A challenging year

Our business is being affected by the difficult economic context that Greece is currently facing. We have a strategy for the medium-term and are well-placed to offer customers a range of innovative, low-CO_2 products that are suitable for different construction purposes.

The industry - key points

The cement industry provides materials used in the construction of homes, other buildings and infrastructure. The most widely used of these materials is concrete (made from cement and aggregates) which is used in situations ranging from foundations for roads through to structural elements in very large and complex buildings.

Demand for cement worldwide is strongly linked with population growth, urbanization, and economic growth. The demand for more elaborate and complex buildings and the desire for more sustainable construction have stimulated the industry to produce many different types of cement suitable for different purposes.

Cement in Greece

Although the rest of the world began to recover from recession in 2010, Greece did not. The austerity measures required by the European Commission and the International Monetary Fund affected demand for new houses and infrastructure. Domestic demand for cement dropped to six million metric tons in 2010, compared to the peak of 12 million tons in 2007. This created very difficult conditions for Heracles and we believe these conditions will continue into 2011.

In the medium term however, we believe there is a stable domestic market for cement which is larger than that which exists at present. Our strategy is primarily to address the needs of that market and more marginally to look for exports as long as they bring profitability to our company.

Cement market and sustainability

The financial crisis highlighted structural weaknesses in the cement market and its lack of competitiveness.

Our approach is to increase the productivity and efficiency of our operations, optimize our production costs, use innovation and technical knowledge to produce cement products that are lower in both CO_2 emissions and in production cost than the available alternatives, and to help our customers understand better their benefits and applications. The use of alternative materials and alternative fuels are the most promising routes which we are exploring (see pages 25 and 26). In the longer-term we see further environmental and cost benefits in the provision of sustainable construction solutions.

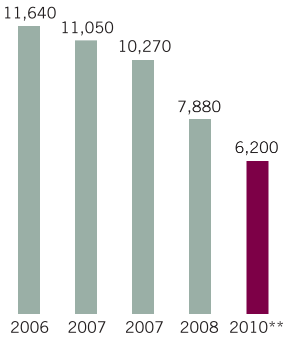
Cement manufacture in Greece is also subject to competition from neighboring countries where production can take place at lower cost and is not subject to CO_2 restrictions. Our strategy is unchanged in response to this. We still believe that innovation, cost performance and improved environmental performance is the best long-term solution.

Safety and enviromental compliance

Safety and environmental performance are key elements in Heracles' approach to sustainability. We are therefore working to establish our business as a reference point for industrial safety in Greece and to embrace our customers and suppliers in efforts to improve safety and environmental performance.

Grey cement market in Greece*

(Thousands of metric tons)

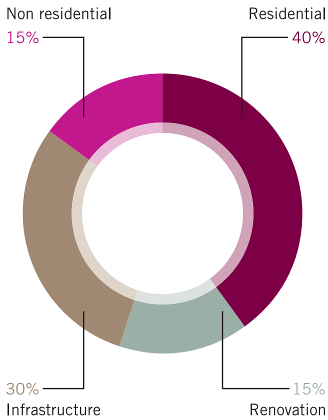


Data from the Greek Cement Association for the years 2006-2009.
Demand has declined as a result of the recession and austerity measures.
We believe that long-term domestic demand will be higher than at present.

*Grey cement is essentially the majority of cement sales in Greece – white cement holds a marginal portion of the sales.
**Internal estimate

Use of cement in Greece

(Per cent of total cement sales)

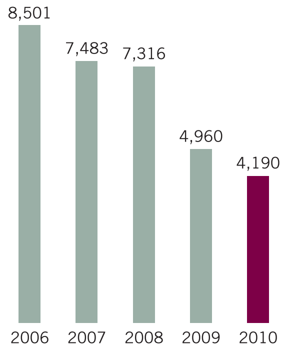


*Internal estimates

The construction of homes and infrastructure accounts for 70% of the market.

Heracles cement production

(Thousands of metric tons)



There has been another small drop in 2010 as a result of the economic situation.

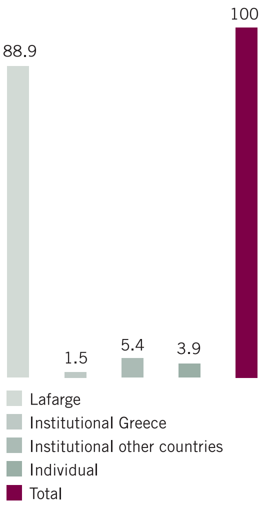
Who benefits from our operations

(Cash value added, € millions)		
Revenues: Sales & financial interest received	350.8	%
Cost of good sold	-217.0	
Use of reserves	26.4	
	160.2	
Cash Value released		
1 - Taxes to be paid to government	6.5	4.0%
2 - Paid to investor for providing capital	20.6	12.8%
3 - Paid to lenders as a return on their borrowings	2.9	1.8%
5 - Paid to employee for their services	129.7	81.0%
6 - Community investment	0.5	0.4%

The difficult economic context of 2010 reflected in the negative income results and consequently in the value distribution. Our employees are the group that benefits the most from the value created by Heracles.

Shareholders by type

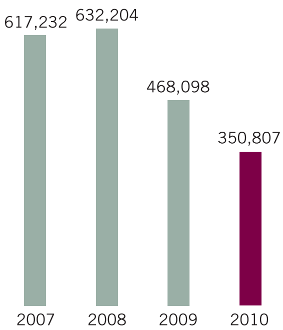
(%)



The Lafarge Group is our largest shareholder.

Turnover

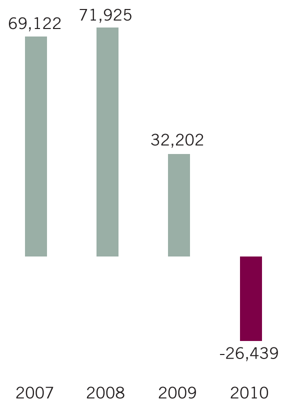
(€ thousands)



Our turnover declined again as a result of the economic situation.

Net profit/loss after tax

(€ thousands)



These results reflect the economic situation in Greece in 2010, especially the slowdown in private and public construction activity.