

Cairo, December 12, 2007

Rating Review: Orascom Construction Industries (OCI) and Egyptian Cement Company (ECC)

MERIS (Middle East Rating & Investors Service) Places Both The Bond and the Entity National Scale Rating of "Orascom Construction Industries (OCI)", as well as the Entity Rating of the "Egyptian Cement Company (ECC)" Under Review Following the Divestment of OCI Cement Group. The Direction of the Change in the Ratings Depends on the Execution of the Proposed Divestment/Acquisition

MERIS (Middle East Rating & Investors Service) placed the entity rating of "Orascom Construction Industries (OCI)" (AA- with a Positive Outlook) and the instrument rating (A- with a Stable Outlook) under review following the announcement that "Lafarge S.A. (Lafarge)" has acquired the cement business of OCI Group. In the meantime, **MERIS** also placed the senior unsecured debt (A with a Positive Outlook) of the "Egyptian Cement Company (ECC)" under review. The direction of the change in the ratings depends on the execution of the proposed divestment/acquisition.

"**AA**" rating grade denotes that the issuers or issues demonstrate **Very Strong Creditworthiness** and a low likelihood of credit loss relative to other domestic issuers. An "**A**" rating denotes that the issuers or issues represent **Above-Average Creditworthiness** relative to other domestic issuers. The (+/-) signs denote relative status within each rating category.

OCI was established in 1998, and is considered a leading regional cement player and construction contractor with presence in more than 20 countries. As of September 07, OCI group has reported US\$ 954.7mn in revenue, US\$ 258.8mn in EBITDA figures, corresponding to US\$ 184.7mn in net income. The Cement Group contributed 42%, 70% and 71% of revenue, EBITDA and net income, respectively. In 2005, OCI – on a stand alone basis – issued a third bond, equivalent to EGP 1.45bn. The seven-year instrument is divided into three tranches: the first two tranches are denominated in local currency bond and amount to (EGP 250mn). The first tranche carries a fixed coupon rate of 11.75% and the second tranche carries a variable coupon rate of 1.5% plus CAIBOR. The remaining tranche is denominated in US\$ and bears a floating coupon rate of 1.5% plus LIBOR. As of June 2007, the outstanding bond amount was EGP 1.2bn. Following the abovementioned action, management has highlighted its intention to review the group's debt structure, and in the meantime will redeem the existing bond in early 2008. According to **MERIS**, the outlook for the entity rating will be assessed based on a review of the management strategy, the financial and operational profile of the company going forward.

OCI's foremost subsidiary based in Egypt – ECC is considered the second largest cement producer in Egypt, with around 20% market share in 2006; as well as the first cement exporter company (23%). In early 2007, the company replaced its second bond issue – EGP 1.0bn – by a syndicated loan. It is worth mentioning that the future entity rating of ECC will be largely driven by the new shareholder's – Lafarge – creditworthiness. Furthermore, the rating review will focus on (a) the new entities' overall strategy; (b) the assessment of the financial profile of the entity going forward; and (c) integration risks, expected synergies and the operating outlook for the entity going forward.

According to management, the rationale behind the divestment of the cement group – including 12 subsidiaries in different countries – is to crystallize the value that has been created through the significant growth of the Cement Group, and also to focus on accelerating the development of its construction operations and investments in infrastructure and natural gas industries. At the same time, OCI and Lafarge have signed a cooperation agreement to allow both groups to continue to benefit from mutual synergies in the construction of cement plants. The deal was valued at US\$ 12.9bn, in addition to another US\$ 2.0bn in debt, which will be undertaken by Lafarge. On the other hand, NNS, a Family Holding Company controlled by Mr. Nassef Sawiris, CEO of OCI group, will subscribe to approx 11.4% of Lafarge. Accordingly, Mr. Nassef Sawiris will become a member of Lafarge BoD. Meanwhile, he will continue to be the Chairman of ECC, as well as other key Cement Group subsidiaries.

At the time the last ratings were issued, the underpinning fundamentals that supported OCI's NSR grade were: 1) Leading position as a regional cement producer and contractor with a solid track record and dynamic management team that possesses quite extensive experience in all of the company's core businesses; 2) Local or multinational industry leaders as partners in many subsidiaries (risk sharing and technical co-operation); 3) The Sawiris family's strong reputation add value/credibility to the company in terms of competitiveness in bidding for contracts and accessibility of funds; 4) The backward integration nature of the business ensures better synergies among OCI group; 5) The major source of OCI revenues is in US\$ which provides a natural hedge mechanism for OCI FX risks. At the same time, the rating took into consideration the main challenges which face the group, represented in: 1) OCI is expanding rapidly into new investment opportunities, which could cause a drain on the company's resources; 2) Cyclical nature of the industry: the industries in which OCI participates are highly cyclical. In the event of an economic downturn/increased geopolitical problems, the company's ability to meet its financial commitments could be impaired, thus impacting the bondholder protection measures; 3) Despite the fact that OCI's backward integration nature of its businesses increases quality and provides better services, it also increases the business risk for OCI, as all projects remain interrelated without any material diversification (construction vs. building materials). As such, during a downturn in the industry/business in which the company participates, these companies will all face similar risks and will provide no support to one another; 4) Rapid move into regional markets entails new elements of country risk. However, partnership with other multinationals might mitigate that risk.

On the other hand, the main factors supporting ECC's **A/Positive Outlook** NSR at the time of issuing the rating report were: 1) Dominant market position in the local market, in addition to the presence in regional/international markets; 2) Strong international shareholders, along with a high-caliber management team with good experience in the industry; 3) Solid reputation, associated with a well known brand; 4) Trading agreement with major shareholders mitigates the risk of fluctuation in marketing/demand in international markets; 5) Relatively strong and stable financial profile. Meanwhile, it took into account the main challenges which face the company: 1) Company reached almost full utilization capacity, which might constrain organic growth capabilities; 2) Subject to volatility of the domestic industry, which may create negative pressure on the company's margins; 3) Industry exposed to the overall macroeconomic conditions; however, export sales counterbalance this challenge to some extent; 4) Facilities/production expansion in Egypt and the Gulf countries, consequently intensifying competition; nonetheless, the strategic agreement with shareholders relieves these burdens.

On December 10th, 2007, "**Moody's Investors Service (Moody's)**" affirmed Lafarge's Global Scale Rating at **BBB**, changing the outlook to **negative**. Lafarge is considered the world leader in building materials with total revenue of € 13.3bn as of 3Q07. According to **Moody's**, the announced transaction at the outset would weaken Lafarge capital structure – given the significantly higher pro-forma indebtedness at the combined group as a result of the € 8.8 bn value attached to the transaction – which would fall outside the financial parameters set for the BBB rating based on proforma 2007 financials. At the same time, the acquisition presents the company with a markedly greater market presence in some of the fastest growing construction markets and significantly increases Lafarge's geographical diversification. This is in addition to Lafarge's expected growth and performance improvement, as well as the commitment to debt-reduction planned by Lafarge; which should allow a credible near-term recovery to solid BBB metrics.

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