AGGREGATES, CEMENT AND READY-MIX CONCRETE MARKET INVESTIGATION

Summary of hearing with Mittal Investments held on 29 January 2013

Background to Mittal Investments' acquisition and transitional arrangements

1. Mittal Investments (MI) noted that it had purchased its new aggregates, cement and ready-mix concrete (RMX) assets at the bottom of the construction sector's economic cycle, so it hoped to be able to take advantage of the economic upturn when it came.

2. MI had been looking at entering the GB construction sector for some time and had previously considered buying the Hope cement plant when an earlier opportunity to do so had arisen, but it had decided not to as it then had been the only asset for sale. When the opportunity again arose to buy Hope, this time alongside other complementary assets, MI had decided to enter the bidding process and had been successful [✂].

3. [✂]

4. MI was currently looking to buy Tarmac's share in Midland Quarry Products (MQP) (an aggregates business jointly owned by Tarmac and Hanson), but MI was unclear as to whether it would be successful as Hanson had the right to buy Tarmac's share if it wished. [✂]

5. [✂]

6. [✂]

Competition in RMX, cement and aggregates

7. Competition in RMX was customer-driven and varied from locality to locality. [✂]

8. MI was a new entrant to the cement market and was currently making initial contact with its customers, so it was difficult for it to comment on many of the points raised by the CC in its Updated Issues Statement. Its initial impression was that pricing cement was a complex process which varied depending on a number of factors such as region and customer type.

9. [✂]

10. [✂]

11. MI's business plan for its new GB businesses was based on vertical integration (VI), which was why it had not previously purchased the Hope plant on a stand-alone basis. VI enabled a cement producer to maintain control over its own business as owning its own RMX plants provided an outlet for the cement it produced, so it would be at much less risk of making more cement than it could sell. It also allowed a cement producer to be able to develop a long-term strategy for its business rather than merely constantly reacting to its customers and competitors. It also protected it from being squeezed out of the market by its competitors during difficult economic periods.

12. Being vertically integrated had other practical benefits. The ability to source aggregates, cement and RMX from within the same vertically integrated business led to better levels of quality and reliability for both the business's products and services and allowed vertically integrated producers to provide a complete range of products to their customers. MI believed that customers, whose main two concerns were price and quality, liked vertically integrated companies as they were better able to ensure that the quality of their products would meet the customers' specifications.

13. [✂] MI would separately examine the performance of each component (ie aggregates, cement, and RMX) of its GB construction business. [✂]

14. MI hoped to achieve a share of around [✂] of the GB aggregates market, based on previous years' figures for its aggregates facilities' production. It planned to use between [✂] of its production internally and would sell the remaining output externally. [✂]

15. MI expected its share of the GB cement market to [✂] by 2020, [✂].

16. [✂] Investing in additional new kilns would be very expensive and would require access to approximately 50 years' worth of mineral reserves. [✂]

17. MI had not yet decided on its cement pricing strategy or how it would announce price changes to its customers. Increases in costs tended to be driven by rises in fuel, power, and distribution costs and carbon credits might become increasingly important. It would negotiate individually with each of its customers rather than have published price tariffs.

18. Cement supply contracts could contain escalator clauses allowing the cement supplier to increase its price based on fuel costs or on an agreed cost/price index. Such arrangements were often included in contracts for supplying cement on long-term construction projects.

19. At this early stage, MI did not know which of its competitors would prove to be the toughest. [✂] It did not yet have a view as to which of its competitors would pose the biggest threat to its customer base, or which of its competitors it might be best placed to target.

20. [✂]

21. [✂]

22. The Hope plant had two kilns, so when both were operational, MI should be able to deal with a breakdown of one of them. If a breakdown were to occur, MI could look to purchase clinker from elsewhere in GB or from abroad; however, the Hope plant did have a clinker store which could store up to [✂] tonnes. To exhaust [✂] tonnes of clinker would require a catastrophic failure of the kilns lasting for an extended period of time. MI was not currently looking at entering into any cross-sales agreements for cement with any of its competitors.

23. [✂] Importing materials from outside GB might be riskier in terms of quality and security of source than buying them domestically. As there was only one supplier of GB-produced ground granulated blast-furnace slag, it was difficult for MI to determine what a competitive price for ground granulated blast-furnace slag ought to be. [✂]

24. MI had not yet devised a strategy for reconfiguring or rationalizing its portfolio of RMX plants. It was currently assessing which of the plants were performing well and which were performing less well, and it would then start looking at each plant in turn. [✂]

25. [✂]