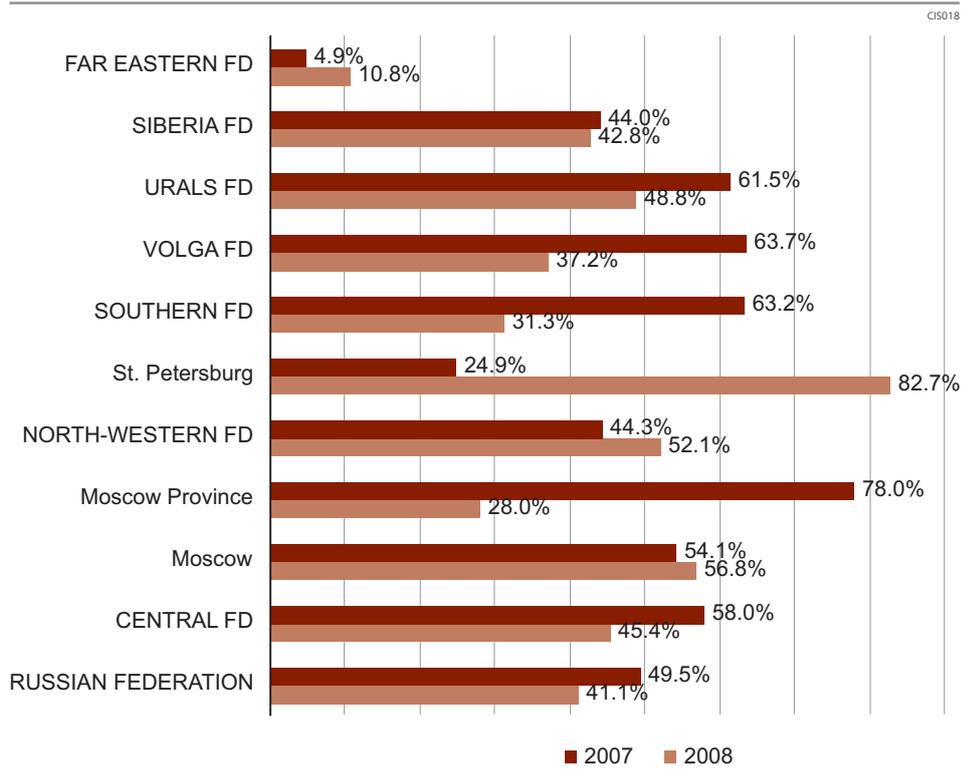


Increase in average cement prices (year-on-year), 2007-2008

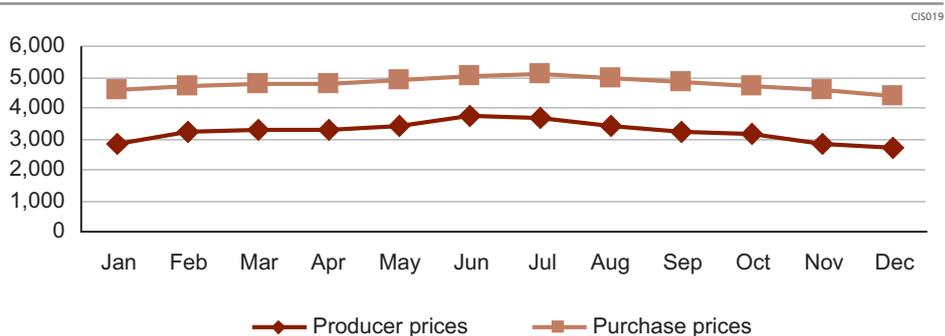


Source: Rosstat, 2009

www.pmrpublications.com

In 2008, the prices actually paid by construction industry companies were about RUB 1,400-1,500 (\$56-60) higher than producer prices. In H2 2008, as already mentioned, cement prices fell in Russia, by about 30-35% from the peak price. In November 2008, producer prices of cement fell to RUB 2,826 (\$114) from RUB 3,754 (\$151) in June.

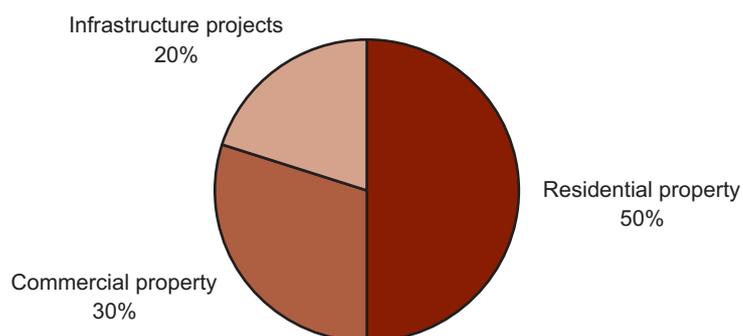
Producer prices and purchase prices by construction companies in Russia (RUB per ton), 2008



Source: Ministry of Economic Affairs, Rosstat, PMR Publications, 2009

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Composition of demand for cement in Russia, by project category, 2008



Source: Renaissance Capital, 2009

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Moscow and the Moscow Province are the leading cement consumers, absorbing more than 20% of all cement produced in Russia. The Siberia, Volga and Southern federal districts each account for 17-22% of total cement consumption. The Urals and North-western federal districts account for about 10% and 5% of total consumption respectively, and the Far Eastern FD accounts for over 2%.

Company profiles

As already mentioned, the cement industry in Russia includes 53 plants with an approximate overall annual capacity of 74 million tons. However, the level of wear and tear of the plants reduces real annual output capacity to about 60 million tons.

Moscow and the Moscow Province are the leading cement consumers.

Cement plants in Russia, by federal district, 2008

CIS030

| District | Number of plants | Overall capacity in million tons |
|---------------|------------------|----------------------------------|
| Central | 9 | 21 |
| North-western | 6 | 5.1 |
| Southern | 7 | 9.5 |
| Volga | 9 | 15.9 |
| Urals | 5 | 7.7 |
| Siberian | 12 | 12.4 |
| Far Eastern | 5 | 2.47 |
| Overall | 53 | 74.07 |

Source: Federal Antimonopoly Service, 2008

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The dominant player on the Russian cement market is the Eurocement Group. Other major players include: Holcim, Mordovcement, Novoroscement, Sibirsky Cement, Dyckerhoff and Seabriakovcement.

In December 2008, Eurocement had a 37% share of the market, and was followed by Sibirsky Cement and Lafarge.

Investments

HeidelbergCement intends to invest UAH 10m (\$1.9m) in the near future. The main aim of this investment is to improve the overall condition of the plant.

3. Doncement

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Telephone: +38 (06259) 2-25-18, 2-25-60

Fax: +38 (06259) 2-22-45

E-mail: doncement@doncement.com.ua

Website: <http://www.doncement.com.ua>

Profile

The Doncement plant is one of the oldest in Ukraine and was founded at the end of the 19th/beginning of the 20th century. In 2005 it became part of HeidelbergCement. At present, it owns 8 cement production lines with a total annual capacity of 2.5 million tons. Doncement is the only plant of the HeidelbergCement plants which still operates by means of the wet method of cement production. In 2007 it produced 1.843 million tons, of which approximately 145,000 were exported. The company transports cement by rail and road.

The Doncement offer includes:

- SPC III/A-400 – slag Portland cement
- PCII/B-S-400
- PCII/A-S-400
- PC I -500
- PC I- 500H
- SSPC-400 (sulphate resistant)
- SSPC-500-D20 (sulphate resistant)
- SSPC-400-D20 (sulphate resistant)
- PCA
- SSSPC – 400 – D60 - slag Portland cement

Investments

For the period 2008-2011, it is estimated that the total investment planned is \$263m. By 2010 there are plans to modernise: cement mill No.7 and the cement transport system (from silos to unloading docks) and to build four new loading machines. Furthermore, the owners are considering changing their fuel source (from gas to coal) and building a new silo with a capacity of 30,000 tons. Plans also include the construction of two mills, both able to produce 150 tons of cement per hour.

The Republic of Uzbekistan has a strong mineral raw material base for the further development of the cement industry. At present, local cement production is almost totally supplied by local mineral resources. 29 deposits of raw materials used in cement production have been prepared for commercial development, including 14 carbonate rock deposits with reserves of 1,040 million tons, 12 mudstone (clay rock) deposits with reserves of 440 million tons, and 3 deposits of mineral additives.

Investments in Uzbekistan's cement industry are directed toward both the modernisation of existing cement plants, and the construction of new facilities. There are plans to increase production capacity to 10 million tons per year for a total investment of \$1bn by 2012.

Projects which involve the construction of new cement plants:

- The Natural Cement Corporation Ltd. (Korea) and Asia Cement International Ltd. (Uzbekistan) have established a joint venture for the construction of a cement plant in the Surkhandarya Region at an estimated cost of \$300m. The annual production capacity of the new plant would be 1.7 million tons. Natural Cement will have a 75% stake in the project, whereas Asia Cement International will hold 25%. The date of the launch of the plant has not yet been disclosed.
- TBK-Invest (Russia) has begun to set up new cement processing facilities in the Zafarabad District of the Djizakh Region at a cost of \$486m. The annual production capacity of the plant is to be 3 million tons, with the project to be completed by the end of 2011.

In addition, there are plans to build several large cement plants. One such facility, with a total annual capacity of 1.5 million tons, is expected to be built in the Kashkadarya region, another, with a capacity of 800,000 tons, in the Tashkent region, and a third, with 1.5 million tons, in Karakalpakstan. It is intended that these factories will be funded by FDI, private funds and loans, without any state involvement.

One major concern on the part of potential investors is the tax levied on excessive profit, which includes a 75% rate on all unusually substantial profit received from the sale of cement. At present there are expectations of a new law – which would abolish tax on excessive profit for 10 years (3 years for the construction of new plants and 7 years of their initial operations).

Foreign trade

The location of the country, which shares borders with all Central Asian states, makes Uzbekistan attractive for cement exports. More than 25% of the cement produced in the country is exported to neighbouring countries: Kazakhstan, Tajikistan, Kyrgyzstan, Turkmenistan and Afghanistan. The most promising export markets for Uzbekistan are, therefore, Kazakhstan, Tajikistan and Kyrgyzstan. About 46% of the cement is exported by rail, and the rest by motorway.

While increasing cement production local producers plan to increase exports substantially – by 1 million tons over the next few years.

The volume of imported cement remains insignificant and consists mainly of specialised forms – coloured and other decorative kinds. These are imported mainly from Turkey, Iran, China, Germany, the UAE and Russia.

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