

# Definitive First-Half 2005 Results



**IMERYS**  
TRANSFORM TO PERFORM

## ➤ **Imerys: activities and strategy**

➤ **1<sup>st</sup> half 2005 results**

➤ **Development**

➤ **Outlook**

# Imerys in brief

- **The world leader** in industrial minerals, Imerys **serves many different markets** including paper, paint, plastics, sealants, ceramics, construction, refractory applications, abrasives, steelmaking and beverage filtration
- **2004 consolidated sales: €2,871 million**
- **2004 net income from recurring operations: €261 million**  
13th consecutive annual increase
- **Substantial cash flow generation, robust financial structure**
  - Current free cash flow generation of approximately €220 million in 2004
  - Net debt-to-equity ratio as on June 30, 2005: 64.7%
- **Market capitalization: €3.9 billion; float: 46%**  
**Indexes: CAC NEXT 20, SBF 120**

# Business and strategic advantages

➤ **The Group mines and processes minerals to develop solutions that improve its customers' product performance and manufacturing efficiency**

➤ **Imerys combines 3 decisive strategic advantages:**

● **Access to reserves**

- *prospecting / owning mineral deposits*
- *running mining operations*

● **Industrial know-how and R&D expertise**

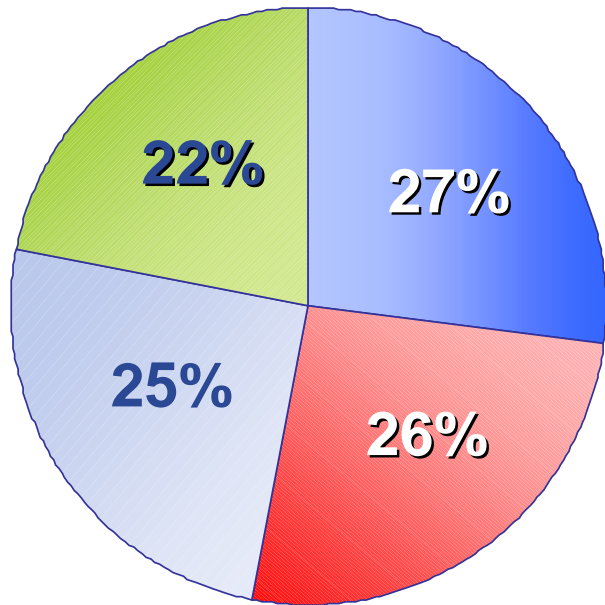
- *value-added processing of minerals*
- *broad product range*
- *logistics*

● **Comprehensive knowledge of end markets**

- *close technical dialogue with customers*
- *innovative products/solutions*

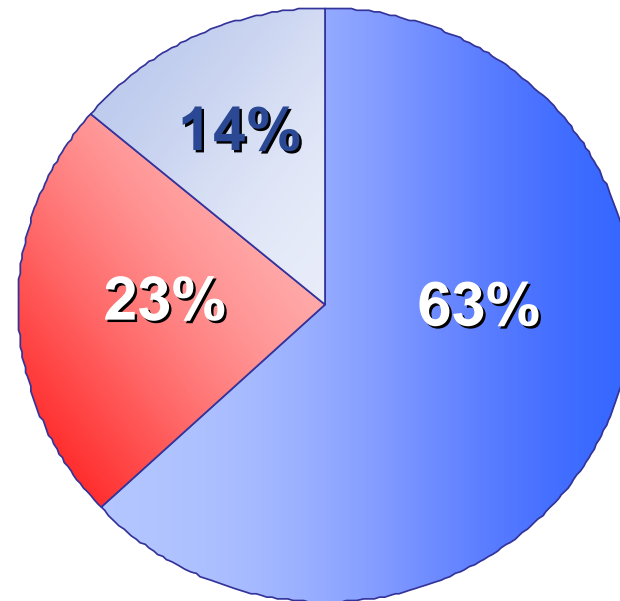
# A market-driven organization

## ➤ Sales by business group<sup>(1)</sup>



- Specialty Minerals
- Pigments for Paper
- Building Materials
- Refractories & Abrasives

## ➤ Sales by geographic destination<sup>(1)</sup>



- Europe (of which France: 27%)
- North America
- Rest of World (of which Asia: 8%)

(1) 2004 sales = €2,871 million

# Strong market positions in each Business Group

	Market Position	Main competitors
<b>Specialty Minerals</b>	<ul style="list-style-type: none"> <li>● European #1 in bodies for porcelain</li> <li>● European #2 in raw materials for floor tiles</li> <li>● World #1 in high-performance graphite</li> <li>● World #1 in minerals for polymer films</li> </ul>	<ul style="list-style-type: none"> <li>● AKW, Sibelco /WBB, Goonvean</li> <li>● Omya, Huber, Engelhard</li> <li>● Nacional de Grafite</li> </ul>
<b>Pigments for Paper</b>	<ul style="list-style-type: none"> <li>● World #1 in kaolin for paper</li> <li>● World #2 in ground calcium carbonate (GCC)</li> <li>● World #3 in precipitated calcium carbonate (PCC)</li> </ul>	<ul style="list-style-type: none"> <li>● Engelhard, Huber, AKW, PPSA</li> <li>● Omya</li> <li>● Mineral Technologies</li> </ul>
<b>Materials &amp; Monolithics</b>	<ul style="list-style-type: none"> <li>● French #1 in clay roof tiles, bricks and chimney blocks</li> <li>● European #1 in monolithic refractories</li> </ul>	<ul style="list-style-type: none"> <li>● Terreal, Lafarge, Wienerberger</li> <li>● Vesuvius, RHI, Intocast</li> </ul>
<b>Refractories, Abrasives &amp; Filtration</b>	<ul style="list-style-type: none"> <li>● World #1 in minerals for refractories and abrasives</li> <li>● World #1 in diatomite and in perlite for filtration</li> </ul>	<ul style="list-style-type: none"> <li>● Almatys, Alcan, Saint Gobain, Washington Mills</li> <li>● Eagle Picher, CECA, Grefco</li> </ul>

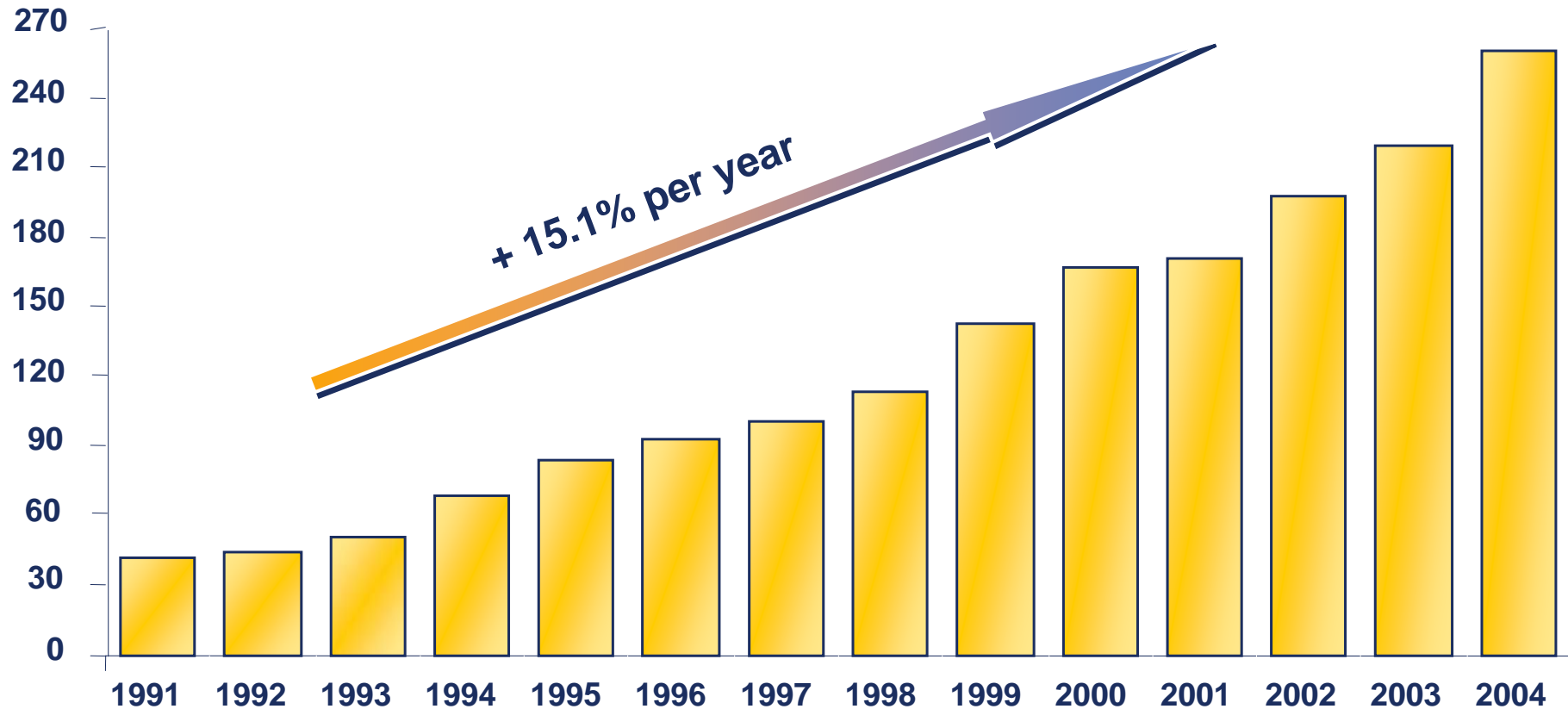
# "Business model"

- **Make products that usually represent a minor share of customer's operating expenses** but are essential to the performance of their products and/or the efficiency of their industrial assets
- **Sell value-added solutions:** no LME-listed products; capacity to improve the price/mix component year after year
- **Maintain a limited risk profile:** diversity of end markets, leadership positions and market entry barriers



# Imerys' track record: 13 straight years of net recurring income growth

(€millions)



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# Group's strategy

- **Constantly optimize industrial and commercial resources**
  - Ongoing efforts to improve the cost base
  - Successful industrial restructuring (Pigments for Paper, Refractories & Abrasives)
  - Continuous development of new products and new applications allowing a regular increase of the price/mix component
  
- **Make strategic moves and seize value-creating growth opportunities**
  - More than €1 billion in capital expenditure since 1999
  - Integration of over 60 small and medium-size acquisitions since the acquisition of ECC in 1999, for a total amount of more than €1 billion
  - Acquisitions of Lafarge Réfractaires and World Minerals since the beginning of 2005
  
- **Share value creation with shareholders via a sustained distribution policy**

# Industrial minerals: a niche of the mining industry

## ➤ A sector in a consolidation process

- **Increasingly concentrated and global customer industries** (paper, beverages, paint, ceramics, abrasives, etc.)
- **Larger production units:** higher quantities of industrial minerals used
- **Extensive reserves and production capacities** needed to meet customer industries' demands (global presence and large product range)

## ➤ A growing industry

- Selling **solutions**, not commodities
- **Products with higher added value**, requiring greater R&D, quality and marketing efforts
- **Need to amortize capital expenditure over wider markets**

# Growth strategy: combining internal and external growth

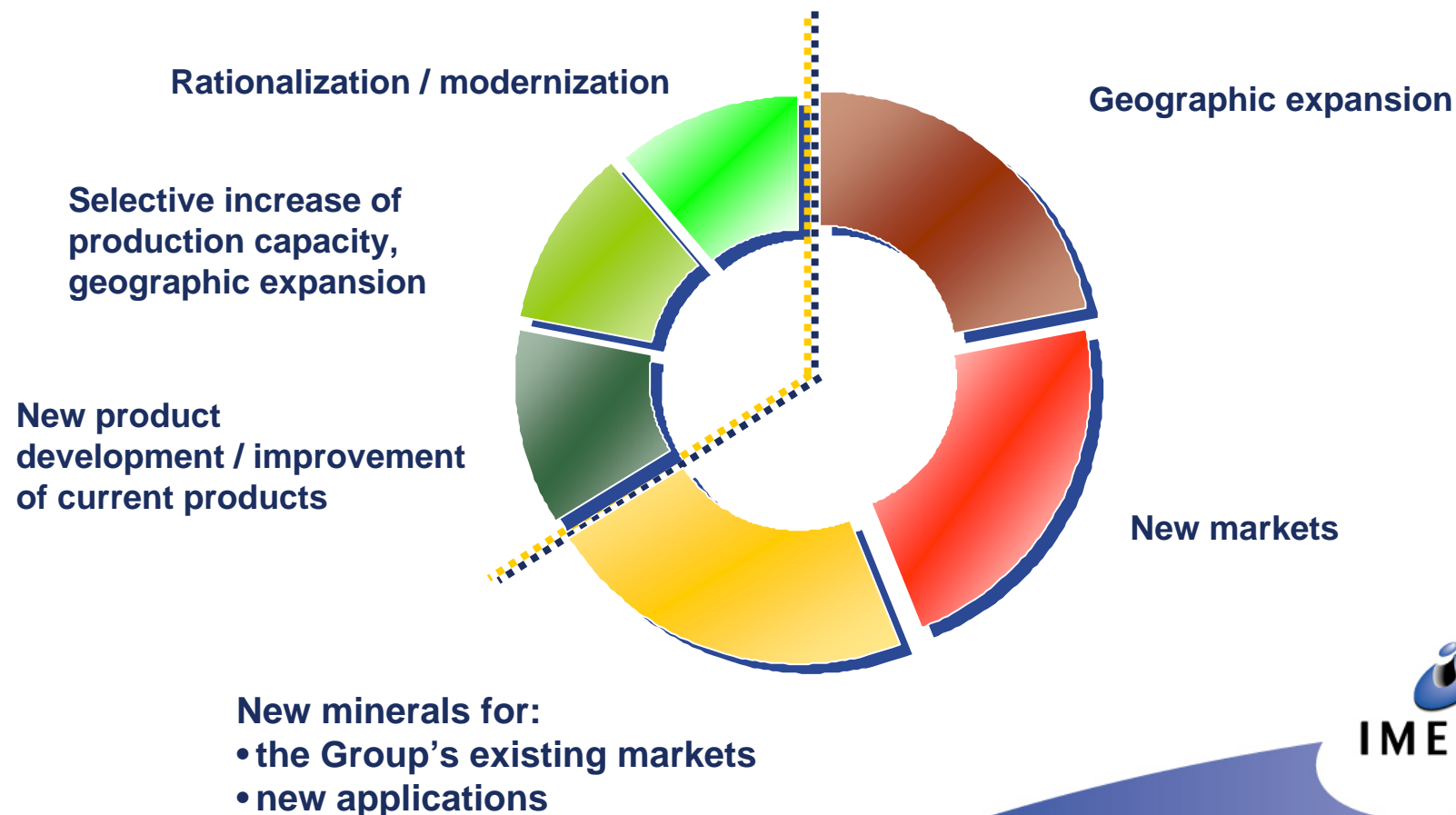
...With the same strict financial hurdle rates

## ➤ Internal Growth

(capital expenditures usually between 80% and 130% of depreciation)

## ➤ External Growth

(opportunistic)



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# 1<sup>st</sup> half 2005 highlights

## ➤ **A more difficult general environment**

- An unusually harsh winter in France, affecting Building Materials in Q1
- Pigments for Paper penalized in Q2 by a 7-week strike in the Finnish paper industry
- Specialty Minerals faced with decreasing sales volumes
- Sharp inflation in some external cost factors (energy, transport, chemicals,...); exchange rates trends still adverse

## ➤ **The Group's growth continues with rises of + 3.1% in consolidated sales and in profit from current operations and + 11.6% in net income from recurring operations**

- Significant improvement in the performance of three of the Group's four business groups, offsetting the decrease in Pigments for Paper

## ➤ **Sustained capital expenditures, active external growth**

# Group key figures

(IFRS standards <sup>(1)</sup> - € millions)	H1 2005	H1 2004	Change
<b>Consolidated sales</b>	<b>1,486.3</b>	<b>1,441.5</b>	<b>+ 3.1%</b>
<b>Profit from current operations<sup>(2)</sup></b>	<b>219.0</b>	<b>212.4</b>	<b>+ 3.1%</b>
<b>Net income from recurring operations<sup>(3)(4)</sup></b>	<b>139.4</b>	<b>124.9</b>	<b>+ 11.6%</b>
<b>Net income<sup>(3)</sup></b>	<b>180.8</b>	<b>114.5</b>	<b>+ 57.9%</b>
<b>Free operating cash flow<sup>(5)</sup></b>	<b>38.1</b>	<b>97.8</b>	<b>- 61.0%</b>

- (1) All financial data in this presentation are under IFRS standards
- (2) Profit from operations before other income and expenses
- (3) Group's share
- (4) Net income before other income and expenses, net
- (5) EBITDA minus tax on profit from current operations, capital expenditures and changes in operating working capital requirements

## 2<sup>nd</sup> quarter trends

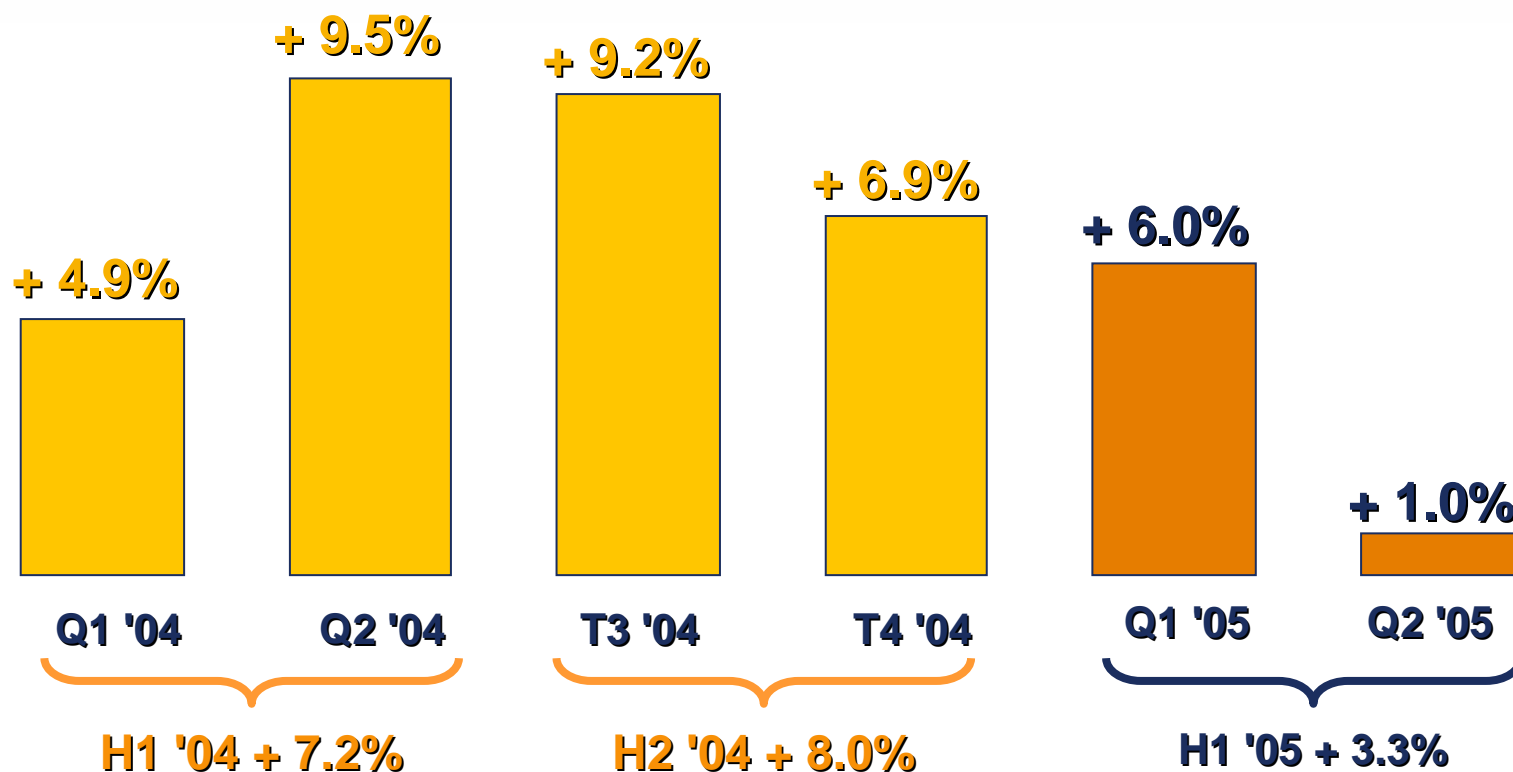
(€ millions)	Q2 2005	Q2 2004	Change	H1 2005	H1 2004	Change
<b>Consolidated sales</b>	<b>733.4</b>	<b>754.5</b>	<b>- 2.8%</b>	<b>1,486.3</b>	<b>1,441.5</b>	<b>+ 3.1%</b>
<b>Profit from current operations <sup>(1)</sup></b>	<b>119.9</b>	<b>118.3</b>	<b>+ 1.3%</b>	<b>219.0</b>	<b>212.4</b>	<b>+ 3.1%</b>
<b>Net income from recurring operations<sup>(2)(3)</sup></b>	<b>82.3</b>	<b>72.5</b>	<b>+ 13.4%</b>	<b>139.4</b>	<b>124.9</b>	<b>+ 11.6%</b>

(1) Profit from operations before other income and expenses; (2) Group's share; (3) Net income before other income and expenses, net

### ➤ **More difficult market conditions for two activities: Specialty Minerals and Pigments for Paper (Finnish paper industry strike)**

- **Erosion of sales volumes against a very high basis of comparison in 2004 (- 1.7% in Q2 '05 vs. Q2 '04)**
- **Impact of divestment of Larivière, deconsolidated since April 19**
- **Lower negative effect of exchange rates (- 1.3% in Q2)**

# Quarterly change in consolidated sales at constant Group structure and exchange rates<sup>(1)</sup>

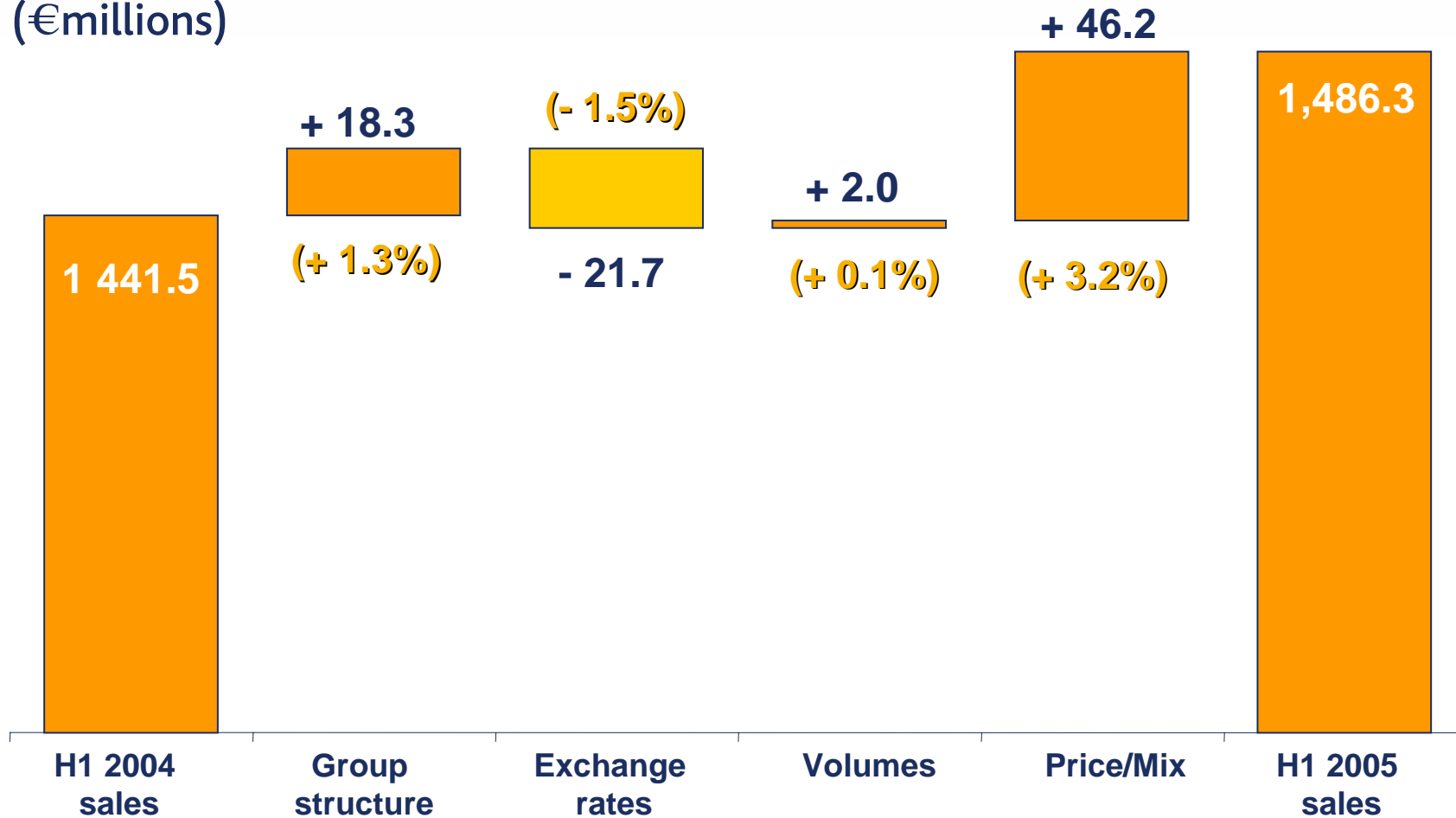


➤ Firm organic growth in H1 '05 despite a particularly high basis of comparison in Q2

- All business groups contributed to this positive trend, except Specialty Minerals.

# Growth in consolidated sales

(€millions)



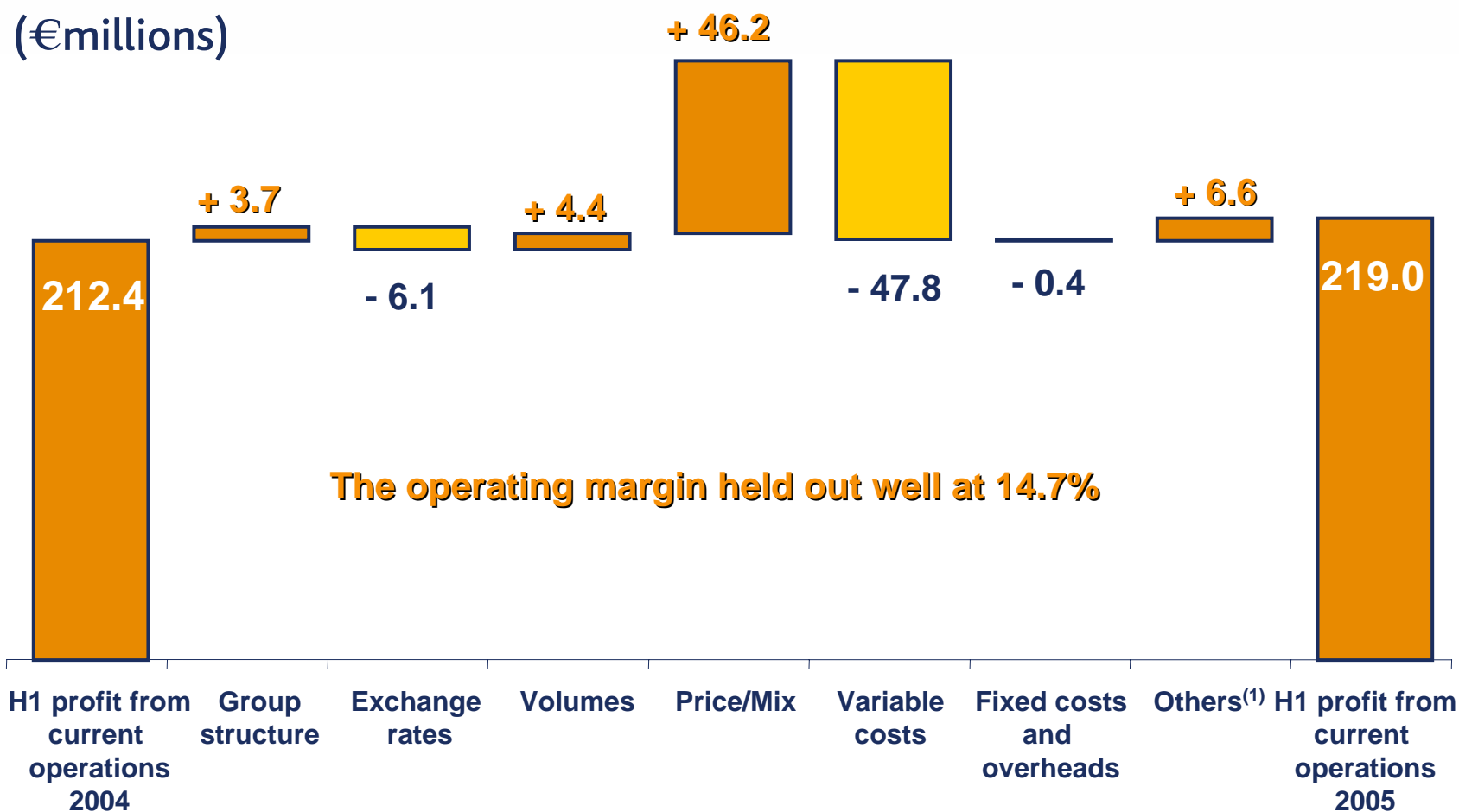
- Significant improvement in the price/mix component (+ 3.2%) which again evolved positively in all 4 business groups
- Stable volumes, affected by adverse conditions in Specialty Minerals and, in Q2, Pigments for Paper



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# Improvement in profit from current operations

(€millions)



The operating margin held out well at 14.7%

- Sharp inflation in variable costs (energy, transport, chemicals, etc.) almost entirely offset by the rise in the price/mix component
- Good control of other production costs and positive effect of other parameters (apart from exchange rates)



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(1) Mainly changes in inventory

# Specialty Minerals

(€ millions)	H1 '05	H1 '04	Change
Consolidated sales	401.1	405.6	- 1.1%
Profit from current operations	51.8	46.8	+ 10.7%

- 0.4%  
at comparable  
Group structure and  
exchange rates

- Flat markets overall, with a downturn in performance minerals and tableware: lackluster economic conditions in Europe, downstream inventory reductions
- Significant improvement in performance (+ €6.3 million if restated from effects of Group structure and exchange rates): operating margin at 12.8% vs. 11.5% in H1 '04
  - Substantial industrial optimization efforts and improvement in the price/mix component more than offset the effects of exchange rates, external cost inflation and lower volumes
- Continued cost reduction and development efforts
  - Many productivity investments in the US and UK
  - Small acquisitions in Italy and Tunisia in GCC for performance minerals

# Pigments for Paper

(€millions)	H1 '05	H1 '04	Change
Consolidated sales	366.8	376.2	- 2.5%
Profit from current operations	36.6	49.7	- 26.2%

+ 4.0%  
at comparable  
Group structure and  
exchange rates

➤ **Stable production of printing and writing papers (+ 0.3%)**

- In Europe, strong impact of the 7-week strike at Finnish papermakers (25% of European production) → - 8.4% market decline in Q2 (- 2.9% for H1)
- More favorable trends in the US and in Asia

➤ **Downturn in operating performance, entirely due to external factors: margin at 10.0% vs. 13.2% in H1 '04**

- Very high inflation in variable costs, only partly offset by increase in the price/mix component
- Slightly slower than expected ramp-up of new capacities for calcium carbonates in India, China and Sweden
- Strong competitive response in GCC

➤ **Production cost reduction efforts**

- Capacity debottlenecking in Brazil; restructuring in the UK

# Pigments for Paper

Decrease in profit from current operations entirely due to external factors

**H1 '05 vs. H1 '04 change**  
**- €9.5 million excluding**  
**Group structure<sup>(1)</sup> and exchange rates<sup>(2)</sup> impacts**



- **Price/mix component vs. variable costs** - €13.5 million
- **Impact of strike in Finland** - €4.5 million
- **Other effects (volumes, fixed costs, etc.)** + €8.5 million

# Building Materials

(€millions)	H1 '05	H1 '04	Change
Consolidated sales	326.0	365.1	- 10.7%
Profit from current operations	85.2	81.5	+ 4.5%

+ 4.0%  
at comparable  
Group structure

- In France, growth in the new individual housing (+ 5%) and renovation (+ 1%) segments, despite adverse weather conditions in Q1
- Despite the sale of Larivière, further improvement in profitability: + €3.7 million rise in profit from current operations (+ €7.2 million at comparable Group structure); operating margin at 26.1% vs. 22.3% in H1 '04
  - Growth in sales volumes and the price/mix component, and excellent cost control more than offset the negative impact of higher energy costs
- Implementation of major capital expenditure projects for growth
  - Roof tiles: start-up of a new line in Ste Foy (France) in June
  - Bricks: construction in progress of a new line in Mably (France)

# Refractories & Abrasives

(€millions)	H1 '05	H1 '04	Change
Consolidated sales	408.6	309.5	+ 32.0%
Profit from current operations	58.5	44.8	+ 30.5%

**+ 7.3%**  
at comparable  
Group structure and  
exchange rates

- **A positive market environment overall in both refractories and abrasives, despite a less favorable basis of comparison in Q2**
- **Significant improvement in profitability (+ €7.7 million if restated from Group structure and exchange rate effects); stable operating margin at high level 14.3% vs. 14.5% in H1 '04)**
  - Increase in volumes and price/mix component, more than offsetting rises in some costs (energy, raw materials)
- **Business refocusing and ongoing development**
  - Divestment of American Minerals (trading in minerals for basic refractories)
  - Integration of Lafarge Réfractaires progressing well
  - Positions outside Europe in monolithics strengthened with the acquisition of South Africa's QA Refractories in Q2

# Significant growth in net income from recurring operations

(€ millions)	H1 2005	H1 2004	Change
<b>Profit from current operations</b>	<b>219.0</b>	<b>212.4</b>	<b>+ 3.1 %</b>
Financial result	(21.5)	(22.4)	
Current income tax	(58.0)	(64.2)	
Minority interests & equity method	(0.1)	(0.9)	
<b>Net income from recurring operations<sup>(1)</sup></b>	<b>139.4</b>	<b>124.9</b>	<b>+ 11.6%</b>

(1) Net income before other income and expenses net, Group's share

➤ **Stable financial result**

➤ **Significant decrease in effective tax rate, at 29.4% compared with 33.8% in H1 '04 and 31.8% in 2004**

- Extension of RCC's tax holiday, improvement in its results and income tax rate cuts in France and Austria

# Sharp growth in net income

(€ millions)	H1 2005	H1 2004	Change
<b>Net income from recurring operations<sup>(1)(2)</sup></b>	<b>139.4</b>	<b>124.9</b>	<b>+ 11.6%</b>
<b>Other income and expenses, net, of which:</b>	<b>41.4</b>	<b>(10.4)</b>	
• Capital gains	97.7	-	
• Restructuring expenses	(22.3)	(6.4)	
• Assets value adjustments (IAS 36)	(34.0)	(4.0)	
<b>Net income<sup>(2)</sup></b>	<b>180.8</b>	<b>114.5</b>	<b>+ 57.9%</b>

(1) Net income before other income and expenses, net

(2) Group's share

- **Substantial capital gains, mainly from the divestment of Larivière**
- **Restructuring expenses concerning notably Pigments for Paper and Specialty Minerals activities in the UK**
- **Various assets value adjustments in Brazil, Asia and the US**

# Increase in operating cash flow

(€ millions)	H1 2005	H1 2004	Change
<b>Profit from current operations</b>	<b>219.0</b>	<b>212.4</b>	<b>+ 3.1%</b>
Depreciation, amortization and provisions, net	79.9	81.2	
<b>EBITDA</b>	<b>298.9</b>	<b>293.6</b>	<b>+ 1.8%</b>
Tax on profit from current operations and others	(65.4)	(71.1)	
<b>Operating cash flow</b>	<b>233.5</b>	<b>222.5</b>	<b>+ 4.9%</b>

- **Rise in operating cash flow, reflecting higher profit from current operations and lower current tax charge**

# Free operating cash flow reflecting major capital expenditures for growth

(€ millions)	H1 2005	H1 2004	Change
<b>Operating cash flow</b>	<b>233.5</b>	<b>222.5</b>	<b>+ 4.9%</b>
Change in operating working capital	(68.0)	(55.2)	
Capital expenditures paid	(131.2)	(74.8)	
<b>Free operating cash flow<sup>(1)</sup></b>	<b>38.1</b>	<b>97.8</b>	<b>- 61.0%</b>

(1) After divestments & subsidies

3.8

5.3

- **Sharp increase in capital expenditures (123% of depreciations vs. 74% in the 1<sup>st</sup> half of 2004), due to major capacity expansions in progress in all business groups and very different phasing from 2004**
- **Trends in operating working capital mainly reflect normal seasonal variations, higher sales and an increase in inventories of finished products (Pigments for Paper, Specialty Minerals) and raw materials (Refractories & Abrasives)**

# Major changes in Group structure

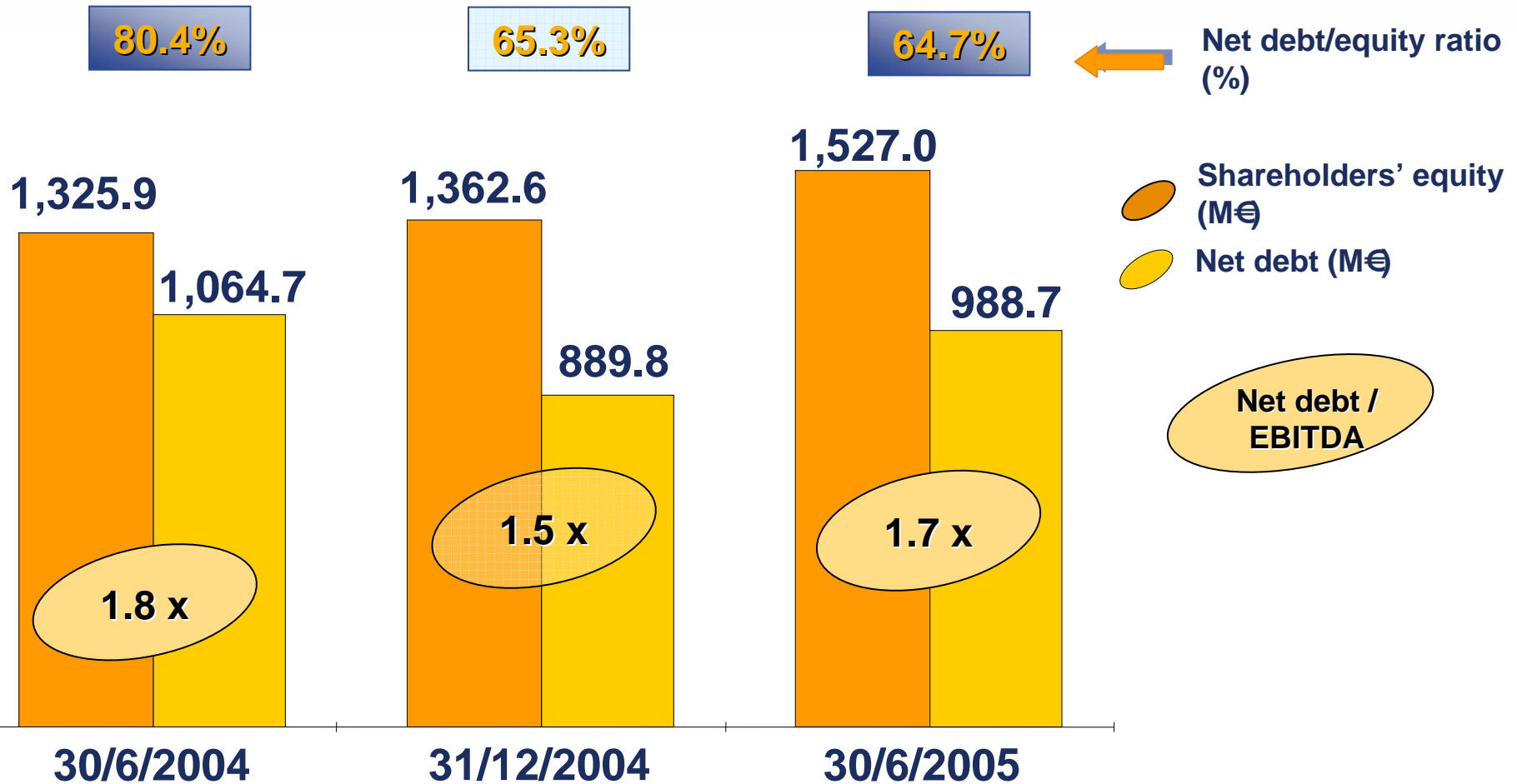
## ➤ €139.8 million in acquisitions spent

- Primarily Lafarge Réfractaires, the European leader in acid monolithic refractories

## ➤ €166.8 million in net divestments proceeds

- Mainly Larivière, the French roofing products distribution network
- American Minerals, a US subsidiary specializing in trading of basic refractory minerals
- Various real estate assets in France and the UK

# Robust financial structure



- Ongoing improvement of the Group's financial structure
- US\$ variation resulting in increased shareholders' equity and net financial debt
- Dividend payment (€96.3 million)

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# Optimize industrial and commercial resources

## Sustained capital expenditures at €131.2 million

### ➤ Specialty Minerals

- Modernization of the Sylacauga (USA) GCC operation, changes of mining process in the UK  
→ increase productivity
- Launch of new higher value-added products  
→ GCC for plastics, calcined kaolin for rubber, additives for wood/plastic composites

### ➤ Pigments for Paper

- Start-up of new capacities in India, China and Sweden  
→ take part in growth of GCC market
- Capacity increases in growing segments (debottlenecking at Imerys RCC (Brazil), extension of Lixhe GCC plant, Belgium)

### ➤ Building Materials

- Start-up of new roof tiles line in Sainte Foy (France) in June  
→ meet growing demand and improve manufacturing efficiency
- Start-up of new equipments in Colomiers (France), construction of a new clay bricks unit in Mably (start-up scheduled for year-end '05)  
→ take part in development of wall brick market

# Integration of Lafarge Réfractaires on track

- **First-half results for the Monolithics activity are in line with expectations, with good sales performance**
- **The two companies Lafarge Réfractaires and Plibrico are now grouped together into a single entity named Calderys; their management, manufacturing and sales teams have been completely merged**
- **Positive effects from the merger will be visible from H2 2005**

## Recent events

- **Agreement signed on July 15 for the acquisition of a 66.7% stake in Yen Bai Banpu (YBB)**
  - A joint venture operating very high-whiteness GCC reserves in Vietnam. YBB achieves annual sales of approximately US\$3 million
  
- **Acquisition of World Minerals closed on July 14, with consolidation as from that date**
  - Since signing the agreement with Imerys in mid-May 2005, World Minerals has acquired the assets of US company Basin Perlite, which achieves annual sales of approximately US\$2 million

# Start of World Minerals integration process

- **An Imerys management team (CEO and Controller) is on site to assist World Minerals teams and work on the company's integration**
- **Benefits of acquisition confirmed**
  - New applications, but a business that corresponds exactly to Imerys' core competence in terms of mining, manufacturing and marketing
  - New development prospects opened up
  - World-class position mining reserves
- **Validated potential for performance improvement**
  - Synergies with Imerys (economies of scale)
  - Better coverage of paint and plastics markets
  - Progressive industrial and commercial optimization

# Adjustment of operating structures

## ➤ Take recent perimeter changes into account and align with management structure

- Creation of a new **Materials & Monolithics** business group, comprised of the activities of the former Building Materials business group and the Monolithic Refractories division, both managed by Christian Schenck since the acquisition of Lafarge Réfractaires
- World Minerals integrated into a new **Refractories, Abrasives & Filtration** business group → the 3 component divisions are supervised directly by Gérard Buffière
- The **Specialty Minerals** and **Pigments for Paper** business groups remain unchanged → managed by Thierry Salmona and Jens Birgersson (newly appointed from ABB and replacing Rich Ryan), respectively

## ➤ Imerys' financial information will be presented under this new organization from the publication of its results to 9/30/05

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# Pigments for Paper outlook

## ➤ Return to normal profitability in H2 '05 expected, despite ongoing high inflation in variable costs

- End of strike in Finland; continued ramp-up of new calcium carbonate production capacities
- Better absorption, albeit still partial, of variable cost rises by the price/mix component
- Fixed cost reduction efforts

# Group outlook

- In H2 '05, market conditions remain uncertain and the basis of comparison becomes less favorable in terms of sales
- Group perimeter effects are going to increase (integration of World Minerals) and the negative effect of exchange rates could disappear
- The general environment is marked by greater volatility



**For the year as a whole, Imerys should report a growth in net income from recurring operations of about + 10 %**