



The Gazdasági Versenyhivatal (GVH – Hungarian Competition Authority) has authorised the acquisition of VSH by Holcim, subject to conditions

The Gazdasági Versenyhivatal (GVH – Hungarian Competition Authority) has authorised the acquisition of Východoslovenské stavené hmoty a.s. (VSH) by Holcim Auslandsbeteiligungs GmbH (Holcim) on the precondition that Holcim and VSH commit themselves to divesting their business shares in DTG Optimus Kft (DTG), therefore allowing CTR to gain sole control over DTG. Furthermore, the GVH obliged the parties to guarantee a continued supply of cement to DTG for five years. As a result of this commitment a new independent competitor emerges in the market.

As an antecedent to the proposed transaction the shareholders of VSH decided to increase their equity capital, therefore the shares possessed by Holcim in VSH may have risen over 50%.

Holcim is under the sole control of Holcim Group Support Ltd, which is registered in Switzerland. The Holcim Group was established in 1912 and by now operates in over 70 countries worldwide, employing nearly 85,000 people. Its main scope of business activities includes the manufacturing of cement and ready-mix concrete as well as supplying construction aggregates and offering associated construction services. The bulk of the Group's Hungarian sales revenue stems from the cement business branch, accounting for 30-40% of Hungarian cement sales in 2009. The Group's cement production takes place in factories in Hejőcsaba and Lábatlan. Holcim Hungária holds minority interests in several Hungarian undertakings, inter alia, it possesses 35% of the shares in the Debrecen-based cement-wholesaler DTG. Besides this, the Holcim Group is a major player in the Hungarian ready-mix concrete industry and is the owner of several concrete factories throughout Hungary.

VSH is a limited company based in Slovakia (Torna). It was established by CTR as the sole owner of the company; the predecessor business association of Holcim acquired a minority share in VSH later on. The VSH is also present on the cement, the ready-mix concrete as well as on the construction aggregates markets, and acquires most of its revenues from the cement business unit. VSH accounted for 5-15% of the Hungarian cement sales in 2009, focusing its sales activities mainly on the eastern regions of Hungary.

At the moment, besides the factories of the Holcim Group in Lábatlan and Hejőcsaba, the Duna-Dráva Cement Kft (DDC) – a member of the Heidelberg Group, a decisive group in the cement industry – manufactures cement in Hungary in Beremend and Vác. The investigation conducted in 2010 – concerning the authorisation of the acquisition in question – took into consideration the establishment of a new factory in Királyegyháza (Baranya County) built by Strabag. In this respect it had to be taken into consideration that according to the agreement

announced in May 2010 on the establishment of a Central European joint venture between the Strabag Group and – Europe's dominant cement producer – the Lafarge Group, the factory may come under the control of Lafarge. However, this agreement is still awaiting the authorisation of several Competition Authorities of the EU Member States.

The majority of the Hungarian cement sales are related to domestic production, thus in 2009 imports accounted for a mere 15% of the total domestic sales, the majority of which come from VSH.

Taking into account the economical distance of cement transportation (approx. 300 km) and the geographical position of the Hungarian cement factories, the Holcim and Heidelberg groups would theoretically be able to supply the whole country. Besides, the investigation of the GVH revealed that Holcim predominantly supplies the eastern, Heidelberg the western, and VSH – as it has already been noted – supplies the eastern parts of Hungary respectively.

The investigation of the GVH – enquiring into the possible effects of the concentration on the cement market – concluded that in the case of the acquisition of VSH by Holcim the structure of the market would change in a way that would facilitate the so-called tacit collusions or concerted practices of the market players. The possible effect of the acquisition could have been the facilitation of the concerted action, since – by authorising the acquisition of VSH – the very market player would disappear, which, – before the proposed merger – could have rendered tacit collusion between Holcim and Heidelberg more difficult or even impossible. Several factors led us to conclude that as a result of the acquisition, Holcim and Heidelberg would presumably pursue concerted practices, since it would provide them with the means to concert their action through factors such as a transparent clientele, a lack of competitors on the market and an existing industry trade group, which would facilitate control over the whole industry. Moreover, many indicators showed that with the dissolution of VSH there would be no other outside competitor left with the capability of destabilising the market.

Ready-mix concrete production can be considered as a local market since the maximum transport distance of these products is 30-40 km. There are several separate regions in Hungary where both Holcim and VSH are present as a cement-supplier and Holcim is also present as a ready-mix concrete manufacturer. Debrecen, Nyíregyháza and Miskolc play a very important role with respect to ready-mix concrete production since VSH and Holcim are the two main suppliers of cement in these regions and are well ahead of the competition in terms of their combined share.

According to the facts revealed by the investigation of the GVH with regard to the ready-mix concrete on the market area of Debrecen, Nyíregyháza and Miskolc, through the acquisition of VSH, the increasing market power of Holcim on the cement market is likely to expand its capability to foreclose competitors since – through inflating the price of cement – it can raise rivals' costs on the ready-mix concrete market. The GVH has reached the conclusion that without the competitive pressure exercised by VSH, Holcim would be able to increase the price of cement by 5-10% without any loss in its profits; moreover, a small increase in the price of cement would make it more difficult for a new player to enter the ready-mix concrete market. Based on the foregoing, provided the merger is approved, Holcim would be in a position to foreclose its rivals.

However, the GVH regarded the commitments – offered by Holcim to affect the structural framework of the cement market – as satisfactory and adequate to dissolve competition concerns. Therefore the GVH accepted the commitments and approved the acquisition of VSH by Holcim.

The approved commitments – namely, the commitment to procure the divestiture of DTG and the obligation to supply cement to (the already-independent) DTG in accordance with the guidelines described in the Annex to this decision – ensures the establishment of a new, independent market player capable of preventing concerted action, therefore mitigating the harmful effects of the transaction. Its own resources and the supply contract defined in the commitment will provide DTG – as the Divestment Business – with an opportunity to become an independent player on the cement market. The GVH has accepted the solution laid out by the Parties in the offered commitments and approved CTR Holding as the Purchaser to acquire control over DTG. The approval of the GVH shall take effect (ie Holcim may acquire sole control over VSH) upon the date when the precondition to procure the divestiture of DTG is met.

The GVH shall conduct post-investigations to confirm the fulfilment of the precondition – to procure the divestiture of DTG by Holcim – and to confirm that the obligation – to ensure the continued cement supply of DTG – has been undertaken.

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Hungarian Competition Authority
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