director Communication and IR): Good morning, and good afternoon to everyone listening in, and welcome to our Q2 or H1 earnings call today. As usual, we have published our results this morning, 7:00 AM CET, you should have received them. If not, please refer to our website on the Investor Relations events and publications. There you see the annual or the semi-annual report plus the presentation that we are going to be discussing now on the call.

And with me, as usual, is Dr. Dominik von Achten, our CEO and Dr. Lorenz Näger, our CFO, plus Mr. Ozan Kacar from the IR team. We look forward to an interesting discussion after the presentation. Dominik, over to you.

Dr. Dominik von Achten (CEO): Chris, thanks a lot. Hello, everybody, from Heidelberg. I hope you are all safe and well. I would assume most of you in home office. So hopefully, you all well. As Chris said, we welcome you to our Q2 call, and I would like to take you through the key operational topics, and then Dr. Lorenz Näger will take over for the financial side.

If we go to the first page of the key messages, clear message from our perspective. Personally, I think this is a very solid result in an unprecedented challenging quarter. You know this was a roller coaster, April volumes significantly down in most parts of our countries. In June, we were clearly above prior year and operating plan in our volume performance in most markets. So really a roller coaster, and I think the team in Heidelberg here, has done an excellent job in that respect, in a very balanced portfolio. I will come back to you -- I will come back to that point in a minute.

As an effect, the margin has significantly improved despite all the demand pressure, which I think is one of the clear indicators that this was an excellent performance in Q2. Also the COPE action plan that we announced earlier this year has worked very well, and I will share the details with you in a minute. Then, Dr. Lorenz Näger will explain to you the background of a € 1.4 billion net debt reduction. You know this is a very big focus topic for us. And on the back of strong free cash flow, we were able to pull down the net debt in a very meaningful way.

And then looking into the future, the start into Q3 was good. I will come to the details about July. But it is also fair to say that the visibility overall remains low. That is true both on the infection case side and also on the business side, and I think the key point from our side is we have clearly

shown in Q2 that we can be very flexible and quick on our feet if things change. That is true for the upside, but it is also true for flat or down development. I am absolutely not concerned about the future. The company will react super strong whenever necessary, and as I said, the start in - during the Q3 was good in July.

With that, we go into Page 4 with a margin -- with the margin improvement, but let us start on the revenue side. Whether you look at Q2 or the half-year, revenue came down 10%, respectively, 13%. But you have to take into account that this has a 4% to 5% decline of a deliberately drawn down HC Trading business in there. So the operational decline in revenues was more in the high single-digit figures.

On the operating EBITDA side, you see that we were basically flat to the first-half of last year. And I have to say, this is something we are proud of. That is well managed and to create € 1.4 billion after a roller coaster of Q2, I think, an excellent job of the team.

Operating EBITDA margin. Look at this development, half-year, 1.4% up. Second quarter, even more than 2% up. That is obviously on the back of very strict cost measures, helping energy prices in most markets and also good pricing. So that then turns into a very strong operating EBITDA margin of 23.1%.

If you go to the operating EBIT or how we call it RCO, you see also there, single-digit, low single-digit declines for both the half-year and Q2. I am being very honest with you, if you would have asked me whether we can pull this off in March, I probably would have been very cautious. In that respect, I think That is a very good development.

If you go to the next page, we typically share with you the bridges between the different EBITDA developments both for Q2 and then also for the first-half. You see here the 4% that I noted earlier for the quarter, and you see also that there is no -- hardly any currency impact. I think the quarter was basically flat compared to last year in terms of currency development. But then you see the big swings in net volume on the one side and then price over cost on the other side.

So volume effect on the results, on the EBITDA side, was almost € 200 million coming from basically many different markets across the world. Notably, West and Southern Europe, then also Asia Pacific with heavy lockdowns in India, Malaysia, Bangladesh. West and Southern Europe, I do not have to tell you, you know the story. Italy, France, Spain, Belgium, UK, all partially under lockdown. Also the US, I think I will come to that in a minute in more detail.

Clearly, we are skewed with our assets to the Northeast. New York, Pennsylvania, there was a bad hit up there early on. We have then a strong footprint in California that they are also a significant lockdown in those big cities. And then the Canadian situation with Seattle. That is part of our region in Canada with heavy lockdowns and then also the Prairie provinces that have been hit by the oil price shock. Price over costs are -- is very favorable from our perspective, almost € 160 million cost savings that are in there, including the price -- the positive price development

and some smaller other items. It adds then up to a € 1 billion EBITDA “like for like” in Q2. No scope changes.

If you basically go to the next page and look at it from the first-half perspective, almost flat to prior year. I think that is thanks again to the team. € 1.4 billion, again, no currency impact and the net volume is even more pronounced with minus almost € 240 million down, but more than € 200 million compensated with price over cost with more than € 180 million cost savings, € 183 million cost savings in there. I think that is actually OK.

If you go to the next page, you will see the COPE action plan, and this is the figure on the € 1 billion target. We announced the target in March to say we want to save € 1 billion on the back of fixed costs, CAPEX and other cash savings. And here is the results today, € 354 million. And more than 50% of these are, at this point, fixed cost savings, € 183 million. You saw the number already earlier. And then also more than € 100 million CAPEX containment and more than € 50 million or even € 60 million cash savings on strict receivable management and also cautious tax prepayments.

If you go to the next page, you see the volume development in each of our business lines, and you see that the development in Q2 and half-year is very comparable in aggregates and cement. So half-year, we are basically 6% to 7% down. Q2, around 10% down. And then in ready-mix and asphalt, the situation is a little bit more down, especially RMC, Q2 and half-year more than 10% down. Why? Because in some of the markets, obviously, things switched also to bag. Bigger projects were on hold or there were no construction workers available, so That is why RMC is declining a little bit more than the cement side of things.

I will not go into the details on the right side because -- let us take you to the next page when we talk about the EBITDA growth in NEECA, Africa and other three countries -- other three areas. For us, we are standing on 5 legs and there was a lot of discussions in the past about the portfolio. Yes, you can always do better. But one thing is also clear, to have a balanced portfolio in a global pandemic situation -- I am not saying it is a hedge, but it is clearly a good balance, as you can see here. North and Eastern Europe, even € 30 million better than prior year quarter, plus 14% in our NEECA markets. Also AEM, very strong, plus € 9 million, 10% up despite a significant lockdown and volume decrease in Morocco, which is as you all know, one of our key markets. Very strong performance in all sub-Saharan markets.

Then also Asia Pacific, OK. We are minus € 38 million down, 20%. That is quite substantial. But if you go into the different markets, as I said earlier, India, Malaysia, Bangladesh, almost completely locked down; parts of Australia under lockdown; Indonesia with obviously some COVID uncertainty. And then also the headwind a little bit in the Australian market that we talked about for a couple of quarters now. But overall, the team in APAC, from our perspective, has done a very good job. And also Thailand, for example, was going very well. There was in the past a discussion around Thailand. But if you look at the development in Thailand, just as one example, I think there are quite some few bright spots in the portfolio as well.

The other thing is it is -- must be noted the performance in Western and Southern Europe. Personally, I think that is probably one of the most outstanding jobs we have pulled off there. With all the volume declines that we talked about, -80%, -90%, Continental Europe; -56% in the UK in April and in June, practically double-digit above prior year and operating plan. So that is a very strong performance in WSE it basically then adds up to a decline of only -10% on an EBITDA basis.

North America, if you look at the portfolio here, you could say, well, the minus € 26 million and 8% down is actually OK. From our perspective, we are open enough to say we are not happy with the American performance. We can still do better. There is, from our perspective, an upside in there. Clearly, we have a little bit of a disadvantage on the footprint side.

We have, as I said earlier, a Northeastern skewed footprint. We have the Northwest in there. We have the Western Canadian footprint there. We have California in there. But I do not want to put this as an excuse. This clearly contributes to that, but as we said in the past and as we also see here, there is clear upside from my perspective in North America. I have already discussed it overnight with Chris Ward, our new colleague in the US... And rest assured, I know the place quite well, I have been over there 8 years after the last recession I know the plays quite well. And we have clear ideas how to improve, and we will address the upside potential that we clearly see in our North American result.

If we just look at one quarter... OK, one quarter is only one quarter. The year is long, and let us wait and see how that plays out. But overall, I think it is fair to say that we see some upside potential in North America.

Last but not least, I would then go into the sustainability side of things. You know that this is for me personally a very important topic, indeed. And I just want to remind everybody that we have published our sustainability report that we do for many years already in June -- end of June, and this obviously includes a good transparency on the whole climate issue, on the CO<sub>2</sub> issue, on water management, on all the ESG topics necessary. I think it lays a good foundation for us to substantially accelerate our efforts in that respect. But I just wanted to note at this point that this is something that we are working on as a team, and I see very strong momentum in the company in all our 55,000 employees carrying that topic on their shoulders and clearly see the upside for the future for asphalt cement in that respect.

With that, I would hand over to Lorenz Näger, and maybe you will share the financial side of things.

**Dr. Lorenz Näger (CFO):** Okay, Dr. Dominik von Achten., thank you very much. Welcome from my side for this call. Good morning or good afternoon, ladies and gentlemen. I will lead you through the key financial messages for June 2020. The result overall is a twofold one. On the one hand side, we have been negative impact of the revaluation of our asset portfolio. And secondly, I think we have a quite good financial performance if we look to the details behind it.

So the revaluation of the asset portfolio after the corona crisis as a triggering event led to an impairment of € 3.4 billion, which we have booked mainly in the additional ordinary result. If you adjust for this, the group share of profit has increased by 5% to € 356 million as of June 2020.

We have a remarkably strong free cash flow generation. We have a cash conversion rate of 53%, which means that 53% of our half-year will be ends up a net free cash flow, and this brought our free cash flow over the last 12 months, meaning between June 2019 and June 2020 to € 1.9 billion, which is probably the highest value we ever saw here. And That is a clear outcome of the COPE action plan, which did not only focus on cost savings, but also on a very tight CAPEX spending and a very disciplined working capital while maintaining our stock levels, yes? So we think that we did a quite good performance here in the first-half-year.

The balance, this led to a reduction of our net debt by € 1.4 billion. And currently, we are significantly ahead of our plan, whether it is the annual plan for 2020, but also our midterm plan, which we communicated in the Capital Market Day 2017 for the years 2018 to 2020.

If we go to Slide 12, you can see the P&L down to the group share of profit. As you can see, we booked the impairment in the additional ordinary result, which brought it down to close to minus € 3.5 billion. If we -- if we look to each single line position, then we see quite nice positive development.

Financial result improved by € 19 million on the back of improved at lower spending for interest. But we have to keep in mind that there we have a second effect, which is a negative accounting effect from the change in discount rates for long-term provisions. Under IFRS, we discount long-term provisions. For us, these are mainly asset retirement obligation or for our employees and that had a negative € 50 million book impact out of which € 40 million sits in the financial result. So without this change in discounting rates, our financial results has improved by another of € 40 million. The after € 10 million will sit down in the net result for discontinued operations.

Income taxes are lower, of course, on lower result expectations. Then we have business results from discontinued operations, which increased to minus € 20 million. And as I say, out of -- except this accounting effect for long-term provisions, that would have been on the same level of previous year.

Noncontrolling interests improved by € 40 million. So per balance, we achieved through our semester slightly lower result from current operations by an improved performance in the lower half of the P&L, and that led then into a group share of profit adjusted for AOR of € 356 million, which is an improvement of € 60 million compared to previous year.

Let me talk a little bit on Page 13 about the goodwill impairment and asset impairment which we face, treated normally, as you know, we reevaluate our assets on an annual basis. But the corona pandemic is a triggering event on the IFRS regulation and the German Association of Auditors has declared this to be a triggering event where you have to review that. So we did. And the outcome

of that was that the original business expectations have decreased, and That is important in this specific planning period.

Our expectation is that the business development in 2021 and 2022 will be below our initial expectations as the recovery from the corona crisis will be relatively slow. And this pushed our initial profitability expectation long-term beyond the planning period of 5 years, which is regulated under IFRS and here it is IAS 35. So this led that in the specific planning period which is 5 years, our profitability expectation dropped. And that led them to a reduction of the net present value of our businesses.

We had the second impact, which was the Brexit on the business expectations in UK, which in our expectation also pushed down profitability expectation. Then the German Association of Auditors increased the market risk premium and also the risk-free rate -- the risk-free tax spreads went up. So That is the situation where the discount factor increased, and of course, that reduces the present value of our business.

Importantly is to reiterate that our long-term business products continue to be good. And as you see from our short-term results that the impairment does not affect the cash generation in the short-term operational development of our business. 50% of the asset reevaluation comes from UK and UK clearly is a disappointment, we have acquired most of the UK business from Hanson in 2007. It is pretty old, a pretty old goodwill. And the case is that the volumes in UK is still today pre-Corona, they are 30% below the volumes we saw in 2004, 2005 and 2006. And the whole market in UK did not live up to our expectations this year. And we do not believe that this will come back in the foreseeable future, meaning our 5-year planning horizon. And that caused a major part of our impairment to be -- to come from UK. The other two major countries are France and Belgium, and France and Belgium are badly hit by the corona crisis and that led to this decrease. Yes.

I mean That is it for the impairment and I think we have to focus now on the short-term. And for me, that is predominantly the cash flow generation. And you see on Slide 14 that our free cash flow generation was very strong in the chart. On the left-hand side of Page 14, it depicts the development of the last 12 months, including July 2019 through June 2020, and we had the last 12 months EBITDA of € 3.5 billion. Then you can see our interest payment -- tax payment et cetera. And that leaves then with free cash flow of € 1.9 billion, close to € 1.9 billion which, as I said earlier, is probably the highest amount which we saw until now. And the cash conversion rate of 53% is a quite high value.

Going into July. Now in the third quarter of 2020, this trend continued and even accelerated. So we are very confident in this very moment that this will at least bring the trend over the finishing line by end of the year. And as a consequence, our net debt development was outstanding. Last year, we had net debt, including IFRS 16 of € 10.4 billion at the end of June. And this dropped to € 9 billion, mainly driven by the free cash flow, but also by lower dividend compared to last year. As you know, we paid € 300 million less dividend. This we have to keep in mind. If we look to this

outstanding development, it is not only the company as such with its financing power, but also the shareholders contributed here, the € 300 million, to this development.

And the € 8.9 billion, is close to € 9 billion debt all includes debt from leasing obligations according to IFRS 16 in the magnitude of € 1.25 billion. And if we look at last year, we saw that between end of June and end of the year, 31st of December, we saw the decrease in net debt of close to € 2 billion difference. It went down between June and the end of December by € 2 billion. And currently, we are confident that we could achieve a figure which is not too much -- too far away from this last year's figure.

So for our financial side, we are relatively confident in that respect, especially at our COPE programs, we continue to push ourselves to get the cash in. OK, I mean That is it from the finance side. I give back to Dominik von Achten for the continued message.

**Dr. Dominik von Achten (CEO):** Thanks, Lorenz. Just to add on his point on the UK I think That is a balancing act. The impairment the UK is a mid- and long-term perspective in the light of the history, where the UK is coming from. History is history. But I remember well, there are a couple of quarters where we underperformed in the UK If I go, and you can rest assured that we watch the situation. I personally watch the situation very closely. And if I take the latest indication, at least the transparency that I can see, I would say it can always be better. But the last quarter in the UK compared to what we can see elsewhere, I think we do not have to shy away. That was much improved in relative terms to the past. And obviously, we can always do better. That is clear, also true for the UK But I think it is important to see one is the impairment discussion. The one is the operational development and the improvement that we do towards past performance -- or compared to past performance.

With that, I would just close on the key messages, again. And then we are more than happy to take all of your questions. As I said, it was a roller coaster quarter with minus 80%, minus 90% down in April, then clear recovery -- strong recovery all the way to June. And as I said earlier, June, in many markets, clearly above prior year and... against operating plan on the volume side. And then margins on the back of that significantly improved. We explained that COPE, we explained in detail, € 1.4 billion net cash reduction.

And I think it is important to note that, for the way, going forward, our portfolio is well balanced for global pandemic. I think That is important to note. It is important to note that we have reacted super quickly, and the EBITDA performance in Q2 from our perspective is to be fair and more this superior. And the start into Q3 was also good, with July volumes holding up well, also pricing holding up well. In that respect, we are very well equipped with our flexibility to react whatever is necessary to tackle the future.

In that respect, we are happy now to take your questions. Chris, over to you.

**Christoph Beumelburg (Director Communication and IR):** Yes. Thanks, Dr. Dominik von Achten, Dr. Lorenz Näger. We will start now the Question and Answer Session.

## – Question and Answer Session –

**Christoph Beumelburg (Director Communication and IR):** We have many people on the line. The first one would come from Yassine Touahri from On Field Investment.

**Yassine Touahri (On Field Investment Research):** Yes. I would a couple of questions on fixed costs. You managed to cut fixed costs by € 183 million in the first-half. What would be the target for the second-half?

And then a second question would be on the trend that you are seeing at the beginning of July on your order book. Could you give a little bit more color about what you are seeing on your different markets in July? You say that volumes are holding up well, does it mean that they are up? And do you have any indication in terms of order book in terms of your business about where your activity could go in the next few months or quarters?

**Dr. Dominik von Achten (CEO):** Yes, Yassine, thanks a lot for your 2 questions. Fixed cost, I think what we have, € 183 million is not bad. To assume that we can exactly do the same in the second half. I think, again, it is not clear. It very much depends on the development because let us be also realistic, we -- and we have not shared that with you. But the fixed cost savings came in on plan that we did here together in March, April with our team. But the contribution margin was € 1 billion higher than the original plan.

So let us also be realistic. That was a pretty good exercise. It was also helped by the furlough schemes that we get from some of the governments. But for us, it is important to reach the € 1 billion, whether we can have the same split between fixed cost CAPEX and other cash savings, it is very hard for us to say because, as I said, some of those cost reductions are not permanent. And in that respect, we stay very focused to get close to the € 1 billion. But whether the split will be exactly the same, let us wait and see.

Now beginning of July, if I would know the order book until December, precisely, I could give you a guidance. But That is in these days, things move fast. And we have -- we are optimistic on what -- on the basis of what we see in July, but we also are fair enough, guys, to say visibility until December is just not there. If somebody tells you that, then That is fine. And to us, but we do not have the visibility until December to give you a precise guidance.

I think That is also fair to say. There is nothing to do, be negative or positive. I am just trying to be realistic. And July was good in terms of volume. It was good in terms of pricing. It was good in terms of cost development. And the order books that we see in our market is obviously very, very much. Because order books in some countries say something, in others they do not say anything. And order books can change.

I have been through the recession in 2007 and 2009. You can brag about great order books but it also can change overnight. A, there comes to infrastructure product along, there is a significant jump in the order book. B, people start cancellations, which we do not see at this point. So that can vary pretty quickly, and I am trying to give you a realistic picture. And all I can say, we are fairly positive for Q3 on the basis a good development in July.

And then as I said, we have everything on board to react as quickly as possible to whatever happens. I am absolutely confident on the back of a strong performance in Q2 that we will tackle the future in a very strong fashion.

**Christoph Beumelburg (Director Communication and IR):** Thanks, Yassine. Next one comes from Paul Roger from Exane BNP Paribas. (Operator Instructions)

**Paul Roger (Exane BNP Paribas):** I will stick to 2. So the first one is on North America. Dominik, you referenced perceived underperformance in that particular division. Can you talk a bit more about what is behind that? I mean are you tight in terms of capacity? Are the plans held or something like that? And basically, how are you thinking about fixing it?

And the second one, which is probably more for Dr. Näger. Cash conversion is obviously very strong. Is there further to go? And how sustainable is CAPEX at these levels?

**Dr. Dominik von Achten (CEO):** OK. Paul, thanks a lot for your 2 questions. Very disciplined, 2 only. That is good, Paul. Thanks a lot. So on North America. The picture is, if you go through the details, I think, first and foremost, and very importantly, pricing is not the problem. Pricing is actually, it is actually good from our perspective across all business lines. That is good.

On the volume side, we look a little bit to our cement volumes that are down, and that could be a footprint issue to a large extent. We had to close and have closed temporarily some of our capacities in the Northeast and California, also prolonged in Canada. You can always balance then our timing of that and what is the inventory impact. So That is why I think we have to be careful not to overdo it on 1 quarter because this is a longer-term game throughout the year. We know the seasonality issue and everything. So let us wait and see.

We are not tight on the capacity, Paul, to be very clear. We have the inventories available to serve the market. But the volume development in the US, especially in the cement division, was not where we hoped it to be, partly footprint-driven and partly timing on the asset ramp up and ramp down.

In aggregates and RMC, I do not see any issue on the volume development side, that was actually fine. And then obviously, we have reacted very early and quick on furloughing on the cost side. And -- but there are some operational topics that we have talked about in the past that we need to get our arms around in terms of transferring material from A to B or was it really necessary. There are a couple of points operationally that we are -- we will discuss with the team.

When it comes to fixing it, maybe we will take also -- I can give you a side remark on the upcoming Capital Market Day around that. I am in constant discussion with Chris Ward also, to be fair to him, he is also fairly new in his job. He knows the business, obviously, very well. You can -- you know that I have discussed with him over the last 24 hours and before, quite in-depth already, what we can do. I ask for your understanding that we do not go into details, but it is always not 1 measure that will fix it. It will be a few flowers that will need to contribute, and it will be partly short-term, it will be partly midterm. There will be a combination of a couple of levers that we will pull in order to get it done.

And as I said, Paul, you know that I have been in the US 8 years myself, I -- immediately through and after the last recession. As I said in the earlier calls, we are very experienced. Chris Ward has been with us for a long time. He knows the business very well, indeed. So do I. In that respect, I have no doubt that we are -- will be addressing the key points. As I said, some short-term, some mid-term.

And then I would hand over to Lorenz for the cash conversion question.

**Dr. Lorenz Näger (CFO):** Yes, yes, Mr. Paul Roger, yes. We really had a good -- a very nice cash conversion. As I just said earlier, that the trend of good cash in continues and even accelerated towards the end of this month. So our cash conversion now in the beginning of Q3 was even stronger than before. But that will hold throughout the year over the finishing line, I would not - it is hard to predict because it obviously depends on the operating business. But the underlying trend in spending, let us say, beyond EBITDA, as of working cash capital, CAPEX, impact on that that, tax interest, where we spent the money, payout on provisions, things like that. We are extremely disciplined, and we really see this cash out reducing.

I am pretty sure in this very moment, provided for any unexpected change which could happen in year, that we can bring this over the finishing line, and that we will see a really, really good cash flow development and deleveraging over the rest of the year.

When it comes to sustaining CAPEX. First of all, the spending mainly takes place in Q1 and Q4 because these are the quarters when we do the annual shutdowns of the cement plants, and That is where the predominantly and major part of the maintenance CAPEX is spent, especially in Q3 -- sorry, in Q4. Until now, we did not have any business disruption due to underspending in maintenance CAPEX, which clearly shows us that this level of CAPEX we spend for maintenance and environmental and things like that are on the right level. We do -- we spend enough money on that. We now view those as we would a bit lower production due to less volumes. There are a bit less spending needs and we will see how things come along in Q4.

I would say that they are moderately below previous year's figures. So we should not exceed previous year figures. And -- but we should also not be, let us say, substantially below. I think that the current trend to have the spending just below previous year's level that is an assumption, which probably will go on through the year. If you looked at our cash flows -- legal cash flow statement, we spent first half-year € 560 million, previous year € 500 million in this tangible asset

side. And I think that this trend slightly below previous year should prevail for the second-half of the year.

**Dr. Dominik von Achten (CEO):** Paul, I think it is always a balancing act in these days. It is clear that with the visibility in March, we had to put our foot on both brakes. But it is also clear that we improved contribution margin development and also good cash flow and everything. We have to -- we will take it again, step by step. We are very conscious of the fact that we do not want to ruin our 2021 or 2022 results. So we go very diligently through our project list.

And if there is a need to support the business in 2021 and 2022, rest assured, we will have the money available, and we will spend it. I would rather come in at € 995 million -- € 100 million -- € 995 million and not € 1 billion, but to make sure that we support our business in 2021 and 2022. So we go very diligently area by area, business line by business line, through the topics. And if there are good payback projects that are happening in bottleneck markets, in bottleneck assets, rest assured we will do them even under a tight CAPEX scenario to clearly also support the business going forward.

**Christoph Beumelburg (Director Communication and IR):** Next one is from Elodie Rall from JPMorgan.

**Elodie Rall (J.P. Morgan):** I will keep it to two then. First of all, on net debt. You have explained to us the € 1.4 billion reduction. Do you have a view about where you want to land at the end of this year? Consensus is at € 7.6 billion. Are you basically comfortable with this figure?

Second on capital allocation, now that the operational side is improving a bit, do you feel a bit more comfortable about a return on dividend as soon as next year? And would you consider doing a bit more bolt-on acquisition at this stage?

**Dr. Lorenz Näger (CFO):** Yes, I think I would start with the net debt. That is what I -- That is concerning the Slide 14, right-hand side. Currently we stand at € 8.99 billion, as the € 9 billion including € 1.25 billion leasing obligations. And as I previously said, last year, from June to December, we deleveraged by € 2 billion. As I said earlier, I expect the cash flow to continue to be strong, at least on the level of previous year, provided business continues to be, let us say, corona-stable if you want, either in the range of whatever you can expect from these times.

If you assume that we, as I said, bring that over the finishing line, I think the € 7.6 million would be a very conservative figure. And so the consensus currently stands at € 7.2 million, yes, and € 7.2 million does not make me sleeping bad in the night. So clear ambition to go below that.

**Dr. Dominik von Achten (CEO):** We have a bullish CFO, Elodie!

**Dr. Lorenz Näger (CFO):** One point which I forgot to mention. I mean -- we have kept our stock here a bit more or less on the same level, 2.1 billion more or less from the level of previous year or so we had full continued production. So we have not gone and shut down the kiln to reduce

our stocks. And I think that makes me confident that if we continue production levels in line with the consumption level and base level, then we will not have a major impact on the working capital from that side.

So yes, call it bullish. Call it realistic. Call it ambitious. I would say it is ambitious, and That is what we have to achieve. And if we look to all my COPE savings, I am not so much -- EBITDA is important, but there is a life beyond EBITDA, and cash is king. And we look for tax. We look for CAPEX. We look for working capital management. We have collected quite a bit of our overdue receivables. We have been very strong in this point. So yes! That is the ambition, below this consensus stock.

**Dr. Dominik von Achten (CEO):** OK, Dr. Lorenz Näger and then I will take the next one, the second 1 of your questions, capital allocation. As I indicated to Paul earlier, for us, also capital allocation is a moving element. Yes, we had an idea in March and now we reconvene a little bit because have to see how we allocate our capital wisely, and we do this with a clear spirit to support also the business beyond 2020 because there is a life after 2020, even if we get through this COVID. And you know that we are in an industry that means -- that needs capital to support cash flow and also operational development. We do this with very stringent financial discipline. But even in these days, we will support the business where necessary.

And as I said to Paul, if the business needs the CAPEX, we will spend it respectfully, but diligently controlling the cash flow in this scenario. And that all includes, if there are small bolt-on acquisitions that we can do in single markets, very small bolt-ons here and there. Obviously, if they fit in there, if they have a high synergy level under very strict financial discipline, we are also happy to do that if necessary. It is all with an eye to support the business beyond 2020.

**Christoph Beumelburg (Director Communication and IR):** The next question comes from Pierre Rosso from Barclays.

**Nabil Ahmed (Barclays):** It is actually Nabil Ahmed from Barclays. So my 2 questions. First one, I was wondering if you could help us to quantify the energy cost tailwind in H1. What has been the energy cost per tonne? And if you have got a guidance for the full-year of 2020, what will you see kind of are the costs?

And the second question, I am sorry if you already answered, but I was a bit confused. I mean did you provide the numbers behind how much government operating measures furlough accounted for in H1 earnings?

**Dr. Dominik von Achten (CEO):** OK, Nabil. Thanks for your questions. Maybe I will take the government furlough one, and then I would hand over to Lorenz for the energy cost side because he is also leading the energy cost department and we had yesterday a discussion around the energy cost development.

On the government measures, this is always a balancing act, and it is a market-by-market discussion. We have taken some advantages of these government measures, notably in Continental Europe then and the UK. And in that respect, you would say it is a double-digit million figure in the fixed cost side, maybe in this -- do not -- maybe on € 1 million or € 2 million. But in the magnitude of around € 25 million, I would say, in Continental Europe. I think That is a fair assumption, more -- € 5 million up, € 5 million down. But just to give you an indication. And Lorenz, you want to take the energy cost question?

**Dr. Lorenz Näger (CFO):** On energy cost, we -- do we publish the energy cost per tonne? No... So on the energy cost, we had a very favorable development in the first-half. In Europe, the energy cost price effect was close to 10%... pure price effect. And then on top of that, we had a volume impact due to lower production and lower sales, of course. And because the cost -- the price inflation effect of this € 80 million comes almost entirely from the fuel side. The power cost remained stable as the CO<sub>2</sub> went up and fuel inside -- the coal inside the power went down so that levels out on a stable level.

For the second half-year, the future is always difficult to predict. We expect a further savings in that respect, but it is very difficult to say how much. We are covered about 80% in the second half of the year this forward contract. They should go into the P&L. And then we are -- we have 10%, which is open and are currently in spot prices are below our plan. Therefore, we expect support for our operations from the energy and power side in the second half.

The magnitude of this effect is difficult to forecast. But I would guess...I would bet in the magnitude of, let us say, about 50% of what the saving was in the first-half. That would be a little bit my expectations. But that is a very volatile and very volatile story in this very moment.

OK? Is that OK? Sorry, That is not very precise, but...

**Dominik von Achten (CEO):** I think the indication, Nabil ... It is clear that this remains an up and down. But for the time being, I think there is some tailwinds on the energy, especially the fuel side.

**Nabil Ahmed (Barclays):** It is roughly 50% of H1 2020.

**Dr. Lorenz Näger (CFO):** Yes. That on the price side and the volume goes in parallel with the volume now.

**Christoph Beumelburg (Director Communication and IR):** OK. The next question comes from Mr. Tobias Wörner with MainFirst.

**Tobias Wörner (MainFirst):** Number one, with regard to pricing, can you give us a flavor across your markets? And possibly give us an idea where they were strong and where they were not so helpful? And what you expect in the second-half?

And then with regard to the working capital movement, in a volume down market, one would expect cash to flow in. How do you expect that to move in the second half as the recovery builds? And how much will that take off your cash generation?

**Dr. Dominik von Achten (CEO):** Thank you for your question. I will do -- I will take the first one and then I ask Lorenz Näger to take the cash flow one. As you know, pricing is very different across markets. And I will just give you -- overall, if I take the total picture, we are quite happy with the pricing development, and That is true for all 3 key business lines: cement, aggregates and also RMC.

So overall, pricing, just to give you a flavor, pricing in the US and Canada, I already indicated was good from our perspective. But with the recent price increase being done in May, June in most of the markets that went OK. So overall, from our perspective, pricing in US and Canada, OK. Same is true for Western and Southern Europe. Across all markets, we were able to pull price increases. In that respect, that was -- but I am always talking June over June last year. Just to give you -- so for the first-half last year versus first-half this year, so you know where we are.

Eastern Europe, also most markets with good development. The Northern European market a little bit flat or even slightly down, but That is more a mix effect. That is not a massive point from our perspective. But then if you go to APAC, Australia was OK. India and Indonesia was OK. Bangladesh is slightly down. Thailand is slightly down but That is a mix effect in Thailand because there is a lot of import/export going on. So we have to be careful to not over -- make too much out of that point. In China, more or less, slightly down. But again, That is also a mix for us between the two Chinese JVs - in the north and in the south.

And then if you take APAC -- sorry, AEM, very strong development in most parts of sub-Saharan for us, especially Ghana, Tanzania and then difficult development in Egypt continues to be difficult. That the result is under control, but the pricing was more difficult again. And as I said, Morocco, also on a very stable level, slightly down, but That is also more a mix effect overall. I think That is a little bit of the picture I have right now.

**Dr. Lorenz Näger (CFO):** Our working capital... That is the highest difficulty, I know. All the statements I will make now are in the light of a moderate ease of the overall corona situation. This is a heroic statement if I look to US to India and to Indonesia, for example because That is a heroic assumption. But if I take this, then I would say on the inventory side, we are very well underway. So we are stable on that, and we will not need to put too much inventory for the end of the year to come through the shutdown period -- at the window shutdown period of our channels. Generally, last year, we had roughly € 2.2 billion in stock; during year € 2.1 billion. So we are pretty well on that level, which would allow us to keep the stock level or just moderately increase it to cover the kiln winter shutdown period in early next year. So here we are well underway.

Now the big challenge for us, if I may tell you, was though that our accounts payable, they are higher than our accounts receivable before the corona crisis which would imply that if our volume

goes down, our working capital would shoot up. That was the situation we had to turn around, and That is what we successfully did.

If you look to the balance sheet, you can see that despite the turnover reduction of 9%, we reduced our trade receivables by 13%, whereas we succeeded to keep our accounts payable on a more or less constant level. It decreased only by 10%, It is a 3% spread here. And That is the challenge which we have to carry through the second half. We have very much tightened our accounts receivable management, and we have really worked on the supplier side to keep our DPOs, that is purchasing days outstanding and we have done successfully. I do not have any indication that, that would change any way have towards the end of the year. So we are pretty confident that we can keep our working capital level on the same level which we finished the year previous year. So That is the challenge. That is what we worked on. And in the past, we are pretty successful in that respect.

And I would think that we are able to bring that over the finishing line also this year. So That is part of this assumption for the -- for my statement I made earlier on the net debt position at the end of the year.

**Christoph Beumelburg (Director Communication and IR):** Thank you. Next question comes from Arnaud Lehmann from Bank of America Merrill Lynch.

**Arnaud Lehmann (Bank of America Merrill Lynch):** My first question is just coming back on this € 3.4 billion write-down of impairment of goodwill. Is that a preliminary step before doing incremental, let us say, restructuring, including plant closures or headcount reduction? If you think the medium-term outlook for some markets is weaker than expected, is that something that we should now expect maybe for the UK or other parts of the world? That is my first question.

My second question is around CO<sub>2</sub>. You have made a few announcements in the last months. You have been talking about CO<sub>2</sub> separation, CO<sub>2</sub> capture and I apologize, I am not really an expert on this topic. So would you mind just clarifying what these are about and if it could be meaningful over time.

**Dr. Dominik von Achten (CEO):** OK, Arnaud. Thanks a lot for your two questions. Maybe let me jump first on the impairment, and Lorenz Näger can maybe add to that.

I -- very clear answer from our perspective, nothing to do with any restructuring coming up or not. This is what Lorenz was explaining, triggering event COVID and he can maybe just reiterate and add to this. But no, you should not take this as an indication of any restructuring or something that we have planned in that respect.

As we promised to the capital markets, we will give our update in September. Over this period, you should not expect the moon to come down then. I think the industry stays the industry. But no, in answer to your question, the impairment has nothing to do with any restructuring plans.

Lorenz, do you want to add?

**Dr. Lorenz Näger (CFO):** Nothing to add from my side. That is correct. It is an accounting exercise -- are in place and a triggering event.

**Dr. Dominik von Achten (CFO):** And then, Arnaud, on the question on CO<sub>2</sub>. I think that can be our lengthy statement because this is a difficult topic, and a complex topic, to be fair. Maybe just two highlights, and then we should also -- we will also cover some of that in the Capital Markets Day.

We have the carbon capturing on the one hand, and then it is always the question, is it an "U" or a "S". So you have either the utilization, where we have a pilot project here in one of our German plants. Or you have the storage question where we have, for example, the Northern Light project in Northern Europe in our Brevik plant. And we have quite a few other topics where we are experimenting on the question of carbon capturing.

The purpose of the whole exercise, just to cut it short, is obviously to capture the CO<sub>2</sub> that is created in the clinker production process, and then utilize it or store it. And storage is in some countries, OK. And others they do not like it. No problem in Holland, in the North Sea, no problem in Norway. In other parts of the world, people see that differently. So we are deliberately flexible on what is the right carbon capture technology. We are basically working on 4 or 5 different technologies across the world. And the same is true then for either utilization storage or storage. That is just the overall picture on that one.

**Christoph Beumelburg (Director Communication and IR):** The next question comes from Sven Edelfelt from ODDO.

**Sven Edelfelt (Oddo BHF):** Yes. You said, Dr. Näger, that having a balanced portfolio is a hedge. And there has been some question about your portfolio. Does that mean that you are happy with your footprint today and that you will not go for massive disposal, such one of your bigger competitors? That is the first question.

And the second one, I think you closed recently the acquisition of Cimsud and Atlantic Cement in Morocco. Can you tell us how or if it should change the dynamic there?

**Dr. Dominik von Achten (CEO):** Thanks, Sven. On your two questions... There was a discussion in the past about the portfolio and the balance of the portfolio. All I said was looking at our Q2 performance, and this is what we talked about today, you can see from our perspective, the benefits of this portfolio. As you saw, Northern Europe, strong. Northern South Africa is strong. Markets that are typically not -- where there is not a lot of light on this, but they proved that they are fairly resilient in some of these -- in difficult times.

So yes, we are reviewing our portfolio going towards the capital market, and I would postpone that part of the answer to the Capital Markets. But as I said, guys, let us not expect the moon

comes down and we sell  $\frac{2}{3}$  of our company. That we are still working to run the business. We will look very closely at the portfolio, and then I will share with you our ideas for the short- and mid-term later in September. I think that is fair to say.

And on Cimsud That is the consolidation move in the south of Morocco or from not even Morocco, I think there was a -- there was a clear consolidation move in the local market in south -- in the southern part of Morocco and to the border down there. And we basically took out one competitor and consolidated it with our brand-new mill down there. So personally, I think That is a good move in order to improve our market position and the resilience of our market positions in Morocco.

**Christoph Beumelburg (Director Communication and IR):** The next one comes from Gregor Kuglitsch from UBS.

**Gregor Kuglitsch (UBS):** Can I come back to the sort of sustainability point and perhaps kind of prod you a bit on the products that you are developing, if you are developing a new low carbon. I tell you, your competitors have been quite kind of vocal around low carbon concrete, recycled aggregates, this, that and the other. So can you just maybe give us a view of where you are? And if that perhaps a priority for you going forward to develop that part of the portfolio, if you can?

And the second question is maybe one, just say specifically on the Northern European performance in the in the quarter where I think you had a maybe over +400bps margin expansion, which is obviously extremely strong, I believe, on basically flat revenues.

So can you just maybe flesh out what is going on there? And maybe more broadly, if you want to comment perhaps on Europe as a whole, that margin spread improvement is impressive. The question is how sustainable do you think this is?

**Dr. Dominik von Achten (CEO):** Thanks a lot for your two and a half questions. That is OK. That is OK. So on the sustainability, you said, is this a priority to develop these things going forward? I would say, this has been -- yes. If you raise this whole topic for us, is it a priority? I think absolutely. But we need to start to develop it? No. We are, in fact, doing this quite -- doing it already for a couple of months, years in many of our markets. But we have not yet, to be absolutely fair, that we look at -- we are making a global marketing push out of this.

But in our local markets, we do a very diligent effort, and I would say we do not have to hide between -- compared to other offerings in terms of our CO<sub>2</sub> footprint for specific topics. That is true for cement, and it is also true for concrete. But for us, it is a local market-by-market issue. And again, Dr. Lorenz Näger will come back to this topic on the capital market in more depth. But clearly, it is a priority for us, there is no question. And I think we have not only the green color in our logo as a company. We carry it out in our heart, and I can tell you it is clearly in my heart. And so do not worry, this will this will get a significant push going forward.

On Northern Europe, basically, the development -- are you specifically talking about Northern Europe? Are you talking about NEECA? You are talking about NEECA as a region?

**Gregor Kuglitsch (UBS):** I cannot see the details. I am looking at the region.

**Dr. Dominik von Achten (CEO):** No, That is fine. As I said, the development in each of these markets was -- in most of these markets was very strong, and That is on the back of good volume developments. So positive volume development, strong pricing and very strict cost developments.

You know that our new Board member, Ernest Jelito, who came in basically end of last year. He knows the market very well. He is a Polish citizen. He has very successfully managed the Polish market for quite a few years. And on the back of that, he has also worked on this development in other parts of Eastern Europe. And as I said, it is really a combination of good volumes, good pricing and strong cost management that leads to the superior margin development.

And then on the other, you just from -- it is a similar story, yes. Volume was down in many markets other than in Eastern Europe. So on the volume side, clearly different. Pricing side, strong. In all of the markets in positive territory. And then very strict and very early cost management, and that led them to that margin increase in most of the markets.

**Christoph Beumelburg (Director Communication and IR):** OK. Let us run it back through and then wrap it up. The second last question comes from Stephan Bonhage from Bankhaus Metzler.

**Stephan Bonhage (Bankhaus Metzler):** Two questions. First one is regarding your Asia business. You mentioned that you had a good June, but you were not clear if this was an effect of the shift of Ramadan. So my question would be, has this positive momentum continued over the past weeks?

And my second question is regarding economic stimulus packages around the world. I mean you are active in very many markets. And generally, in which country or region do you see the most potential to benefit from such economic stimulus packages over the next months or years?

**Dr. Dominik von Achten (CEO):** Yes. Thanks a lot for your question. I think on the APAC side, it is really market by market. I think that, That is not an APAC answer. We see quite a rebound in some markets That is even better than in June. There are markets, as I said, Thailand for us is a good market in that respect and others as well. And there are markets where you may have a shift between May, June and July, where you have to really take the whole Ramadan season.

Last year, there was a shift between the 2 months. Now you have a shift between working days there, May to June. For us, is really in most of the Asian countries, you have to really look at two or three months together before you overestimate one month's performance. So when it comes to those markets, specifically Bangladesh, Indonesia where Ramadan obviously plays a significant role, you then have to look a little bit where we are. But we are clearly away from the low peak

in -- from the low development in April, May. We are in July, clearly above that development in April, May.

And then on the similar infrastructure projects, I would say there are globally 2 big discussions. One is obviously in Europe. You will have seen the recovery plans that the EU has greenlighted, where I personally think we should profit from because we have a strong presence in Italy. We have a strong presence in France. In both countries, you could see infrastructure coming.

UK is separate now from the EU. There is a discussion with Boris Johnson and his team. But to be fair, HS2, for example, the large infrastructure project, rail connection between London and Birmingham. Those of you present in the UK know that. That is after many years of discussion now actually accelerated. And it is full sail, and there are a couple of more projects to come, I think, in the UK

And then the US, it goes up and down, and up and down. You see how today, they have really bad figures in the GDP development in the last quarter. Trump was saying, I am going to spend 2 trillion. Then the democrats say no. But we will -- do not want to. It goes back and forth. So clearly, if there is an infrastructure project program coming in the US that would help us, but you have to be -- you have to separate between the national discussion, and then it is really a state-by-state discussion. DOT, gas tax, so That is a complex issue. But clearly, if the economy in the US would take a dive, I would clearly expect that there is a reaction on the political side by any government in power to try and mitigate the effect. And traditionally, we have profited from these programs.

**Christoph Beumelburg (Director Communication and IR):** And last one comes from Volker Stoll from LBBW.

**Volker Stoll (LBBW):** Yes, I have a question on the cost flexibility, especially the energy costs. The coverage ratios and then heading into Q2, on a normal level of, for example, 80%, or were they above normal levels or below normal levels?

**Dr. Dominik von Achten (CEO):** I would hand that question over to Dr. Lorenz Näger because he answered also the first one on this.

**Dr. Lorenz Näger (CEO):** Mr. Stoll, so our policy is that we have brackets for each quarter, how much our operations can buy. The brackets are relatively wide. Some areas are fixed discretion for the countries to buy within such brackets. The volumes went down, yes, and at least naturally to increase in the coverage, if we calculate related to the new volumes of the lower volumes after corona. So the coverage, as I earlier said, is still relatively high at 80%. That is a bit higher than we experienced in the past. But that does not come that we have bought for. It comes from the fact that the volumes, the underlying volumes are expected to go down a little bit, which is not a surprise, taking the corona into account.

So That is a little bit the point. And now we start the -- we had a ban. We have then put the ban on it in March when we did not -- when we felt very uncomfortable on how volumes could develop there. As you know, they have recovered in May and June, not to the full extent, but to a certain extent.

So now we have opened up for the countries, and they can decide to purchase on the latest production level estimations. So we think we will come back on level this on our own policy, which is on average... cum grano salis... overall business lines and all types of energy, roughly 6 months of it. So our actual cost in energy follow the spot price as there was a delay of roughly 6 months.

**Dr. Dominik von Achten (CEO):** With that, I think, Chris, we are fine. I think that was the end of the Q&A. And as I said, thank you very much for your participation. We see most of you back in our Capital Markets Day in September, where we give you an update of things on September 16.

So let us -- and obviously, this will be done fully virtual. No physical meeting is possible and we will see how we get that one done. We are really looking forward to see you there. Thanks a lot.

**Christoph Beumelburg (Director Communication and IR):** Thanks. We will come back you with regard to registration and set-up by the second half of August, and we hopefully -- have a good vacation, if you have not had it. Thanks a lot for calling in. Bye-bye.

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