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(Re)Financing in a Capital Intensive Industry
during Economic Crises

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Abstract

This case provides insight regarding how the survival of a company exercising its economic activity on a capital intensive industry, namely Cimpor – Cimentos de Portugal, SGPS, S.A., can be more affected during a financial/economic crisis than companies operating in non transformation sectors. Company performance positively correlated with the market and, the need for large amounts of debt capital required for survival, were key factors whenever a recession were in order. I will explore the factual evidence of such events, providing in the end a space for reflection through a set of questions concerning the approached subjects.

Keywords: Subprime Crises, Financial Indebtedness, Intensive Capital Industry, Debt Rating, Debt Snowball

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I. Environment constraints

Since 1976, banks had been the primary source of external capital for CIMPOR – Cimentos de Portugal, SGPS, S.A. (Cimpor). With the increasing degree of openness over financial markets, on 2003 Cimpor started sourcing for capital outside the banking sector.

Acquiring credit has always been subject to dynamic relations between creditors and the borrower. Due to the irreversible nature of the investments undertaken by this cement mid size player, evaluating firm's ability to fulfill contract obligations had been a subject to meticulous evaluation by lending institutions, until credit rating agencies reputational buildup. Until 2009, which shall be used as reference period for the case, debt ratings provided by rating agencies often justified no further use of bank's own risk measurement models.

This evidence became even more acute upon the opening of the national banking sector to foreign bank institutions during the 1990's. Access to foreign lenders by Cimpor had led the firm to build up relationships with those entities, as they were representing a brand new offer of much competitive products.

On implementing an internationalization strategy, external capital had been of the utmost importance for Cimpor's growth and development. This way, liabilities became increasingly pushing weight over company's operations and activities by capitalizing a large part of the left side of its balance sheet and eroding therefore, a large part of revenues.

With such encumbering, credit risk management decisions undertaken by the Area of Financial Operations (AOF) had constantly been subject to a dynamic set of management practices, all in line with firm's main objective of shareholder value maximization.

By 2008, Cimpor had outstanding EUR 1.911 million long term financial debt. According to risk management practices for debt instrument diversification undertaken by the firm's management team, debt was dispersed though various different facilities, most of them undertaken between 2003 and 2008. Amongst concomitant implications involving debt contraction, major maturities implied repayment over the next 3 years following 2009.

It was clear that financing and refinancing contracts until 2007 had been eased on encumbering costs, by business's healthiness and expanding economic environmental. However, the credit crunch of 2007-2008 started affecting banks and firms surrounding the bank balance crisis. This trust crisis was by 2009 beginning limiting firm's access to buyers' credit as banks, pension funds, fixed income investors, among others were starting to back down on refinancing agreements over firm's building maturities.

Providing that such behavior could be only the tip of the crisis iceberg, restructuring long term goals appeared to be a comprehensible agenda as with default avoidance, a need of cash allocation from investment to financing activities became evident.

With an increase over the firm's cost of capital, many of the positive Net Present Value (NPV) projects were at the verge of being reversed to negative figures. Regardless of that, Cimpor management team were still believing in the fruit yet to be collected from a sudden exponential burst of employed capital undertaken since 2003.

Shareholders opinions were already diverging and, in line with Chava and Purnanandam (2008)², a valuation loss over Cimpor's equity was taking place. According to the authors, during a financial and economic crisis sustaining major credit supply shocks, such loss can be mainly traced to the association of bank-dependent firms such as Cimpor to banks that see their internal health damaged by massive losses traced back to substantial defaulting on outstanding balance loans.

High systematic risk exposure associated with such unleavened net debt balance and also with the closing of financial covenants disclosed over most important contracts, Standard and Poor's rating agency (S&Ps) undertook a downgrade action over Cimpor's long term obligations. As the above mentioned contracts included interest rate indexation with S&Ps long term credit rating, an irrational set of conditions worsening was occurring. Cimpor had relevant international credit rating solely provided by S&Ps.

Along with public investment, Cimpor was being led to a dramatic set of action having as basis significant cuts on investment and CAPEX. With firm's decaying liquidity, two possible outcomes were expected. The positive one involved economic recovery based on the possibility of a new restructured state plan based on the American New Deal assumptions, returning this way firm's bargaining margins over contract renegotiations to high standards. The remaining possibility involved either asset sales for contractual obligations fulfillment or, a capital increase that, given the depreciated financial position of its major shareholders, could probably be feasible of being undertaken by solely one of those same entities, namely Caixa Geral de Depósitos, S.A. (CGD) or, by any new player becoming shareholder of the firm.

At the beginning of 2009 Cimpor was being obliged to overcome the already abominable snowman of pushed forward financing outflows. Re-establishing creditors' confidence through guarantee deed contracts for business-risk to bank-risk transfer and, S&Ps further downgrade avoidance either through contract renegotiations or liquidity increase was on top of agenda for financial management team. As banking credit was drying especially that

supplied by foreign financial institutions, the possibility favoring debt emissions over financial markets on the long/medium range was an option, as denoted by Lim (2003)¹¹. Regardless on the effectiveness of those measures, Cimpor had to offset those challenges if it were to return to the high yields of returns to investor growth pattern displayed over the seven years preceding 2009.

II. Firm History and Debt Profile

Cimpor has been operating in the capital intensive cement industry since 1976, being on the beginning of 2009 the Portugal national market leader of the cement, concrete and aggregates sector. Its international growth and development strategy made it present on the reference period over 13 different markets, dispersed among 4 different continents as can be seen in Figure A1. During this period, Cimpor was on an exponential phase of its expansion.

The need for external financing by this company had been as constant as its margins for 5 consecutive years, with an average return on equity of 18,8% between 2002 and 2007, and an average debt to equity ratio of 1,72 for the same period. Table B1 and Table B1.1 summarize in average, financial data for Cimpor between 2002 and 2008.

Being considered a known company in the sector by 2009 spring semester, Cimpor was positioned on the eight place of the best world performers regarding installed capacity, right bellow players such as Cemex SAB de CV (Cemex), Lafarge Ciments S.A. (Lafarge) and Holcim Ltd. (Holcim).

Cimpor's leveraging profile were directly associated to investment pattern. The grounds behind strategic prospects for long term growth were supported by a constant market consolidation environment, implying as rules of engagement intensive capital growth by acquisition financed by buyers' credit and own capital. With that in mind, Cimpor had on the reference period prospects for reaching 5% growth capacity until 2012. With a solid and liquid base of credit between 2002 and 2008, the firm had consecutively been able to pay off its obligations towards shareholders through growing cash dividend yield observable in Figure A2.

Since mid 2007, a downward spiral of investors trust over Cimpor's performance can be depicted from the 672.000.000 outstanding shares of stock quotation behavior, observable in Figure A3. A peak value had taken place on the second semester of 2007, followed by downward spiral until reaching minimal values.

For an improved insight over market conditions depreciation starting on the above mentioned year, Figure A4 demonstrates not only the market behavior, but also the positive correlation that it has with the firm. Then, it can be said that Cimpor's market share was not dependent on marketing strategies, but instead on a process of market consolidation through acquisition of local assets for production and distribution of the final product. This especially since the cement producer had no room for much product innovation, relying hence on its ability to acquire smaller local players, and also to avoid being acquired by larger players.

All over the 1990's, companies began to source more actively for foreign debt supplied by international players new to the national banking sector. Those entities approached companies with offerings for competitive credit products that implied increasingly more competitive terms than those offered by national entities at the time. Being Cimpor already on that period an important player at national level, it also started seeking foreign credit in order to finance its strategic goals.

Table 1. Cimpor outstanding liabilities structure by 2007 and 2008
(Monetary values in thousands of Euros)

	2008	2007	Change
Long Term Liabilities:			
Bonds	883.055	855.939	3,07%
Bank Loans	1.028.075	467.993	119,68%
Other Loans	-	315	-100%
	<u>1.911.130</u>	<u>1.324.247</u>	<u>44,32%</u>
Short Term Liabilities:			
Bank Loans	201.177	623.142	-67,72%
Other Loans	324	340	-4,71%
	<u>201.401</u>	<u>623.482</u>	<u>-67,70%</u>
	<u>2.112.631</u>	<u>1.947.729</u>	<u>8,47%</u>

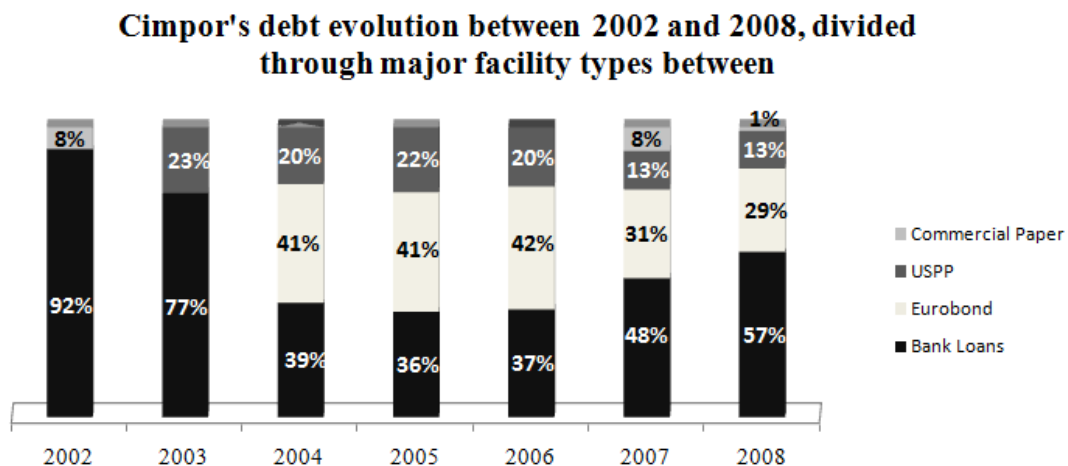
Source: Cimpor 2008 annual report⁴; Company documentation⁵

Financial markets globalization efforts also brought new options in terms of corporate bonds. With access to recent fast growing international and foreign fixed income markets issuing a demand for longer maturity investor class products than those offered by banks, ever since 2003 Cimpor had taken steps towards corporate bond issuance, seeking external financing on public and private markets.

At the beginning 2009, firm's debt structure was composed mainly by an instruments mix ranging from credit supplied from banks to bond instruments. Major creditors and debt holders were Banks, Insurance Companies, Fund Managers, Pension Funds. Total liabilities outstanding on the Firm's balance sheet of the 2008 annual consolidated report are disclosed on Table 1 above and Table B2. Total debt with a book value of nearly EUR 2.112.million was divided through EUR 201 million short term liabilities, and EUR 1.911 million long term debt capital.

According to the risk management policies undertaken by firm's financial managers, the above total debt was divided among several outstanding debt instruments displayed in Figure 1 below. At the end of 2008, 52% of total debt was Bank Loans leaving the remaining 46% and 2 % to 3 fixed income instruments and issued commercial paper respectively.

Figure 1 Major instruments composing Cimpor's total outstanding debt between 2002 and 2008



Source: Cimpor 2002 - 2008 annual reports⁴; Company documentation⁵

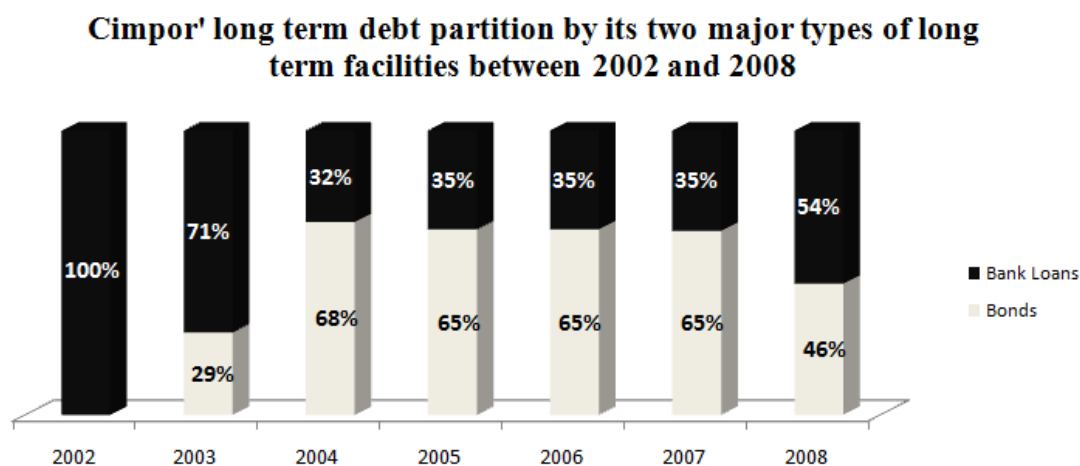
Short term financing were usually resourced though overdrafts, commercial paper and short term bank loans, though commercial paper and overdrafts could be considered rolling instruments.

Other means of raising capital or improving the use of debt funding implicated firm's access to derivative instruments. With options ranging from warrants, convertible debt, and so on, Cimpor could had managed to create a much more exotic instrument mix rendering through this way better and increasingly complex terms for either new or renegotiated credit.

Despite that, Cimpor did not have in its portfolio derivate facilities such as convertible bonds, for the obvious reasons concomitant with its shareholder's protection policy.

During the reference period, despite having only three fixed income instruments outstanding, those nearly represented 46% of Cimpor's outstanding debt. Regardless of such figures on 2008, that had not always been the frame, as can be observed on Figure 2 bellow.

Figure 2. Percentage decomposition of Cimpor's outstanding long term debt between Corporate Bonds and Bank Loans from 2002 until 2008



Source: Cimpor 2002 - 2008 annual reports⁴; Company documentation⁵

For further digging regarding this matter, Table 2 bellow displays detailed information concerning firm's major Long Term debt instruments face values. Tables B3, B3.1 and B3.2 display accrued values of firm's debt between 2002 and 2008.

Table 2. Cimpor's 2008 end outstanding long term debt face values (Monetary values in thousands of Euros)

Issuer	Instrument	Currency	Issuance Date	Interest Rate	Maturity	Face Value
Cimpor Financial Operations B.V.	Eurobonds	EUR	27.May.04	4,50%	27.May.11	600.000
Cimpor Financial Operations B.V.	US Private Placements	EUR	26.Jun.03	4,75%	27.Jun.13	127.986*
Cimpor Financial Operations B.V.	US Private Placements	EUR	26.Jun.03	4,90%	27.Jun.15	216.723*
Total						8.193.510
Bank Loans		Currency	Interest Rate		Loan amount	
Club Deal Loan 1		EUR	Euribor + 0.275%		280.000	
Club Deal Loan 2		EUR	EURIBOR + 0.75%		225.000	
Club Deal Loan 3		EUR	EURIBOR + 0.275%		200.000	
EIB Loan**		EUR	EIB basic rate		60.000	
Bilateral Loan S.T.***		EUR	EURIBOR + 0.55%		300.000	
Total						1.115.000

*Exchange rate used for converting USD to EUR of 1,1720 retrieved on 26.JUN.2008

**European Investment Bank

***Santander&Totta

Source: Cimpor 2008 Annual report⁴; Company privately held reports⁵

Bond debt value concentration had arisen mainly due to the common procedure for selling corporate bonds involving market *best effort*, usually mediated by banking institutions. This last permissive made emissions under EUR 500 million most of the times unreliable and unprofitable for these intermediaries, as commissions usually involved a percentage over face value being negotiated.

At the beginning of 2009, given the decline in business performance, firm's financial managers concerns were mainly directed towards the EUR 600 million Eurobonds bullet repayment on 2011 and also, towards the EUR 300 million Bilateral Loan with a similar repayment method to take place on the year of 2010.

Justifying debt values presented by Cimpor's 2008 annual report were the expansive strategic financing requirements that the firm had by that time. Being Cimpor a company operating in a capital intensive industry, acquisition of assets such cement plants, investments considered has being most of the times irreversible, required injections of capital in the order of the hundreds of millions of Euros.

Cimpor never resourced to stock issuance as a financing method. Given that at the beginning of 2009, major investor's structure, displayed on Figure A5, were already suffering from firm's depreciated incomes compared to previous years, requesting capital increases was considered an unreliable option, considering shareholder protection policy.

Debt was and had been therefore, the main and only source of external capital, starting the firm on 2003 to diversify its sources from 100% bank loans provided either by commercial or non commercial banking institutions. The main question for firm's financial managers since that year had been which type instrument to use.

III. Debt Management at Cimpor

Company's interest on issuance of corporate bonds on either public or private equity markets came mainly from the terms that such contracts implied. In contrast to Bank Loans, Fixed Income contracts had longer term maturities, usually not shorter than 5 years, any S&Ps rating indexation, less restrictive covenants, fixed coupons and full principal repayment at maturity.

The comparable higher maturities coming at higher interest rate yields were very attractive to the firm given that one other characteristic of investments in the cement, concrete and aggregates sector, was the implication of having payback periods much higher than the

common 5 years demanded by investors on other industries. Eurobonds solely represented a tax advantage for the firm, as this type of facilities was issued without withholding tax.

Book building and benchmark practices characterized the bond pricing process, being Cimpor's emissions commonly compared to other emissions issued either by the firm or by companies sharing similar conditions to those faced by the firm. A disadvantage posed by these securities usually came from the issuer being the seller and not the client, which usually carried less room for trade margin over expensive negotiations.

On 2003, Cimpor had issued 2 different tranches of US Private Placements securities (USPPs), therefore not subject to US Securities Exchange Commission (SEC) regulation, yielding at different maturities, coupons and durations. The issuance took place in the transatlantic market in accordance with a debt instrument diversification strategy underling company's risk and financing cost management policies.

Being Cimpor an international company, Cimpor Financial Operations B.V. (Cimpor BV) had been created by the Group with the sole responsibility of the Corporate Bond issuance. For more information regarding the Group organizational structure, please see Annex I located in Appendix C.

Another subject arising from having international presence was the need for contracting debt in different currencies, as can be observed in Table B4, carrying these instruments therefore, an added currency risk.

Despite very constrictive, debt contracts had room for planning flexibility, in respect to market expectations and its relation with cost planning.

Usually, long term contracted liabilities, regardless of their nature, had clauses stating that interest payments could be changed from a biannual basis to a quarterly or even monthly one. Though this way, the firm could use to its advantage market expectations in order to minimize financing costs associated to floating interest rate instruments. However, with more frequent payments, added trade commission disbursement per periodic payments would come.

Taking the above tradeoff into consideration, on the referenced period, the interest payment schedule for Cimpor's long term major liabilities was distributed through annual, semiannual and monthly payments.

Floating interest rates were mostly associated to Bank Loan contracts, being usually the result of summing a floating index, to a contracted fixed Spread. On Cimpor's debt portfolio outstanding at 2009 beginning, the main index accounting for such calculation were Euribor, whose variations can be seen in Figure A6.

On the above period, the company had in its debt balance two bilateral contracts, being them the Bilateral Loan S.T., contracted for refinance purposes only and, the EIB loan contracted with the aim of financing a specific project. Both contracts had on one side one lender and, on the other side, one single borrower. Club Deals were usually characterized by being loans where either one single borrower or, several borrowers being joint liable towards the lenders, received financing from 2 to 3 different lenders sharing the same risk amongst them, distributed by equal tranches of the face value of the loan. Other types of loans usually contracted by the firm were Syndicated, where between 10 to 30 lenders shared the risk of lending the necessary capital by equal or not amounts of capital. Despite on the reference period not having any of these type of facility outstanding, the firm had issued such contracts on the past, having one of them the imposing of a rating trigger clause. This term implied that in the advent of Cimpor crossing the investment grade barrier, an immediate full repayment of capital plus accrued interest would had to take place.

Besides the already mentioned main differences between contracted debt and issued debt, credit supply availability made Cimpor a Bank Dependent since 1976. Given that the firm resourced mostly to commercial Bank institutions, pricing competition had resulted on lower spreads over supplied interest rates. However, with 2008's, credit crunch, banks intended to preserve their balances. With such trend, Cimpor management team was already considering a new issuance to be undertaken on 2010 aiming to refinance the EUR 300M Bilateral ST. With extensive written contracts, bank loans were often subject to protecting covenants, aiming to preserve firm's ability to repay owned capital, being one example, the Negative Pledge clause present in almost all major contracts.

Cash needed to be available on interest and principal payment dates, otherwise an indemnity had to be paid and, on most contracts, default would be declared. Refinancing those contracts upon technical default could be very problematic for the firm since, as stated by Chava and Roberts (2008)³, a decrease in cash allocated to investment, undermining the strategic expansive objectives for the firm and delivering great debt costs escalations and possible control hand over to creditor entities, was a probable outcome at the event of default.

The evidence became more acute when the authors revealed that whilst relations where quite superficial between lender and borrower, such problems could go sky-high, implicating almost complete cease of investing activities in order to produce a correct allocation of cash to debt repayment requirements. Therefore, good relations between borrower and lender were one top priority for the firm seeing its bargaining power over

negotiations constantly being further depreciated given the credit supply crunch raised by the trust crisis. Ability to influence lenders perspectives regarding firm's ability to repay its obligations was of the utmost importance, and given that debt holders usually were well informed, knowing well their expectations could be regarded as an advantage for Cimpor effectively achieving competitive outcomes from such negotiations.

Financial planning was then crucial for the firm's healthiness, implying thorough calculations of future expenses associated to financial leverage.

Table 3. Cash outflows from major debt instruments outstanding on 2009, scheduled from 2008 until 2015
(Monetary values in thousands of Euros)

Year	Interest*	Principal	Cash outflow
2008	77.263.009	6.666.667	83.929.676
2009	89.731.912	119.166.667	208.898.579
2010	73.712.615	508.333.333	582.045.948
2011	64.140.436	804.166.667	868.307.103
2012	30.843.749	172.549.020	203.392.769
2013	21.432.862	173.868.701	195.301.563
2014	16.521.163	12.549.019	29.070.182
2015	7.573.544	229.272.569	236.846.113
Total	381.219.291	2.026.572.642	2.407.791.933

*Interest rates used for computing future interest payments resourced from forward rates supplied by Cimpor on April, 2009

Source: Cimpor 2008 Annual report⁴; Company documentation⁵

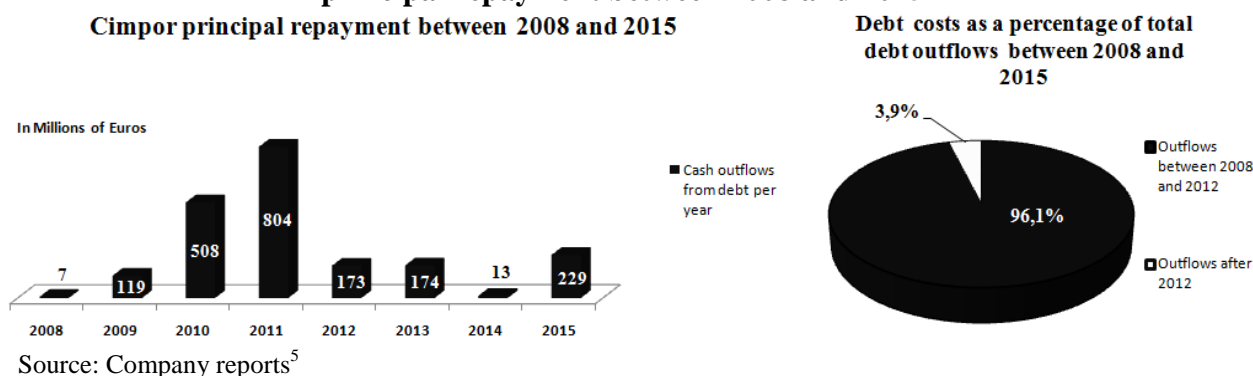
On the reference period, Cimpor had so far been able to balance its financial expense accounts with its EBITDA margins, as displayed on Figure A7. With those figures always higher than 25%, along with an increasingly relatively constant financial expense pattern and interest coverage ratios over 4,57x, business healthiness had been proved over and over.

Debt coverage ratio variations were mainly justified by contract terms agreed for capital amortization and interest schedules.

By associating this evidence of an apparent dynamic financial planning, either with the contractive economic consequences over yearly marginal generated EBITDA, and also with

the figures disclosed over data transferred from Table 3 above to Figure 3 below, firm's managers started to realize a problem that had been constantly growing under the radar.

Figure 3. Cimpor cash outflows associated to outstanding long term debt facilities principal repayment between 2008 and 2015



Having in mind that capital intensive investments had been undertaken on a basis that EBITDA generated from acquired capacity would compensate added financing costs from increased, consecutive financing had been being raised between 2002 and 2008 by the firm's managers. Table 4 below captures those expectations through a demonstration of an exponential growth on amounts due on years following 2009, since 2002.

The main problems being faced by the firm on the beginning of 2009 were considered by management team as resulting from a combination of past blurred market expectations that failed to predict the abrupt market downturn.

Table 4. Principal repayment scheduled from 2002 until and after 2009, on the 31st December of each year between 2002 and 2008 (Monetary values in thousands of Euros)

Year	Estimation date starting on the 31st December of respective year						
	2008	2007	2006	2005	2004	2003	2002
2003	-	-	-	-	-	-	552.072
2004	-	-	-	-	-	329.710	409.355
2005	-	-	-	-	150.749	456.143	453.693
2006	-	-	-	31.060	141.963	132.314	37.509
2007	-	-	51.427	19.514	148.360	136.565	43.005
2008	-	623.142	407.945	417.382	80.930	73.080	12.501
2009	201.177	74.902	15.445	15.399	14.149	0	0
After 2009	1.911.131	1.249.345	934.015	964.721	922.871	399.705	0
Total	2.112.630	1.947.729	1.417.661	1.453.556	1.464.585	1.531.405	1.520.935

Source: Cimpor Annual Reports from 2002 – 2008⁴; Company documentation⁵

The irrational exuberance felt between 2002 and 2007 raised from an economic boom might had led managers all over the world to a belief where the golden egg chicken would endure for unforeseeable consecutive future periods, in a form of constant EBITDA margins increase, along with low spreads allocated to financing capital. Regardless of its origin being synthesized from a clouded but unavoidable human judgment and concomitant perspective, in periods of abundance Cimpor's tendency from operating on a consolidative market basis was to use as an advantage the excess supply felt over the credit market to achieve better credit conditions for its expansion. However, as the firm intended to keep growing until its terminus, investment opportunities on the cement sector tended to be undertaken based on a competitive perspective of capacity increase for market capture. Hence, push-forwarding capital repayment for proper cash allocation to investment activity might have missed the premise that grains of obligations kicked to the future might had ended up filling the golden chicken's stomach on the future, especially if it were to suffer from an economic/financial indigestion.

IV. Snow Ball financial planning strategies

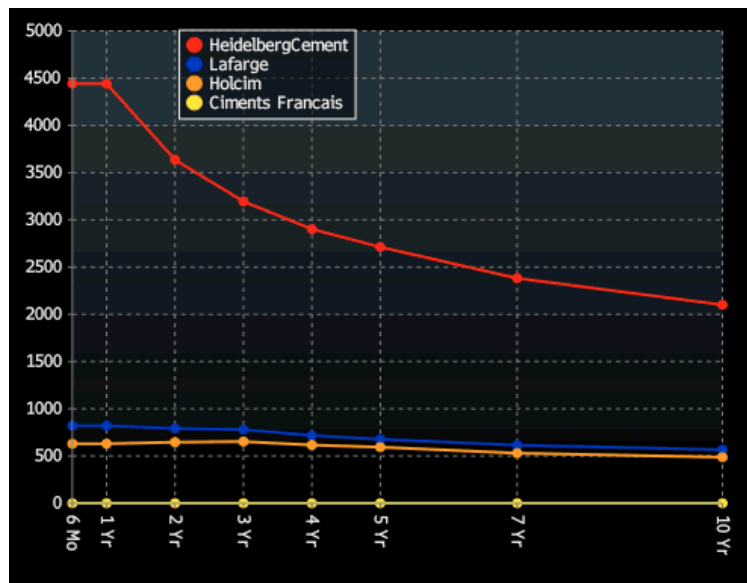
The cement industry, regardless of the different strategic plans adopted by its players (Greenfields Vs Growth by Acquisition), had always required huge loads of capital injections. Cimpor's yearly capital employed in its businesses between 2002 and 2008 had kept increasing over the period, culminating with an Indian market entry. For a good insight over the strategic pattern of decisions involving investment, maintenance and financing undertaken by the firm, Figure A8 displays the main figures by whose those are reflected.

When comparing variations on capital employed and cash outflows from investment with generated operational revenue variations, there is an apparent deficit.

Cross referencing this set of data with the debt contraction profile had led firm's financial managers to uncovering an active problem requiring immediate action to be undertaken by firm's executives. Following EBITDA evolutionary trend, realistic forecasts were indicating that there would be not enough capital available by 2011 for complying with all financing obligations for that year, which would be a common situation for the mid size player if not so entrapped by a recessive economic environment. Figure 4 bellow displays the Cross Default Swaps (CDSs) traded over Cimpor's major and larger competitors Holcim and Lafarge at values of approximately 600 basis points (bp), and Heidelberger Cement A.G (Heidelberg) above the 4000 bp bracket were reflecting investors' perspectives.

A dynamic financial planning concerning financial liabilities portfolio had been accommodated by firm's financial management team, combining contracted maturities ranging from 3 to 12 years, with the aim of establishing a best payment schedule. Despite the advantages posed by such dynamic allocation, a debt snowball peaking already on 2 years following 2009 intrinsically linked to the strategic congruence of the firm had been raised that, would had remained unnoticed if economy expansion continued.

Figure 4. Holcim and Lafarge CDS quotations on April 2009



Source: Bloomberg

As already seen, because payback periods over the firm's projects were usually greater than 5 years, Cimpor often sourced for facilities providing longer maturities.

Such rational behind maturity scheduling were considered as being good, providing that debt instruments comprising large bullet payments on maturities lower than 5 years were neither contracted nor issued on the meantime. Because Cimpor had contracted long term liabilities on dates already close to the bullet repayment of the Eurobonds, it saw its financial outflow forecasts for the year 2011 escalate to figures higher than EUR 800 million. Taking into consideration EBITDA generated on 2008, and given that investment pattern of the last years preceding 2009 beginning were expected not to change due to a set of new investments that were already planned for that year, a 2008 year marked by a credit supply crunch did not made management team back down while considering the challenge of going to the credit market in order to contract or refinance maturities at excruciating costs of debt.

Such problem might have not entirely been due to management indulgence regarding these matters. As the capital markets demand, players who survive are those who are better equipped to sustained heavy and intensive muscle load without suffering from cramps. In this industry specifically, timely debt cost allocation to the future, either by refinances or bullet contracts arose from the firm's growth model. Because growth objectives required asset acquisition, the firm required further debt in order to finance its growth and avoid being acquired. Therefore, planning to use revenues generated from such investments to cover costs associated to financing where the roll margin serving as base for financial planning.

Whenever repayment was close to EBITDA generated, postponing expenditure effectuation was then the main option for the firm. As a consequence, bullet payments, as also debt costs, instead of being eliminated, were added to subsequent periods. While the market is booming, usually refinancing outstanding contracts were granted at competitive yields, such as the example of the Bilateral Loan S.T. contracted with a face value of EUR 392 million on 2005, refinanced on 2008 with a maturity of 2 years and a floating rate of Euribor plus a fixed Spread indexed to long term S&Ps credit rating, observable on Table 5 bellow.

Table 5. Cimpor major contracts indexed spread tables on 2008

	Club Deal 1 (280 M)			Club Deal 2 (225 M)			Club Deal 3 (200 M)			Bilateral ST 300 M		
Rating	BBB	BBB-	BB+	BBB	BBB-	BB+	BBB	BBB-	BB+	BBB	BBB-	BB+
Spread	0,28%	0,30%	0,60%	0,75%	0,95%	1,45%	0,28%	0,30%	0,60%	0,55%	0,85%	0,85%

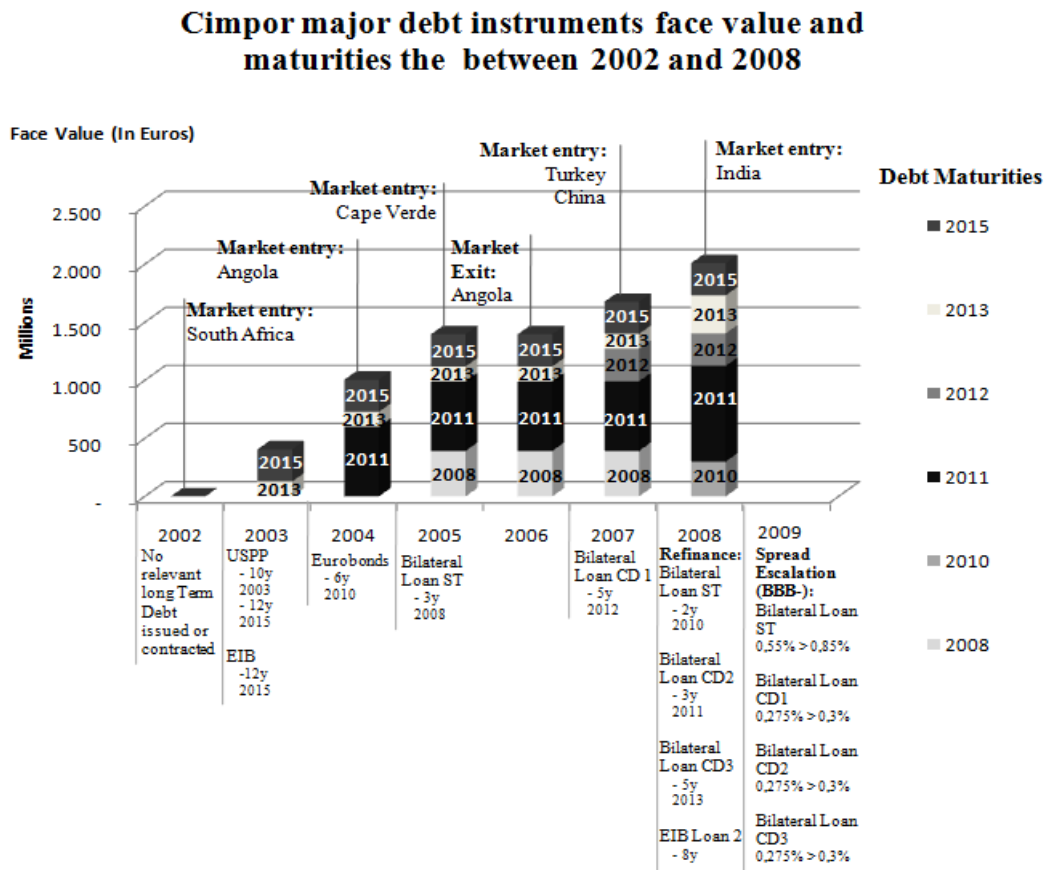
Source: Cimpor loan contracts⁴; Company documentation⁵

On 2008, creditors were already demonstrating risk aversive behavior, leading maturities for the refinancing contracts become shorter. That was the case for the Bilateral Loan ST refinancing on 2008, which was renegotiated for a term of only 2 years. By analyzing Figure 5 bellow, it is possible to see the debt cake fermenting its maturities and face value over time as expansion proceeded at the cost of issued and contracted debt.

Over betting on uncertain outcomes can lead to off chart results, on both ends of the chart. This fact becomes even more important when considering investments in emergent economies. When compared to the currency by which the company reported its results, distributed its cash dividends and paid its major debt obligations (Euro), emerging market currencies were usually not only weaker, which would represent an advantage if the product manufactured at discount were not inevitably sold on a local basis, but also were subject to outside risk factors such as periodic hyperinflation, political, social and so on and so forth.

Proportional to company expansion, the apparent 10-12 years long term maturities accounting for less than 500 million Euros over company's total debt portfolio on 2002 observed on Table 4, had slowly kept growing until reaching in 2008 nearly 2.000 million Euros in not so longer maturities. This evidence directly reflects an antagonistic effect deriving from the snow ball. As the company decreased its systematic risk through geographic diversification, because it often resourced to debt for meeting expansion requirements, credit risk had been raised on a similar amount.

Figure 5. Cimpor snowball effect over debt amounts and maturities (Exchange rate used for converting USD to EUR on the USPP instruments retrieved on issuance date)



Source: Cimpor Annual Reports 2002-2008⁴; Company documentation⁵

So, in resume, what started to be a business facing the risk of cement consumption slow down, turned out on the beginning of 2009 to be a business comprising a large debt snowman of more than EUR 2.000 million raised from continually procrastinated aggregated debt expenses, already with a life of its own as banks, the main source of firms credit, were displaying signs of increased bargaining power when compared to 2002.

Comparing Cimpor's behavior with that of its major competitors Lafarge and Holcim framed in Figure A9, an establishment of the difference between Holcim's consolidative organic growth supplied by firm's own generated capital and growth by acquisition at the debt expense growth model undertaken by Cimpor and its relatively much larger player Lafarge can be inferred. Due to the intrinsic characteristic of the cement industry, for the juvenile player Cimpor, growth by acquisition and concomitant debt contraction was regarded as an inevitable outcome. However such growth did not required to be undertaken all at the same time with no time to breath between each market opportunity. When looking at evidence displaying indebtedness over firm's actual capacity, managers were considering at that period, allocating retained earnings to principal amortization. Being Cimpor a company directed towards yearly dividend distribution, such outcome were being hardly accepted by financially fragile stock holders.

Regardless of the apparent harm, contracting debt right before economic peaks could also be an advantage for the player. On 2008 first half, with an expectant bullish market, Interbank offering rates escalation had pushed spreads to its lowest levels. On the limit, floating debt contracted on the top of the peak would come with the lowest possible spreads offered on the CDSs market, during that economic cycle. With a sudden fall on the market prospective trend, those same spreads escalated almost 1000% from 50 bp to nearly 500bp, meaning that floating rates contracted on 2008 with 27,5 bp, 55bp and 75bp with long term maturities were actually posing an advantage during the credit crunch, discrediting the snow ball menace.

However, creditors were aware of such matters and in order to offset this matter, there was usually a clause stating an interest rate revision date where, if no agreement were to be achieved, immediate repayment were to take place. With the possibility of a further downgrade over firm's long term debt capital by this rating agency, financial management team were evaluating the consequences that would arise from refinancing the contracts maturing with bullet payments on 2010 and 2011, questioning themselves whether a Budyko effect was or was not already in motion.

V. Investment grade Maintenance

With an S&Ps long term credit rating of BBB+ on 2000, the firm saw with regard on February 2009, reaching the lowest investment grade rank of BBB- staying on CreditWatch

with negative implications until 8th of May 2009, date where the rating agency would decide whether to left the classification unchanged, or to appoint a further downgrade.

Low liquidity at Cimpor and Cimpor Inversiones level, where major long term liabilities were concentrated, along with inexistent signs of recovery on the constructions sector, S&Ps which were not concerned with the liquid situation of other than the core Portugal and Spain business units, moved forward with a downgrade over company's long term debt rating from BBB to BBB-. Depreciated EBITDA generation associated with high volumes of debt outstanding on firm's balance was the main reason behind the decision. Unexpected financial turn of events over banking sector had putted Cimpor's competition on the same boat, all suffering similar downgrades as disclosed in Table 6 bellow.

CreditWatch with negative implications implicated the possibility of a further downgrade to BB+ (investment grade loss) occurring. This was a very soaring paradox.

If S&P were to undertake the decision of removing investment grade status from Cimpor's, it would be because the firm was presenting a depreciated financial position. The illogicality on that is that one of the main causes for the firm having its liquid financial position depreciated arose from the previous downgrade from BBB to BBB-. Following the reasoning, upon investment grade loss, this position would be even more depreciated, with costs of debt almost doubling in some cases, which according to this pattern of action, would lead to another placement on Credit Watch with negative implications.

Table 6. S&P debt ratings for Cimpor and its main competitors between 2002 and 2009 spring semester

	2009	2008	2007	2006	2005	2004	2003	2002
CIMPOR -Cimentos de Portugal, SGPS, S.A.	BBB-	BBB	BBB	BBB	BBB	BBB	BBB+	BBB+
Holcim Ltd.	BBB	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+
Lafarge Ciments S.A.	BBB-	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Cemex SAB de CV	BB+	BBB-	BBB	BBB	BBB-	BBB-	BBB-	BBB-

Source: Bloomberg

One other inconsistency could be found on the rating system. In order to keep the rating unchanged upon Credit Watch removal, the firm had to renegotiate some of its outstanding contract covenants, meaning that besides the escalated costs arising from the BBB to BBB- downgrade, more costs would be added or aggravated from such renegotiations. The controversial matter here is that, despite the liquid situation becoming

even more degraded than it was before, according to S&P criteria, the risk profile of Cimpor's long term debt would be allayed, leading to the desired negative implications removal and leaving the rating unchanged along with decreased liquidity.

With aggravating consequences coming from the fact that the firm were at the verge of becoming junk bond grade, compliance with S&Ps requirements were mandatory at that time.

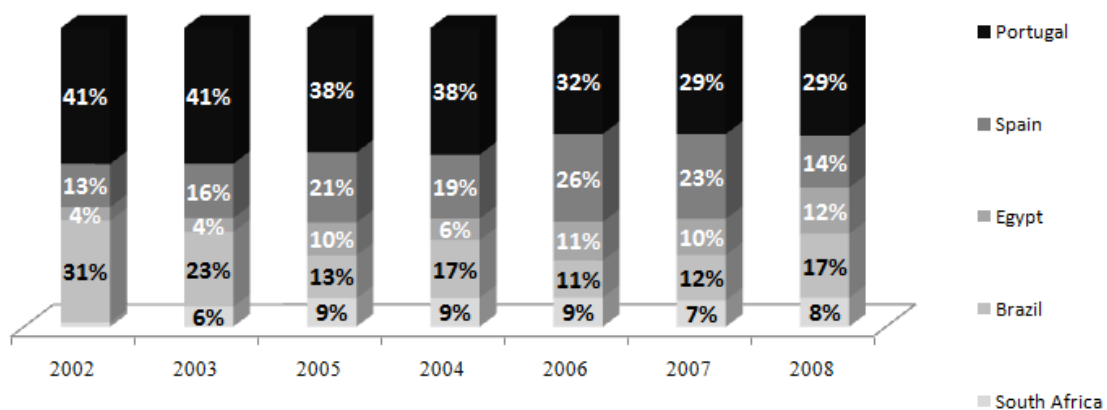
VI. Requests and compliance

The first demand made by S&Ps concerned the liquid situation of the holding solely.

Cimpor's Brazilian business unit hold in its possession an Austrian treasury bills note purchase worth of about 119 million Euros contracted for tax benefit purposes. Despite being a natural cash generator by that time, which can be verified on Figure 6 bellow, and also in greater detail on Table B5, cash positions and short term credit lines associated to the Brazilian business unit were not taken into consideration for the calculation of short term financial position borrower.

Figure 6. Cimpor business units' contributions to Group generated EBITDA between 2002 and 2008

Cimpor's Business units EBITDA contributions between 2002 and 2008



Source: Cimpor 2002-2008 Annual Reports⁴; Company documentation⁵

Taking that into consideration, one of the firm's management main goals was to find a way of transferring liquidity packages from its subsidiaries, directly to the debt core.

One of the main factors contributing for the firm's illiquid profile came from an acquisition performed on Spanish soil, aimed to increase storage capacity on the Canaries

Islands for a large amount of a cement intermediary product already produced and stored, which were beginning to depreciate through unsustainable warehousing.

With the forecasts of OECD by 2008 end predicting an economic contraction in the Euro zone of approximately 3,2%, added exposure to Spanish risk had made S&Ps very resilient over Cimpor's country risk exposure and future EBITDA.

Going against S&P advice, this acquisition took place on the 31st December of 2008, leading to a frame where no EBITDA was generated from the acquisition on accounts closing date, having only liabilities outstanding in its balance sheet. In order to offset this problematic accounting unbalance, a pro-forma EBITDA representing EBITDA generated during the year of acquisition by the previous owner, was transacted to the buyer's sheet in the form of this special account created uniquely for such purpose. For liquidity assessment by S&Ps and before going forward with its decision, the pro-forma EBITDA also respective to Indian and Chinese acquisitions were added to the liquid situation of the Group.

Still regarding Liquidity, S&Ps also considered Cimpor to have low levels of commercial paper and overdraft short term credit lines available, when compared to net financial debt outstanding. As means of offsetting this problem, renegotiations concerning commercial paper lines were being undertaken by the firm, accommodating at the same time a new contract for a new commercial paper program of 300 million Euros committed credit lines, starting with 75 million Euros being already committed at proposal date by the leader. Increasing overdrafts was also a short term planning objective, provided that the cost of maintaining those lines of on-demand credit was equal or lower than the costs incurred from sustaining a downgrade.

The negotiations concerning a previous commercial program with 1 year of existence and the negotiation of the new program are disclosed in more detail on Annex II, located in Appendix C.

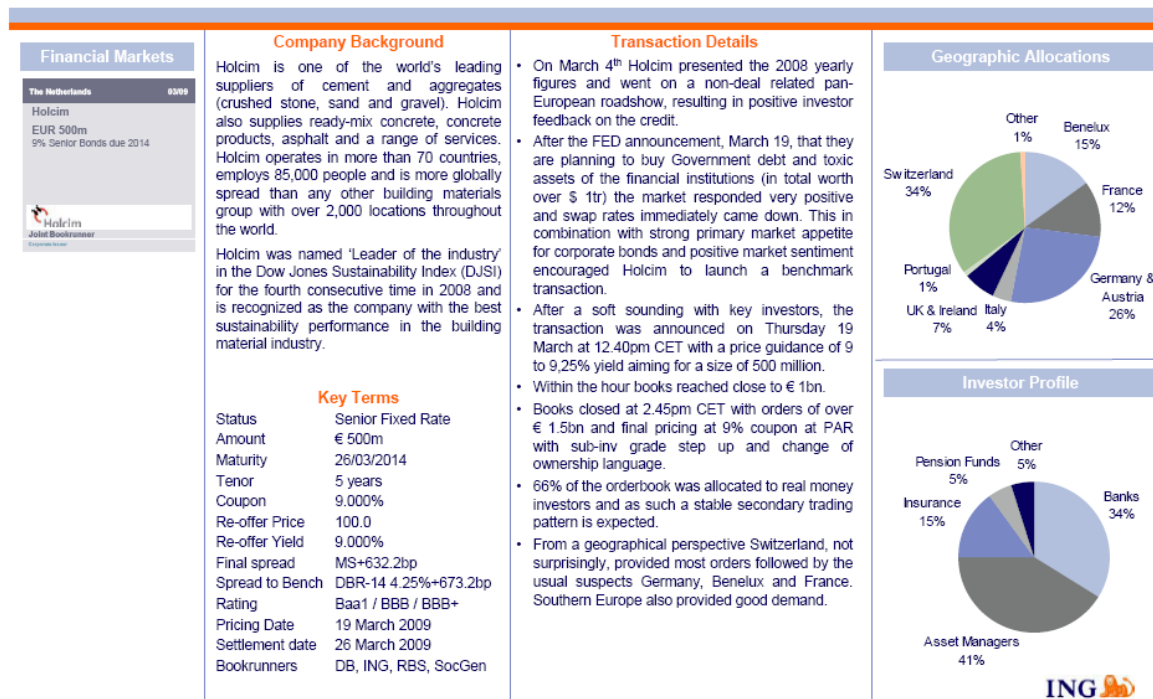
Most important debt contracts outstanding on Cimpor's balance sheet had as told before, financial covenants aiming to assure repayment ability by the borrower. Of the many contractual protective terms, the most important concerned covenants aiming to restrain the ability to contract debt above certain pre established levels associated to its ability to generate funds for meeting contractual obligations. The Net Debt/EBITDA financial ratio was one of them. By imposing a maximum limit of 3,5x over this ratio, creditors and debt holders were able to control the ability of the firm to repay capital plus interest, also including the pro-forma component.

One other covenant was the EBITDA/Net interest, with minimum limit of 5x, inserted with the objective of restraining operational margins to certain levels of efficiency, and a subsidiary indebtedness restriction aimed to oblige the holding to comply with the previously disclosed demands regarding the maintenance of certain levels of debt.

On the year of 2009 it was expected by Cimpor's management team that the second financial ratio above disclosed would not represent much of a liability. However, with financial costs escalating on the following year of 2010 and providing that no reliable EBITDA trend would occur, the value corresponding to this item could decrease from the current 6,889x to a value much closer to its limit, which would implicate further action from S&Ps similar to the one stated so far.

Because lenders intended to indirectly control borrower's ability to fulfill contractual obligations, the Net Debt/EBITDA limit clause would be discredited if a subsidiary indebtedness limit was not imposed, whenever the borrower was a mother company and not a subsidiary itself. Therefore, a subsidiary indebtedness clause had been inserted in the USPPs contract for an upper level limit of 10% consolidated subsidiary assets.

Figure 7. Holcim 2009 March Euro bond issuance in detail



Source: Privately Held Reports⁵

On the beginning of 2009, the Net Debt/EBITDA ratio was closing to the 3,5x limit, contributing already by 2008, with a value of 2,9x, disclosed on Table B6 data. S&Ps

demands therefore were directed towards the renegotiation of this limit present in contracts namely the USPPs and the Bilateral Loan S.T. This would no doubt impose serious increase over financial outflows given. Through benchmarking from an emission of EUR 500 million, representing approximately 5% of Holcim debt portfolio on the beginning of 2009 disclosed on Figure 7 above, yielding at a coupon rate of 9%, Cimpor who was planning a similar issuance in order to refinance the EUR 300 million Bilateral Loan S.T., were already counting with a coupon of approximately 12% annually. Such forecast would not imply a highly competitive disadvantage if sustaining a similar dimension as Holcim had, given that an emission of such amount would represent 25% of Cimpor's long term liabilities.

The reasons behind such demand by the rating agency came from the consequence of crossing ratio limits. In the advent of failure to comply with contract terms, Cimpor would automatically be in technical default and from that, a major problem would be posed to Cimpor's going concern. Because all debt contracts had cross default covenants, some delimiting minimum limits over amounts defaulted, some not, an official default over one single contract would imply an echo over all Cimpor's outstanding debt contracts in a chain reaction model of successive defaults, similar to a nuclear debt bomb detonating the company perspectives for the future by erasing firm's assets through alienation in order to comply with such obligations.

Additional information regarding the negotiations process regarding the USPP's financial covenant can be found in Annex III, located in Appendix C.

Rating triggers could also be present in contract terms. These clauses aimed to set the contract to default whenever the company's debt crossed the investment grade barrier to junk bond. On 2003, through contract comparison and benchmark of a previously outstanding syndicated loan, USPPs investors noticed a rating trigger clause on that relevant contract. As a result, USPPs investors also demanded such clause to be inserted on the proposed contract. Following negotiations culminated with the insertion of a clause stating that in the event of insertion on any other contract of a rating trigger, USPPs investors would be immediately informed and a similar clause would be added to the underlying contracts.

The interest in removing that trigger from a longer maturity contract came to be highly valuable for the firm, since by the end of 2008 the situation was not the same as it were in 2003. In order to execute a new project taking place on the Turkish Business unit at the cost of internal generated capital plus a financing from EIB in the value of EUR 50 million was

objected to take place on 2009, a contract was firstly drafted by the borrower with a rating trigger clause inserted in it.

With the notion that this would imply having to disclose also a rating trigger over the USPPs contract, which would be outstanding until 2015, Cimpor refused the proposal, which resulted in a new proposal demanding a Banking Guarantee and Indemnity Deed contract as a way of assuring Cimpor's compliance with contractual.

Annex IV of Appendix C displays further details regarding this specific contract.

Following the above referred contract restrictions, all tree Club Deals had a covenant restricting borrower indebtedness with a lower bound limit. The clause defined that Cimpor Inversiones, responsible for Group's geographic expansion, had to have at least 75% of total aggregated financial of the Cimpor Inversiones's Group.

With the contract still being on negotiation process, convergence of expectations was very important for its success.

VII. A hard road yet to be travelled ahead

On 2009 Cimpor was becoming more and more willing to issue bond instruments as a way of avoiding as much as possible loan contraction from banking institutions. With only the disadvantage of being issued at a fixed rate and having principal to be repaid in bullet, these facilities presented better and attractive options for external fund raising, as most of those constraints could be swapped on the market.

Perverse incentives raised from adverse selection were strangling the corporate neck, characterized also by an inconspicuous snow ball effect of consecutive worsening of credit conditions intrinsically linked to the parameters by which S&Ps applied downgrades were the main challenges to be overcome by firm's managers. Risk management theory dictated that as credit risk increases, so shall the interest rates underlying such risky contracts or securities. However, this axiom was starting to be considered highly irrational. Given that by demanding such higher rates, creditors were actually increasing the odds of default occurring by squeezing company's decreased revenues from a contractive economic environment, not allowing it to operate normally and efficiently in order to fulfill those same characteristics.

Regardless of the above situation, the fact remained that debt cost escalation were almost a promise for bullet contracts being renegotiated with investors willingly desiring to be repaid unless financial sector recovery were announced. State intervention through CGD social capital participation as last resort was not excluded from the agenda, especially in the

case of events turning spiral down as opposed to expectations. Expectations implied that, credit rating could be shifted to Portuguese state rating at 2009 beginning of AA- , eliminating this way all the challenges that the firm was facing concerning financing costs.

However, that situation was still on the far horizon for Cimpor and the fact remained that with a downgrade on long term debt, Cimpor would had to start taking decisions between changing cash allocation patterns from investment in order to successfully deleverage the firm and through that, benefit from auspicious negotiated outcomes regarding cost of debt either from debt renegotiation or simple new debt contraction. Naturally, the remaining option implied keeping capital allocated to investments as preferred management practice, in accordance with specific perquisites for players operating in the building materials sector, and also in accordance with expectations for an economic recovery and expansion for years following 2009. Despite unlikely, such scenario was actually based on empirical evidence from past events where sudden inflationary trends took place under economic recession. Through state direct action over employment creation by allocating capital raised either from taxes or country debt, to public investment which by chance was the main source of revenue for Cimpor's major clients.

Not to forget was the fact that financial liabilities contracted on recession periods would carry on high spreads upon economic recovery, bringing even higher costs to the firm that could not accompany sales recovery.

VIII. Questions

1. Were Cimpor's growth prospects justifiable and sustained, or should the company had a slow down its expansion before 2008?
2. State one possible reason for Cimpor choosing to issue Corporate Bonds in the transatlantic market instead of resourcing to Euro Debt.
3. What advantages could Cimpor have by creating Cimpor BV instead of allocating bond issuance to any of its Holding and Sub-Holdings?
4. Given the large portion of Euro denominated financial indebtedness outstanding on firm's debt accounts, compared to debt contracted in other currencies, should Cimpor seek foreign debt and therefore, decrease Euro currency concentration underlying outstanding instruments? Should Cimpor decentralize Group financing?
5. Would Cimpor's choice to augment bond debt on its outstanding financing instruments for the coming years incapacitate firm's ability to manage the Debt Snowball?
6. Give one possible reason for Cimpor not having convertible debt in its portfolio.
7. Elaborate a sensitivity analysis on Cimpor's interest due on the years following 2009, for the debt instruments displayed on Table 2, whenever Euribor index changes 1 base point.
8. What possible constraints could arise from refinancing the USPPs covenant? Considering question 6, what impact would such constraints promote to future firm's liquidity? What solution do you propose to this problem?
9. Do you believe that asset sale will be required in the future to fulfill debt obligations?
10. Should Cimpor use to advantage covenant negotiations to renegotiate maturities also?
11. Given market juncture on 2009 beginning, what type of interest rate should Cimpor choose regarding the brand new EIB financing for EUR 50M (Fixed Vs. Floating rate)?
12. Why did the EIB not define nor disclosed Fixed Spreads on its proposal for the contract mentioned on question 8?
13. Are Cimpor's expectations regarding a sudden market inflationary trend viable?

IX. References

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X. Appreciations

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XI. Appendixes

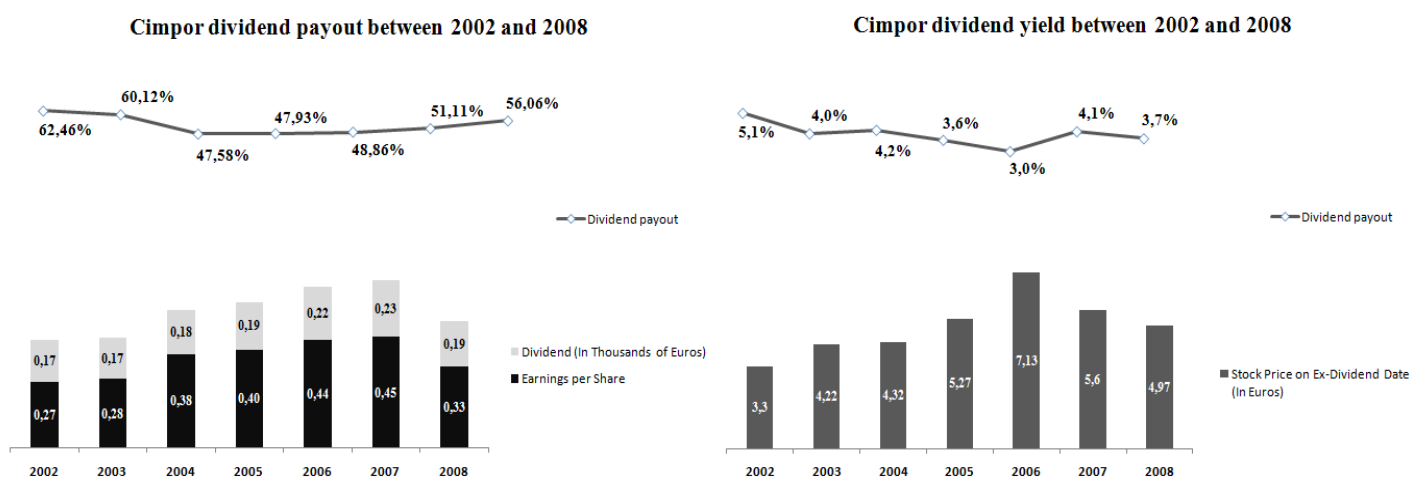
Appendix A

Figure A1. International presence of Cimpor by 2009 beginning



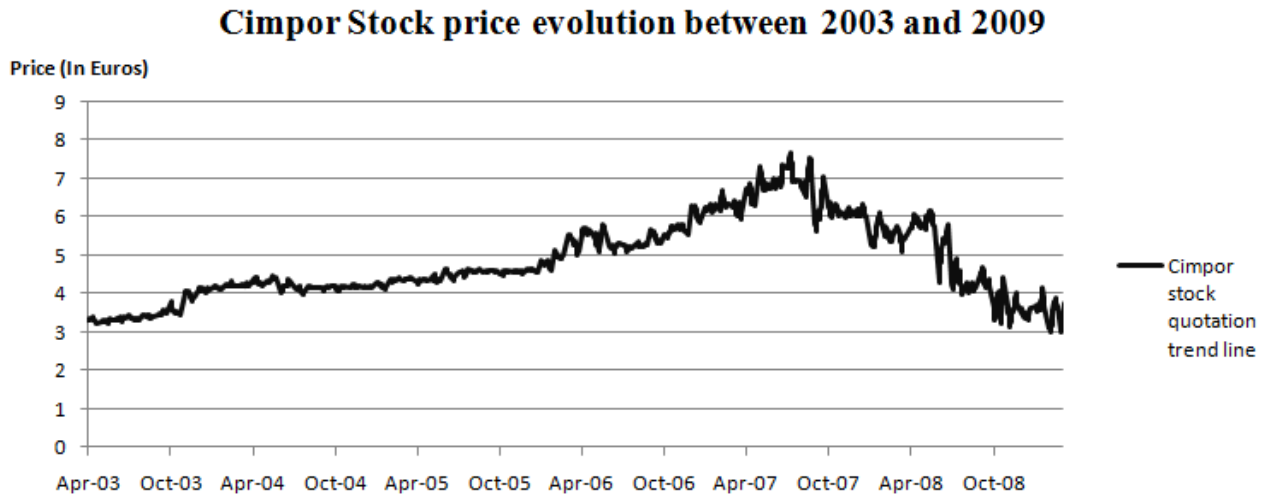
Source: Cimpor presentation 2008⁵; Company documentation⁵

Figure A2. Cimpor dividend payout ratio between 2002 and 2008



Source: Cimpor Annual Reports 2002-2008⁴; Company documentation⁵

**Figure A3. Cimpor's Stock price evolution between 2003 and 2009
(Quotations from 8.APR.2003 until 29.MAY.2009)**



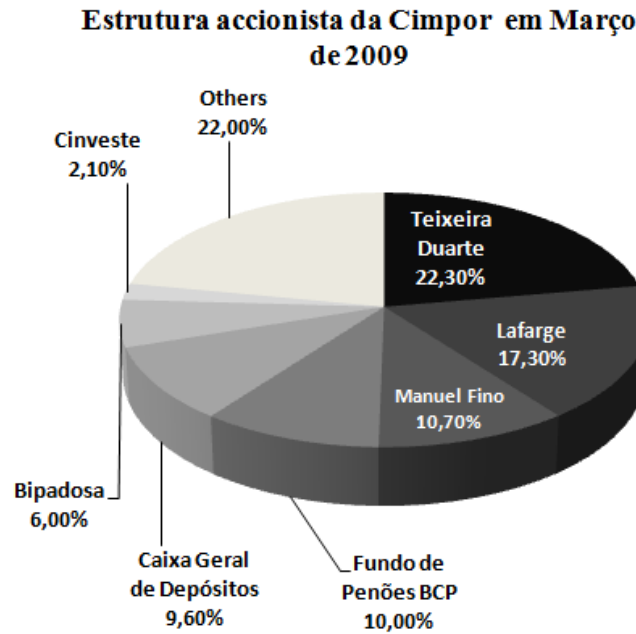
Source: Bloomberg

Figure A4. Cimpor's stock evolution Vs. PSI20 index trend between 2003 and mid 2007



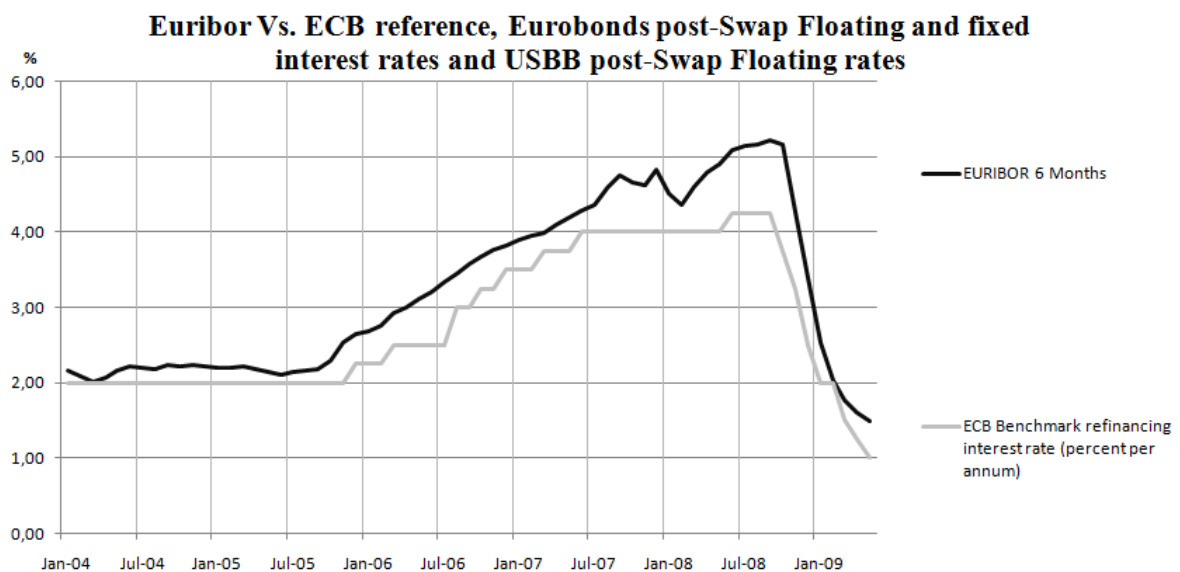
Source: Jornal de Negócios on-Line⁹; Company documentation⁵

Figure A5. Cimpor’s shareholder structure as it was on April 2009



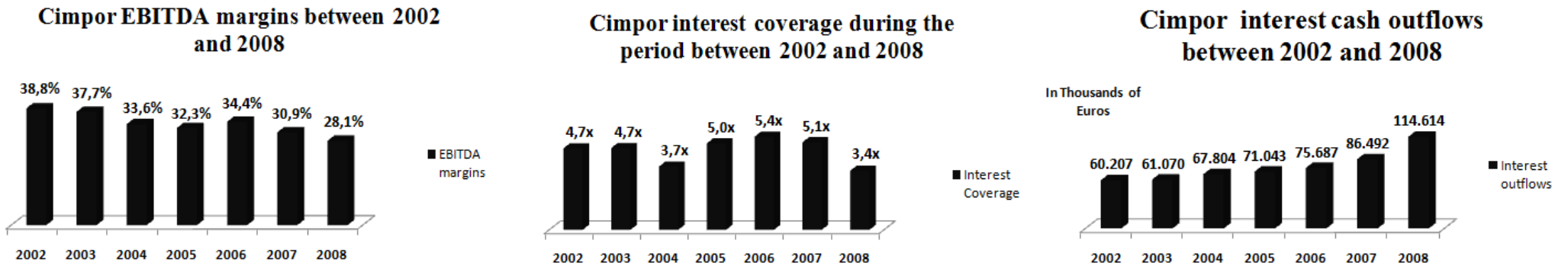
Source: Company documentation⁵; Agência Financeira¹

Figure A6. Euribor evolution comparison to ECB reference interest rates on outstanding Euro-denominated amounts to non-financial corporations with maturities over 1 year up to 5 years



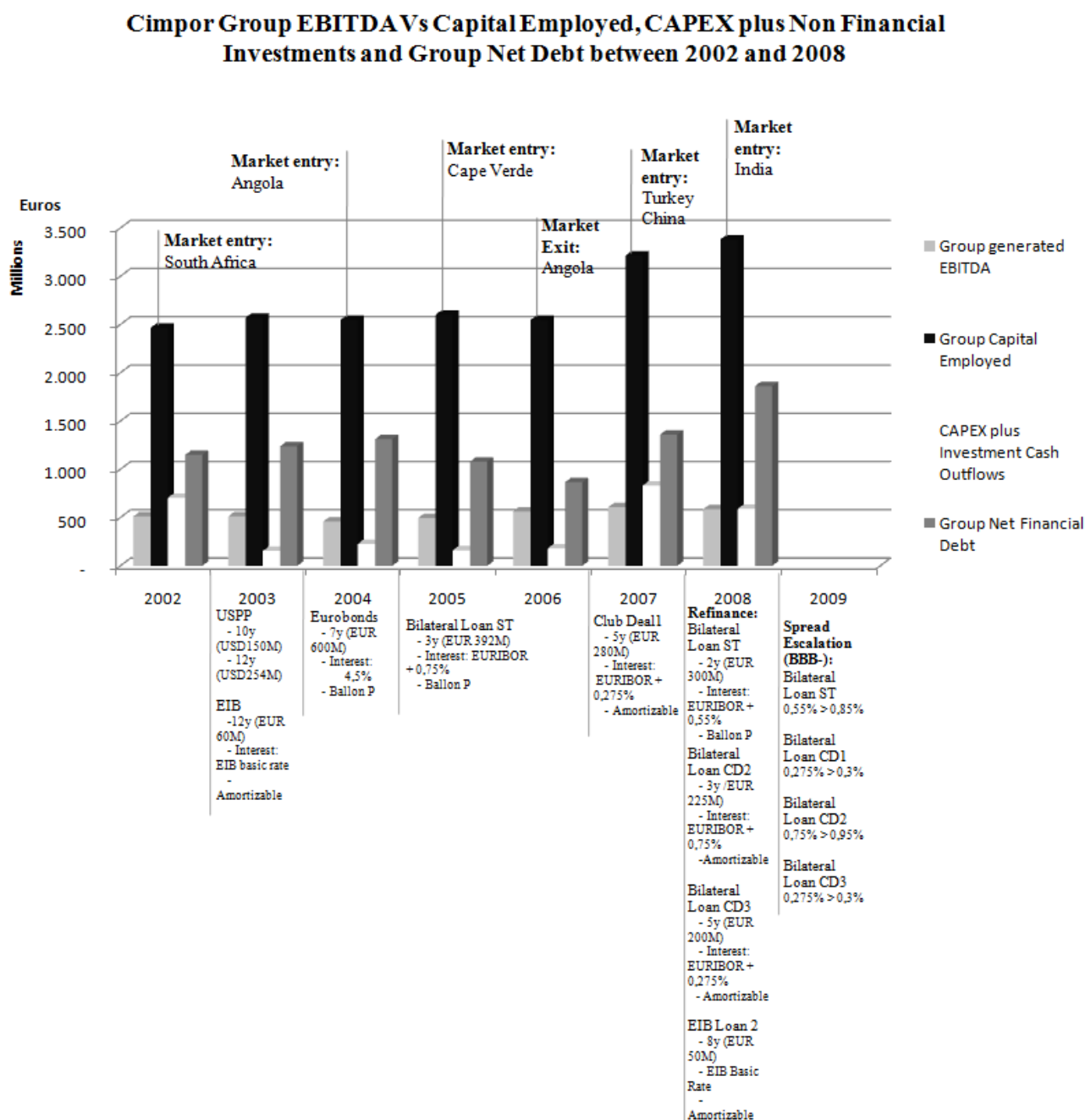
Source: Euribor⁶; European Central Bank – Eurosystem⁷; Bloomberg

Figure A7. Cimpor EBITDA margins, interest coverage and interest cash outflows between 2002 and 2008



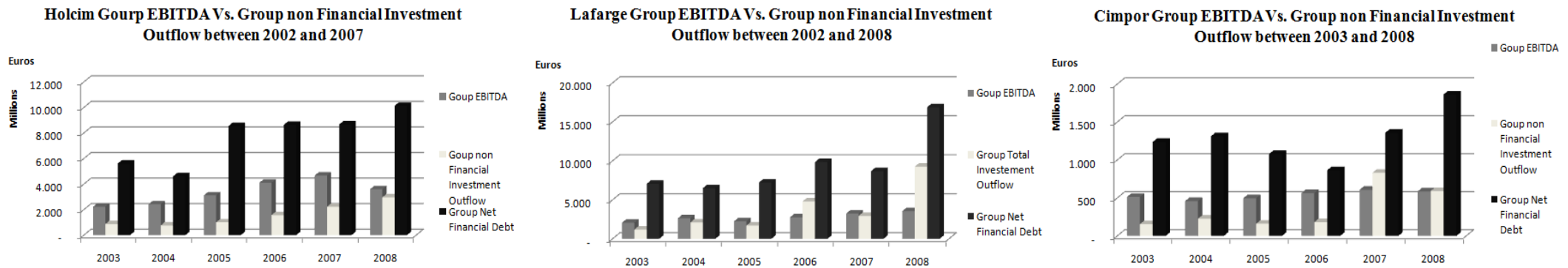
Source: Cimpor Annual Reports 2002-2008⁴

Figure A8. Cimpor Capital Employed Vs. Group yearly generated EBITDA, invested capital and net debt between 2002 and 2008



Source: Cimpor Annual Reports 2002-2008⁴; Company reports⁵

**Figure A9. Cimpor EBITDA and investment pattern compared with that of Holcim and Lafarge
(Exchange rate used for converting CHF to EUR retrieved on the 31st.DEC.2008)**



Source: Cimpor Annual Reports 2002-2008⁴; Holcim Annual Reports 2003-2008⁸; Lafarge Annual Reports 2003-2008¹⁰

Appendix B

Table B1. Cimpor resumed financial data between 2002 and 2008
(Monetary values in thousands of Euros. Exchange rate used for converting CHF to EUR retrieved on the 31st.DEC.2008)

Resumed Income Statement	Holcim	Lafarge	Cimpor						
	2008		2007	2006	2005	2004	2003	2002	
Operational Revenue	16.934.127	19.033.000	2.088.900	1.966.100	1.638.900	1.534.800	1.365.600	1.360.900	1.317.200
Costs and Expenses	-13.336.205	-14.595.000	-1.502.600	-1.359.100	-1.075.800	-1.039.000	-906.900	-848.400	-805.800
EBITDA	3.597.921	4.438.000	586.300	607.000	563.100	495.800	458.700	512.500	511.400
Depreciation & Amortization	-1.336.178	-1.076.000	-193.700	-168.900	-155.050	-140.400	-210.500	-223.500	-227.600
EBIT	2.261.743	3.362.000	392.600	438.100	408.050	355.400	248.200	289.000	283.800
Financial revenue	12.790	216.000	138.627	100.490	94.147	112.749	91.778	-	-
Interest and financial losses	-666.406	-1.157.000	-187.816	-158.794	-167.628	-152.972	-138.597	-45.830	-28.439
Results from affiliates	154.149	-3.000	-86.735	8.025	19.146	35.211	39.039	7.051	3.760
Results from financial investment	182.420	-	1.537	2.291	12.035	1.756	1.049	3.264	1.349
EBT	1.944.695	2.418.000	258.213	390.112	365.750	352.144	241.469	253.485	260.470
Taxes	-446.290	-479.000	-24.900	-69.341	-60.140	-75.695	-52.881	-72.633	-40.646
Net Income	1.498.405	1.939.000	233.313	320.771	305.610	276.449	188.588	180.852	219.824
Net income attributable to shareholders	1.199.531	1.598.000	2.194.000	304.073	291.915	266.159	256.150	173.622	214.751
Earnings per share	4,59	8,27	0,33	0,45	0,44	0,40	0,38	0,28	0,27
Number of Shares Outstanding (units)	263.586.090	195.236.534	672.000.000	672.000.000	672.000.000	672.000.000	672.000.000	672.000.000	672.000.000
Dividends paid (in Euros)	584.283.579	784.000.000	153.235.000	143.951.000	127.191.000	120.299.000	113.465.000	104.568.000	86.807.000
Dividend per Share	1,51	2,00	0,19	0,23	0,22	0,19	0,18	0,16	0,17

Source: Cimpor Annual Reports from 2002 – 2008⁴; Holcim Annual Reports 2003-2008⁸; Lafarge Annual Reports 2003-2008¹⁰; Company documentation⁵

Table B1.1. Cimpor resumed financial data between 2002 and 2008
(Monetary values in thousands of Euros. Exchange rate used for converting CHF to EUR retrieved on the 31st.DEC.2008)

Resumed Balance Sheet	Holcim	Lafarge	Cimpor						
	2008		2007	2006	2005	2004	2003	2002	
Non Current Assets	23.693.776	32.928.000	3.720.666	3.680.155	2.866.789	2.725.472	2.725.472	2.271.037	2.388.102
Current Assets	6.727.339	7.680.000	894.589	1.153.813	991.022	685.995	685.995	818.135	949.757
Shareholders' Equity	12.098.978	14.635.000	1.615.786	1.899.281	1.653.736	1.222.918	1.222.918	960.586	949.577
Non Current Liabilities	7.246.328	17.043.000	2.418.411	1.928.574	1.849.476	1.758.163	1.758.163	1.213.620	989.433
Current Liabilities	11.075.809	8.930.000	581.059	1.006.113	354.599	430.386	430.386	570.913	1.007.655
Net Financial Debt	10.128.704	16.884.000	1.862.600	1.359.300	865.600	1.079.400	1.312.300	1.238.500	1.148.900
Financial Ratios	Holcim	Lafarge	Cimpor						
	2008		2007	2006	2005	2004	2003	2002	
Current ratio	0,61	0,86	1,54	1,15	2,79	1,59	1,59	1,43	0,94
Total Debt ratio	60,23%	63,96%	64,99%	60,71%	57,13%	64,15%	64,15%	68,90%	71,55%
Times Interest ratio	0,42	2,09	1,37	2,46	2,18	2,30	1,74	5,53	9,16
Cash Coverage ratio	-0,91	1,98	1,06	1,70	1,51	1,41	0,27	1,43	1,98
Debt-Equity ratio	1,51	1,77	1,86	1,55	1,33	1,79	1,79	1,86	2,10
Asset Turnover ratio	55,67%	46,87%	45,26%	40,67%	42,48%	44,99%	40,03%	44,05%	39,46%
Capital Intensity ratio	1,80	2,13	2,21	2,46	2,35	2,22	2,50	2,27	2,53
Profit Margin	-0,67%	10,19%	11,17%	16,32%	18,65%	18,01%	13,81%	13,29%	16,69%
ROA	-0,37%	4,77%	5,06%	6,64%	7,92%	8,10%	5,53%	5,85%	6,59%
ROE	10,40%	13,25%	13,30%	18,10%	18,90%	19,70%	19,30%	19,50%	17,30%
ROI	-0,37%	8,80%	10,40%	11,60%	13,10%	12,10%	9,70%	10,30%	9,90%
Net Debt/EBITDA	4,18	3,80	3,18	2,24	1,54	2,18	2,86	2,42	2,25

Source: Cimpor Annual Reports from 2002 – 2008⁴; Holcim Annual Reports 2003-2008⁸; Lafarge Annual Reports 2003-2008¹⁰; Company documentation⁵

**Table B2 Cimpor outstanding liabilities structure on the 31st of December of each year between 2002 and 2008
(Monetary values in thousands of Euros)**

	2008	2007	2006	2005	2004	2003	2002
Long Term Liabilities:							
Bonds	883.055	855.939	885.239	920.263	881.216	344.709	-
Bank Loans	1.028.075	467.993	471.536	4.896.955	418.132	844.718	958.933
Other Loans	-	315	630	5.797	8.952	8.383	9.630
Subtotal	1.911.130	1.324.247	1.357.405	1.417.015	1.308.273	1.197.810	968.564
Short Term Liabilities:							
Bank Loans	201.177	623.142	52.578	33.891	153.883	331.069	552.072
Other Loans	324	340	7.678	2.650	2.403	2.531	304
Subtotal	201.501	623.482	60.256	36.541	156.287	333.604	552.376
Total	2.112.631	1.947.729	1.417.661	1.453.556	1.464.560	1.531.411	1.520.941

Source: Cimpor Annual Reports from 2002 – 2008⁴; Company documentation⁵

Table B3 Cimpor's outstanding Bond values accrued on the 31st of December of each year between 2002 and 2008
(Monetary values in thousands of Euros)

Issuer	Debt Instrument	Issuance Date	Maturity	2008	2007	2006	2005	2004	2003	2002
Cimpor Financial Operations B.V.	Eurobonds	27.May.04	27.May.11	608.107	597.598	596.903	596.202	595.500	-	-
Cimpor Financial Operations B.V.	US Private Placements 10Y	27.Jun.03	27.Jun.13	102.762	96.352	106.073	118.977	105.153	127.986	-
Cimpor Financial Operations B.V.	US Private Placements 12Y	27.Jun.03	27.Jun.15	172.186	161.989	182.263	205.084	180.563	216.723	-
Total				883.055	855.939	885.239	920.263	881.216	344.709	-

Source: Cimpor Annual Reports from 2002 – 2008⁴; Company documentation⁵

Table B3.1 Cimpor's outstanding long term Banks Loans accrued on the 31st of December of each year between 2002 and 2008
(Monetary values in thousands of Euros)

Long Term Debt Instrument	Currency	Interest Rate	2008	2007	2006	2005	2004	2003	2002
Bilateral Loan	EUR	Euribor + 0,50%	-	-	-	-	-	-	48.000
Bilateral Loan	EUR	Euribor + 0,75%	-	-	-	-	-	-	150.000
Syndicated Loan	EUR	Euribor* + 0,50%	-	-	-	-	300.000	300.000	-
Bilateral Loan	EUR	Euribor + 0,675%	-	-	-	-	-	250.000	250.000
Syndicated Loan	EUR	Euribor + 0,40%	-	-	-	-	-	94.503	283.509
EIB Loan	EUR	EIB** basic rate	40.000	46.667	53.334	60.000	60.000	60.000	-
Bilateral Loan	EUR	Euribor + 0,60%	-	-	8.702	14.502	15.833	50.000	50.000
Bilateral Loan	EGP	Caibor*** + 1,125%	-	-	-	-	-	20.998	26.773
Syndicated Loan	USD	Libor**** + 0,40%	-	-	-	-	-	19.794	71.517
Bilateral Loan	BRL	Several	7.280	13.043	16.636	11.178	11.101	9.412	-
Bilateral Loan	USD	Libor**** + 1,00%	-	-	-	-	-	4.750	11.919
Bilateral Loan	EUR	Euribor + 1,50%	-	-	-	9.375	15.625	3.508	-
Bilateral Loan	MZM	TAM***** + 5,25%	-	-	-	1.415	4.701	6.797	9.849
Bilateral Loans	EUR	Several	-	-	-	-	-	-	31.192
Bilateral	EGP	11,70%	-	-	-	-	62	-	-
Bilateral Loans	ZAR	Several	-	-	-	-	261	-	-
Bilateral Loans	EUR	Several	72.022	126.676	364	1.985	10.549	-	-
Bilateral Loan	EUR	Euribor + 0,275%	-	-	392.500	392.500	-	-	-
Bilateral Loan	CVE	Several	11	49	-	-	-	-	-
Bilateral Loans	CNY	Several	-	930	-	-	-	-	-
Bilateral Loans	PEN	Several	1.107	628	-	-	-	-	-

Table B3.1 Cimpor's 2008 end outstanding long term Bank Loans accrued on the 31st of December of each year between 2002 and 2008 continued
(Monetary values in thousands of Euros)

Long Term Debt Instrument	Currency	Interest Rate	2008	2007	2006	2005	2004	2003	2002
Bilateral Loan	INR	10,50%	14.838	-	-	-	-	-	-
Bilateral Loan	MAD	Several	1.667	-	-	-	-	-	-
Club Deal 1	EUR	Euribor + 0,275%	280.000	280.000	-	-	-	-	-
Club Deal 2	EUR	Euribor + 0,75%	111.997	-	-	-	-	-	-
Club Deal 3	EUR	Euribor + 0,275%	199.627	-	-	-	-	-	-
Bilateral Loan ST	EUR	Euribor + 0,55%	299.526	-	-	-	-	-	-
Sundry Finance	-	-	-	-	-	-	-	24.953	26.172
Subtotal			1.028.075	467.993	471.536	490.955	418.132	844.715	958.931

*European Interbank Offering Rate

**European Investment Bank

***Cairo Interbank Offering Rate

****London Interbank Offering Rate

Source: Cimpor Annual Reports from 2002 - 2008⁴; Company documentation⁵

**Table B3.2 Cimpor's 2008 end outstanding short term Bank Loans accrued on the 31st of December of each year between 2002 and 2008
(Monetary values in thousands of Euros)**

Short Term Debt Instrument	Currency	Interest Rate	2008	2007	2006	2005	2004	2003	2002
Syndicated Loan	EUR	Euribor + 0,40%	-	-	-	-	-	189.006	189.006
Syndicated Loan	USD	Libor + 0,40%	-	-	-	-	-	39.588	47.678
Bilateral Loan	USD	Libor + 1,00%	-	-	-	-	4.512	2.491	5.721
Bilateral Loans	BRL	Several	2.626	3.215	3.722	3.608	3.068	2.486	-
Bilateral Loan	EGP	Caibor + 1,125%	-	-	4.351	4.411	3.958	2.099	-
Bilateral Loan	EGP	9,50%	-	-	-	-	-	914	-
Bilateral Loan	EUR	Euribor + 1,50%	-	-	3.125	6.250	6.250	501	-
Bilateral Loan	MZM	TAM + 5,25%	-	-	1.151	2.831	3.134	1.359	-
Sundry Finance	EUR	-	-	5.331	5.810	8.787	6.766	11.026	15.140
Overdrafts	-	-	43.082	20.970	24.955	7.928	34.320	81.597	28.040
Syndicated Loan	EUR	Euribor + 0,40%	-	-	-	-	-	-	135.000
Commercial Paper	EUR	Euribor + 0,25%	-	-	-	-	-	-	106.000
Bilateral Loan	EUR	Euribor + 0,40%	-	-	-	-	-	-	15.014
Bilateral Loan	USD	Libor + 6m + 0,75%	-	-	-	-	-	-	10.471
Bilateral Loan	EUR	Euribor + 0,675%	-	-	-	-	87.500	-	-
Bilateral Loan	EGP	11,70%	-	-	-	76	520	-	-
Bilateral Loans	EUR	Several	-	-	-	-	3.496	-	-
Bilateral Loans	ZAR	Several	-	-	-	-	358	-	-
EIB Loan	EUR	EIB basic rate	6.666	6.666	6.666	-	-	-	-
Bilateral Loan	MAD	TMP BDT 5a + 1,5%	385	6.458	2.798	-	-	-	-
Bilateral Loan	EUR	Euribor + 0,275%	-	392.50 0	-	-	-	-	-
Bilateral Loan	ZAR	Several	-	43	-	-	-	-	-
Bilateral Loans	CNY	Several	3.138	20.756	-	-	-	-	-

Table B3.2 Cimpor's 2008 end outstanding short term Bank Loans accrued on the 31st of December of each year between 2002 and 2008
continued
(Monetary values in thousands of Euros)

Short Term Debt Instrument	Currency	Interest Rate	2008	2007	2006	2005	2004	2003	2002
Bilateral Loans	PEN	Several	232	7.203	-	-	-	-	-
Commercial Paper	EUR	Several	25.000	160.000	-	-	-	-	-
Club Deal 2	EUR	Euribor + 0,750%	112.409	-	-	-	-	-	-
Bilateral Loan	EUR	Several	7.619	-	-	-	-	-	-
Bilateral Loans	CVE	Several	19	-	-	-	-	-	-
		Total	201.176	623.142	52.578	33.891	153.882	331.067	552.070
		Total	1.229.251	1.091.135	524.114	524.846	572.014	1.175.782	1.511.001

Source: Cimpor Annual Reports from 2002 – 2008⁴; Company documentation⁵

Table.B4. Cimpor's outstanding debt displayed by original contracted currencies at the 31st of December of each year between 2002 and 2008

(Monetary values in thousands of EUR)

Currency	31.DEC.2008		31.DEC2007		31.DEC.2006		31.DEC.2005	
	Currency Value	Converted to EUR	Currency Value	Converted to EUR	Currency Value	Converted to EUR	Currency Value	Converted to EUR
EUR	-	1.756.268	-	1.618.871	-	1.070.363	-	1.083.529
USD	404.000	290.292	404.000	274.438	404.000	306.765	404.009	324.068
EGP	-	-	-	-	98.181	13.053	128.554	18.989
MZM	-	-	5.888	169	39.675	1.151	118.999.980	4.246
BRL	32.131	9.906	42.213	16.259	57.243	20.358	40.575	14.787
ZAR	952	73	7.125	710	1.410	153	2.024	271
MAD	62.936	5.586	73.654	6.458	64.563	5.818	82.132	7.538
TND	-	-	-	-	-	-	-	-
CVE	100.109	908	72.637	659	-	-	14.164	128
TRY	65.074	30.283	1.112	648	-	-	-	-
IND	1.000.000	14.838	-	-	-	-	-	-
CNY	29.800	3.138	233.176	21.686	-	-	-	-
PEN	5.855	1.339	35.131	7.831	-	-	-	-
Total		2.112.631		1.947.729		1.417.661		1.453.556

Table.B4. Cimpor's outstanding debt displayed by original contracted currencies at the 31st of December of each year between 2002 and 2008 continued
(Monetary values in thousands of EUR)

Currency	31.DEC.2004		31.DEC.2003		31.DEC.2002	
	Currency Value	Converted to EUR	Currency Value	Converted to EUR	Currency Value	Converted to EUR
EUR	-	1.113.009	-	1.054.617	-	1.297.225
USD	410.146	290.228	488.146	411.390	137.596	131.207
EGP	267.920	290.228	286.714	36.791	160.335	33.021
MZM	198.333.300	32.405	238.000.000	8.156	725.087.741	30.006
BRL	51.218	7.835	433.602	11.898	51.101	13.765
ZAR	5.392	16.169	1.218	146	74.936	8.317
MAD	47.297	701	79.463	7.183	41.056	3.847
TND	-	-	1.873	1.226	4.972	3.551
CVE	3.266	4.216	-	-	-	-
TRY	-	1.997	-	-	-	-
IND	-	-	-	-	-	-
CNY	-	-	-	-	-	-
PEN	-	-	-	-	-	-
Total		1.464.560		153.411		1.520.941

Source: Cimpor Annual Reports from 2002 – 2008⁴; Company documentation⁵

Table B5 Cimpor's business units' contributions to Group generated EBITDA between 2002 and 2008
(Monetary values in thousands of Euros)

Business Unit	Year of Market entry	2008	2007	2006	2005	2004	2003	2002
Portugal	1976	171.900	172.700	173.900	183.000	175.700	210.100	174.300
Spain	1992	82.900	137.800	143.700	102.900	88.700	84.200	55.400
Morocco	1996	41.000	35.200	33.500	26.200	24.700	25.400	22.500
Tunisia	1998	17.000	18.900	17.500	14.600	14.700	13.300	10.500
Egypt	2000	73.200	58.600	63.300	48.500	29.500	21.300	16.900
Turkey	2007	15.600	38.600	-	-	-	-	-
Brazil	1997	102.300	73.900	60.600	62.900	80.400	115.500	130.800
Mozambique	1994	13.400	12.300	8.400	6.800	6.800	11.700	7.300
South Africa	2002	46.200	43.000	47.900	41.900	39.900	31.200	5.600
Cape Verde	2005	6.300	3.000	2.300	1.200	-	-	-
China	2007	3.100	1.800	-	-	-	-	-
India	2008	4.200	-	-	-	-	-	-
Total		586.300	595.800	551.100	488.000	460.400	512.700	423.300

Source: Cimpor Annual Reports from 2002 – 2008⁴; Company documentation⁵

Table B6. Cimpor major indicators calculated according to S&P criteria
(Monetary values in thousands of Euros)

31.DEC.2008					
EBITDA According to S&P criteria	Financial position According to S&P criteria		Net Interest according to S&P criteria	Debt indebtedness according to S&P criteria	
Pro-forma EBITDA:	Long Term Debt	201.501	Interest Expense	114.614	Debt by borrower:
Canary Islands 25.262	Short Term Debt	1.911.130	Cash discounts granted	3.401	Cimpor Holding (Portugal) -
China 791	Cash and equivalents	289.365	Losses in financial applications	0	Cimpor Inversiones 1.004.130
India 908	Net Debt	1.823.266	Other financial expenses and losses	10.194	Cimpor BV 883.055
EBITDA 613.261			Interest income	32.093	Corporación Noroeste (Spain) 73.606
			Cash discounts obtained	716	Other companies 151.840
			Gains in financial applications	0	Consolidated Debt 2.112.631
			Other financial gains	6.375	Net Assets 4.615.255
			Net interest	89.025	

Source: Cimpor 2008 Annual Reports⁴; Cimpor's S&P report⁵

Appendix C

Annex I – Organizational Structure

The decomposition by each business area of all Cimpor's financial debt outstanding by 2008 fiscal year end can be seen on the following Table C1.

Table C1. Cimpor's debt issued and contracted by the holding and its Subsidiaries during 2008

Issuer and Financing Instrument	Currency	Values (in 10 ³)	Contraction Date	Maturity	Interest Rate
CIMPOR Inversiones					
Bilateral Loan	EUR	280.000	Nov2007	Nov2012	Euribor + 0,275%
Bilateral Loan	EUR	200.000	Jan2008	Jan2013	Euribor + 0,275%
Bilateral Loan	EUR	225.000	Jun2008	Mar2011	Euribor + 0,275%
Bilateral Loan	EUR	300.000	Aug2008	Jun2010	Euribor + 0,275%
Sundry Finance	EUR	571			
IAS 23 impact	EUR	-1.441			
Total	EUR	1.004.130			
CIMPOR B.V.					
Eurobonds	EUR	600.000	May2004	May2011	4,50%
US PP 10y	USD	150.000	Jun2003	Jun2013	4,75%
US PP 12y	USD	254.000	Jun2003	Jun2015	4,90%
IAS 39 Impact	EUR	-29.054			
Total	EUR	915.656			
Portugal					
CIMPOR Indústria:					
EIB* Financing	EUR	46.667	Sept2003	Sept2015	EIB Basic Rate
Commercial Paper	EUR	25.000	Dec2008	Jan2009	3.29%
Overdrafts**	EUR	2			
Subtotal	EUR	71.668			
Other Companies:					
Sundry Finance	EUR	5.572			
Overdrafts	EUR	3.486			
Subtotal	EUR	9.058			
Total	EUR	80.726			
Spain					
Sundry Finance	EUR	73.578			
Overdrafts	EUR	29			
Total	EUR	73.607			

Table C1. Cimpor's debt issued and contracted by the holding and its Subsidiaries during 2008 (continue)

Issuer and Financing Instrument	Currency	Values (in 10 ³)	Contraction Date	Maturity	Interest Rate
Brazil					
Sundry Finance	BRL	32.131			
Total	EUR	9.906			
Morocco					
Sundry Finance	MAD	23.127			
Overdrafts	MAD	39.809			
Total	EUR	5.586			
Turkey					
Overdrafts	EUR	4.800			
Overdrafts	TRY	65.074			
Total	EUR	35.084			
Peru					
Sundry Finance	PEN	5.855			
Total	EUR	1.340			
South Africa					
Overdrafts	ZAR	952			
Total	EUR	73			
China					
Sundry Finance	PEN	29.800			
Total	EUR	7.830			
Cape Verde					
Sundry Finance	EUR	239			
Sundry Finance	CVE	3.300			
Overdrafts	CVE	96.809			
Total	EUR	1.147			
India					
Bilateral Loan	INR	1.000.000	Mar2008	Mar2011	10,50%
Total	EUR	14.838			
Others					
Operational Leasing	EUR	6.771			
Total of the Group	EUR	2.152.002			

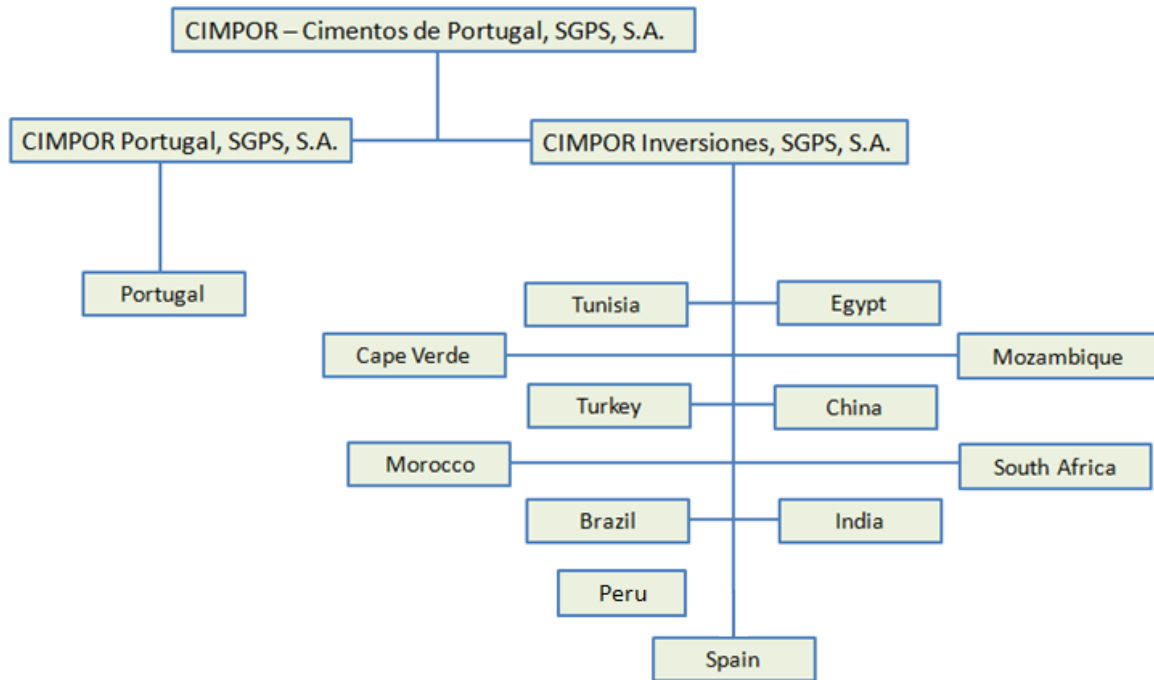
*EIB refers to European Investment Bank

** Overdrafts were mainly compose by Bank Guaranties

Source: Cimpor 2008 annual report⁴

In order to better understand the division of outstanding debt instruments through subsidiaries displayed on Table C1, Figure C1 displays the main organizational structure of the firm.

Figure C1. Cimpor organizational simplified structure on 2009 beginning



Source: Cimpor 2008 annual report⁴; Company Documentation⁵

For a brief description of that structure and for a better global understanding of how this mid-large international company organizes its structure, Cimpor could be viewed as being the holding company of the Group, being responsible for the strategic growth and development of the Group as well for the global management of its business units, with the primary function of coordinating its financial, human and technical resources. In its structure, the holding incorporated the corporate center and all other support divisions, being responsible for four sub holdings from which it retained 100% participation.

The Sub holding CIMPOR Portugal, SGPS, S.A. was responsible for managing Portugal business unit, a unit that could be considered as being a core unit responsible for 22.1% to a total of EUR 2.088,9 million turnover generated by Cimpor during the

2008 year. This figure includes also all the turnover contributions provided by all Cimpor business units during that period. This information is important to this text since interest payment and credit allocation relies heavily on company operational healthiness and therefore, revenue volumes.

The sub holding CIMPOR Inversiones, S.A. constituted in 2002 was created to serve as a platform for the international expansion of the group, including 100% of Spanish participation. This last one received all the reports from the international business units appointed head managers, with the exception of the Portugal major core business area.

Only the Holding and Cimpor Inversiones displayed were companies subject to rating by S&P debt rating system and therefore, able to issue debt instruments with proper rating concerning risk and return, with international reconnaissance and on international financial markets. The rating congruence towards the holding rating was being boosted mainly at the internationalization of the Group, as the Spanish market was experience worse conditions than those suffered by the Portuguese one, implying therefore a balance between both business units that resulted in long term debt rating of the Holding company debt being most of the times equal to its Spanish counterpart.

Cimpor Financial Operations BV, being the issuer entity of all bond instruments outstanding, had as main objective to serve as a financing vehicle in order to provide and allocate correct financing to all Groups subsidiaries. Its activity was mainly characterized by raising external debt capital on financial markets. Therefore, as bond holders when addressing issuer health demanded financial statements of this company, Cimpor BV usually did not undertake neither bank loans nor intercompany loan contracts. This because since such ratio of frequent operations and money movement that would be recorded and disclosed in its results and balances could compromise investors view regarding financial strength of the subsidiary, undermining the ability for efficiently capturing financing in this markets.

The shareholder structure for the reference period can be observed on Figure B6.

Annex II – Commercial Paper Programs

On the beginning of 2009, Cimpor's financial managers were being pressed by S&P's rating agency to increase its short term available lines credit.

In compliance with such request, given that the firm had no choice but run along with the rating agency demands, firm's financial managers asked CGD for proposals, both for renegotiating an already outstanding commercial paper with EUR 50 million committed and EUR 250 million uncommitted, and also for a new program for EUR 300 million syndicated committed lines.

Cimpor, at 2009 beginning had as issued lines, 20 million Euros of this type of short term financing. Renovation of this debt was almost automatic, with a maximum removal length of 5 years.

The main objective involved raising the EUR 50M committed by 350 million Euros. For that, CGD would have to agree with an global increase of EUR 125 million commitment. The remaining 225 were to be delivered on a "*best effort*" base, meaning that CGD would source the market for other entities willing to commit the credit lines.

Proposed figures can be observed on Table C2, C3 and C4. Comparing those displayed on the bank proposal on the beginning of 2009 to those previously proposed for a similar contract, one can see some of the effects that the credit crunch was also posing to the short term refinancing efforts of the firm, as also the outcomes of a S&P downgrade over firm's long term debt.

Table C2. Terms purposed by CGD for the Commercial Paper Program contracts and negotiations on the beginning of 2008

Terms for the EUR 300 M commercial paper program contracted on 2008 beginning	
Voucher:	Caixa Geral de Depósitos
Total lines:	EUR 300 M
Uncommitted lines:	EUR 250 M
Committed lines:	EUR 50 M
Interest rate over guaranteed lines:	EURIBOR+0,45% for Committed emissions
Emission intermediary agent fee:	0,02% (Base: Actual/360) over each emission (minimum emission: EUR 125)
Emission organization and conduct fee:	0,02% (Base: Actual/360) over each emission (minimum emission: EUR 125)
Subscription guarantee fee:	0,125% over EUR 50 M
Investment Grade indexation:	Committed lines emission subject to Investment Grade condition
Term:	5 years with a clause stating the right to denouncement to be exercised annually by both parts

Source: Privately Held Reports⁵

Table C3. Terms purposed by CGD for the Commercial Paper Program contracts and renegotiations on the beginning of 2009

Renegotiated terms of a) outstanding EUR 300 M commercial paper program proposed on the beginning of 2009 by the CGD	
Voucher:	Caixa Geral de Depósitos
Total lines:	EUR 300 M
Uncommitted lines:	EUR 200 M
Committed lines:	EUR 100 M
Interest rate over guaranteed lines:	
S&P rating greater or equal than BBB-	EURIBOR+1,35% for Committed emissions
S&P rating lower than BBB-	EURIBOR+1,85% for Committed emissions
Emission intermediary agent fee:	0,05% charged biannually and upfront
Emission organization and conduct fee:	0,10% charged annually and upfront
Subscription guarantee fee:	0,5% over EUR 100 M charged biannually and upfront
Investment Grade indexation:	No effect over the emission until reaching the guaranteed limit
Term:	5 years with a clause stating the right for an annual revision of the terms by both parts

Source: Privately Held Reports⁵

Table C4. Terms purposed by CGD for the Commercial Paper Program contracts and negotiations on the beginning of 2009

New EUR 300 M commercial paper program proposed on the beginning of 2009 by CGD	
Voucher:	Caixa Geral de Depósitos
Total lines:	EUR 300 M
Committed lines for syndication:	EUR 225 M (<i>best effort</i> base)
Committed lines:	EUR 75 M
Interest rate over Committed lines:	
S&P rating greater or equal than BBB-	EURIBOR+2,05% for Committed emissions
S&P rating lower than BBB-	EURIBOR+2,55% for Committed emissions
Emission intermediary agent fee:	EUR 30.000 /year, charged biannually and upfront
Emission organization and conduct fee:	0,3% <i>upfront</i>
Subscription guarantee fee:	0,85% over EUR 75M charged biannually and upfront
Investment Grade indexation:	No effect over the emission until reaching the Committed limit
Term:	3 years with an annual clause stating the right for revision of the terms by both parts

Source: Privately Held Reports⁵

Annex III

Renegotiating the USPP Net Debt/EBITDA covenant limit of 3,5x was a priority for the firm on 2009 beginning upon S&P demand. The choice to renegotiate those covenants for these instruments maturing in 2013 and 2015 instead of renegotiating closer maturities came from the expectation that Cimpor's financial managers had regarding firm's ability to repay principal Bilateral Loan ST and Eurobonds principal maturing in 2010 over 2011 respectively.

At 2009 beginning Cimpor had already initiated the forcing of this contract.

Given that in fact, this was a bond instrument, negotiations with US investors owning the purchase notes for these debt instruments was intended to be conducted by an intermediate. The Royal Bank of Scotland (RBS), an experienced dealer with many similar negotiations on its repertoire, was Cimpor's choice.

Table C5 displays the main expected outcomes from negotiation. Figures were computed by the institution based on benchmarking emissions such as the EUR 500M bond instrument issuance undertaken by Holcim on 2009 beginning, and also considering swap spreads demanded by the US Private Placements market over Cimpor's industry risk, Cimpor's credit risk, and the respective US T-bills yields at March 2009.

Table C5. Covenant renegotiation outcomes expected by RBS on the February 2009

	Maturity	Currency	Face Value	Years until maturity	Coupon Rate
USPP	10y	USD	150.000.000	4	4,75%
	12y	USD	254.000.000	6	4,90%
Expected renegotiated outcomes					
	Permanent Added Spread*		Variable Added Spread**		Variable Added Spread***
	1,50%		1,00%		2,00%
	1,50%		1,00%		2,00%
Expected Coupon Rates after renegotiation					
	Covenant <2,5x		2,5<Covenant <3,5x		Covenant >3,5x
	6,25%		7,25%		8,25%
	6,40%		7,40%		8,40%

*Expected permanent increase from renegotiating the covenant stating a Net Debt/EBITDA ratio limit of 3,5x

**Added spread in the case that the Covenant Net Debt/EBITDA gets higher than 2,5x, but lower than 3,5x.

***Added spread in the case that the Covenant Net Debt/EBITDA gets higher than 3,5x. This spread will substitute the previous one if the condition applies

Source: Privately Held Reports⁵

Table C6 discloses expected cost of debt if a new issuance is performed as opposed to renegotiating the USPP's outstanding on Cimpor's debt portfolio by 2009 beginning.

Table C6. Issuance of a new fixed income instrument outcomes expected by RBS on the beginning of 2009

	Maturity	Currency	Face Value	Years until maturity	Coupon Rate
USPP	10y	USD	150.000.000	4	4,75%
	12y	USD	254.000.000	6	4,90%
Expected refinancing outcome				Expected Coupon Rates after refinance	
MTM* coupon step up	UST yield	Swap spread + Credit Spread		Estimated refinancing coupon	
5 to 6 %	4 years - 1,60%	8 to 9 %		9,75 to 10,75%	
6 to 7 %	6 years - 2,85%	8 to 9%		10,90 to 11,90%	

*Mark to Market

Additional market data:

27th of June, 2003 (Issuance Date of the USPP Note): US Private placements market data

4 years Swap Spread + Credit Spread: 2,49 %	4 years Swap Spread: 0,36 %	4 Years US T-Bills: 2,13 %
6 years Swap Spread + Credit Spread: 3,06 %	6 years Swap Spread: 0,42 %	6 Years US T-Bills: 2,64 %
10 years Swap Spread + US T-Bills: 3,98 %	10 years Credit Spread: 0,77 %	
12 years Swap Spread + US T-Bills: 4,17 %	12 Years Credit Spread: 0,73 %	

Source: Privately Held Reports⁵, Bloomberg

Annex IV

By 2008 end, Cimpor had already planned a project to be undertaken by its Turkish business unit, with the objective of increasing clínquer production, a fundamental intermediary product required for the cement and concrete production process in order to get the final product. This capacity increase followed an operational requirement of having clínquer production evened with cement production capacity already mounted on that geographical area.

This project would imply the construction of a brand new clínquer production plant next to an already existing milling facility responsible for originating the final product.

In order to execute this project, internal generated capital plus external debt was required. Annex IV.1 discloses the most relevant issues of the agreement.

Such issues had to be revised. Given Cimpor's discomfort relative to rating triggers, one first draft of the agreement had to be requested for amendment.

As a main result, a banking guarantee requiring capital plus accrued interest coverage was requested by the lender, covering not only principle, but also interest and overdue. Main differences between version prior and after agreement revisal can be seen in Table C7 and Table C8. The first one had been constructed by mid 2008. The second one relative to the rating trigger removal was revised at 2009 beginning.

With the loan now being granted indirectly to the final borrower Cimpor Yibitas, an intercompany loan had to take place in order to make this funding reach the Turkish business unit. Such operation implicated renouncing to Turkish tax benefits, disclosed in Table C9. The loss of such benefits was denoted by the Turkish as an intention of estranging foreign companies.

The Turkish business unit had been on 2008 responsible for a currency loss of nearly 100 million Euros, having the market saw its ecstasy on earlier 2007, starting then to lose strength until 2009. Price war threats were common ground at this area.

Despite the Turkish business units being responsible for a large slice of the illiquid Cimpor's financial position pie, sales of concrete and aggregates increased 38.4% and 17,8% respectively, against a cement sales decrease of approximately -2,5%. Unit generated EBITDA on 2008 relative to the previous year saw a decrease of 59% following a revenue decrease of - 4,2%. Such evidence denotes the impact of price

completion models eroding profits to this market. Disinvestment might have crossed some of firm's managers. However, investments of this magnitude involved other contracts than loan agreements, especially with suppliers, which had to be fulfilled.

Table C7. Bank Guarantee and Indemnity Deed major proposed figures for the EIB 50 million Euros Loan

	Guarantee and Indemnity Deed key contract figures proposed	
	On mid 2008	On 2009 beginning
Recipient entity:	European Investment Bank	European Investment Bank
Guaranteed entity:	Cimpor Yibitas	Cimpor Yibitas and Cimpor Inversiones
Guarantor:	Cimpor Inversiones	Bank Entity according to EIB criteria of <i>reconnaissance</i>
Amount guaranteed:	EUR 50.000.000	EUR 50.000.000 + Interest + Overdues
Term of guarantee	3 years	5 years
Pricing:	0,10%	1,00%
Other Conditions	negative pledge and cross default	-
Financial covenants:	Net Financial Debt/EBITDA < 3,5x; EBITDA/Net financial expenses > 5x; 75% of contracted debt is required to be concentrated on Cimpor Inversiones	-

Source: Guarantors' Guarantee and Indemnity Deed contract underlying the EIB contract formal proposal to Cimpor

Table C8. Main clauses and contract terms differences between the first and second proposed drafts for the EIB EUR 50M loan contract

Major terms revised for rating trigger removal		
1st Proposal	2nd Proposal	
Credit supplied directly to Cimpor Ybitas	Credit supplied directly to Cimpor Inversiones	
Guarantee and Indemnity Deed: <i>Guarantor</i> - Cimpor Inversiones	Guarantee and Indemnity Deed: <i>Guarantor</i> - Bank Institution	
Rating Trigger	No rating trigger	
Margin	No Margin	
Unspecified maturity and terms of repayment (to be informed upon tranche disbursement)	=	Unspecified maturity and terms of repayment (to be informed upon tranche disbursement)
Unspecified fixed rate of interest (to be informed upon tranche disbursement)	=	Unspecified fixed rate of interest (to be informed upon tranche disbursement)
Unspecified spread of floating rate of interest (to be informed upon tranche disbursement)	=	Unspecified spread of floating rate of interest (to be informed upon tranche disbursement)

Source: Privately Held Reports⁵

Table C9. Main clauses and contract terms differences between the first and second proposed drafts for the EIB EUR 50M loan contract

	Intercompany Loan		Direct Loan
	Through Cimpor Inversiones	Through Cimpor Finance (financial instruments vehicle)	Through foreign Bank Institution
Tax retention over interest:	10%	10%	0%
Value Added Tax (VAT):	18%	18% or 0% if Cimpor Inversiones is a member of the Berne Union or if Spanish Tax authorities issued a letter referring that the main activity of this entity is financing concession	0%
Of stamp duty over principal:	0,75% or 3% if average maturity lesser than 1 year	0,75% or 0% if Cimpor Inversiones is a member of the Berne Union or if Spanish Tax authorities issued a letter referring that the main activity of this entity is financing concession. 3% if average maturity lesser than 1 year.	0% or 3% if maturity lesser than 1 year

Source: Privately Held Reports⁵

Annex IV.1

Main issues concerning the EIB financing agreement:

Contractual basis:

Project for production capacity increase

Lender:

European Investment Bank

Borrower:

Cimpor Inversiones, SGPS, S.A.

Maturity:

No later than 10 years after tranche disbursement and no earlier than 4 of the same date.

Rate of Interest:

To be revised every 4 years. Choice of interest rate between Fixed or Floating Fixed Spread falls upon borrower.

Fixed interest rates

Payment: either biannually or annual scheduled payments

Floating interest rates:

Payment: either biannually or quarterly scheduled payments

Interest rate applicable to overdue sums:

Fixed rate and floating rate tranches: Euribor (reference: 1 month) + 2%

Repayment of Capital:

Fixed interest rate tranches

Payments can be either annual or biannual of equal amounts.

Floating interest rate tranches

Payments can be either biannual or quarterly of equal amounts.

Bank guarantee:

Shall cover: capital, interest, commissions, damages, changes and expenses, others

Principal criteria for guarantor recognizance

- a) International long term credit rating:
- (A-) S&P
 - (A3) Moody's
 - (A-) Fitch Ratings

Covenants:

Cross Default: if the defaulted amount is higher than EUR 25 million for contracts outstanding for the Group and, higher than EUR 10 million for contracts outstanding singularly for the holding or any of its subsidiaries, borrower is required to effect immediate repayment of capital plus accrued interest plus indemnity fee.

Disposal of Assets: Borrower and Subsidiaries shall not sell, transfer, lease or dispose of all or a substantial part of its capital assets, with the exception that such transaction exceeds 10% of Borrower's fixed assets

Source: Privately Held Reports⁵