Corporate Industrial Ecology

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In reference to the project activity N°1084 "Optimal utilization of clinker by increasing the additives in cement production at Holcim Lanka Ltd (HLL), Sri Lanka", please find below some additional information with regard to your requests.

Reason 1 for request:

a)Section B5 of the PDD states that the project commenced in 2002. Section C.1 indicates the start date in 2006. This inconsistency should be explained.

There seems to be confusion between Holcim Lanka's (HLL) current project activity, for which HLL seeks CDM support to introduce composite cements, and the HLL's earlier effort to introduce limestone cement to the Sri Lankan market.

With the latter project, HLL introduced Portland Limestone Cement (PLC) in 2002, switching its portfolio from 100% Ordinary Portland Cement (OPC) to Portland Limestone Cement (the current portfolio is roughly 82%PLC, 12%OPC and 6% masonry cement). The 2002 project faced resistance but a standard for PLC was approved by the SLSI, albeit stopping short of the EN definition of limestone cement (eg, CEM II A – LL allows 20% limestone, the SLSI 1253 for PLC only allows 15% limestone).

The current project activity, for which the CDM application has been filed, aims at further reducing the clinker content beyond what has been possible with Limestone Cement. The current project therefore aims at introducing Composite Cement to overcome the technical; market and institutional barriers that prevent further progress in clinker reduction in comparison to the period 2002 to 2005.

b) *Also as required by the guidelines for completing section B5 of the PDD it should be clearly validated that "incentive from the CDM was seriously considered in the decision to proceed with the project activity".*

Incentives from CDM were considered in the decision to proceed with the project activity and are needed to further implement and introduce composite cement. Today, slag has not yet been introduced as the direct CDM incentive in particular the benefit of the UNFCCC recognition is needed to overcome the barriers and limit the risk related to the market pressure.

In the context of the voluntary corporate commitment of the mother company Holcim Ltd., Holcim Lanka Ltd is expected and committed to do additional efforts for reducing its CO2 emissions beyond business-as-usual practice. This objective is clearly evidenced by the confidential Letter from Holcim's Executive

Committee on the CO2 performance objective of Holcim Lanka Ltd. In April 2005 (13-14.04.2005), the Holcim corporate office presented the incentives offered by the CDM mechanism to the management of Holcim Lanka Ltd during the yearly Sustainable Environmental Performance (SEP) committee meeting (confidential presentation available). Having in mind the potential CDM incentives, HLL's management evaluated the introduction of a composite cement to decrease CO2.

At the end of 2005, Holcim Lanka Ltd has contacted PwC India in order to get a proposal to develop the documentation for CDM credit application. All the communications as well as the proposal has been done by e-mails (see additional documents: mail and proposal_PwC) At the same time Holcim Group Support Ltd (Switzerland) contracted a dedicated person to support the development of the HLL CDM documentation, therefore the internal consultancy was chosen.

Many barriers are still holding back the development of the current project. As mentioned earlier, composite cements are not recognized by the Sri Lanka Standard Institution (SLSI). After having tried unsuccessfully for roughly 18 months to convince the SLSI to merge the standards to the European (EN) or American (ASTM) types, HLL decided in March 2007 that it had to take matters into their own hands. Encouraged by the pending UNFCCC recognition of the project activity, and in order to follow our CDM project activity forecast, HLL removed the SLS mark from its Portland Limestone Cement and started to move up the limestone (and dolomite) content above 15% (SLS limit) while keeping performance parameters under control through additives. This action is legally allowed, as only OPC and masonry cement are currently subject to the SLS standard (lawyer confirmation available). It goes beyond saying that such an action faces considerable marketing barriers. The step to remove the SLS mark from HLL's main product PLC (roughly 80% of the entire 2006 sales portfolio) has been exploited by our competitors ever since (for example in 2006 a competitor ran an advertisement claiming that only OPC was cement and all other cements are "fillers" and in 2007 TV commercial stating that "some cement brands do not bear the SLS mark" – video available). In addition, HLL is in the process of evaluating the capital expenditure programme in order to add slag, and thus moving from the PLC to the composite cement as described in the CDM project. Indeed, in order to make the project financially attractive, the price of CO2 has to reach a certain level depending on the level of clinker replaced. This step, however, is contingent upon UNFCCC approval of the CDM project, as the large investments on a stand-alone basis would not make a positive business case.

Although the proposed product is better for the environment and is consistent with international norms, the Sri Lankan standards body still refuses to entertain our requests to align the SLS standards with EN or ASTM – or at least introduce a proper standard for composite cements. In fact, the SLSI is now contemplating to introduce a law requiring all cements sold in Sri Lanka to fall under SLS standards. This would mean that we would have to revert the clinker reduction achieved thus far this year, and go back to 15% limestone content in the PLC. If we wanted to move further replacing our PLC with composite cement containing added slag, the resistance would be even bigger than it was for this small increase of limestone content as described above. The CDM incentives are highly needed in order to convince the SLSI of the usefulness and necessity of such a step.

Reason 2 for request:

"Further evidence is required to determine that the barriers faced are specific to the increase in blending rates achievable in the baseline."

As mentioned above, the PLC of 2005 (baseline) has reached a plateau. Any additional increase of natural or artificial additive means leaving the defined frame of the SLS standards (SLS, document available). In addition, in order to keep the cement performance parameters intact, more reactive mineral components such as slag or fly ash must be used while increasing the limestone content. The industrial manufacturing of the specific cement composition proposed by the CDM project activity requires to overcome technological barriers (chemical composition requiring additives) in order to keep the cement performance parameters in place (2006 trials available) as well as to overcome logistical and process (and financial) -related barrier such as storage, feeding, additional grinding, etc. The forecast composition and rate through the duration of the CDM project activity take into account the institutional barrier (standards), market perception (competition), technological barriers (chemical composition) as well as the logistical and process-related barriers (storage, additional grinding).

Reason 3 for request:

"The approved methodology requires project participants to "demonstrate that there is no alternative allocation or use for the additional amount of additives used in the project activity." This should be confirmed for the slag to be used in the project activity."

The Holcim Group has a long term contract of 400,000t to 600,000t slag with the Indian company Prathyusha Asssociates Shipping Private ltd (PASPL) to obtain supply from the steel company Vizag Steel at the port of Visakhpatman, India. The amount needed by the HLL's project activity reaches a maximum of 85,000t and will be supplied via this contract (document annexed: Holcim Trading_slag.pdf). HLL is not taking away the slag from any other application. In fact, slag is considered as a waste in India and cement industry is the main consumer.
For additional information Vizag steel is co-producing 1,600,000t of slag per year from which 1,000,000t is earmarked for exports with Prathyusha (400,000-600,000t for the Holcim Group) and 600,000t is sold domestically. In addition Prathyusha is having a stockpile of about 300,000t and Vizag of about 100,000t.

Reason 4 for request:

"The monitoring plan should contain detailed information on the frequency on which parameters will be measured and how data will be archieved."

All data used to calculate the project activity emissions reduction will be available at verification stage. The values of data applied for each year of the crediting period are reported either automatically into the computerized automatic SAP system or recorded in a logbook. Depending on the value, the record is done in continuous, daily or monthly and it has at least the minimum frequency required by the methodology ACM005 version 3. Most of the data are then reported in the Annual Technical Report (ATR), which is the official document controlled by the corporate office. Any additional information which is not in the ATR will be collected in a logbook.

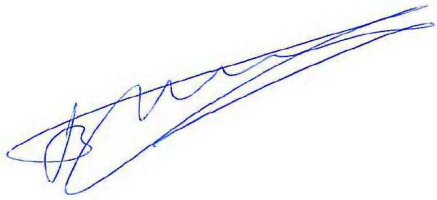
The values which stem from external sources (for example values coming from IPCC) will be updated according to the source's publication. The data stemming from HLL transport database and from geographical parameters will be updated, if needed, throughout the duration of the project activity.

The monitoring data (soft and hard copies) will be kept for at least 2 years after the end of the crediting period.

For
Holcim Lanka Ltd

Peter Spirig
CEO Holcim Lanka Ltd

For
Holcim Group Support Lt



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