Adding Value to Minerals

Industrial Minerals International Congress

Athens

31, March 2008

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Imerys in a Nutshell

d 2007 key figures

Sales

€3,400 million

Operating margin

14%

Return on Capital Employed

15%

Active in

29 different minerals

(Kaolin, GCC, PCC, diatomite, perlite, graphite, brown and white fused alumina, alumino-silicates, ball clays, vermiculite, …)

300

R&D experts

17,500

employees

in 47 countries

260

locations

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Three Major Challenges to Our Industry Were Identified in Barcelona in 2004

- **Consolidation of its customer base**
- **Need to bring more value to customers with enhanced minerals and to share with them some of this additional value**
- **Necessity to deal with increasing ecological constraints while turning those into an asset**

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Consolidation of our Customer Base Has Materialised

This consolidation has happened in many areas, sometimes more rapidly and more drastically than expected:

- **The Steel Industry has tremendously changed, restructured and consolidated since 2004, probably more than it did in the 10 previous years:**
  - Mittal / Arcelor
  - Tata / Corus, …

- **The Paint Industry did the same:**
  - Akzo-Nobel / ICI
  - PPG / Sigma Kalon, …

- **So did the Beer Industry:**
  - Interbrew / Ambev
  - Carlsberg – Heineken / S&N

- **And the Paper Industry is preparing for it:**
  - Trend has already started in North America, in the Coated Paper industry, (NewPage / Stora Enso North America) and in the Uncoated Paper (Domtar / Weyerheuser…)

….Just to mention a few examples

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This Consolidation Has, In Turn, Led To:

- **Larger volumes required per customer, product and / or industrial site:**
  - Leading to major capital expenditures requirements in production, processes and logistics
- **Tighter specifications and increased demand for consistency / quality of delivered processed minerals**
- **Requirement for global availability of minerals supply and associated technical services**

In order to cope profitably with those emerging constraints, one could have expected the Industrials Minerals industry to consolidate as well

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We Have Strived to Enhance the Value Brought to our Customers

The pace of the flight to quality, consistency, tighter specifications and improved logistics has hastened

- **More R&D and innovation has been put in our products, bringing new / improved properties**
- **More marketing and customer knowledge is used to develop tailored solutions, not mere commodities**
- **Our logistics tools and networks have been developed and improved**
- **In addition to more and more globalised customers looking for global quality and service, the major industry players are also willing to compete always more on innovation, quality and service**

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Focus on Sustainable Development Is Now Key

- **In mature economies:**
  - Ever stricter regulatory framework for our end-products (e.g. Reach, …)
  - Legal incentives to reduce climate change (e.g. CO2 credits)
  - Reporting requirements (e.g. Sustainable Development report)

- **In emerging economies:**
  - Increased Health & Safety standards
  - Tighter environmental legislation

- **Overall:**
  - Good relationship with local stakeholders and communities will be even more instrumental to the grant of mining rights and business licences
  - This can go up to the need for local equity partners
  - Political sensitivity around foreign mining resources ownership are not significantly affecting the Industrial Minerals industry yet

- **A systematic Sustainable Development approach is a critical part of our citizenship responsibility and has become a pre-requisite for operating long-term in the Industrial Minerals world**
  - But long-term benefits also translate into today's increased cost of doing business

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Focus on Sustainable Development Is Now Key: A Few Examples

- **Changes in China:**
  - In 2007, heavy pollution led to the prohibition of the exploration for 6 types of minerals (tungsten, molybdenum, tin, antimony, fluorite, radioactive minerals)
  - In 2007, ca. 5,000 facilities were pointed out by a Chinese NGO as being non-compliant, many large Western corporations were on the list
  - Between 2004 and 2006, ca. 400 bauxite mines were shut down in one single province due to heavy pollution and low efficiency
- **Shutdown in India:**
  - The Indian limestone quarry of a major international cement producer has recently been shut down. This quarry was supplying raw material to a large cement plant across the Bangladeshi border
  - The Indian authorities have discovered that environmental consultants and a local forest official had given misleading information about the nature of the land to ensure clearance of the project

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What Had We Not Planned In 2004 ?
1. The Fall Of The US$

- **Since 2004, the US$ has fallen:**
  - By 21% vs. the Euro
  - By 9% vs. the British Pound
  - By 14% vs. the RMB
- **During the same period, the national currencies of commodity-rich countries have been gaining strength (Brazil, Australia,…)**
- **Critical impact on:**
  - The translation in € of our US$-denominated sales
  - Our customers ability to compete through exports to the US
  - Profitability, when exposed to currency transaction risk
- **Answers include:**
  - Adjustment of pricing strategies to currency fluctuations
  - On-going optimisations of production asset base

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What Had We Not Planned In 2004?
2. The Surge In Variable Costs

- **Sea Freight:**
  - Since 2004, the Baltic Dry Index has increased by 39%
  - Increasing issues of availability and reliability
  - To some extent "re-regionalisation" of previously globalised markets
- **Energy:**
  - Since 2004, crude barrel price has increased by 216%, impacting most energy sources (oil, but also gas and electricity)
  - Energy inflation has impacted all countries, including those who had historically benefited from cheaper local energy resources
- **Raw materials in general (chemicals, various feedstock, etc.) with issues of both costs and availability**
  - But also steel, copper: with a significant impact on capital expenditures costs
- **Strategic answers include:**
  - Continue improving assets' energy efficiency
  - Change production paradigm (e.g. slurry vs. dry when doable)
  - Develop alternative energy sources (biomass, biogas, etc.)
  - Integrate some parts of the value chain when it makes sense (in particular to limit further dependence on critical raw materials)
  - Pass-through costs increase in sales prices whenever possible

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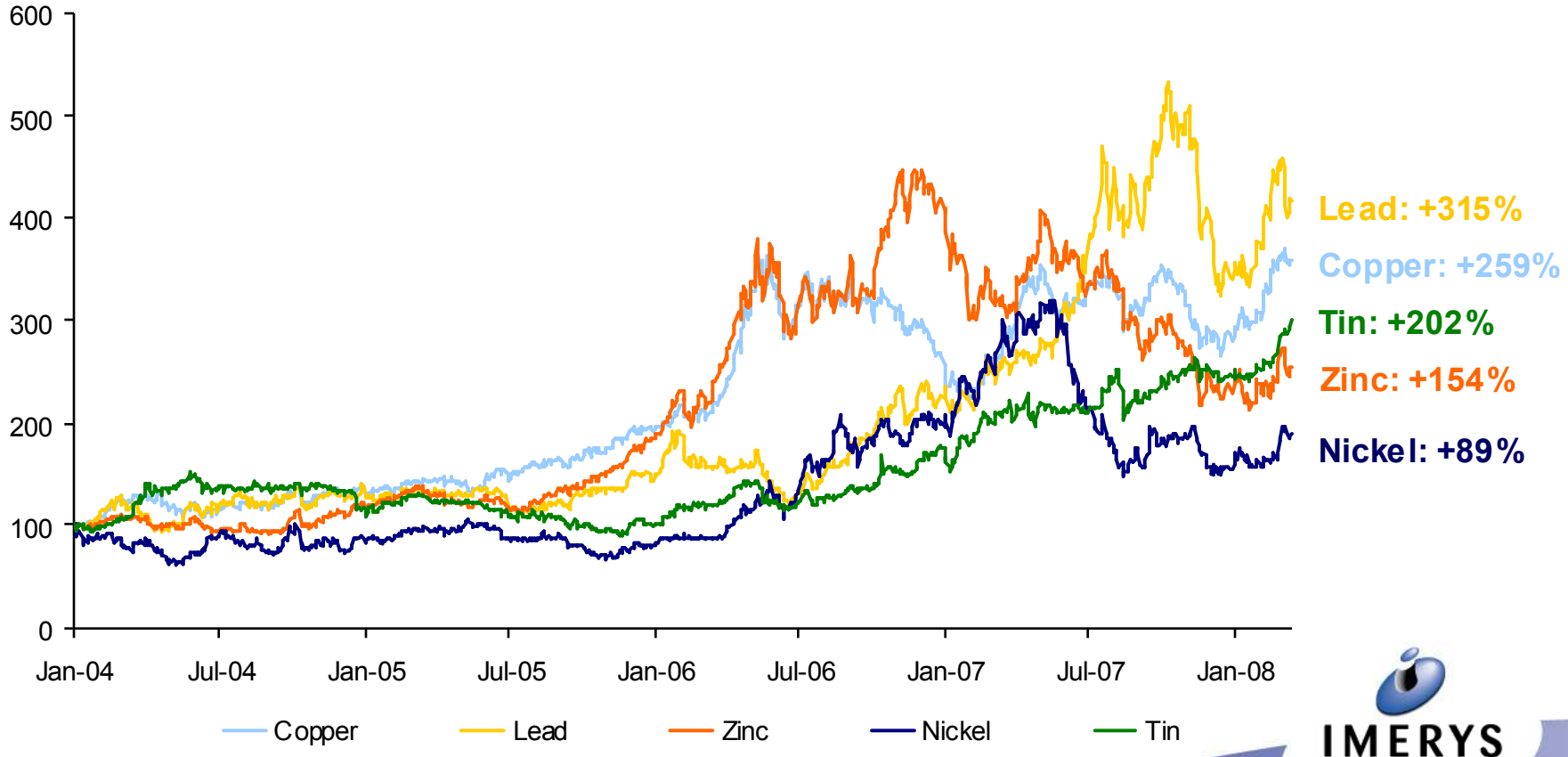
What Had We Not Planned In 2004?
3. The Commodities Boom

- **Over the last four years, the base metals miners have enjoyed price increases incommensurate with those registered in the industrial minerals world**



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3. The Commodities Boom *(Cont'd)*

- **This mining boom has been adversely drawing on resources critical to the Industrial Minerals industry:**
  - Freight scarcity
  - Competition for talent (e.g. geologists, mining engineers, …), particularly in historical mining countries and developing economies
  - Shortages or lead times for critical mining and processing equipments
  - Increased input costs (e.g. steel for capital expenditures, some chemicals, …)
  - Competing demand for those minerals that also have specialty applications (non-metallurgical grade bauxite, chromite sand for foundry)
- **This new environment has given way to major consolidation moves amongst the key commodity mining players (Rio Tinto / Alcan, Vale / Inco, potentially Rio Tinto / BHP) thus allowing for:**
  - Robust synergies
  - Increased economies of scale
  - Strengthened market positions and enhanced pricing power
- **As a result, the Industrial Minerals sector has become an evermore marginal part of the mining world**

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What Had We Not Planned In 2004 ?
4. The Chinese Switch

- **China's role as a large supplier of cheaper, lower-grade, industrial minerals looks everyday more like history, amongst others for:**
  - Non-metallurgical grade bauxite and semi-finished BFA
  - Talc
  - Magnesite
  - Graphite
- **Political willingness for local processing of those minerals and re-direction to strategic sectors (i.e. bauxite into SGA), have resulted in reduced exports quotas and higher taxes and tariffs.**
- **This trend, coupled with increasing mining and processing costs, points to a continuous decrease in China's role as a source of industrial minerals to the rest of the world**
  - Rapid depletion of high-yield, higher-quality deposits
  - Tighter environmental regulations
  - Protection of strategic reserves
  - Freight bottlenecks
- **This evolution is likely to constitute a threat for those customers who have excessively relied on Chinese supply and an opportunity for non-Chinese based alternative sources**

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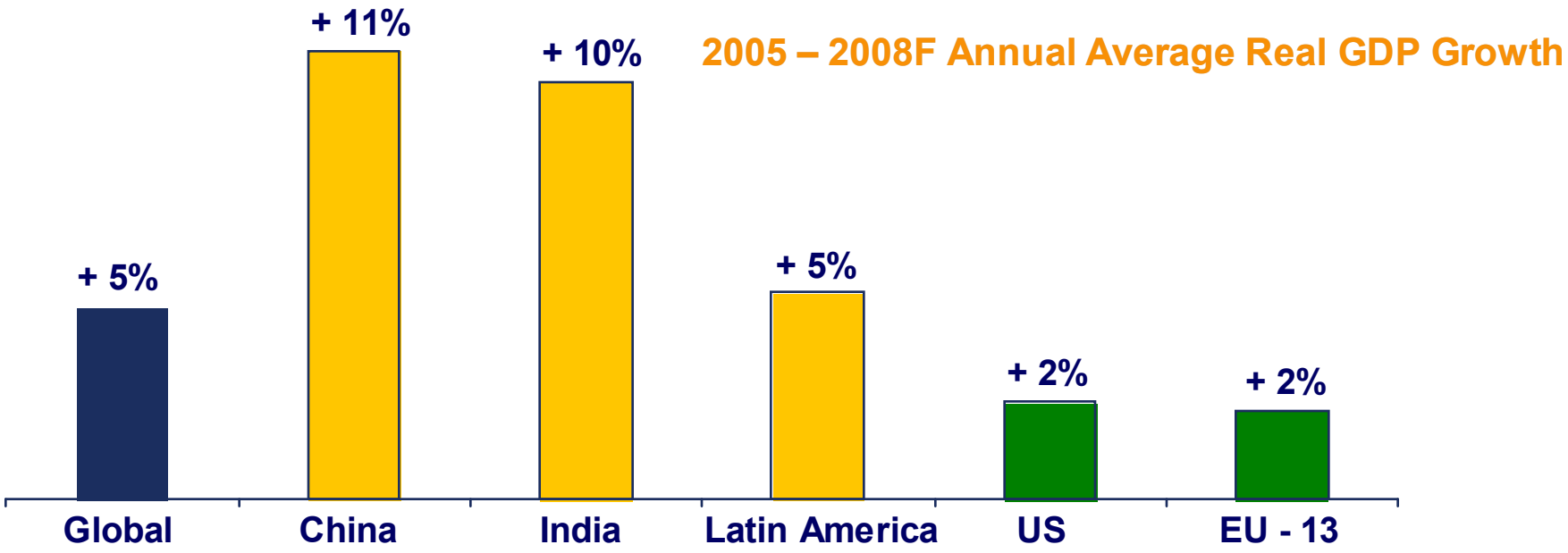
What Had We Not Planned in 2004?
5. The Global Economy De-Coupling

- **Structural changes in the global economy have led to a de-coupling effect between mature and emerging economies**
  - World economy less dependant upon US demand, with strong pull from China, and Asia more generally,
  - Growth of local economies, but also,
  - Move of our costumers' production base there to re-export to the Western world (e.g. ceramics, …)
- **At the same time, the geographical horizon of Industrial Minerals mining has widened and new fronts have opened:**
  - Middle-East, Central Asia, Sub-Saharan Africa,...
- **Our Industry must face it**



Industrial Minerals: A Very Stable Sector In A Very Fast-Moving Environment

- **Over the last four years the need for increasing the size of existing players in the Industrial Minerals sector has therefore accelerated:**

  - More and more investments are required to mitigate increased variable costs and meet higher sustainable development standards
  - The industrial minerals playground has become truly global, both with respect to its customers, its mining resources, and its trade and capex suppliers
  - The industry needs more international well-trained specialists of mining, process, marketing, NPD, and sales, in an industrial global world chasing and competing for best talents
  - The industrial minerals industry is progressively marginalised within the mining world

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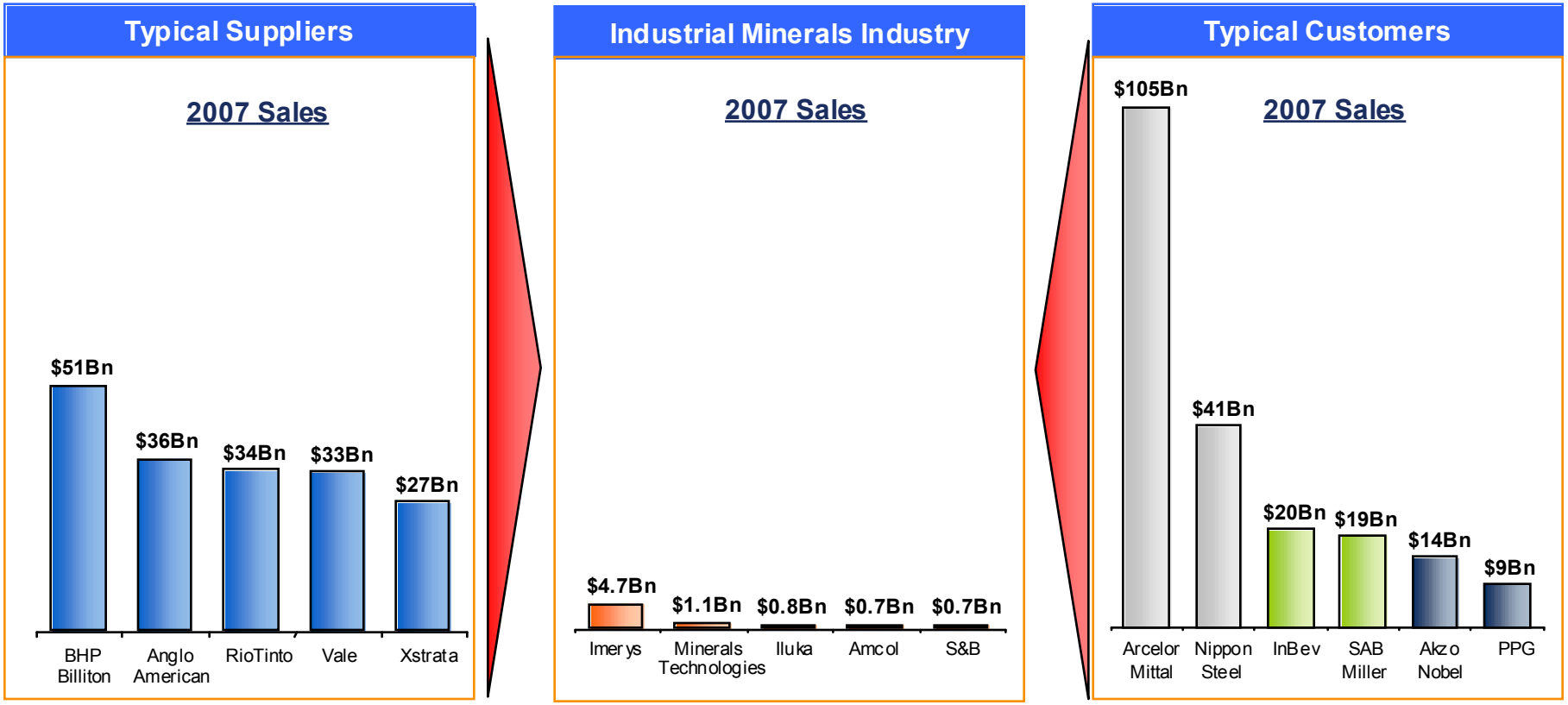
Industrial Minerals: A Very Stable Sector In A Very Fast-Moving Environment *(Cont'd)*

- **Our suppliers and our customers have consolidated and will continue to do so making that we will more and more be dwarfs squeezed by giants on both sides**



- **Despite this perennial trend, no material change in the Industrial Minerals sector structure has happened to date and much remains to be done**
- **The larger Industrial minerals players' external growth has been essentially characterised by small to mid-size "bolt-on" acquisitions**

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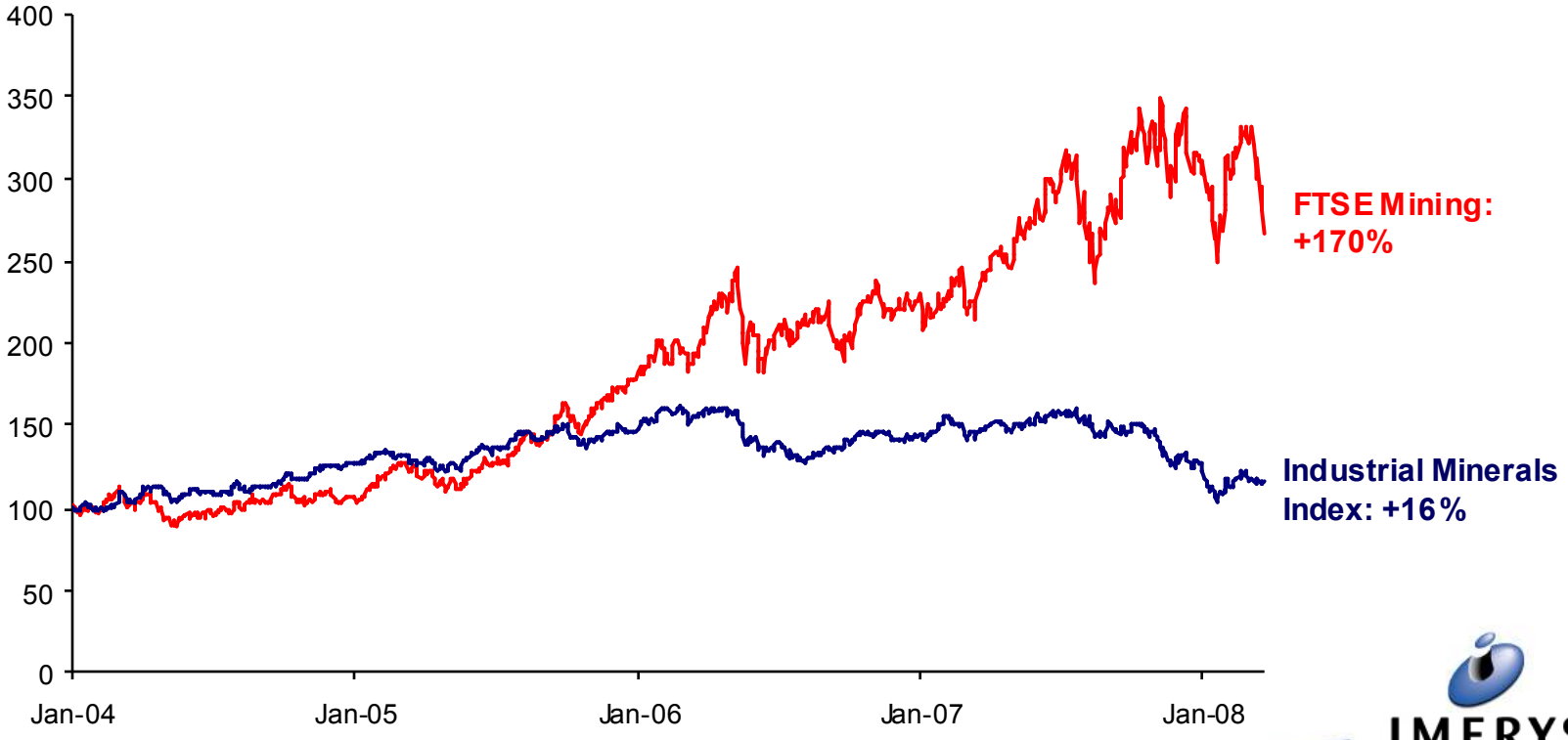
A Very Stable Sector In A Very Fast-Moving Environment: Impact On Value Creation

- **As a consequence, the value creation potential of the industrial minerals sector to date has been rather limited**
  - **And we may be entering tougher times**

Compared Share Price Performance since 2004



Note: Industrial Minerals Index includes Amcol, Carbo Ceramics, Elementis, Iluka, Imerys, Minerals Technologies and S&B Minerals. Each stock is weighted by its market capitalisation.

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Conclusion

To cope successfully with those evolutions, it is high-time that our industry pro-actively adapt to those challenges.

This is what Imerys is committed to achieve by pursuing its current strategy:

- **Search for excellence:**
  - In operations, but also product and application innovations
  - In Environment, Health & Safety
  - By pricing for value in use
- **People: Attract and retain the best**
- **Tackle industrial challenges:**
  - Manage our ongoing optimisation programmes
  - Welcome acquisitions into the Imerys family
- **Sustained investment:**
  - In capacity expansions, when required by market growth
  - In mineral reserves world-wide to consolidate its portfolio and secure access to raw materials
  - In acquisitions to expand its minerals portfolio and increase its geographical coverage, everywhere and particularly in emerging economies
- **Play a pro-active role in industry-wide required structural changes and initiatives**

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