# Investor presentation at the Żelisławice factory H+H Poland

8 October 2015

# Forward-looking statement

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# Agenda

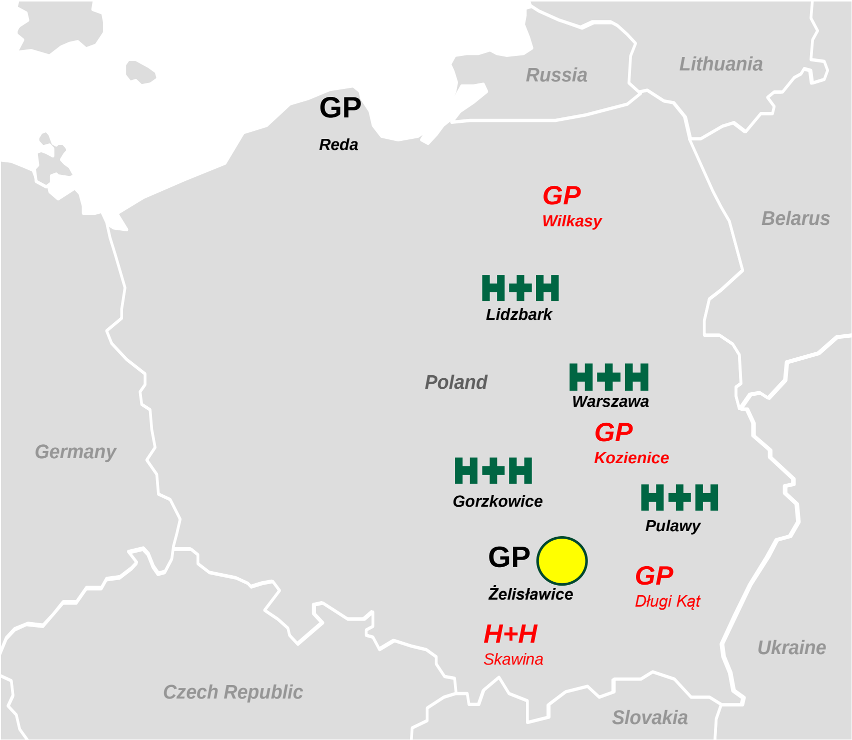
- Introduction to the plant in Żelisławice and safety briefing
- Factory tour
- Manufacturing setup for H+H Polska
- Synergies from the acquisition of Grupa Prefabet
- Macroeconomic overview
- The aircrete market
- Other building materials
- The new market situation
- Q&A

# History

- 1971: State-owned company was established with PL standard (Reda layout), first cake AAC was made
- 1995: State-owned company was privatised – stand-alone company AHG Prebet Sp. z o.o.
- 2003: Company collapsed and the property was leased by Gofabet Gorzkowice S.A.
- 2004: Factory was taken over by Grupa Prefabet S.A  part of CRH - Irish building group
- 2015: Factory as a part of GP was acquired by H+H PL

# General information about the Żelisławice plant

**H+H Group plants locations**

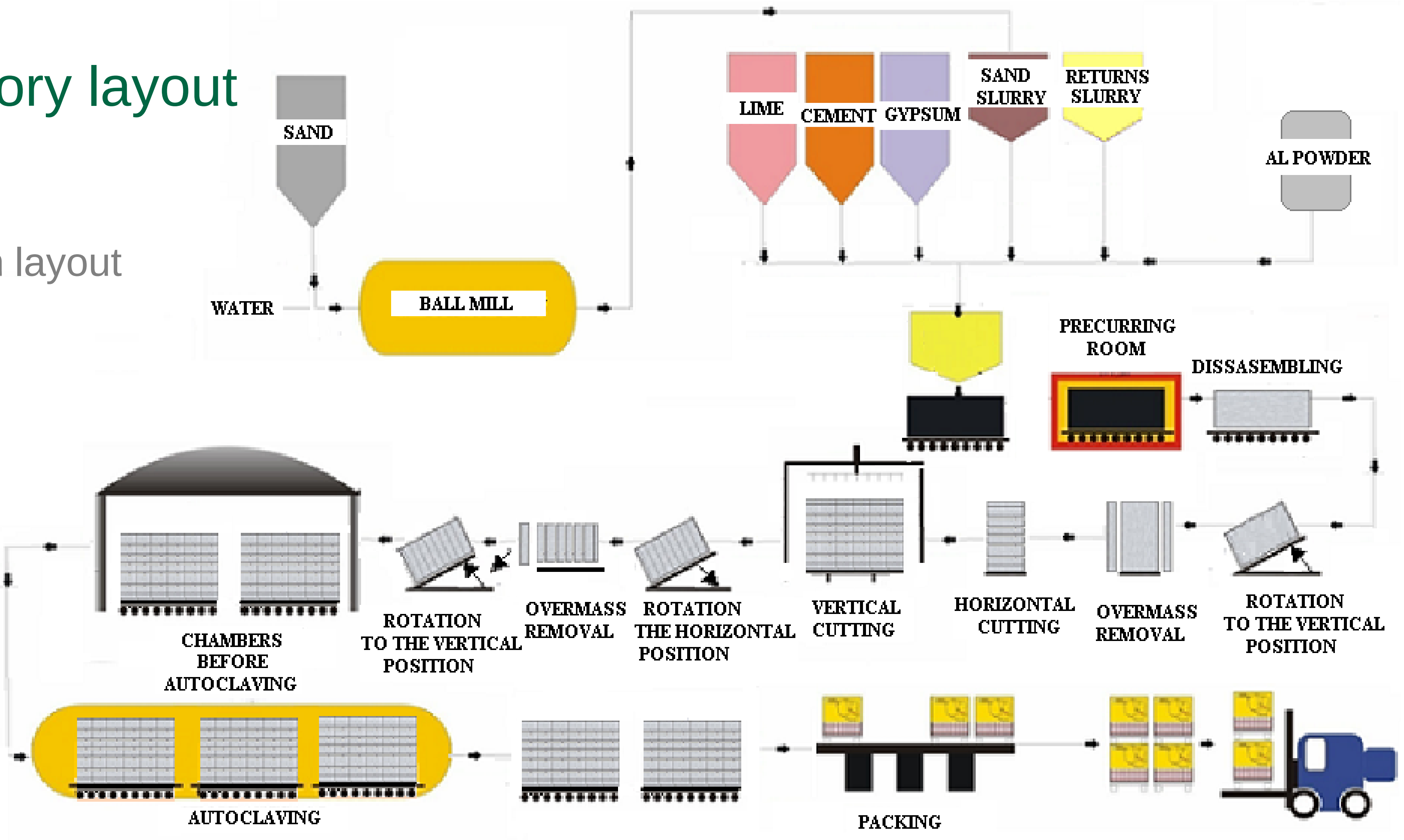



*H+H/GP – closed down factories*
*H+H/GP – continuing factories*

- Factory located south part of Poland, rural area, quite close to Silesia, huge industrial, coal mining area
- Main suppliers:
  - Cement – CRH, Grupa Ożarów – 150 km
  - Lime – Trzuskawica – 55 km, Gypsum – Nida Gips – 90 km
- Close to the Gorzkowice factory (60 km). The distance to the closest big town Kielce – 55 km
- Voivodship – Świętokrzyskie
- Factory area (total) – 14,228 ha (5.36 ha own land, 8.86 ha perpetual lease right)
- Building usable area in total – 9,170 m$^2$ (8,625 m$^2$ industrial part)
- 52 employees
- There is own sand mine – 11.86 ha (land leased from National forests). Distance the factory – 2.3 km.
- Acquired by H+H – Feb 2015

# Żelisławice factory layout

- Modern Wehrhahn layout
- Built in 2009
- Small version of H+H Russia



# Safety briefing before going to the factories

### The list of potential risks on the production site

| Lp. | Danger | Risk evaluation | Prophylaxis means<br>Individual protection, work organization requirements |
|---|---|---|---|
| 1 | Noise | Low risk A | Do not enter the noise zone. Use the hearing protection, if it's necessary |
| 2 | Dust and ashes | Low risk A | Do not enter the danger zone. |
| 3 | Hot surfaces or media | Low risk A | Do not approach to the equipments and installations. Follow the Prefabet employee's instruction. |
| 4 | Splash, eyes invitation | Low risk A | Follow the Prefabet employee's instruction. Do not enter the danger zone. |
| 5 | Fall, stumble, slip, drop | Low risk A | Do not enter the unrecognized or unlit zones. Watch out for the surface irregularities. Follow the Prefabet employee. Do not run. |
| 6 | Hitting static objects | Low risk A | Watch out in narrow and low passageways. Watch out for protruding parts of machines. |
| 7 | Traffic accident | Low risk A | Behave with caution on Prefabet area. Follow the Prefebet employee's instruction. Watch out for moving vehicles. Wear reflective vests. |
| 8 | Falling and collapsing objects | Low risk A | Do not enter under working cranes. In working crane's area wear reflective vest and helmet. Do not enter the zone where the risk of falling and collapsing objects is high. |
| 9 | Electrocution | Low risk A | Do not touch any kind of electrical equipment, power cables etc. Inform if you see any damages of electrical installation. |
| 10 | Fire | Low risk A | Follow the Prefabet employee's instruction. Leave the danger zone. |

### Main safety rules

| | |
|---|---|
| Characteristics, details: | Guests park their cars on designated place on parking and immediately inform about arrival. On the site of plant guests have to move with Prefabet employee on designated routes only.<br>Guests have to wear reflective vest and helmet.<br>Please pay attention on moving vehicles.<br>It is forbidden to arbitrary approach to machinery and equipment, energy lines and stations, storage location and any other places designates as a danger places.<br>In case of fire evacuate according to the markings or Prefabet employee's instructions. |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| PERSONAL PROTECTION | Helmet | reflective vest | | | | | |
| ADDITIONAL RESOURCES PROTECTION | hearing protection | | | | | | |
| BANS AND RESTRICTIONS | Do not enter under working cranes | Do not enter the danger zone | Do not run | | | | |

1. All visitors have to read up on safety rules on the production site.
2. All visitors have to be equipped with PPE.
3. Please be aware that fork lifts operate on whole production site. Keep yourself safe.

## H+H GROUP

## 10 SAFETY RULES

Say no to unsafe behavior for yourself and your colleagues

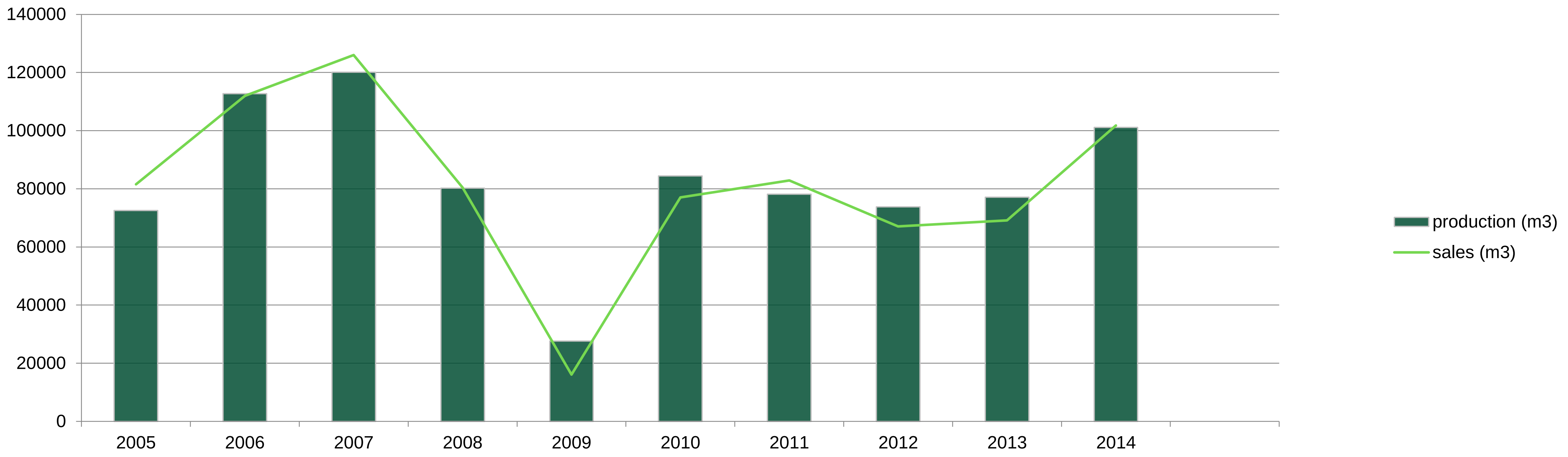
- SAY NO TO ACCIDENTS, THINK BEFORE YOU ACT
- ALWAYS WEAR YOUR PERSONAL PROTECTION EQUIPMENT WHERE APPROPRIATE
- KEEP A TIDY WORKPLACE, YOUR MESS IS SOMEBODY ELSE'S ACCIDENT
- NEVER BLOCK WALKWAYS, ESCAPE ROUTES AND FIRE EXITS
- USE ONLY APPROVED AND TESTED LIFTING EQUIPMENT
- USE ALL FORMS OF DRIVING EQUIPMENT WITH CARE
- SECURE ALL EQUIPMENT BEFORE YOU WORK ON THE MACHINE. USE SAFETY BREAKERS AND SECURE WITH LOCKS
- USE STAIRCASES, LADDERS AND OTHER ACCESS EQUIPMENT WITH CARE
- ELECTRICAL PANELS MUST BE LOCKED AND ONLY AUTHORISED PERSONNEL CAN WORK INSIDE A PANEL.
- IMMEDIATELY REPORT ANY PROBLEMS WITH SAFETY EQUIPMENT TO YOUR SUPERVISOR

**BE CAREFUL**

The best safety device is a careful employee.
Get the safety habit
Your colleagues depend on you

# Factory tour

# Żelisławice - Production and sales volumes 2005 - 2014*

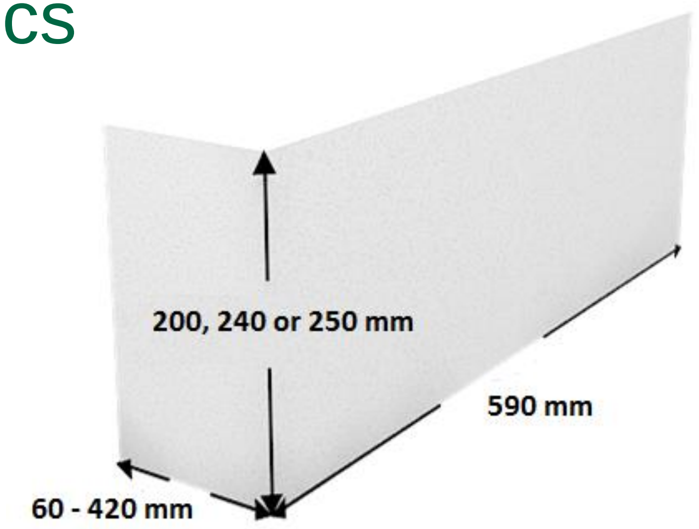



** Source: Internal H+H and GP data*

# Żelisławice - Main assortments and characteristics

## Main production – AAC – blocks

| Dry density declared | 400 | 500 | 600 | 700 |
|---|---|---|---|---|
| Gross density range [kg/m$^3$] | 350-400 | 450-500 | 550-600 | 650-700 |
| Compressive strength declared [Mpa] | 2.0 | 3.0 | 3.0 | 4.0 |
| The rate of thermal conductivity [W/(m K)] | 0.105 | 0.13 | 0.16 | 0.18 |




# Comparison of density and compressive strength for main competitors

| Factory/density | 300 | 350 | 400 | 500 | 550 | 600 | 700 | |
|---|---|---|---|---|---|---|---|---|
| H+H Gorzkowice | 1,5 | 2,0 | 2,5 | 4,0 | 5,0 | 5,0 | 6,0 | TLMB |
| H+H Lidzbark | - | - | - | 2,5 | - | 3,0 | - | TLMA/GPLM |
| H+H Warszawa | - | - | - | 2,5 | - | 3,0 | - | TLMB |
| H+H Reda | - | - | 2,0 | 3,0 | - | 3,0 -4,0 | - | TLMB |
| H+H Puławy | - | - | - | 2,5 | - | 3,0 | - | TLMB |
| H+H Żelisławice | - | - | 2,0 | 2,5 | - | 3,0 | - | TLMB |
| Solbet Solec Kuj. | - | - | 2,0 | 2,5 | - | 3,0-4,0 | 4,0 | TLMB |
| Solbet Lubartów | - | - | 2,0 | 2,5 | - | 3,0 | 4,0 | TLMB |
| Solbet Podnieśno | - | - | 2,0 | 2,5 | - | 3,0 | - | TLMB |
| Saolbet Stalowa W. | - | - | 2,0 | 2,5 | 3,0 | 3,5 | 4,5 (680) | TLMB |
| Solbet Kolbuszowa | - | 1,5 | 2,0 | 2,5 | - | 3,0-4,0 | 4,0 | TLMB |
| Xella | 2,0 | 2,0 | 2,5 | 3,0 | - | 4,0 | 5,0 | TLMB |
| Prefbet Śniadowo | - | - | 2,5 (450) | 2,5 | 2,5/3,0 | 3,0 | - | TLMA |
| Refabet Osława D. | - | - | - | 2,5 | - | 3,0 | 4,0 | TLMA |
| Bruk-Bet Termalica | 1,5 | 2,0 | 2,0 | 3,0 | - | 3,0-4,0 | 5,0 | TLMB |

*Source: Data were taken from web sites AAC PL producers*.

# Integration process - what has been done so far?

**Plants which continue the production (6): Reda, Lidzbark, Gorzkowice, Żelisławice, Warszawa, Puławy**

- ✓ Unitary purchasing policy – common suppliers
- ✓ Common production goals and recipes
- ✓ Significantly lower production cost as a synergy effect
- ✓ The same standard for technological process in HH factories (TLMB and white foil with H+H logo)
- ✓ Update individual investment plans
- ✓ Common rules in H&S area
- ✓ Common reporting system (KPI's)
- ✓ Reda is ready to produce SWE/FIN standard

***Plants where the production has been shut down (4): Wilkasy, Kozienice, Długi Kąt, Skawina***

- ✓ *Redundancy process - done*
- ✓ *All necessary administrative actions - done*
- ✓ *Splitting assets into 4 groups,*
  - *I. Plots and buildings,*
  - *II. Machinery and equipment that could be use in our factories*
  - *III. Machinery and equipment that could be sold*
  - *IV. Estimation of the residual steel scrap*
- ✓ *Plan for further disposal of assets – done*
- ✓ *Assets sales program – is going according to plan*

# Żelisławice, upcoming projects

- Fully integrated organisation with H+H Group to be completed

- Investment opportunities
  - General improvement of factory assets to reduce maintenance and/or improve OEE
  - New standard and space for storage area

- Investments will be initiated as market prices normalize to ensure ROIC

# The commercial aspects

H+H

# Polish economy – H1 2015

## Main economic indices – annual forecast, 2014-2016

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| GDP | 3.4% | 3.6% | 3.5% |
| CPI | 0.0% | -0.7% | 1.5% |
| PPI | -1.5% | -1.5% | 1.8% |
| €1=PLN (average) | 4.19 | 4.13 | 4.05 |

*Source: PMR, Consensus Forecasts*

www.pmrpublications.com

## Main macroeconomic indicators – monthly data, 2010–January-June 2015

| Output | 2010 | 2011 | 2012 | 2013 | 2014* | Jan-Jun 2015* |
|---|---|---|---|---|---|---|
| Volume of industrial output (PLN bn) | 945.3 | 1,094.7 | 1,138.9 | 1,149.0 | 1,166.6 | 585.4 |
| Change in industrial output | 9.0% | 7.5% | 0.5% | 1.8% | 3.3% | 4.6% |
| **Consumer prices** | **2010** | **2011** | **2012** | **2013** | **2014** | **Jan-Jun 2015** |
| Prices for consumer goods and services (CPI) | 2.6% | 4.3% | 3.7% | 0.9% | 0.0% | -1.2% |
| **Producer prices** | **2010** | **2011** | **2012** | **2013** | **2014** | **Jan-Jun 2015** |
| Prices of sold production of industry (PPI) | 2.1% | 7.6% | 3.3% | -1.3% | -1.5% | -2.4% |
| Prices in construction and assembly production | -0.1% | 1.0% | 0.2% | -1.8% | -1.2% | -0.4% |
| **Average gross monthly salaries** | **2010** | **2011** | **2012** | **2013** | **2014** | **Jan-Jun 2015** |
| Change in gross monthly salaries in enterprise sector | 3.3% | 5.0% | 3.4% | 2.9% | 3.7% | 3.6% |
| Change in gross monthly salaries in manufacturing | 5.3% | 5.5% | 4.4% | 3.6% | 4.3% | 3.7% |

** preliminary data*

*Source: GUS, 2015*

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- High GDP growth compared to EC-28
- Negative CPI anticipated for 2015 after flat 2014
- Pressure on prices in construction since the financial crisis

# Remarks from the Polish National Bank, July 2015

**According to the report of the Polish National Bank from July 2015**

- the **GDP** growth rate in Poland will develop at a stable level and in the years 2015-2017 will average **3.6%** (the same level as in Q1 2015). Moderate recovery in the euro area will offer a limited support to the economic growth in Poland, which is largely caused by rising domestic consumption expenses and investments in the private sector. The decrease in capital transfers inflow from the EU, which is a consequence of the completion of settlement EU financial perspective for 2007-2013, will contribute to a relatively shallow slowdown in 2016.

- **inflation** will remain in the short term perspective on a negative level, for June 2015 it is **-0.8%.** The deflation is caused by a strong drop in oil prices and high supply level of agricultural products. The expected inflation level till 2017 is below the target (2.5%).

- The main risk factor is now a possible insolvency of Greece and subsequently Eurozone exit. The effects of such developments should be currently less severe than they would be in the year 2012 and should have a short-term character.

It is difficult to assess whether in 2015 after several years of slowdown on **the construction market** there will be finally an improvement. There is a chance, because the assessment of the current portfolio of orders, as well as construction and assembly production formulated by the construction companies, are less pessimistic than in June 2014 and two years earlier. However, despite the by experts forecasted recovery in the investment market, construction companies report an increase in delays in payment for the work performer and possible employment reductions, in this view the future prospects are somewhat less favourable.

# Key market factors – H1 2015


- **Building permits issued** (2015 Jan-Jun, y-o-y): 86.4 thousand units **(+13.0%)**
- **Housing starts** (2015 Jan-Jun, y-o-y): 80.3 thousand units **(+11.2%)**
- **Dwellings completed** (2015 Jan-Jun, y-o-y): 63,7 thousand units **(-4.0%), of** which 60.6% house builders (individual investors)
- **Mortgage credits** (Q2 2015, y-o-y): PLN 10.1 bn **(+5.0%)**

*Source: GUS – Polish Central Statistical Office*

## Homes completed and under construction in Poland, 2010–Q1-Q2 2015

| | 2010 | 2011 | 2012 | 2013 | 2014 | Q1-Q2 2015 |
|---|---|---|---|---|---|---|
| Homes completed | 135,835 | 130,954 | 152,904 | 145,136 | 143,373 | 63,746 |
| Change in number of homes completed (y-o-y) | -15.1% | -3.6% | 16.8% | -5.1% | -1.2% | -4.0% |
| Homes under construction (end of period, '000) | 658.7 | 723.8 | 712.7 | 694.9 | 699.7 | 716.5 |
| Change in number of homes under construction (y-o-y) | -1.4% | 9.9% | -1.5% | -2.5% | 0.7% | 2.2% |

*Source: PMR based on GUS data, 2015*

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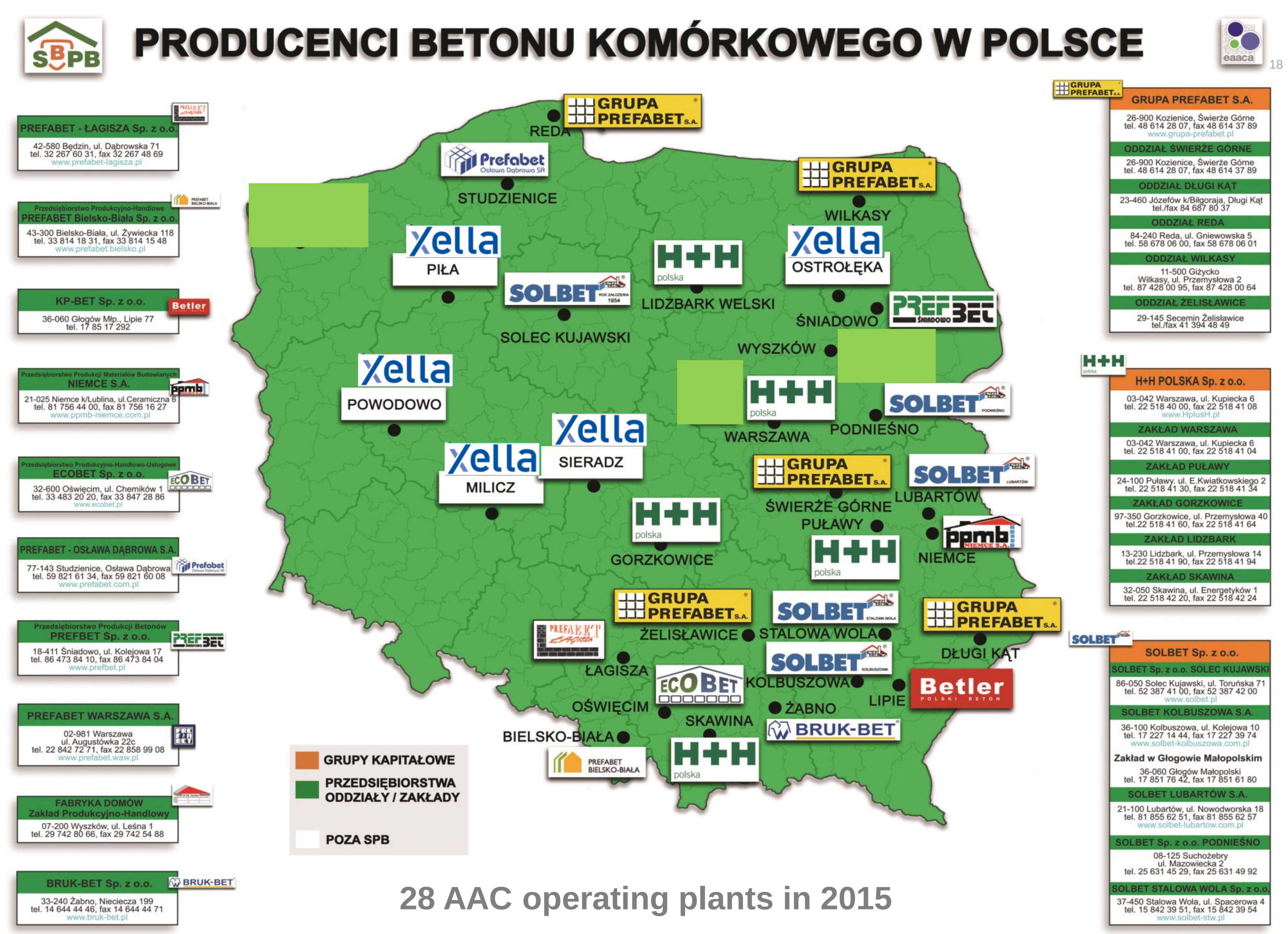
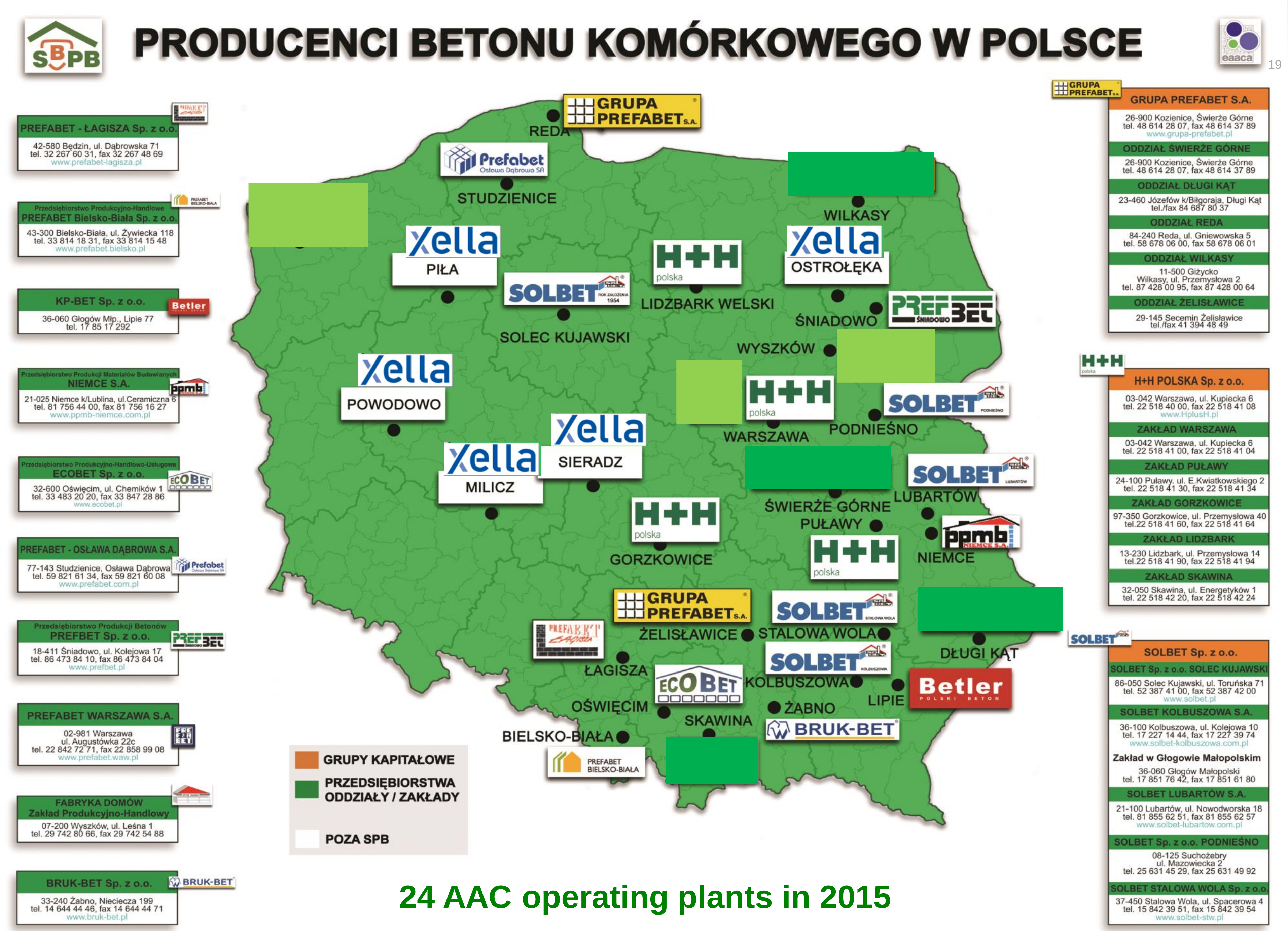



**28 AAC operating plants in 2015**




**24 AAC operating plants in 2015**

# Brief characteristic of our key AAC competitors (before takeover 2015-02)

**SOLBET – Market leader (volume driven – push strategy)**
- 5 production sites 1,600 tm$^3$ (active all over PL + export to RU, BY, UA, SK, CZ)
- Gains from economies of scale.
- Very aggressive offering at low prices to our customers (also our key customers). Current average monthly EXW prices (240 mm) in range of 122-126 PLN/m$^3$.

**XELLA (Ytong) – Market leader (quality driven – pull strategy) – strong synergy with silicate**
- 5 production sites 1,200 tm$^3$ (more active in central and western PL).
- Dual strategy with low prices (EXW 120-130 PLN/m$^3$) for project sales no name products with transparent foil. High prices offered for day-to-day business for Ytong blocks.

**CRH (Grupa Prefabet) – No synergy effects from their silicate business yet**
- 5 production sites 1,350 tm$^3$ (very good spread from north to south and eastern PL).
- Push strategy – aggressive price volume driven offer. Average monthly EXW prices (240 mm) in range of 117-125 PLN/m$^3$.

**Prefabet Oława Dąbrowa – benefiting from northern location and synergy from own silicates**
- 1 production site (northern PL) 320 tm$^3$.
- Reasonable quality → production process development over last three years
- Push strategy – competitive price offer in the region

**TERMALICA – part of Bruk-Bet Group (market leader in concrete pavement elements)**
- 1 production site (southern PL) 150 tm$^3$.
- Aggressive in project sales trying to deliver directly to investor/general contractor.
- Mix of Push & Pull strategy – aggressive price offer in southern PL – synergy Bruk-Bet distribution.

# Building materials – AAC substitutes

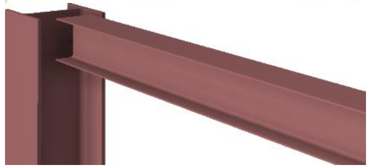
**Aircrete (24 plants) 40% wall market penetration**
- Residential buildings: developers and individual investors
- Non-residential: industrial, commercial and agriculture
- Tradition (East PL)

**Ceramics porous (17 plants** excl. small local brick producers**) 35% wall market penetration**
- Wienerberger (8), Cerpol CRH (3), Leier (2) and 4 other manufacturers
- Residential buildings: developers and individual investors
- Tradition (West PL)

**Silicate lime (22 plants) 17% wall market penetration**
- Silka XELLA (6), Grupa Silikaty CRH (8) and 8 other manufacturers
- Residential and non-residential buildings: developers and individual investors
- Acoustic properties (good sound insulation)

**Concrete (read-mix and mix-on-site)**
- Main cement manufacturers: Lafarge-Holcim, HeidelbergCement Group, CRH, Cemex and site-mix
- Residential and non-residential buildings => reinforced-concrete frame, garage and basement

**TIMBER**
- Small local players in North-East (Mazurian Lake District) and South-East (Mountains) PL
- Leasure residential and non-residential



**STEEL**
- Present in industrial, commercial and non residential as structure
- Steel-sheets in commercial, storage. Often as “sandwich wall” e.g. Kingspan, IRL


POLSKA
mapa administracyjna
R O S J A
Obwód Kaliningradzki
LĘBORK
REDA
GRUPA PREFABET
POMORSKIE
STUDZIENICE
MALBORK
Leier
WARMIŃSKO-MAZURSKIE
WILKASY
GRUPA PREFABET
ZACHODNIO-POMORSKIE
ZŁOCINIEC
SZLACHTA
IŁAWA
PASYM
PISZ
SILIKATY
TRĄBKI SZCZECIN
KUJAWSKO-POMORSKIE
TRZCINIEC
LIDZBARK
H+H
OSTROŁĘKA
PODLASKIE
BIAŁYSTOCK
PIŁA
SOLEC KUJAWSKI
SOLBET
KRUKI
SILIKATY
ŚNIADOWO
LEWKOWO
BARLINEK
PRZYSIECZYN
SILIKATY
WYSZKÓW
MAZOWIECKIE
MICHAŁÓW-REGINÓW
DOBRE
ŻABINKO
HONORATKA
WIELKOPOLSKIE
LUBUSKIE
PLECEWICE
WARSZAWA
H+H
PODNIEŚNO
SOLBET
POWODOWO
BRZOSTÓW
JEDLANKA
SILIKATY
GRUPA PREFABET
KOZIENICE
SOLBET
KROTOSZYN
TEODORY
ŁÓDZKIE
LUBARTÓW
ŻYTKOWICE
MILCZ
SIERADZ
OWCZARY
PUŁAWY
H+H
NIEMCE
RADOM
DOLNOŚLĄSKIE
LUBELSKIE
GORZKOWICE
H+H
SILIKATY
KOZŁOWICE
LUDYNIA
OŁAWA
CZĘSTOCHOWA
OPOLSKIE
ŚWIĘTOKRZYSKIE
SOLBET
STALOWA WOLA
MEGOLA HEDWIŻYN
ŻELISŁAWICE
GRUPA PREFABET
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OLEŚNICA
DŁUGI KĄT
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SILIKATY
SOLBET
KOLBUSZOWA
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LEŻAJSK
SILIKATY
OŚWIĘCIM
LIPIE
WOLA RZĘDZIŃSKA
Leier
PODKARPACKIE
SKAWINA
H+H
MAŁOPOLSKIE
BIELSKO-BIAŁA
BIEGONICE

# H+H and GP integration process 2015
# Production footprint

**Relocation of production units**


**H+H Group (H+H PL i GP) production capacity**

| | Production units |
|---|---|
| 1 | Gorzkowice (H+H) - 1968 |
| 2 | Warszawa (H+H) - 1953 |
| 3 | Puławy (H+H) -1970 |
| 4 | Skawina * (H+H) - 1972 |
| 5 | Lidzbark (H+H) - 1965 |
| 6 | Reda (GP) - 1951 |
| 7 | Niegocin (GP) |
| 8 | Kozienice (GP) |
| 9 | Żelislawice (GP) |
| 10 | Długi Kąt (GP) |
| | Total volume about 1.5 million $m^3$ |

*/ Skawina plant has been mothballed as of 01.01.2014

- ✓ **Production capacity in the new 6 plants model about 1.5 million $m^3$**
  H+H PL (standalone) production capacity in 2013 were about 1.5 million $m^3$
- ✓ **Capacity reduction after 4 plants closing down about 0.9 million $m^3$**

# Removal of capacity

- Until 30 June 2015 we have sold approx. similar volume as Grupa Prefabet did in H1 2014
- Hence competitors have not yet felt the lower supply of volume into the market
- We will carefully observe how competitors pricing policy is affected by the new volume situation

# Q & A