

Rating Action: Italcementi S.p.A.

Moody's downgrades Ciments Francais to Baa2; changes Italcementi outlook to negative

Approximately EUR 500 million of long-term debt instruments affected

Frankfurt, July 20, 2009 -- Moody's has today downgraded Ciments Francais' ("CimFra") long-term and senior unsecured rating to Baa2 from Baa1; the outlook is negative. At the same time, Moody's changed the outlook for the Baa2 issuer rating of CimFra's parent company, Italcementi ("ITC"), to negative from stable. This rating action concludes Moody's review of CimFra's ratings, which was initiated on 17 February 2009.

Following the abandonment of the merger between CimFra and its parent ITC in July 2009, Moody's has reassessed its ratings assigned to both levels of the group. The rating action takes into account the deterioration of the leverage of the ITC group due to weakness in several of its markets, namely Italy, the US, Spain, Kazakhstan, Bulgaria and Turkey. This weakness is only partly offset by markets that are still performing very well, namely Egypt, Morocco and India. At the same time, Moody's acknowledges that, due to ongoing expansionary capital expenditure, 2009 free cash flow will remain negative, leading to a slight increase in the group's overall debt level.

The Baa2 issuer ratings of both ITC and CimFra assume that, in 2010, the group's capital expenditure will decline, and due to cost-cutting measures and a reduction in energy costs, the overall group's operating profitability and cash flows will improve. This should help the Italcementi group achieve an RCF/Net Debt ratio of above the low 20s (per LTM 03/2009: 18.6%).

The capital structure of CimFra is better than the structure of the Italcementi group (RCF/Net Debt per LTM 03/2009: 24.8%) and could position its creditworthiness ahead of the creditworthiness of the overall group. However, given the joint management of both ITC and CimFra, the rating for CimFra cannot be better than the overall rating of the group. Moody's also believes that, over time, the capital structure of the group will be streamlined, resulting in a better alignment between ITC and CimFra.

The negative outlook for CimFra incorporates the risk that its leverage and cash flow-to-debt ratios will not improve in 2010 and/or could deteriorate further in 2009. If the group is able to improve its RCF/Net Debt ratio to around the low 20s, CimFra's outlook could stabilise.

In addition to the above factors, the negative outlook for ITC also incorporates the structural subordination to which lenders at the ITC level are exposed and the risk that the group will not implement mitigating measures. Moody's could introduce a notching if the group fails to reduce the structural subordination at the ITC level in the intermediate term.

The group's operating margin has deteriorated over the past 12 months to 10% (per 03/2009) and is now below the profitability of its peers, such as Holcim (13.3%) and Lafarge (17.8%). The financial profile of the group, as measured by retained cash flow to net debt, has also weakened considerably, to 18.6% per LTM 03/2009. However, it remains stronger than or on par with that of its peers (Lafarge 9.1%; Holcim 16%), which have more diversified business profiles. The rating reflects the assumption that these ratios will not weaken further, but will benefit from cost-cutting measures and a reduction in capital expenditure and dividend payment, which should help offset lower prices and volumes in 2009.

The short-term liquidity situation of the group, and of CimFra and of ITC on a standalone basis, is good, with cash sources higher than cash uses over the next 12 months. Based on the current assumptions for operating performance in 2009, the group also has sufficient headroom under its covenant tests.

Downgrades:

..Issuer: Ciments Francais

....Issuer Rating, Downgraded to Baa2 from Baa1

....Multiple Seniority Medium-Term Note Program, Downgraded to Baa2 from Baa1

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa2 from Baa1

Outlook Actions:

..Issuer: Ciments Francais

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Italcementi S.p.A.

...Outlook, Changed To Negative From Stable

The principal methodology used in rating CimFra and ITC was the Global Building Materials Industry rating methodology, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory. Other methodologies and factors that may have been considered in the process of rating CimFra and ITC can also be found in the Credit Policy & Methodologies directory.

Moody's last rating action on CimFra was implemented on 17 February 2009, when Moody's placed CimFra's ratings under review for possible downgrade. Moody's last rating action on Italcementi was on 10 November 2008, when Moody's downgraded Italcementi's ratings to Baa2 with a stable outlook.

The Italcementi Group, headquartered in Bergamo, Italy, is one of the top five cement producers globally, with an installed cement capacity in excess of 70 mt/year and sales of EUR5.8 billion in 2008.

The company's cement business, which accounts for approximately two-thirds of total sales, is supplemented by aggregates and concrete businesses. In addition to its core market in Italy, Italcementi, via its 82%-owned subsidiary CimFra, is active in 22 countries, with an emphasis on the Mediterranean basin.

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