



Building sustainable partnerships This page has been intentionally left blank



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# SECTION A MESSAGES



# Message from the Chairman of the Board

José Édison Barros Franco

#### Inside out

Dear Reader,



Important decisions were taken in 2015 and some actions were very well executed in order to further consolidate the governance of InterCement and thus endorse it as a benchmark. InterCement continues purposefully on its sustainable path of development despite the particularly difficult macroeconomic times. The major pillar of the company when, as occurred in 2015, the external challenges are exacerbated, is a stance which combines the pursuit of excellence in its activity with a philosophy of partnership with its stakeholders.

All our actions must follow a single goal: achieve what we outlined in the 2023 Vision. Following the establishment of this goal, widely publicised throughout the company, all programmes, projects and actions are aimed

at comprehensively meeting that purpose. We can enhance the results and maximize efforts, with us all walking together, focused and determined.

We are in the select group of the top ten international cement companies and we want to be among the five most profitable, by 2023. We began 2016 with a new Executive Committee model, with the inclusion of the leaders of each country, which will bring it closer to the daily life of the company.

We endeavoured in each of the markets in which we operate to maintain our position and obtain positive results, following the itinerary aimed at 2023. In 2015, in parallel to that adaptation to movements outside the company, we strengthened the focus on the interior of our company by escalating our Organisational Culture Project, starting with the launch of "InterCement Attitudes".

Attitudes was presented in the first quarter and established in all InterCement countries. It is the result of a profound reflection on the values, desirable conduct and internal policies and our attitude to those around us. It is, therefore, a fundamental document for the consolidation of a single culture. This is quite challenging for a global company. It basically describes the InterCement "way of being and doing", everywhere and in each of our operations.

Another major challenge we have taken on, and which we have often reiterated by letter and by active participation in forums and events, is becoming an increasingly more sustainable company



#### SECTION A

in environmental terms. The milestone was the launch of the InterCement Institute in June, with the focus on community development at the 40 locations where we operate. The institute is an important step towards moving InterCement closer to the communities, now in a more direct, deeper and expanded manner.

In the environmental field, we pursue a bold goal to reduce our CO<sub>2</sub> emissions. By 2023, not only we want to achieve a replacement rate circa 40%, co-processing in every cement production integrated units, but also reducing the integration of clinker on cement to 66%. We were the representatives of the cement industry in Paris in 2015, during COP21. We took this opportunity to reaffirm our commitment and our belief that taking action to mitigate climate change is a priority.

Compliance was another concept that was extensively worked on within our company in 2015, and taken to be an imperative commitment. It is vital for the sustainability of our business that we always comply with the laws of the countries, following the most demanding practices of our market and fully meeting our internal rules. Therefore, we diligently institutionalise, besides complying with legal standards, tools that ensure the prevention, detection and processing of any misconduct. We are emphatic as regards: doing things correctly, with the highest level of ethics and compliance with laws, regulations and policies relating to our business. This is not the best example that exists, rather the only example we should follow.

Moreover, in the field management controls, our risk map was well outlined two years ago and last year we undertook a meticulous classification of the potential impact of each of these risks on our business and the degree of vulnerability we are exposed to. We also carried out a detailed study on anti-corruption and competition law, which generated clear internal rules and policies. All our professionals have received training on this topic so we can keep the company in line with the most solid ethical standards.

Accordingly, I can say with confidence that our consistent corporate governance policy has enabled us to continuously search for transparency and ethics in an increasingly challenging business environment.

The company's future is certainly promising and sustainable, because we have built our bases on strong foundations of values and attitudes compatible with ensuring the ongoing nature of our business in the long-term. This is the commitment of InterCement with all its stakeholders - communities, customers, suppliers, governments, and shareholders - and its professionals.

#### José Édison Barros Franco

Chairman of the Board of Directors of InterCement



# Letter from the CEO

# Ricardo Fonseca de Mendonça Lima

Efficiency as a worldwide strategy,

Dear reader,



This was undoubtedly a challenging year for InterCement, particularly due to the macroeconomic situation in Brazil, which accounts for about 35% of the cement production, the largest contribution within the company. The scenario was even more complex, as coupled with the economic downturn in the largest market where it operates, InterCement faced average unfavourable exchange rates.

However, the geographical diversification strategy and flexibility to continuously respond to adverse scenarios enabled us to significantly mitigate the negative impact on our results. The situation, above all,

challenged us to take our operational efficiency standards even further.

EBITDA reached EUR 517.7 million (18.2% lower than in the previous year); sales totaled EUR 2.5 billion and cement and clinker volumes sold reached 28 million tons, figures that, respectively, present a 4.3% and 6.1% decrease from 2014. It is telling, nonetheless, that the InterCement EBITDA margin remains a benchmark in the international cement market, and that despite the constraints, the company ended the year with positive cash generation.

These results show large-scale discipline and financial organisation, which is made possible by the efficiency at which we work in our operations and the proactivity with which we tailor the company to meet the present challenges and prepare ourselves to embrace our future ambitions.

We took measures throughout the year, responding to current challenges that proved to be the right ones in enabling us to work more effectively, always in accordance with the characteristics and capabilities of each site and without giving up on strengthening our position in each market. This will continue to be our strategy for the short term. We heavily invested, among many actions, in reducing costs and operational improvements, increasing our productivity and evolving our performance. We also enhanced investment in research and development in partnership with universities, institutes and start-ups, and we focused very decisively on the continuous improvement and training programmes. The effective sharing of best practices has contributed to the improvement of production indicators. The result in the last two years of all the practices shared has let us achieve an overall productivity gain of around 20% in the tons produced per hour worked ratio.

We continue an intense search for a strategic focus, adopting measures that make us more agile and strengthen our balance sheet, while preparing to embrace our future ambitions, besides the immediate safeguarding of cash generation. These includes, in addition to the suspension of production in underutilised units, the sale of a minority stake in Paraguay and a promissory sale agreement over a non-core asset in Brazil <sup>1</sup>. Also in Brazil we sold quarries and we defined a

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<sup>&</sup>lt;sup>1</sup> Operation described in Financial Statements (notes 2, 5 and 29)



versatility and streamlining plan in our use of the concrete channel as a means of distribution of cement.

These measures, accompanied by an ongoing search for improving our debt profile, were eventually reflected in the stability of the financial results as well as the reduction of the company's net debt by EUR 259 million.

On a country-by-country basis, I must call your attention to the following points:

We concentrated our efforts in **Brazil** on adjusting our costs to the economic reality, with a significant market and volume decline. We have taken austerity measures, such as the temporary suspension of Jacarei and Suape grinding units and the kiln at João Pessoa, to rationalize assets and reduce costs, preparing us to face the year of 2016 if the retraction of consumption persists. Agility in decision-making was essential and, even with overall production contraction, the reorganisation led some units to set new monthly production records, which is a clear indicator of correct management in times of crisis. However, from a macroeconomic point of view, we do not expect this climate to last and the country will return to growth in the medium term.

**Argentina**, in turn, had quite a hot market, which gave us the opportunity to work the plants at total capacity to meet demand, supported by a traditional brand recognised for its quality - Loma Negra, with almost half of the market share. We achieved a record result and the highest historical market share ever reached.

This operation also supported the entry into operation in 2015 of the integrated plant in **Paraguay**. The results of this full first year operating an integrated unit were encouraging, with lower costs owing to own production of clinker and the launch of new products, better suited to the local market. This plant has already started the co-processing.

Our activity in **Egypt** stood out once again by its industrial performance indicators, remaining as a reference among the best practices of the company. Also, the urban residues co-processing represents a successful partnership between industry and the society. Co-processing is, on one hand, critical in maintaining the operation profitable due to changes in the local solid fuel policies, and on the other, it is relevant for the country as it represents less 35,000 tons of waste that would be channeled to landfills. In addition to expanding the use of residues as an alternative energy source, we are investing in a coal mill that will come into operation at the end of 2016. This mill shall enable us to diversify our energy sources and drive our business.

We also obtained, in relation to co-processing, very positive results from the burning of solid waste at the Alhandra plant in **Portugal**. This was the company's first unit to surpass the 50% co-processing monthly rate. This positive momentum comes at a particularly important moment for the country, which is in frank recovery after a period of economic decline. We were able to answer the uptake of the internal market with agility and customer focus, as cement sales were driven up by around 10%. The country makes us optimistic as it gives signs that this performance should continue in forthcoming years.

**Cape Verde**, a traditional market of InterCement in Africa, registered production decline as investment fell in the local social housing building programme. We expect, however, a quick upturn and the maintenance of historical sales levels in the country.



In **South Africa**, we deepened our strategy of approach to the market establishing long term partnerships with new clients, - expanding our operations into new regions and developing new products - which allowed market share to be maintained, even with the entry of new players. We have, in this way, achieved what was planned for the country in terms of results.

Structural problems are still a challenge for our operations in **Mozambique**. We faced electricity supply difficulties in 2015 and, as a result, our kiln experienced a stoppage. However, we were able to serve market demand via trading, keeping our share at 59%. At the same time, we proceeded with the Mutirão project, in which professionals from different countries of InterCement in the industrial, commercial and logistics areas draft an action plan to improve local performance. In this project, we enhanced its "People" dimension, specially in capacitation and training local professionals, which we believe is an essencial leverage to bring our Mozambique's operations performance to the higher standard levels of the company. The same project in Paraguay trained teams composed of 100% local and quite motivated labour, which now follow the highest standards of efficiency. This experience confirms that the road to excellence in the African country involves this sharing of information and internal talent.

Another very important point in our strategy is the strong performance of **trading**. In 2015, about 10% of our sales were through this channel. We surpassed the 4 million tons barrier, a very positive result taking into account that traditional importing countries were affected by the oil market price crisis. So, in order to maintain satisfactory levels, the teams sought out alternative countries and improved the whole process - with highly competitive products, prices and delivery times.

We continue to believe that the main strength of the business is the sustainable and fruitful partnerships we entered into with our stakeholders. The proximity to our customers, suppliers and communities is what will make us achieve the goals set in the 2023 Vision, in line with the UN Global Compact guidelines, which we are signatories of and under which we are committed to developing actions related to the four areas of its principles: human rights, labour rights, environment and anticorruption.

Our work to evolve in safety is also to be highlighted. In 2015, we directed our efforts so that all leaders were trained and that they might take up the role of agents of change in this area. The slogan "we will do it safely or not at all", the peak of the overall corporate safety programme is the reality to be lived in our operations so that we may significantly improve our indicators and drastically reduce accidents. The topic is addressed in our Culture project, which was disseminated in 2015 to all countries.

The construction of a common culture in a company with diverse geographical operations like ours is not an easy task, but it has proved to be possible and these attributes considered essential to our growth have been mapped in the InterCement Attitudes. The result can be perceived in our 2015 climate survey which, even in an unfavourable macroeconomic situation, obtained a favourable rate of 62% in issues related to career development, leadership, workload, safety, among others.

I reiterate that, with this material, InterCement hopes to convey, in a clear and transparent manner, its strategy, values, goals and results. Enjoy the read.

#### Ricardo Fonseca de Mendonça Lima

Presidente da InterCement



# WELCOME





# Welcome

In this Report, referring to 2015, the company has decided under its commitment to the Sustainability Agenda 2023, to highlight its integrated business vision and launch an Annual Report also comprehending a Sustainability angle, in accordance with GRI (Global Reporting Initiative) for Sustainability Reporting. The report covers all worldwide operations, the same ones considered in the financial statements, and discusses the relevant information relating to its business, considering performance, goals, risks and opportunities.

Any comments on this report are welcomed and can be made to the e-mail: integracao@intercement.com

Enjoy the read!



# **SECTION B**

TEN LARGEST CEMENT PRODUCERS AND THE 5TH MORE PROFITABLE



# I. INTERCEMENT, AN INTERNATIONAL PLAYER

InterCement is an international cement manufacturer operating in eight countries

InterCement is one of the ten largest international cement players in the sector, with 40 cement production facilities in eight countries and an installed capacity of 47 million tons. Besides cement, the company operates in the concrete production and aggregates areas. The company has a total of 8,451 professionals. A privately held company, headquartered in São Paulo (Brazil), InterCement is the market leader in Portugal, Argentina, Mozambique and Cape Verde, deputy leader in Brazil and in Paraguay, and it holds a notable position in South Africa and in Egypt.

# **InterCement: Overview**

- O 40 cement production units
  - 23 integrated plants and 17 mills
- o 28 million tons of cement and clinker sold in 2015
- Broad geographical presence:
  - 3 continents and 8 countries (South Africa, Argentina, Brazil, Cape Verde, Egypt, Mozambique, Paraguay and Portugal)
- o 8,451 professionals





# II. ESSENTIAL PRINCIPALS

# **Guidelines**

The guiding Vision, Mission, tagline (slogan) and strategy map steer the operations and the future of the company, guiding all the decision-making intended to answer what was established in the 2013-2023 strategic planning.

#### 2023 Vision

Stand out for its customers through the level of collaboration and services provided, remaining always among the sector's ten largest companies and in the top-five soundest and most profitable international companies of the industry.

#### Mission

Grow and develop together with customers, employees, suppliers, shareholders and communities, steered by innovation, sustainability and operational excellence.

#### **Values**

**RESPECT FOR PEOPLE AND THE ENVIRONMENT** – Act always correctly and fairly towards shareholders, employees, customers, suppliers, governments, communities and society at large Act responsibly in relation to the environment.

**OPERATE RESPONSIBLY** - Respect that established in the legislation of the countries and regions where we operate; live up to the values defined here; act in an upright manner and according to universal standards of good human coexistence, without discrimination of race, sex, creed, religion, title, function or another.

**TRANSPARENCY** - Provide clear and comprehensive information about the activities, achievements, policies and performance, in a systematic and accessible manner.

**FOCUS ON RESULTS** - Always seek to maximize performance in order to ensure business continuity, the investments made, the return for shareholders and the right conditions for employees.

**QUALITY AND INNOVATION** - Ensure customers obtain the highest possible quality in the execution of services or the supply of products and continuously invest in the improvement of business activities and employees.

#### TAGLINE: - "Building Sustainable Partnerships"

The slogan of InterCement, announced along with the 2023 Vision and Mission in 2013, is an indicator that all the company's projects, programmes and actions should take into consideration the motto "building sustainable partnerships." The internal evolution of this concept, also supported by the Culture Project, gave rise to the Partnership Project, whose goal is the company's differentiation among its various stakeholders.



#### INTERCEMENT 2023 STRATEGIC MAP

InterCement's Strategic Map is presented in this Report on Section III. Business Strategy

# **Commitments**

InterCement is aligned with initiatives that promote business activities guided by sustainability. The company supports and sets each of these signed commitments.

- Compact of the United Nations (UN Global Compact);
- United Nations Environment Programme (UNEP);
- UN Framework Convention on Climate Change (UNFCCC);
- O Pledge for access to safe water, sanitation and hygiene at the workplace (WASH);
- Caring for Climate (aligned with the UN Global Compact);
- Word Business Council for Sustainable Development (WBCSD) through the sectorial initiative;
- Cement Sustainability Initiative (CSI);
- Cement Low Carbon Technology Partnership initiative (LCTPi);
- The Paris Pledge for Action;
- Open Letter to Brazil on Climate Change from the Ethos Institute;
- In the Right Hand Program of Childhood Brazil.

# **Certifications**

# ISO 9001 – Quality Management

Certified units: Durban, Newcastle and Simuma (South Africa), Barker, Catamarca, L'Amalí, Lomaser, Olavarría, Ramallo, Recycomb, San Juan, Sierras Bayas e Zapala (Argentina), Apiaí, Bodoquena, Brumado, Cajati, Campo Formoso, Candiota, Cezarina, Cubatão, Jacareí, João Pessoa, Ijaci, Nova Santa Rita, Pedro Leopoldo, Santana do Paraíso, São Miguel dos Campos and Suape (Brazil), AMCC and ACCC (Egypt), Matola 1 (Mozambique), Alhandra, Loulé and Souselas (Portugal).



# ISO 14001 - Environmental Management

Certified units: Durban, Newcastle and Simuma (South Africa), L'Amalí, Lomaser, Olavarría, Ramallo, Recycomb, San Juan and Zapala (Argentina), Apiaí, Bodoquena, Brumado, Cajati, Campo Formoso, Candiota, Cezarina, Cubatão, Jacareí, João Pessoa, Ijaci, Nova Santa Rita, Pedro Leopoldo, Santana do Paraíso, São Miguel dos Campos and Suape (Brazil), AMCC and ACCC (Egypt), Alhandra, Loulé and Souselas (Portugal).

#### OHSAS 18001 – Occupational Health and Safety.

Certified units: Durban (South Africa), Catamarca, L'Amalí, Lomaser, Ramallo and Recycomb (Argentina), Apiaí, Bodoquena, Brumado, Cajati, Campo Formoso, Candiota, Cezarina, Cubatão, Jacareí, João Pessoa, Ijaci, Nova Santa Rita, Pedro Leopoldo, Santana do Paraíso, São Miguel dos Campos and Suape (Brazil), AMCC and ACCC (Egypt), Alhandra, Loulé and Souselas (Portugal).





# **Milestones of InterCement**

InterCement has a history of more than 40 years linked to the development of Brazil. It currently operates in eight countries and invests heavily in hiring local workers

- 1967 Foundation of InterCement and beginning of construction of Apiaí production unit and Serrinha mine 1974 Entry into operation of Apiaí plant (installed capacity of 0.8 million tons per year) 1991 Inauguration of second production line at Apiaí (reaches 1.3 million tons per year) 1993 Entry into operation of the second plant, at Bodoquena (0.8 million tons per year) 1997 Acquisition of Cimento Cauê, with plants in Pedro Leopoldo and Santana do Paraíso (total of 1.2 million tons per year) 2000 Creation of Cementos Iguazú (Paraguay). Import and sale in the local market. 2005 Acquisition of Loma Negra, leader of the Argentine market, with an installed capacity of 7.6 million tons per year and 9 plants. Concession of Ferrosur Roca, railway and transport of products. 2009 Start of construction of a plant in Paraguay. 2009 Acquisition of La Preferida de Olavarría, marking the entry into the aggregates market in Argentina. 2010 Inauguration of the mill at Catamarca, Argentina. 2010 Entry into the share capital of Cimpor, a company founded in 1896 in Portugal, with the acquisition of 33% of the capital.
- 2011 Inauguration of the mill at L'Amali, Argentina.
- 2012 Effective completion of the takeover bid and InterCement Cimpor integration.
- 2013 Entry into operation of the cement mill in Paraguay.
- 2013 Leasing of cement production facility in Mozambique (Matola II), becoming the company's fortieth unit.
- 2014 Inauguration of the integrated plant in Paraguay.
- 2015 Modernisation of the Matola 1 filter system in Mozambique.



# III. BUSINESS STRATEGY

Seeking for the largest goal defined in the 2023 Vision: to difrenciate near the clients by the level of cooperation and services, always being among the ten largest and the five most profitable international companies of the industry, InterCement adopts a strategy of approaching the business that due to its intense short-term dynamics anticipates the perspectives which has proposed itself in a long-term.

On its internationalisation and growth path that has been developing, the company promote in a short time the entrenchment of its position in the markets where operates, quickly developing their efficiency in a transversal mode while promoting the solidity of the balance through its current deleveraging process.

This way, and following a clear partnership position with its partners, establishes the basis for its expansion in developing markets – assuming itself as a dynamic agent of the local economies and growing in line with them – constructing a portfolio of assets balanced and prepared to the effective creation of value.

InterCement's strategy is systematized in a map ("Strategic Map") which, involving different levels of the company, steers and sets goals that permeate the entire company towards the mentioned 2023 Vision.

The Strategic Map is divided into four components, which are pillars on which the targets are established: Results, Partnerships, Processes, People and Culture. Three cross-cutting aspects were established, which are essential values of InterCement. Everything must be done always respecting these three fundamental items: Risks, Innovation and Sustainability, and Safety.



Each component has strategic goals that derive from a 2014-2023 Action Plan and have indicators and targets that allow InterCement to keep track of whether the strategy is being effectively implemented. Managers, defined from among the senior management, are in charge of managing compliance with the targets of each component - ensuring compliance in the short term and taking action for their fulfilment in the medium and long-term.





# IV.INTERNATIONAL PRESENCE



#### Legend



Cement Capacity (M.tons)





# V. FINANCIAL PERFORMANCE - 2015

InterCement responds to contextual adversity with a programme to increase efficiency and strengthen the balance sheet

The results of InterCement in 2015 reflect the general slowdown in developing economies and particularly the impact of political and economic adversity in Brazil. The company responds to this with the launch of a set of initiatives to increase efficiency and strengthen the balance sheet, preparing to leverage on the reversal of this economic cycle..

Thus, despite the external adversity faced in 2015, InterCement launched the bases to enhance operational efficiency that allowed it to, right away, sustain EBITDA at the level of EUR 517.7 million, generate a EUR 182 million cash flow and reduce its net debt by EUR 259 million compared to 2014, continuously improving its profile and entering 2016 strengthened to address the anticipated challenges. It is relevant to point that if excluding non-recurrent effects, the EBITDA would rise to EUR 545 million.

Geographical diversification and, in particular, the outstanding contributions from Argentina, Paraguay and Portugal, in 2015, allowed the operational performance in Brazil and Africa to be mitigated. This adjustment in performance in Egypt was expected, following the benefits gained from the commanding leadership position in atypical market conditions in 2014.

Sales reached EUR 2.5 billion, positively influenced by a 6.2% increase in the average price of cement, however it would still be 4.3% off the 2014 figure, reflecting a 6.1% slowdown in the cement and clinker volumes sold as well as an unfavourable exchange rate effect.

EBITDA margin was 20.8%, remaining one of the industry references.

EBITDA reached EUR 517.7 million. The result of a simultaneous and atypical combination of a set of economic challenges and specific market situations, to which were added the non-recurring effects of the corporative restructure (EUR 17 million) and the reacquisition of a credit (8 million euros), led to a contraction of 18.2% in this indicator.

- Argentina Record high EBITDA. Market dynamics and strategic competitive advantages
  of the market leader generate the greatest contribution to consolidated EBITDA of the
  company. Efficiency increase and corporative restructure;
- Brazil Political and economic uncertainty led to a contraction in demand combined with an increase in capacity in the market. InterCement adjusts its commercial approach to market needs, adapts cement production structure, redefines concrete business and sales other non-strategic assets in preparation for the challenges of 2016. Depreciation of the Brazilian Real and corporate reorganization affect 2015's contribution.
- Paraguay Full year of operation with the integrated plant allows it to stand out for efficiency, recording the highest EBITDA margin of the company;



- Portugal and Cape Verde Positive evolution of the domestic market in Portugal allows it to register substantially improved results. In Cape Verde, despite market contraction, operating efficiencies drove the positive evolution of EBITDA;
- Egypt Sales underwent the expected adjustment, average price contraction in the 1<sup>st</sup> half of 2015 due to increased competition, already with recovering tendency at the end of the year. Beginning of the energy matrix optimization programme;
- Mozambique Reaffirmed leadership position contradicts market decline and allows growth, mitigating local constraints and increases of costs pegged to the dollar;
- O South Africa Exploring new regions and customers compensates clinker's atypical sales in 2014.

EUR 182 million Free Cash Flow (FCF), reflects the success of the working capital program, the efficiency improvement measures to sustain EBITDA, the investment discipline and the non-strategic assets sale in Paraguay and Brazil.

A EUR 259 million reduction of financial net debt (-10%) and improving its profile, including foreign exchange protection in holdings, allows to stabilize the evolution of the Financial Results.

EUR 20 million net losses due to contraction effect on EBITDA and amortisations, despite of the favorable trend in taxes.

Main Indicators			
	Jan - Dec		
	2015	2014	Var. %
Cement and Clinker Volumes Sold (thousand ton)	28,136.9	29,979.3	-6.1
Sales (million Euros)	2,493.3	2,604.0	-4.3
EBITDA (million Euros)	517.7	632.6	-18.2
EBITDA Margin (%)	20.8%	24.3%	-3.5 p.p.
Net Profit (million Euros) (1)	(20.2)	41.0	n.m.

<sup>(1)</sup> Attributable to Shareholders



# VI.FINANCING

The company, in a context marked by adversity and lack of visibility of the capital markets trends in 2015, continued to pursue the main lines of the Financing Policy designed in 2014, i.e. a reduction of financial leverage and debt together with the continued adjustment of its financing profile, supporting the healthy development of its current business activity and simultaneously strengthening the balance sheet so that it may match its future development ambitions.

Reduction of Financial Leverage and Debt

The implementation of this policy has already driven the reduction achieved in net debt from EUR 2.502 million in 2014 to EUR 2.243 million in 2015, i.e. EUR 259 million less (-10.3%) from the previous year. However, the EBITDA performance would avoid its immediate impact on the reduction of financial leverage, particularly in the calculation of the Net Debt / adjusted EBITDA ratio which stood at 4.1x, below contractual covenants.

On the scope of InterCement's responsabilities towards its creditors, the indebtedness indicator (Financial Net Debt) measured at the level of InterCement Participações, S.A. attended to the convenants contractually established, among them the maintenance of the Net Debt / adjusted EBITDA ratio below 4.5x on 31st December.

The reduction in the level of indebtedness is directly linked to the a cash generation made possible by a series of initiatives outlined. These initiatives include i) the reduction of working capital - as proven by the reduction in the cash cycle conversion and patent release of EUR 11 million, that compares to the EUR 40 million draw in equal period last year; ii) investment discipline (continuously gauging the duplication of priority / speed of return variables) and iii) the opportunistic sale of non-strategic assets, especially the recently announced sales of minority stakes and assets in Paraguay and in Brazil.

It should be noted that in terms of EBITDA measures were introduced to increase operational efficiency and operational productivity that, although these are not yet evident in the development of this indicator, owing to the economic environment of 2015, they justify its maintenance at the registered level.

The continuity given to the debt profile improvement process throughout 2015, intensified its focus on the following fronts:

- i. continuation of the currency hedging policy of financial commitments over a time horizon of two years;
- ii. containment of foreign exchange exposure, following the path of debt hedging initiated in 2014;
- iii. developing a natural currency hedging, based on adjusting the funding currencies to the income generated in the different currencies— which is evident in the new refinancing options taken up in Argentina and Mozambique;
- iv. capturing the best financing opportunities as noted by the contracting of financing in Portugal taking advantage of that period's favourable market liquidity conditions.

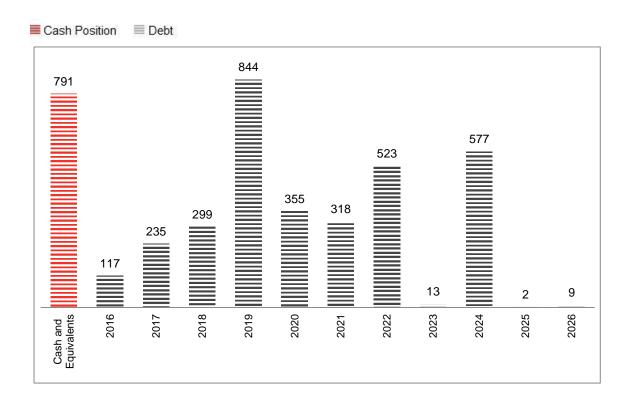


The initiatives implemented, namely the refunding processes executed in 2015, reflected in an improvement of the debt profile, articulating: i) lower average cost of debt; ii) securing a high level of liquidity (EUR 791million) - sufficient to cover the financial commitments for the next 3 years -;iii) the absence of material refinancing needs until 2019; and iv) an average debt maturity over 5 years.

The success of the refunding processes above mentioned, at a corporate level as well as business units, was set clear on the deadline stretching and the costs reduction of the refinanced debt. Thus enhancing once again the solid bankability of the company.

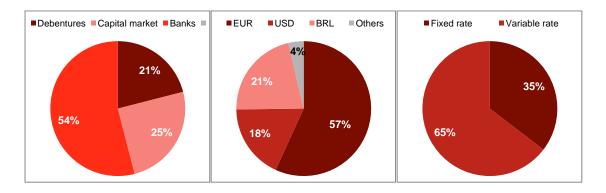
It is relevant to mention that InterCement Participações, S.A. and InterCement Brasil, S.A., guarantors of the Senior Unsecured Notes Due 2024 issued by Cimpor Financial Operations B.V., maintain its Standard & Poor's ratings (presently at "BB-; negative outlook"). InterCement Participações, S.A. equally maintains its Fitch rating (presently "BB; negative outlook"). On this subject it is worth mentioning that the criteria of Standard & Poor's envisages the conditioning of the rating of the company to its controlling shareholder.

#### **Maturities**





#### **Debt Profile**



# VII. Controlled risks

InterCement has it clear that managing risks and maintaining reliable control systems is essential to keep the business healthy in the long term. The topic is even a transversal attitude in all the company's actions, and should permeate all aspects and components of the Strategic Map.

The company, in this way, overcomes adversities associated with the complexity of the operation, the business activity and cultural diversity. The Corporate Risk Management and Crisis Management policies were concluded in 2014 and were widely advertised in all operations. The new realignment of the risk matrix, through the reassessment of the most relevant risk factors in all operations, led to the classification of those situations into two major groups: business and operation.

These tools proved very useful in 2015, a particularly difficult year from a macroeconomic point of view. They were used to continuously aid in the identification, parameterization, evaluation and finally the proposals for contingency actions or activities to mitigate factors that might adversely impact on the results of the business. The "Ensure Financial Discipline" chapter indicates some of the specific actions that exemplify the proposition of InterCement in risk situations, even when these are clearly imposed and/or contaminated by worsened external scenarios.

The business risks, being important information, are evaluated by InterCement as regards the impact on five key aspects that may affect the results: reduction of EBITDA, market share, debt, reputation and image, and ongoing nature of operations. The operating risks encompass controls to ensure that the activities are not jeopardised by failures of equipment or processes.

There is a plan of action for each risk and managers for adopting monitoring measures and mitigating action, which includes the participation of a member of the Executive Board or senior management and directors of the business units. The process also envisages the development of a methodology that defines tolerance and limits the risk, as a means of defending the business. Risk management is coordinated by the area of risk management and audit and it has a structure in each business unit represented by those responsible for the internal audit process. This structure is strongly focused on the commitment of all and management excellence - and its robustness and agility of action were put to the test in 2015, as mentioned, due to the external environment. It is important to note that the





risks hedging policy with financial instruments are only adopted to meet financial obligations in a horizon of 24 months. The financial hedging policy of all other company activities is supported by the geography of its portfolio of assets.



# SECTION C FOCUS ON EXCELLENCE



InterCement constantly follows excellence in all aspects of the business, mainly to reach the highest levels in in-house activities. Hence, the company gains density to mitigate more quickly unfavourable external scenarios - and it is better structured to respond quickly to economic upturns.

- Launch of InterCement Attitudes;
- The new Corporate Governance structure;
- O The expansion of commitments with the Sustainability Agenda;
- Greater depth given to the concept of Compliance;
- The new Climate Search.

The above initiatives reinforce the company's commitment on four decisive action fronts in pursuit of its strategic objectives, which are listed below:

- Building Sustainable Partnerships;
- Seek Technological Leadership;
- Pursue Operational Excellence;
- Ensure Financial Discipline

























# I - BUILDING SUSTAINABLE PARTNERSHIPS

InterCement believes that maintaining sustainable partnerships with all stakeholders is essential for the future of business. It has therefore adopted the tagline "Building Sustainable Partnerships", so that all of its employees and all stakeholders with which it interacts are always aware that everything must be done considering not only the company itself but also the interests of partners, since the success of these also has influence on the company's results.

This premise is so strong that it forms part of the strategic set steering towards full compliance with the 2023 Vision, and to be a highlight of the Strategic Map. InterCement develops, with this interpretation, programmes and actions that are undertaken with these partners (customers, suppliers and communities). The goal of InterCement is to grow and direct to its partners, and that is the main vision of large projects such as Partnerships, in relation to customers, suppliers and communities, and the creation of the InterCement Institute.

This commitment is internally reflected in the InterCement Attitudes. Launched in 2015 under the Organisational Culture project, it was structured from a profound reflection on the values, internal policies and desirable behaviour. InterCement also organised this year the sixth edition of Climate Research, as part of a policy of monitoring and continuous development of the internal environment.

# InterCement Attitudes

InterCement Attitudes launched at the start of 2015, is a set of ten behaviours that should be implicit in everyday life of a company's professional, whatever their hierarchical level, area or country. The company believes that it is essential to adopt a single culture, the InterCement "way of being and doing" in all countries in which it operates, to thus be able to meet the targets, actions and goals so that the 2023 Vision may be fully achieved vision 2023. The listed ways of behaving are not new. Attitudes now systematizes what was already the human differential of the company, and certainly one of the factors responsible for the business success so far.

The Attitudes were disclosed in all operations over the year through training, presentations and internal communications - always stressing that such attitudes, lived in everyday life, should represent and differentiate InterCement professionals. The desire of the company is that they are also known among its external stakeholders, a process that must be expanded during 2016, since InterCement seeks for partners aligned with the concept of "building sustainable partnerships."

#### FIND HERE A RESUME OF 10 INTERCEMENT ATTITUDES.

#### 1. Build Sustainable Partnerships

An attitude that has become the slogan of the company, since InterCement believes that a sustainable partnership is essential for the future of business. This means that cooperation must be imbued with respect, the alignment of expectations, transparency and convergence of goals.



#### 2. Take the customer into consideration

Achieving customer satisfaction is the role of all professionals in InterCement, regardless of function or area, since the main goal of the company is to provide excellence.

#### Commit to results

Seek to do the best in the activity, thinking about the sustainability of the long-term operation, valuing teamwork and the feeling of unity is what is expected of each professional of InterCement so that, as a team, the company reaches the results and objectives established by the strategic planning goals and actions.

#### 4. Lead by example

Be an example of conduct goes far beyond "saying how to do it". It means to act in the most appropriate manner. The company wants to strengthen this position, because it believes that it is able to ensure the integration of the different teams to focus on common goals.

#### 5. Strengthen the team

Acting as a team is essential, as the result of this willingness to join efforts results in a much stronger and consistent operation, always ready to face new challenges. The company understands that true teamwork is when all participants are aware of the ultimate goal of the task and the time required for every action, and add to this their effort, dedication and knowledge.

#### 6. Have an innovative behaviour

The company understands that each professional is fully able to promote innovation in their daily lives, through ideas and knowledge developed in their own routine and work environment.

#### 7. Optimize processes

Whatever the process, it only makes sense if it simplifies the routine and drives better results. Thus, it is evident that in order to optimize a process, it must be known, evaluated and, from there, use the best tools available to us to act with simplicity, speed and efficiency.

#### 8. Think safe

Safety is a value of InterCement, and it is evident as one of three themes that permeates all actions of the Strategic Map. It is a natural commitment that professionals should have and experience following points already well reported in the company, how to meet the Golden Rules, report and correct unsafe acts, understand the risks, hazards and controls required for each activity.

#### 9. Exercise positive influence

The main features required to achieve this attitude are dialogue, transparency, respect, confidence and ability to inspire and motivate. These aspects are also present in the other InterCement Attitudes, however, the uniqueness of "Exerting a Positive Influence" is the ability to interact in order to recognise, praise and celebrate better results; give recurring feedback that is constructive and structured; and incisively convey an optimistic and inspiring vision for the future.

#### Permanently challenge yourself

InterCement has, throughout its history, created an environment for all professionals to overcome technical, operational and market challenges, because these bring opportunities for every professional and also for the business. This happens through the incentives for learning, for the



opportunities to share good practices, participate in discussions and assessment and to work as a team.

# **InterCement Institute**

Our mission is Community development

2015 can be considered historic in relation to the performance of InterCement in the communities where it has operations. This was the year of creation of the InterCement Institute, which now manages the company's private social investment. The Institute will carry on the projects carried out up to now by the Camargo Corrêa Institute, but now more closely, with greater focus and being more effective thanks to the immediacy of the beneficiaries.

The effectiveness of the project is ensured by careful planning. All initiatives are based on diagnosis made to understand the existing realities, and the practical development is the responsibility of an "operator partner" with previous experience and knowledge. These partners may be other institutes, foundations or companies that already operate in the specific area of the project.

The creation of the Institute is an evidence that the social performance of the company is fully aligned with the business and part of the company's goal is to establish strong and long-term partnerships with the communities. The InterCement Institute is positioned as an articulator of the operator partners, CIVICS (Committees Encouraging Volunteering and Interaction with the Community), formed by five or six professionals and working as an extension of the arms of the Institute in each unit of InterCement, and the CDC's (Community Development Committees), a group that brings together representatives of the community and local government.

On the issue of corporate social responsibility, the company has a long history in Argentina, from coordinated actions by the Loma Negra Foundation created in 2006. The Loma Negra Foundation is fully aligned with the general guidelines of private social investment in InterCement and operates in constant partnership with the InterCement Institute, sharing values, targets and objectives.

The Corporate Committee for Social Responsibility is responsible for the governance of the Institute and the development of strategies. It is formed by shareholders and executive committee members. Each unit will also have a local Social Responsibility Committee starting in 2016, composed of representatives of the executive committee of each country. This governance will bring the issues and projects closer to the board, in order to further intensify the social responsibility strategy for business.

#### The InterCement Institute believes that:

- Partnerships and collaboration networks are important mechanisms for social development;
- Private social investment is most effective when aligned with public policy;
- Social programmes must reflect modernity and constant innovation;
- Voluntary work should be an instrument for the exercise of civic behaviour and an opportunity for growth and personal fulfillment



#### Action fields and target audience

The InterCement Institute develops its projects and actions in three fields of action and to three profiles. Find out more about:

#### **Action Fields**

- Community development: In partnership with civil society and the authorities, the InterCement Institute develops actions aimed at generating more equitable development opportunities;
- Inclusive business: Support the dynamism of the local economy by strengthening small business involving them, whenever possible, as suppliers or customers;
- Contribution to the business environment: Support the company through its network of relationships in the dialogue with stakeholders, building methodologies and tools.

#### Target audience

Early childhood - aged 0-6 years - works in the defence of children's rights

Basic education – aged 6-13 years – aims to contribute to improving education in public schools, teaching the fundamentals and basic education

Youth - aged 14 - 29 years - aims to encourage entrepreneurship and the generation of employment and income

# **GAIVs and volunteering**

The Institute also stimulates civic action by the professionals of InterCement and supports volunteering in the initiatives of the Institute as well as with other entities. The Volunteering Ideal Action Groups (GAIVs) are structured in a spontaneous way by professionals who want to act voluntarily for causes that spark their interest. Besides the allocation of funds for an initial boost, there are incentives to ensure their mobilisation is continuous, planned and in group.

The Ideal Volunteering is, therefore, a transversal program which operates in projects of the InterCement Institute and external projects.

# **Projects**

The InterCement Institute has a number of ongoing projects. We highlight the Day of Doing Good (in all countries), Baby Week (Brazil), Building the Future Project (Mozambique) and Future Builders (Egypt).



# **Day of Doing Good**

The Day of Doing Good 2015 is held in all the countries where InterCement is present. It united a contingent of more than 10,000 volunteers benefiting about 85,000 people in eight countries. It is the largest volunteering action of the company. InterCement professionals and partner companies, their family and friends, and members of the communities devoted their time and effort to implement a number of significant improvements to recipient entities, schools, infant schools, health centres and town squares. An example of the initiatives is the complete construction from scratch (from the earthworks stage, through landscaping and adding urban furniture and playground, to the installation of lighting) of two public squares, one in South Africa and the other in Brazil.

### **Baby Week**

All units of InterCement Brazil directed in their municipalities, with the support of the InterCement Institute, the Baby Week in 2015. The initiative follows the systematization proposed by UNIFEC Brazil (United Nations Children Fund) for work that began in the city of Canela (Rio Grande do Sul) in 2000, conceived by a psychiatrist who proposed working collectively on issues of early childhood.

The municipalities were involved in 2015 in an intense and varied agenda of activities concerning the issue, aiming to disseminate practical information on baby care to expectant mothers and their babies and the strengthening of family ties. The focus was not only to raise awareness of pregnant women and parents to the needs during childhood, but also involve educators, health professionals and social workers in order to promote comprehensive care for this age group. Workshops, lectures, conversations around the table, cultural and sports activities were all implemented. Baby Week was considered so important that in six of the participating municipalities (Apiaí-SP, Bodoquena-MS, Brumado-BA, Itaoca-SP, Nova Santa Rita-RS and São Miguel dos Campos-AL) it was transformed into public policy.

#### **Future Builders**

Unemployment among young people is a global problem. In Egypt, however, it is particularly alarming among young women (aged between 15 and 29 years) with an unemployment rate of 32.3% compared with 13.3% among young men. To contribute to improving this situation, we developed the Future Builders programme which aims to train 200 youth from Borg el-Arab (where the company has its production unit). The project seeks to provide them with the competencies and skills needed to tackle the search for work in the labour market or to find entrepreneurial solutions that generate income.

The project began in May 2015 with the planning phase and, then, interviews and contacts with representatives of stakeholders, information gathering, formatting opportunity reports, the production of training manuals and seminars for the capacity building of three local NGOs. The first group, composed by 50 young people, started training in November. The concept underlying Future Builders is to ensure the diversity of gender and providing a solution for the most vulnerable.



# **Building the Future**

This is the first project in the country aligned with the Ideal Future structural programme, focused on strengthening entrepreneurship and the generation of employment and income among young people. Building the Future, launched in mid-2015, brings together 42 small producers of cement artifacts in the city of Matola, in order to improve the management, quality and diversification of products, access to financing channels and the formation of cooperatives to purchase raw materials and for marketing of the products.

# **Partnerships Project**

The Partnerships project began in Brazil and, in 2015, was expanded to Argentina and Portugal, where workshops were held to present the programme. It will reach the other countries in 2016. The main objective of Partnerships is to position InterCement as a differentiated partner with its different external stakeholders: customers, suppliers and the communities surrounding the operations. Specific actions and programmes have been developed within Partnerships for each of them.

The project was structured after meetings with audiences relating with the Company so that InterCement could identify the priorities and systematize activities of interest to both the company and the partners. In this way, the project is divided into actions according to the target audience.

# **Customer Partnerships**

Customer Partnerships aims to move InterCement Brasil even closer to this group because the Company believes that in addition to improving the relationship with this audience and ensuring commercial advantages, it can also contribute to the development and sustainability of its customers' businesses.

After listening to its customers' needs and requirements in terms of products and services, the company structured seven major projects, still under test, around the following topics:

- Pricing in order to always provide the positioning adequate to the customer in an agile manner, responding to market volatility and the need for customer flexibility in payments;
- O Distribution and relationship with the aim of spreading distribution out, increasing proximity to customers, differentiating the relationship with distributors and developing an environment for expansion of the product mix;
- Stocking and delivery developing logistics projects to improve the stocking of the units, providing solutions for customers' logistics operations, strengthening the exchange of information, providing assurance and assertiveness in delivering their cargo.

See more examples at <a href="http://www.intercement.com/sites/construindoparceriassustentaveis/">http://www.intercement.com/sites/construindoparceriassustentaveis/</a>



# **Supplier Partnerships**

In the case of suppliers, there are two significant examples in Brazil of how Partnerships can work to generate more results for both parties, reinforcing a win-win culture. These are the Partner Programme and Intersected Intelligence.

This action was launched in 2015 in Brazil, focused on 50 of the company's major suppliers. It aims to recognise and encourage productivity and innovation of suppliers as well as expand their sustainability, safety and social responsibility practices. Hence, InterCement has started to follow-up on the evolution of its suppliers through periodic assessments, because it believes that working together and the proactivity to leverage results impact positively on productivity and safety for partners. The company still wants to continue the effort to divulge among its suppliers the concept of action in the private social investment field.

Of the 50 suppliers, three won awards in the Shipping, Services and Raw Materials categories, and three more as Highlights of SHE, Innovation and Social Project.

The programme will be expanded in 2016 to 80 suppliers in Brazil, thanks to this good result, and it will also begin to be designed into the operations of Portugal and Argentina, and presented in workshops on partnerships in other locations.

# **Community Partnerships**

The communities were also called to participate in this initiative. The Open Doors structure is part of this effort. This means that this programme has been consolidated even in areas not yet effectively reached by Partnerships.

A single structure meeting the demands for visit to operational units meets the goal of passing on, in an aligned manner, information about the mission and company values, clarify any doubts and be a catalyst for important community feelings about the company's operations.

# **People and Climate Research**

People and Culture is one of the dimensions of the Strategic Map, which breaks down in three goals to be achieved so that the company achieves the 2023 Vision. The topic has such weight because the company believes that its success is directly linked to the quality of its professionals and their individual development.

Given the relevance of the topic, InterCement develops a set of actions with its workers, in the context of People Management. These actions come under the scope of 10 preset guidelines:

#### 1. Constant and active safety

Safety is a fundamental value and responsibility of all



#### 2. Manager in the centre and HR as a business partner

Managers are primarily responsible for the management of people and all the issues related to them, as well as the development of a high performance work environment. The HR teams support the managers.

#### 3. Agents of change

Under InterCement Attitudes, managers are responsible for being an example to be followed and for strengthening their team, as well as to encourage and promote an environment of innovation.

#### 4. Quality of life

InterCement encourages the balance between professional and personal life. Therefore, it supports its professionals in activities and volunteer programmes, offers flexible work plans and encourages physical and healthy eating activities.

#### 5. Diversity

The company seeks to insert in its staff people from different cultures, genders and nationalities, always giving priority to local labour. InterCement believes that different cultures, nationalities, genders and abilities are necessary and even essential for a management style in harmony with the global scope of its operations and with its social responsibility and commitment.

#### 6. Labour sustainability

InterCement gives preference in hiring from the local community in order to contribute to the improvement of employment levels, professional development, and consequently the quality of life in the regions where it operates.

#### 7. Talent management focused on results and meritocracy

The company ensures alignment and the breakdown into realistic business goals, both collective and individual. Professionals receive regular feedback on their performance through formal monitoring of goals and an annual 360° assessment. All professionals have the opportunity to pursue new positions and apply for work in the units of other countries.

#### Integration and development of people

The company seeks professionals that assume the InterCement Attitudes and invests in training to develop the required technical skills. Capacity building can be formal instruction or through mentoring and coaching. Each professional has their Individual Development Plan (IDP), updated after the annual assessment and it contains specific measures and actions for their career plan.

#### 9. Competitive and fair remuneration

The company offers a competitive wage in the markets in which it operates and equitable between roles. InterCement works with the concept of total remuneration, which includes, in addition to fixed wage, variable remuneration, benefits and other non-financial factors.

#### 10. Labour relations and legislation

InterCement complies with all legal and contractual provisions in force in the countries where it operates and defends the freedom of association of its employees and the recognition of the right to collective bargaining.



## **Climate survey**

InterCement undertook its sixth climate survey in 2015. The results were very positive and show a positive growth in the degree of satisfaction of professionals. Even in an unfavourable macroeconomic situation, the survey, in which 89% of the company's professionals participated, indicated a 62% favourable rating for issues related to career development, leadership, workload, safety, among others aspects. The result shows an increase of 4 % from the 2013 survey.

The survey led to focus groups being conducted in all of the countries where InterCement operates in order to identify the causes associated with the less favourable results and to structure action plans for improvement together with the professionals.

The next survey cycle is planned for 2017.

#### Focus group numbers

Operation	Focus group meetings	Number of participants
Argentina / Paraguay	50	480
South Africa	12	118
Brazil	45	420
Egypt	13	120
Mozambique	12	80
Portugal / Cape Verde	7	150
Total InterCement	139	1,368



# II – SEEKING FOR TECHNOLOGICAL LEADERSHIP

InterCement aims to be one of the leading companies in the world in innovation and methods that ensure greater productivity with low environmental impact. Therefore, it perennially searches for new raw materials, processes and also techniques and partnerships with universities and institutes to promote research into innovation.

This desire and management has its origin in the concept of "industrial ecology", a term for studies and/or actions that jointly consider industrial activity and the environment. In addition to the evolution of many indicators, the deepening of the Sustainability Agenda stands out.

# SUSTAINABILITY AGENDA

InterCement has shown its concern about climate change since its foundation, particularly due to the nature of its operation, since the cement industry accounts for about 5% of global emissions of greenhouse gases.

The company ratified the "Sustainability Charter" in 2006, in which it described its integrated vision of economic, social and environmental issues. The "Climate Agenda" was created in 2009, which is a set of nine commitments for mitigation and adaptation to climate change. After that, the Strategic Map was established in 2013, as part of 2023 Vision. In this Map, Sustainability has become a crosscutting issue and it should, therefore, be thought of in all the defined components and goals.

From there, the company acknowledged that it was time to revisit the key points of Sustainability and rearrange them in a systematic manner aligned with the 2023 Vision. A social-environmental materiality analysis of InterCement was then carried out with its external and internal stakeholders and the topics of the 2023 Sustainability Agenda established: Climate Change, Industrial Ecology, Community Development, Transparency and Ethics and Health and Safety.

Initiatives are being established for each of the themes so that the company's operations and its entire value chain become more efficient and sustainable - and so the two main indicators related to clean production can be achieved.

InterCement, as a form of expanding its commitment and being aligned with global guidelines, correlated its strategic themes of the Sustainability Agenda with the Sustainable Development Goals (SDGs) of the United Nations, as it considers that the general framework of this set of principles provides an opportunity to strengthen internal and external initiatives. A Strategic Sustainability Plan arises from that amplified view, covering 16 topics aligned with the SDG, indicating the current position of the company and its expectations for the future.



# Climate change

#### CO<sub>2</sub> Emissions

Cement production requires the intensive use of raw materials and electricity and thermal energy, which results in air emissions, with carbon dioxide (CO<sup>2</sup>) being the most significant.

InterCement, as part of its Climate Change and Energy Policy, has been monitoring its carbon footprint since 1990 in order to determine the level of exposure, evaluate opportunities to reduce that footprint by developing specific projects, define reduction goals and contribute to the process of development of policies by regular participation in national and international forums. The calculation of emissions of Greenhouse Gases (GHGs) follows the WBCSD/WRI Cement CO<sub>2</sub> & Energy Protocol 3.04 developed by CSI and modelled on the GHG Protocol. They have been audited and certified since 2005 by an independent external entity and are prepared in all countries where the company operates.

Net specific emissions have developed extremely positively, and were in 2015 circa  $570 \text{ kgCO}_2$  / t of cementitious product. This value places InterCement prominently among the CSI member companies, and it is the result of a set of short, medium and long-term strategies. Indirect emissions are related to the electricity the company uses and are also the focus of reduction policies, through the rationalization of electricity consumption of the facilities.

All other emissions, caused mainly by the transport of products, represent a relatively small percentage compared to the total value of our CO<sub>2</sub> emissions. Their reduction encompasses the optimisation of road transport and greater use of rail and maritime transport, wherever possible, to replace road m transport.





#### 2013 level x 2023 challenge

- CO<sub>2</sub> Emissions per ton of cementitious product 565 kg CO<sub>2</sub>/ton cementitious product 450 kgCO<sub>2</sub>/ ton cementitious product (2023);
- Replacement of fossil fuels with alternative energy sources 15% 40%.

#### INTERCEMENT CLIMATE CHANGE STRATEGY

#### **SHORT-TERM STRATEGIES**

- Clinker / cement factor (e.g. cement compounds with additives that replace part of the clinker in cement).
- O Thermal substitution rate (e.g. alternative fossil fuels and biomass).
- Fuel emission factor (e.g. fuels with lower emissions factors).
- O Specific heat consumption of the kilns (e.g. reduction of energy consumption of kilns).
- Specific power consumption (e.g. "Consumption Awareness" campaign aimed at energy efficiency).

#### **MEDIUM-TERM STRATEGIES**

- Modernisation of lines and construction of new clinker production lines (e.g. specific heat consumption).
- Replacement rate of raw materials (e.g. use of alternative decarbonised raw materials).
- Recovery of waste heat from the process hot gases to produce electricity (e.g. specific power consumption).

#### **LONG-TERM STRATEGIES**

 Research and development programmes (R&D) in various topics related to the reduction of carbon intensity of products and processes.

The current long-term strategy of the company, reflected in the 2023 Vision and the Strategic Map envisages concern about the carbon variable and establishes effective technical solutions, likely to be applied on a larger scale in our industry, as well as commitments to:

- Increase the replacement of conventional fossil fuels in cement kilns for alternative energy sources, from 15% in 2013 (0% in 1990) to above 40% in 2023;
- Increase the clinker replacement rate for additives in the cement production process, from 28% in 2013 (14% in 1990) to over 40% in 2023, innovating in the production of low carbon cements and paving the way for the development of new techniques to help reduce the consumption of natural resources and thus decrease CO<sub>2</sub> emissions;
- Invest about USD 80 million between 2013 and 2023 in a portfolio of R&D projects geared largely to a low carbon economy;



 Reduce specific net CO<sub>2</sub> emissions per ton of cement by 40% in 2023 compared to 1990 (728-450 kgCO<sub>2</sub>/tcmt).

#### OTHER EMISSIONS

The dust emissions of kilns were cut from 243 to close to 150 g/t-clinker between 2007 and 2015. The target set for 2015 has already been achieved. The company has invested in the installation and maintenance of bag filters and improving the existing electrofilters at the kilns in order to achieve that performance. Today, more than 60% of the kilns are equipped with bag filters/hybrid filters, considered to be the best available technology.

Specific emissions of nitrogen oxides (NOx), resulting from the combustion process of the kilns, have been reduced from 1,924 in 2007 to circa 1,600 g/t-clinker in 2015. A set of primary measures contributed to this purpose such as cooling the flame of the main burners and secondary measures such as the installation of non-catalytic reduction systems (SNCR) and optimization of the operating parameters of some of the kilns.

The investment in facilities for the treatment of gas effluents by injecting hydraulic lime/calcium hydroxide drove the reduction of emissions of sulphur dioxide (SO2) from the natural raw materials used in the production of clinker, recording a decrease from 376 in 2007 to around 320 g/t-clinker in 2015.

# TARGETS FOR THE REDUCTION OF GREENHOUSE GAS EMISSIONS

InterCement is aligned with the charter principles from Cement Sustainability Initiative (CSI) and the Ethos Institute and has set the robust targets presented below for the reduction of CO<sub>2</sub>.

#### **Sustainability Agenda**

Topic	Vision	Commitment
Climate change	Be recognised as a company that takes leadership, incorporated into the strategy and differentiated in a low carbon economy	<ul> <li>Be placed in the 1<sup>st</sup> quartile of companies of the global CSI and regionally - in terms of CO2 emissions</li> <li>Consider the carbon variable and life cycle analysis as criteria for evaluating new investment projects, as well as energy efficiency, the availability of additives, alternative fuels and other alternative and renewable energy sources.</li> </ul>





Offer an environmental service for industries and cities, reducing their environmental liabilities and optimizing how we use our own resources

 Identify partnerships with companies from different sectors in order to use waste or byproducts of other industries as raw materials and fuels, which would otherwise be discarded without economic value and, in many cases, with significant environmental damage.



Be recognised as a partner that inspires, supports and leads the community in overcoming its challenges Be a local development agent by creating direct and indirect jobs and developing professional skills in the local community.

- Create autonomous development prospects of communities through their organisation and participation.
- Foster the generation of social capital for the company and for society.



Do things correctly, with the highest level of ethics and compliance with laws, regulations and policies relating to our business. This is not the best example that exists, rather the only example we can give.

- Ensure compliance of our processes and operations in accordance with local laws and regulations, as well as in relation to internal policies, standards, manuals and procedures
- Establish a code of conduct for professionals and partners and Anticorruption and Antitrust corporate standards.
- Maintain a compliance system, with risk mapping, prevention, capacity building and communication channels.



Do it safely, or not at all.

- Adopt a preventionist posture with a high maturity of safety culture reflected in proactive attitudes and the interdependent relationship between hierarchies.
- Pursue the sharing skills and knowledge with others who collaborate in our operations.
- Be an agent of change of SHE culture in the places where it operates, influencing businesses and society itself to think and act safely.



# **Co-processing**

The search for cleaner production is permanent in InterCement and, so far, the most obvious aspect and with greatest return from an environmental point of view is the company's commitment to coprocessing, a technology in which InterCement is one of the global leaders. Co-processing allows waste, such as urban waste and discarded tyres, to substitute fossil fuels and raw materials in cement industry kilns, without generating significant environmental impact.

The environmental benefits are more obvious in the short term, since the industry uses waste that would be disposed of in landfills or simply not be disposed of correctly as an alternative source of energy. So, the first gain is for society, which avoids that disposal of waste. In addition, another important environmental gain is the reduction of greenhouse gas emissions and lower use of non-renewable natural resources, such as fossil fuels. In South Africa, the company was the first cement manufacturer in the country to use tyres to replace coal.

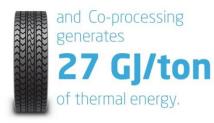
The substitution of the energy source will also, in the long-term, bring competitiveness to the company. This is the case because the supply of waste continuously and systematically results in a reduction in production costs. Co-processing also brings advantages in reverse logistics for other industries, giving adequate disposal for products at the end of their life cycle.

Accordingly, the company invests in the entire process to help achieve excellence in co-processing, in terms of environmental and energy gains. This means carrying out actions related to the storage, selection, homogenization and use of waste so that the material to be burned is in adequate conditions and will not cause harm to the environment or the health of the community in the areas of company operations.

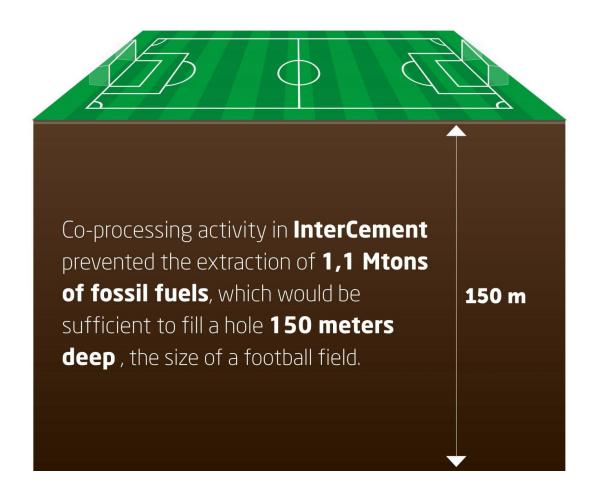
Currently, all countries where InterCement operates perform co-processing activities. The co-processing rate averaged 20% per month in all operations in 2015, and it surpassed 50% in the Alhandra unit, in Portugal, a co-processing record. This is because in that country some production sectors, such as motor vehicles, tyres, glass and plastics, among others, are required to be accountable for their recycling rate as regards reverse logistics. Thus, through the partnership with InterCement, which receives these materials and uses them in co-processing, Portuguese industry has been able to render accounts for its waste.













#### CO-PROCESSING HIGHLIGHTS IN 2015

Co-processing result grew by 34% compared to the previous year - thanks to the increase in fuel prices and greater amount of waste substituting raw materials

In Euros per ton, it evolved 38.6% compared to 2014

Annual co-processing rate increased from 11.5% (in 2014) to 13.2% (in 2015)

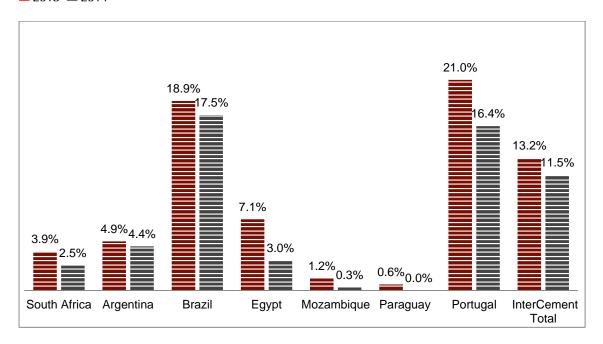
The activity replaced 295 ktons (12% more than in 2014) of fossil fuels and 162 ktons of raw materials (increase of 37%)

In total, 723 ktons of waste were co-processed against 653 ktons in 2014 (increase of 11%)

Investments in co-processing exceeded 34 million

#### Co-processing percentage





# **Additives**

InterCement also seeks, in addition to the replacement of fossil energy sources, to reduce the use of natural raw materials in the process, identifying alternative sources that reduce extraction and thus reduce the exploitation of still virgin natural resources. These raw materials can be used in the clinker manufacturing process, but also as a replacement for clinker, natural gypsum and natural



pozzolanas. The environmental benefits are obvious and may also represent savings in the acquisition of traditional raw materials.

# Rehabilitation of quarries

InterCement is fully aware of its responsibility to the environment and the impact caused by its operations in the communities where it is located. Therefore, it has developed a series of mitigating actions so as not to interfere with the welfare of the residents close to their areas of activity. For this reason, the quarries of the company, high-impact activity sites, are 100% aligned with the best global sustainability practices.

The high-impact issues for communities regarding the quarries are noise and diffusive dust or "fugitive dust", generated during handling and cargo transport. A corporate action plan is adopted in the production units to mitigate this problem. This plan includes the coverage of trucks, improving dust removal and materials transfer points, in addition to eliminating, where possible, open-air storage.

InterCement adopts an explosion based system with micro-delay detonators for the extraction of rocks from quarries, which reduces the levels of vibration and noise resulting from the operation. All the units have a noise map, which allows the effectiveness of the measures implemented to be continuously evaluated and possible new solutions to minimise noise pollution to be selected.

The rehabilitation of quarries, when they cease to be explored, is fundamental for the conservation of biodiversity and protection of ecosystems. InterCement adopts mitigation actions throughout the life of the quarry to ensure this goal is achieved after exploration.

Accordingly, the company has implemented action plans for the rehabilitation of quarries and improving the biodiversity of those located in sensitive areas, i.e. those that are located within a 500 metre radius of protected habitats or animal and plant species.

InterCement developed a new tool in 2015 to facilitate the development of Biodiversity Management Plans by the plants, and also to serve as a guide to support the units in the hiring of specialised services to make the quarries meet the requirements of the new guideline.

All the quarries of the Cement activity of InterCement are currently mapped and monitored by means of Geographic Information Systems (GIS), in which the sensitive areas are marked out.

Sensitive areas are deemed to mean the "legally protected areas" (natural parks, conservation areas, wetlands, endangered species, migration routes, Natura 2002, natural heritage, wilderness areas, forests, mangrove forests, according to local, national or international legislation), "international biodiversity hotspots" and "biodiversity key areas" (including, without limitation, particular aspects of biodiversity related to the existence of limestone cave areas). Unlike the first area, the last two areas are not legally protected but recognised by government and non-governmental organizations for having important biodiversity features. These areas include priority habitats for conservation, such as Important Bird Areas (IBA), sites recognised by the Alliance for Zero Extinction (AZE), and others (according to local technical assessments).



A "Quarries Roadmap 2016-2025" was prepared in 2015, intended to bring all the quarries of InterCement in line with this internal guideline, following a predefined schedule. The material was developed according to a risk analysis and to ensure that all quarries will have rehabilitation plans by 2025 and, depending on each case, sufficiently robust biodiversity management plans developed with the involvement of local stakeholders.

Projects to raise the awareness of workers and local communities were also created in individual plants. These projects are designed to highlight the importance of preserving biodiversity, and are developed in partnership with local universities and NGOs.

The company ended 2015 with 71% of cement quarries having formatted plans for environmental rehabilitation. 33% of these are in areas of high biodiversity value and, within that scope, 50% have implemented biodiversity management plans.

# **Water Management**

The cement industry is not a particularly intensive user of water although it constitutes a fundamental resource for the development of the business activity. InterCement internally promotes a widespread culture of rational use of water and advocates stringent standards for the use of that resource. Those standards include the measurement of consumption and losses, treatment, recycling and reuse of water, use of rainwater and constantly raising awareness for more rational consumption.

Today, the careful monitoring of consumption, by means of direct measurements or correct estimates, helps to identify the best reduction opportunities.

InterCement has used the Global Water Tool, developed by the World Business Council for Sustainable Development (WBCSD), since 2011. This tool identifies, in a systematic manner, operations located in areas of water stress, water scarcity and extreme water scarcity. These principles are present in the Blue Attitude water management programme of the company.

It concerns units located in extreme water scarcity areas. In the Cement Activity, the plants of Catamarca, in Argentina, and Campo Formoso (BA), in Brazil were chosen as pilot facilities for the development of more ambitious initiatives of sustainable water management and to identify best practices, such as water treatment and recycling and rainwater harvesting, for replication in the ongoing projects in other units. The involvement of local communities is an important aspect of the project.

About 30% of the 7 million cubic metres of total water abstracted in 2015 by InterCement occurred in 11 operating units of a total of 38, located in environments of predictable water stress, water scarcity or extreme water scarcity in 2025.

More than 70% of the cement units of InterCement are equipped with water recycling systems. 30% of these recycle over 50% in terms of volume. About 50% of the units have wastewater treatment systems in the production unit, contributing to a lower environmental impact of the discharged water. When only the integrated plants are considered, that figure rises to almost 70%.



An average of 0.300 cubic meters of water were used in 2015 to produce one ton of clinker, which is below the figure established seven years ago for 2015 (0.310 m3/t of clinker).

# **Research and Development**

InterCement, in addition to technical knowledge of the industry, acquired over the years through its participation and monitoring of the development of standards and work in the area and also through the performance of its operations, heavily invests in R&D projects that lead to operational improvements and contribute to mitigating environmental issues.

The company does this in partnership with renowned universities and institutes recognised for their research aimed at innovation.

CO<sub>2</sub> biofixation by microalgae - Partnership between UFSM (Santa Maria Federal University), UFSCar (São Carlos Federal University) and InterCement. The goal is to develop a mechanism that absorbs the CO<sub>2</sub> produced by the cement industry, preventing it from being released into the environment. It has generated three patent applications in two years. The post-photosynthetic result produced is algae reproduction, which can be considered a type of waste and therefore requires proper disposal. For this reason, through another agreement signed with ESALQ (Luiz de Queiroz Agriculture University College, of São Paulo University) and UFC (Ceará Federal University), InterCement funds research to use this biomass as an animal feed and human food supplement.

Eco-efficient concrete - InterCement invests, in partnership with the Polytechnic School of USP (São Paulo University), in a low cement concrete formula, significantly reducing the environmental impact and lowering the CO<sub>2</sub> footprint. The product entered testing in 2015.

Use of steel slag to produce cement - Steel slag is a waste product of the steel industry that began to be analysed in 2015 through a partnership between InterCement, IPT (Institute for Technological Research) and the steelmaker ArcelorMittal, to be used large scale instead of clinker in cement production. The project also received non-refundable funding from Embrapii (Brazilian Industrial Research and Innovation Corporation), which will fund 53% of the programme. One patent has already been filed as a result.

Low carbon clinker - Initiative resulting from a partnership with the Lisbon Technical University (IST, Portugal), which has already resulted in the filing of two patents. It is an innovation that was introduced in the process, allow a reduction of up to 25% of CO<sub>2</sub> emissions resulting from the production of clinker.

Use of biomass as fuel for kilns - In partnership with Embrapa (Brazilian Agricultural Research Corporation), the project has been mapping the generators of biomass waste in the vicinity of InterCement units since 2013, to assess their possible use.

Development of technology for the production of cement from construction and demolition waste - The project, in partnership with the IPT, with 50% funding from BNDES (National Development Bank), aims to develop a binder with low CO<sub>2</sub> emissions, using aggregate and cement resulting from



construction and demolition waste. A first formulation is already being tested in paving and a patent application was filed.

Project for carbon sequestration and storage - InterCement participates together with several cement manufacturers associated with the European Cement Research Academy - ECRA. The project seeks ways to capture carbon emitted from cement kilns and is in the pilot creation phase.

#### AWARD WINNING PROJECTS

Eco-efficient Concrete - The thesis "Concept for concrete formulations with low consumption of binders, rheology control, packaging and particle dispersion", by the civil engineer Bruno Damineli, at Escola Politécnica, won the 4th edition of the Best Thesis Prize of USP (São Paulo University), under the Eco-efficient Concrete programme, with the support of InterCement.

Carbon dioxide biofixation - Algae Biotecnologia (Brazil), partner of InterCement and developer of the pilot production unit won the Empreendetec Prize 2015 - company category, for its research and development work to find environmental solutions based on microalgae cultivation, with applications mainly in carbon dioxide biofixation, animal nutrition, human health and effluent treatment. The prize is for the best technological innovation of the year in the business and professional categories and it is awarded by ESALQTec - Technology Incubator, Luiz de Queiroz Agriculture University College (ESALQ / USP), and the Luiz de Queiroz Agrarian Studies Foundation (FEALQ).

## INNOVATION CULTURE

#### **CLICKLAB**

InterCement has created tools and opportunities to internally promote a culture of innovation among its employees. The company wants to reinforce the importance of ideas on a variety of topics and processes from all areas and levels that can be transformed into business of great value, especially when fostered through teamwork and in a comprehensive manner.

The most significant tool is the ClickLab. **ClickLab** was launched globally in 2014, after three projects in Brazil. In general, it is a portal where professionals of all units in all countries can post comments and suggestions and contribute to projects on a predefined theme. All posts are translated into all the languages of the places where InterCement is present. All collaboration - whether an idea or comment - earns points for the professional, which they can then redeem for prizes.

Since then, the company has managed to obtain a gain of around 2 million euros, thanks to the proposals submitted. 12 projects are currently being implemented around the world (1 in South Africa, 6 in Argentina, 3 in Brazil, 1 in Mozambique and 1 in Paraguay).



#### Highlight - Click Lab Figures

2014 – Topic: Production **100%** 

920 participants, 311 ideas, 1660 comments, 5188 votes

O 2015 – Topic: Implementa+Ação

831 participants, 143 ideas generated, 527 comments, 2342 votes

#### Neogera

Neogera is the branch of InterCement responsible for the acceleration of small businesses since 2014. It accelerated two startups in 2015 (construction management and reduction of waste of materials), both aligned with the company's slogan to build sustainable partnerships, in these cases, with customers and/or specifiers, reinforcing the competitive edge of InterCement through these proposals generating shared value. These businesses are presently only developed in Brazil.

Stant has established a complete online works management system, enabling monitoring and control of works from anywhere and anytime. The tool has several modules, such as inspection activities and automated reports, which substantially reduces the use of paper documents. No server is needed because it is based in the cloud. The application was implemented in 80 works in 2015. 12 major construction materials companies support this startup. InterCement is one of the master sponsors.

ConstruSave, in turn, has developed a system to control waste materials from works. Waste in Brazil can lead to a 20% increase in the price of the works. 100 million tons of material is lost in the country every year, according to Abrecon (Brazilian Association for Construction and Demolition Waste Recycling). The tool provides parameters and information for decision making regarding the calculation of ideal material consumption. Four large construction companies joined ConstruSave pilot projects in 2015.

# Box: Innovation with smaller packaging in Brazil

Customer focus led the company to invest in the research and development of new packaging in Brazil. Market demand for smaller packages was detected, mainly for customers committed to more sustainable practices, besides preventing financial waste.

The company had to make, before placing the product in the "field" (5 and 10 kg bags), several internal adjustments to adapt production to the new packaging, as well as reassess logistics, pricing and marketing. Sales began, still in the pilot phase, from June 2015 in building materials stores in São Paulo city. The attributes of the product that set it apart meant the aggregate value generated an average contribution margin higher than that of 50kg of cement in Brazil, in terms of BRL / t.



# **III - PURSUE OPERATIONAL EXCELLENCE**

InterCement pursues the continuous improvement of its productivity indicators, which is a particularly important topic in this type of industry. Operational excellence is a clear indicator that the company is on a safe path to maintain the business in the long term. The company uses several tools for this, to measure, monitor and increase operational productivity and management.

The company has numerous examples in the operational excellence theme of tools with the fundamental attribute of guaranteeing the same evaluation parameters in all countries where it has industrial operations. Thus, it becomes possible to share information, view internal best practices and replicate action plans. In this regard, the main platforms indicative of the productivity of InterCement will be presented below. Also of note is the emphasis on the improvement of the control and business and operational risk tools presented in the Compliance item, and for Safety, a key issue for the company and one that should be considered in all its strategic decisions.

# **Compliance**

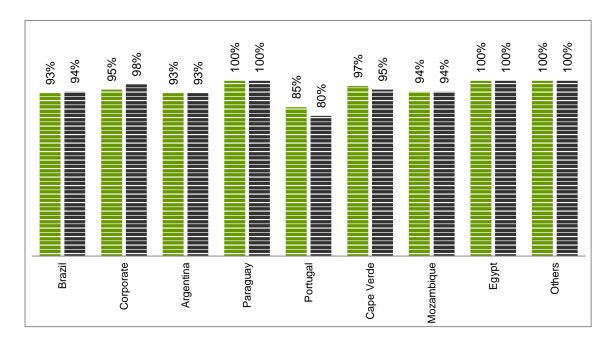
InterCement acts in an ethical and transparent manner in accordance with the laws and regulations of each country in which it operates. It also has internal regulations and is guided by the best market practices. To fully meet these requirements, the company continually seeks to enhance controls and prevent operational and reputation losses. For example, it undertook a very thorough mapping of its business and operational risks in 2014 and in 2015 it made a strong commitment to compliance, to monitor that all rules and policies are being complied with. This concern also extends to ensuring that all executives act according to strict ethical standards whether in the company, with the authorities, as well as with all stakeholders.

All the rules and policies of the company are being revised to ensure that this monitoring is done very effectively. At the end of the review of each of rule and policy, all administrative and operational staff are trained on the subject and sign a liability waiver through which they attest to know the behaviour expected of them and that they are aware of the possible consequences in the event of non-compliance. Each theme has a responsible executive - a compliance owner – who prepares the material, trains all people and becomes the focal point in each unit as regards that topic. This person responsible takes the results and questions to the Ethics and Compliance Committee which, in turn, reports them to the Executive Committee. The topics worked in 2015 were anti-corruption and antitrust.



#### **Training Courses by Country.**





The Ethics Line has also undergone changes in 2015 and went on to be coordinated in each country by independent companies which receive and channel the complaints or questions related to the Code of Conduct. The line is open to all target audiences. Complaints, queries or suggestions can be made anonymously, and the company undertakes to process 100% of them, with the help of an external audit when necessary.

A global variable compensation indicator of risk factors and compliance will be implemented for all executives from 2016.

# **Topics for the Compliance 2016 process**

#### **Corporate Governance**

**Focus**: Develop and begin implementation of the Compliance Process for Corporate Governance in all countries in order to identify the current scenario, standardize the process and start monitoring.

#### Mining Law

**Focus**: Develop and begin implementation of the compliance process for Mining Law, defining and training the Compliance Owner and Compliance Officers in each Business Unit.



#### **Procurement and Logistics**

**Focus**: Implement the monitoring process in the area of Procurement and Logistics Brazil, in order to ensure that the activities are being implemented in accordance with Policies, Standards and Procedures.

#### **Travel and Overnight Stays**

**Focus**: Implement the monitoring process in all business units in order to verify that travel expenses are in line with the Corporate Travel Standard.

# Safety

The safety issue is considered to be strategic in InterCement and, given its relevance, permeates all components of the Strategy Map, and all plans of action aimed at serving these components. SHE governance (Safety, Health and Environment) was restructured in 2015 in order to expand the results and make the sharing of concepts and information, follow-up actions and assessment of results more effective. CSI launched the Health Management Manual during the year, which should also guide the measures to be implemented in the company's operations.

SHE Governance is based on a committees' structure, made up of the Technical Committees, in which the corporate structure and SHE-related structures of the various countries participate, and the Strategic Committees, in which the SHE-related structures and also the Directors General of the business units and company chairman also participate. The role of the Strategic Committee is to continuously and critically evaluate the SHE Management System and relevant issues, propose solutions, share best practices and, based on this information, establish strategies for the company.

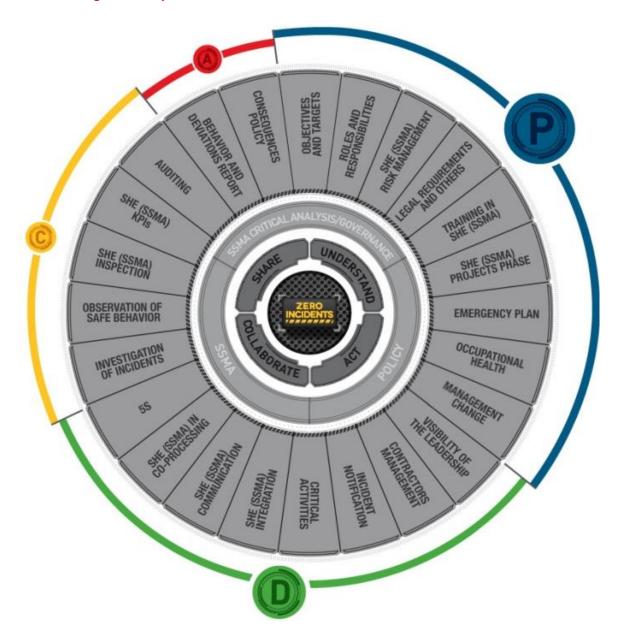
In the production units there are also Tactical Committees, formed by management level professionals of the unit, and Operational Committees, in which each area addresses the relevant issues such as inspections, accidents/incidents, monitoring and deviations and proposes solutions for the situations of SHE risk.

The meetings of the Technical Committees became monthly in 2015 and the Strategic Committee meetings are held every two months, in order to make the discussion and decisions regarding SHE more dynamic.

The motto is widespread in the company, "We do it safely or not at all". This gives the worker the right to refuse to perform any task identified as a risk out of control - without penalty against the worker.



#### SHE Management System



The health, safety and environment management system consists of 24 complementary processes, from which the implementation of the topic in all the company's production units is monitored. This system is aligned with the OHSAS 18001 and ISO 14001 standards and other contemporary SHE management methodologies and it provides corporate guidelines, standards and procedures, which are replicated in all countries where InterCement is present, even if these are not a local legal requirement. In this way, the best practices for the management of the topic are applied in each of the countries where InterCement operates.

In 2015, in line with development of InterCement Attitudes, the company gave greater focus to four of those 24 processes: leadership visibility, risk management, safe behaviour and management of



contracted personnel. Working on these four fronts was the essence of the behavioural safety project. These four themes will be joined in 2016 by SHE training and critical processes.

#### Behavioural safety

The **Behavioural Safety** project, consolidated in 2015, aims to call the leaders of InterCement to assume their role as agents in matters related to safety and environment, encouraging their teams to adopt safe behaviour. This process involves identifying and removing barriers to safe behaviour, the strengths and opportunities for improvement of the health and safety management system, as well as the continuing commitment to leadership, communication and positive influence on behaviour and the change in attitude.

Pilot projects were implemented in all units of InterCement during the year, and leaders received 12 hours of capacity building. In the training course, the leaders learned how to unite their teams to proactively identify problems. Once those problems were identified, the leaders received all the support of the Technical and Strategic Committees to foster the necessary changes in order to make the activities safer.

# **Business Intelligence**

InterCement uses a business intelligence tool (BI), internally called "Interintelligence", covering all the management information of the company. This tool unites multiple platforms that monitor the company's operating performance in several areas, such as sales, performance of kilns and mills and particulate emissions, energy and water consumption and OEE.

It is a tool in constant evolution. In December 2015 a new module was added: management of expenses, cash flow and working capital.

# **Monitoring performance indicators**

This tool, like the Business Intelligence tool, is applied to the management area. The technical sector has the Indicators Book, a tool that allows a comparison of the performance of all 40 InterCement cement plants. The analysis includes productivity, labour, kiln, mill, energy consumption indicators, among others, in a total of more than 100 indicators. This allows internal benchmarks to be identified that can then be established in other units.

#### IMS (InterCement Management System)

The IMS is a set of tools of the InterCement management system that enables the monitoring of all action plans for the improvement and sharing of best practices to increase productivity. The goal is to help all business units to improve their results, from a strategic, tactical and operational perspective. Two of the tools in the IMS are Matrix Management and PDCA (Plan, Do, Check, Act).

244 PDCA were worked in 2015, 58% of them related to "Improving Processes" and 22% to "Ensuring Results".



Of these 244 PDCA, 170 were developed in Brazil, 39 in Argentina, 20 in Portugal, 10 in South Africa, 4 in Mozambique and 1 in Paraguay.

#### Lean Office Implementation

InterCement started implementing the Lean Office philosophy in administrative areas in 2015. The pilot project was in the Brazil unit. The action is within the overall management system of the InterCement Management System (IMS), and it aims to optimize administrative processes in order to, in this way, identify and eliminate waste, bottlenecks and reworks, adding value to the final delivery of each process.

Two processes were put into practice in 2015, as the pilot action: Purchase Requisition to Invoice Payment and Billing of Concrete. These processes initially involve the Brazil Management System teams of Procurement, Concrete, Financial, Commercial, IT and Legal.

In the first process, the aim of the work was to increase procurement via contract, the elimination of contract leaks and it intended to replicate that learned, reducing the lead time. In the concrete-related process, the goals were to reduce billing errors, payment deadline extensions and financial losses. This reduced the Purchase Requisition to Invoice Payment process from 84 to 63 activities and the Billing of concrete process from 109 to 54 steps, generating productivity, eliminating waste and optimizing processes.

The implementation in the other areas of the company, after this first stage, will occur from 2016, expanding the Lean Office philosophy to the entire company.

Lean Office originates from the TPS - Toyota Production System, developed from the 1950s in Japan. Initially located on the production line, the philosophy constantly strives to increase the efficiency and flexibility of any process, reducing all types of waste.

# IV - ENSURE FINANCIAL DISCIPLINE

2015 was a challenging year for InterCement, especially due to the macroeconomic situation in the countries where the company operates. Two factors had the greatest impact in this respect. The first was the economic slowdown in Brazil, the country accounts for about 37% of the company's production volume. Moreover, it was a year of unfavourable exchange rates in most countries where the company is present.

The strategy of operating in various countries makes it possible to minimise the negative impact caused by some operations. The generally coordinated governance structure also allows planning and strategies to be constantly reassessed. The agility to adjust the company's direction, and subsequently, the strong commitment of the teams with the new positioning are a great advantage and these drove adequate results in 2015, despite all the external complicating factors.



The emergency adjustments due to the change of scenario and worsening of unfavourable situations, were focused on ensuring satisfactory standards of productivity and profitability were maintained, thus ensuring the continuity of the business in the long run. The commitment to financial discipline and strengthening the capital structure led to various actions such as the restructuring of staff and realignment of the cement production facilities in Brazil, selling the minority stake in Paraguay, new strategic focus for the concrete channel, actions that mitigated the unfavourable external environment and which also prepared the company for, in a positive scenario, a faster and more effective recovery.

Also of note was the new governance structure, as a result of the realignment in view of the company's challenges.

# **New Governance**

InterCement seeks the continuous improvement of its governance, with the aim of always having transparent management aligned with the company's growth needs. The top leadership remains focused on making the company move forward without departing from the Mission, Vision and Values established as strategic and responsible for the long-term sustainability of the business.

The company focused in particular, in 2015, on the development of a new governance model, the implementation of which was completed at the start of 2016. The main change in the Executive Committee, the highest decision-making level of the company and which reports to the Board of Directors, was the incorporation of executives responsible for the different geographical areas. The objective is to expand the business insight and make decision-making more agile.

The Executive Committee shall be composed of nine members: the chairman of InterCement, vice-chairman of Business Support, vice-chairman of Finance, vice-chairman of Engineering and vice-chairmen of Operations in Brazil, Argentina and Paraguay, Portugal and Cape Verde, and Africa, in addition to the Director of Strategic Planning.

In corporate terms, the Executive Committee now has the support of Area Committees, more technical and focused on their issues, and the following forums have become corporate governance bodies of InterCement: Ethics and Compliance Committee; Safety, Health and Environment Committee; HR Committee; Efficiency and Productivity Committee; Information Technology Committee; Finance and Investment Committee.



The Executive Committee of each country is supported by Management Committees, formed by the senior management of each geographical area, who meet once a week to ensure that the processes follow corporate policies and compliance with guidelines is the focus of the decision-making process.

CAD InterCement	InterCe Corpo	InterCement Units	
Committees:	Committees:		Committees:
Audit, Risks and Compliance	Executive Committee		Units Management Committee
Strategy, Investment and Finance	Information Technology Committee	Finance and Investment Committee	
Governance HR Sustainability	HR Committee	Efficiency and Productivity Committee	Units Sustainability Committee
	Ethics and Compliance Committee	Safety, Health and Environment Committee	Safety, Health and Environment Committee Units

# Restructuring corporate functions and operations in Brazil

Plan, organise and perform actions to implement strategic definitions is a principle that is heavily present throughout the company's history, as well as acting with speed and flexibility to adjust expectations based on new macroeconomic realities.

The slowdown in demand in 2015 led to a complete corporate restructuring, with a reduction of the workforce from 8,768 to 8,451 professionals. This occurred in operations in Brazil in particular, which presented a more forceful unfavourable external scenario. There, more profound adjustments were made in the administrative and operational areas.

Also, with regard to local operations, the entire production structure was streamlined. The country has 16 production units, and the decline of the construction market as a whole, and particularly cement sales (around 10%), required greater commercial focus - especially in terms of product adaptation and market approach - and redesign of productive activities, including partial or total shutdown of some lines and units (Jacarei, Suape and João Pessoa). The decision proved to be



right, because it made it possible to maximize production, which ultimately led to production records in some units.

In addition to the adjustment to the cement production map, a new business profile was established for the Concrete area, as described below. These two actions combined contributed to a satisfactory operating and financial result, in a very unfavourable scenario. This rapid alignment was crucial to reduce potential financial losses that could jeopardize the consolidation of healthy parameters for the operation, even in a challenging external environment.

# New concrete business profile in Brazil

InterCement has a very consistent position in the concrete business, because this is a major cement sales channel. In European countries, for example, the sale of cement via concreting services reach the 50% level.

In countries where InterCement operates, this level is much lower, but there is a growth trend. The merger with Cimpor and, earlier, with Loma Negra brought great expertise on the subject into the company, and it has been continuously leveraging its participation in the concrete business.

This process indicated that a new strategy for the concrete business in Brazil was needed, in a context of portfolio prioritization and transfer of control of low profitability plants – based on operational agreements with partners - and keeping the strategic intent of the company. InterCement conceived and advanced with an innovative partnership model in the segment, seeking greater participation in this channel through the leasing out of operations with low profitability and / or outside of the strategic plan of the business.

# **Global Procurement**

The company established the guiding principles of the Corporate Procurement Policy in 2015, defining the mission, health and safety, ethics, code of conduct, performance, best practices, responsibility matrix and risk management. This reorganization establishes centralized and / or hybrid models, value thresholds and authorization levels.

The working group formatted the Procurement Manual in four segments: guiding principles (including health and safety, ethics and code of conduct, performance and good practices), organisation (including responsibilities and separation between sourcing and procurement), resources (such as the assessment and recognition of suppliers) and risk management (critical inputs, matrix and strategic plan).

The goal for this set of actions is to maximize short-term results by leveraging purchases with corporate guidance (over EUR 300 million), which includes energy consumption (petcoke, coal, natural gas, electricity, etc.), materials and inputs for production (refractories, grinding balls, paper for bags, adjuvants, etc.). In 2015, it was possible to achieve savings of 15.6% for these categories.



# Improvement of working capital profile

The company undertook a rather austere management of its working capital in 2015, through a series of measures and negotiations undertaken according to the needs, characteristics and possibilities in each of its countries. This process to increase the efficiency of working capital management was accelerated in 2014 in order to optimize and accelerate the company's cash generation and mitigate the impact that the economic slowdown and the depreciation of the currency exchange rates could have on business.

One of the results obtained from the working capital management programme was a reduction of EUR 118 million and reduction of 14 days in Net Revenue compared to 2014, which positioned the company among the leaders of the global benchmark. This was possible due to renegotiation of better term contracts with key suppliers and customers, stock optimization initiatives, among others.

# **Debt profile improvement**

Until 2014, bank loans taken out for the units in all countries tended to be concentrated in the holding. From 2015, funding began to be sought, wherever possible, in local currency in the countries where InterCement operates. And the first large-scale operation has occurred: a long-term loan was taken on in local currency in Mozambique. Other loans should follow this initiative, putting the funding in the regions in which the cash is generated to ensure a debt profile in line with the strategies, investments and long-term income expectations.

# Strengthen the capital structure

InterCement adopted, besides the change in the management of bank financing, a series of new policies in 2015 to strengthen the company's capital structure and keep it financially sound over the next few years. Some of these measures began in 2015, and the successful experiences should continue over the next few years in order to strengthen the capital structure and increase the profitability of the company.

The actions already completed include: the sale of a minority interest in the Paraguayan operation, and a promissory sale agreement of a minority stake over a non-core asset <sup>2</sup> (Brazil); the realignment of the cement production units and the new strategic focus for the concrete channel in Brazil - with the inherent disposals; and the sale of non-strategic assets such as quarries in Brazil.

#### Local minority shareholders

InterCement evaluated that the sale of shares to minority shareholders of the same country can be beneficial for the business, as a local development strategy. The action reinforces the concept of sustainable partnerships and will be assessed on a case-by-case basis, in accordance with the long-term goals of the company, but with the priority condition that InterCement will continue to have

<sup>&</sup>lt;sup>2</sup> Operation described in Financial Statements (notes 2, 5 and 29)



majority control of the operation. The first negotiation under that strategy resulted in the sale of 16% of the capital of Yguazu Cementos (Paraguay) to Concretmix for EUR 32 million, the local partner, which now owns 49% of the company, while InterCement remains in control with 51%. Furthermore, it is worth mentioning the promissory sale agreement of a minority stake in a non-core asset in Brazil.<sup>3</sup>

#### Conversion of non-strategic assets into cash

The company closed 2015 with the sale of the quarries of Guarulhos and Barueri, São Paulo, for EUR 20 million. This action was complemented by the sale of the concrete producers falling in the above-stated strategic framework.

The strategy of selling assets that are not strategic began in 2013. This allows InterCement to concentrate on developing its core business.

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<sup>&</sup>lt;sup>3</sup> Operation described in Financial Statements (notes 2, 5 and 29)



#### **Investments**

The climate demanded the extension of investment schedules (investment compression), but meticulously assessing whether this extension of the term will not jeopardize the possible recovery and the company's future position. Investments totalled EUR 177 million.

The relevant items that concerned the results were not changed, and the investment was maintained. Some of the main investments in 2015 are presented next.

Construction of a coal mill in Egypt

Work began in June 2015 and it is expected that the new mill will be opened in the second half of 2016, for a total investment of EUR 47 million. The initiative will bring operational and financial benefits to InterCement, as the company will reduce fuel costs, resulting automatically in increased productivity. There are also environmental advantages, since the use of coal ensures production with lower emissions of greenhouse gases compared to the mazut presently used in the operation.

New filters in Matola unit - Mozambique

The new bag filters system was opened in August at the Matola unit, in Mozambique. It comprised a total investment of EUR 7.5 million. This ensured the unit aligned with the corporate sustainability guidelines of InterCement.

Palletizing sector in Paraguay

EUR 2.2 million were invested at the Paraguay unit to expand the attending service excellence, through the implementation of a cement palletizing area of about 1,250 square metres.



# SECTION D PERFORMANCE AND FINANCIAL RESULTS IN 2015



#### Cement and Clinker Volumes Sold

Record results in Argentina and market recovery in Portugal, mitigate slowdown of Brazil and readjustments in Egypt.

Cement and Clinker Volumes Sold					
	Jan - Dec				
(thousand tons)	2015	2014	Var. %		
Brazil	10,545	12,601	-16.3		
Argentina	6,572	6,178	6.4		
Paraguay	398	422	-5.7		
Portugal	4,427	4,371	1.3		
Cape Verde	167	182	-8.2		
Egypt	3,384	3,761	-10.0		
Mozambique	1,585	1,512	4.9		
South Africa	1,438	1,502	-4.3		
Sub-Total	28,516	30,530	-6.6		
Intra-Group Eliminations	-380	-551	-31.1		
Consolidated Total	28,137	29,979	-6.1		

The record performance in Argentina associated with the recovery of the domestic market in Portugal and excellent performance in Mozambique in the last quarter of the year, partially mitigated the slowdowns observed in Brazil, Egypt and exports from Portugal. Cement and clinker volumes sold in 2015 totalled 28.1 million tons, which is a 6.1% decline compared with 2014.

The effect of the decline of demand in Brazil became more pronounced in the 2<sup>nd</sup> half of 2015 due to the worsening political and economic situation accompanied by the startup of new cement plants, mainly in the Northeast and South regions, which contributed to the 16.3% slowdown compared to 2014.

InterCement reached a new record year in Argentina with historical volumes sold in 2015. The demand growth combined with the operational efforts to attract customers resulted in a 6.4% increase in volumes and in market share gains.

The appreciation of the local currency in Paraguay against the neighboring countries, (which was more pronounced in the last quarter) encouraged imports of cement and ended up limiting the company's performance.

In Portugal, following the trend of the end of 2014, the domestic market kept growing in 2015 at a rate of 10%. However, owing to the economic contraction of countries that have been export destinations, export volumes decreased therefore conditioning total volumes sold by this country.

A consumption slowdown was registered in Cape Verde from the start of the 2<sup>nd</sup> quarter, mainly caused by the slowdown of construction projects funded by the State.

In Egypt, as expected, an adjustment in volumes sold occurred after the company had anticipated the fuel supply failures in 2014 and met demand beyond its natural market share. In 2015, the



competitive pressure to increase market share following recent investments by some competitors ended up influencing the volumes performance.

In Mozambique, despite the pressure of imports, InterCement recorded an increase in volumes sold higher than that of the local market, surpassing the political and economic constraints and delays in the performance of public works.

Cement volumes sold grew in South Africa by around 5% as a result of a commercial strategy based on attracting new customers and moving into new regions.

**Sales**Increase in the average price of cement partially mitigates the contraction of sales.

Sales					
(6 : : : : - : - : - : - : - : - : -	Jan - Dec				
(€ million)	2015	2014	Var. %		
Brazil	814	1,168	-30.3		
Argentina	764	545	40.0		
Paraguay	53	56	-4.8		
Portugal	292	274	6.4		
Cape Verde	26	27	-3.4		
Egypt	217	247	-12.0		
Mozambique	161	149	8.4		
South Africa	131	126	3.7		
Trading / Shipping	302	305	-1.2		
Others	46	49	-5.9		
Sub-Total	2,806.4	2,947.4	-4.8		
Intra-Group Eliminations	-313	-343	-8.8		
Consolidated Total	2,493.3	2,604.0	-4.3		

Sales amounted, in accumulated terms, to EUR 2,493 million. A decline of 4.3% compared with the previous year. Excluding foreign exchange rate impact this would present an increase of +0.4% compared to 2014.

The evolution of the cumulative average sale price (+6.4%) partially mitigated the unfavourable evolution of total sales. Generally, a price growth trend was recorded, except in Brazil, Egypt (in this case where a recovery was already recorded at the end of the year) and in Paraguay (owing to the pressure of imports from neighboring countries).

The strong growth observed in Argentina is, above all, due to the positive growth of demand which was combined with price adjustments, aiming to incorporate inflation effect in costs. The same is true for Mozambique, Portugal and South Africa – the latest for recorded a positive performance by increasing the proportion of cement in the mix of products- thus partially offsetting declines in other regions.



#### **EBITDA**

InterCement margin of 20.8% remains one of the references in the industry.

EBITDA					
(C million)	Jan - Dec				
(€ million)	2015	2015 2014			
Brazil	173.2	323.9	-46.5		
Argentina & Paraguay	200.2	127.2	57.4		
Portugal & Cape Verde	32.1	33.3	-3.4		
Africa	109.4	148.2	-26.2		
Trading / Shipping & Others	2.8	0.0	n.m.		
Consolidated Total	517.7	632.6	-18.2		
EBITDA margin	20.8%	24.3%	-3.5 p.p.		

The EBITDA margin of InterCement in 2015 remained a reference for the industry, achieving 20.8% at a time when the majority of the sector underwent contraction.

This was a year that simultaneously required a response to a set of political and economic instability challenges, expected volumes downward adjustments, and adaptation to new sporadic market conditions. InterCement introduced, in this climate, a package of measures that helped sustain its EBITDA in 2015 at the level of EUR 517.7 million - 18.2% down compared with 2014 – and will only show their impact in a sustained manner from 2016.

These measures include: (i) suspension of the activity of underutilized production units; (ii) the enhancement of programmes to increase operational efficiency – by stimulating productivity, reducing costs, adjust the approach to the local market and present new products and services; (iii) the expansion of co-processing to all countries; (iv) restructuring the corporate and business support areas; and (v) the disposal of non-strategic assets.

Nonetheless, EBITDA generation fell short of the 2014 figure, influenced by (i) the effect of the contraction of economic activity, with the impact resulting from reduced dilution of fixed costs; (ii) the difficulty of increasing prices to match the inflationary pressure in a context of more aggressive competition in countries like Brazil, Paraguay and Egypt; (iii) the impact of exchange rate depreciation in most countries where the Company operates, reflected in its translation into euros but mainly in higher raw materials costs pegged to dollars - particularly in Brazil, Argentina and Mozambique; and (iv) the non-recurring effects of corporate restructuring (EUR 16 million) and credit repurchase relative to the reacquisition of a credit (Portugal) (EUR 8 million).

It is worth mentioning the EBITDA increase in Argentina, where market dynamics associated with operational efficiency enabled growing demand to be met in a pre-election period of expansion. Similarly, the performance of Paraguay and Portugal are also notable. In the former, due to the first full year of operation with an integrated production unit, which drove significant operational efficiency gains, and in Portugal due to the opportunities arising from the positive dynamic of the domestic market - reversing the negative cycle that had been registered since 2001.



Moving in the opposite direction was the EBITDA of the Brazilian operations, which reflects the impact of the political and economic crisis and also the increase in competition with new capacity starting up in the market. The company has pursued, in this climate, a set of operational and structural initiatives that helped it increase its strategic focus and performance robustness in order to tackle the anticipated short-term challenges.

Egypt recorded a correction of EBITDA, as envisaged. This stems from the atypical EBITDA recorded in 2014 – arising from the company's privileged position to supply the market in that year – and also the general decline in prices in 2015.

Finally, despite the increase in turnover recorded in Mozambique, EBITDA declined due to the impact on the costs structure of the depreciation of the local currency against the USD, especially for the relevance of the value on imported raw materials.

# **Amortizations and Depreciations**

Increased impairments and investment compared with 2014

Amortization and depreciation totalled EUR 238 million in 2015, compared with EUR 203 million in 2014. This was influenced by an increase through impairments of fixed assets by the amount of EUR 15 million - particularly in assets of the Trading/shipping activity and other items in Portugal - in parallel with the impact of investments carried out throughout 2014 – primarily in Paraguay.

# **Financial Results and Taxes**

Stable financial results. Taxes follow pre-tax results trend.

Financial results are in line with those of 2014. The exchange rate hedging policy implemented in holdings and financial companies throughout 2015 showed favorable results, namely on the coverage of Euro/USD exposure. However, in comparison with 2014, the benefit of the stability achieved compared with the losses then observed, was offset by the impact of the forex depreciation on the debt issued and intercompany loans at operations level.

Taxes on profits were positive (EUR 1.5 million), reversing the trend from the negative EUR 52 million of 2014. This arises from the trend observed in pre-tax income, while, on a consolidated basis and as in previous years, still no benefit is gained from the recording of deferred taxes related to the negative results of the holdings and financial companies holding debt.



# **Net Income**

EBITDA slowdown and increased amortization drive a fall of Net Income

Income Statement						
	Jan - Dec					
(€ million)	2015 2014		Var. %			
Turnover	2,493.3	2,604.0	-4.3			
Net Operational Cash Costs	1,975.5	1,971.4	0.2			
Operational Cash Flow (EBITDA)	517.7	632.6	-18.2			
Depreciations and amortisations	238.3	203.1	17.3			
Operating Income (EBIT)	279.4	429.6	-34.9			
Financial Results	-324.6	-327.5	-0.9			
Pre-tax Income	-45.2	102.1	n.m.			
Income Tax	-1.5	52.0	n.m.			
Net Income	-43.7	50.1	n.m.			
Attributable to:						
Shareholders	-20.2	41.0	n.m.			
Minority Interests	-23.4	9.1	n.m.			

The combined effect of EBITDA contraction and an increase of amortization and depreciation in net income prevailed in 2015, in a context of stability of financial results – thanks to the influence of the various initiatives taken to improve the company's financing profile - and favourable tax evolution.



### **Balance sheet**

Net Debt declines EUR 259 million. Total assets reaches EUR 5.9 billion

Consolidated Balance Sheet Summary					
(€ million)	Dec 31 2015	Dec 31 2014	Var. %		
Assets					
Non-current Assets	4,212	5,192	-18.9		
Derivatives	239	115	107.4		
Current Assets					
Cash and Equivalents	791	892	-11.3		
Derivatives	25	13	84.1		
Other Current Assets	645	756	-14.7		
Total Assets	5,911	6,968	-15.2		
Shareholders' Equity attributable to:					
Equity Holders	1,049	1,405	-25.4		
Minority Interests	452	829	-45.5		
Total Shareholders' Equity	1,500	2,235	-32.9		
Liabilities					
Loans & Obligations under finance leases	3,291	3,516	-6.4		
Derivatives	7	6	9.9		
Provisions & Employee benefits	137	145	-5.1		
Other Liabilities	975	1,066	-8.5		
Total Liabilities	4,411	4,733	-6.8		
Total Liabilities and Shareholders' Equity	5,911	6,968	-15.2		

Total assets of InterCement at 31 December 2015 was EUR 5,911 million, a 15.2% slowdown compared with 2014. That impact is influenced by the depreciation of the currencies of developing countries where InterCement operates.

The 32.9% reduction of shareholders' equity in 2015 results mainly from the aforementioned exchange rate depreciation against the euro on the translation of assets denominated in other currencies - including the Brazilian real, Argentine peso and South African rand.

Net debt at 31 December 2015 shows a EUR 259M decrease (10.4%) compared to the same period of 2014, falling to EUR 2,243 million. This trend is very noticeable from September 2015 to the end of the year, with this indicator falling 8.8%. This reflects the careful selection of investments, strict working capital control achieved through the implementation in the last 12 months of a plan for this purpose, and lastly the recent disposals of assets. These disposals include the sale of a minority stake in Yguazú Cementos (Paraguay) and the promissory sale agreement of a minority stake in a non-core asset in Brazil.<sup>4</sup>, along with other non-strategic assets such as two quarries and 13 concrete units in Brazil.

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<sup>&</sup>lt;sup>4</sup> Operation described in Financial Statements (notes 2, 5 and 29)



Strategically, the company will continue to comply with a set of initiatives to strengthen its capital structure, preparing itself the best way to embrace future opportunities for development. These initiatives include: the internal restructuring and optimization of production processes; seeking greater efficiency in the costs structure; precision and discipline in working capital management and CAPEX; and, the disposal of non-strategic assets.

#### **Cash Flow**

Working capital efficiency, CAPEX discipline and sale of assets improve cash generation.

	2014			2015		
€ million	Year	Q1	Q2	Q3	Q4	Year
Adjusted EBITDA	638	122	158	117	149	545
Working Capital	-40	-124	21	47	67	11
Others	-18	2	-7	-4	-50	-59
Operating Activities	579	0	172	161	166	498
Interests Paid	-234	-58	-25	-90	-49	-222
Income taxes Paid	-42	-1	-27	-4	-15	-47
Cash Flow before investments	303	-59	120	67	102	229
CAPEX	-199	-48	-28	-33	0	-109
Assets Sales / Others	9	8	2	1	50	61
Free Cash Flow to the company	113	-99	94	36	152	182
Borrowings, financing and debentures	1.412	112	36	59	30	237
Repayment of borrowings, financ. and debent.	-1.886	-38	-141	-137	-95	-411
Dividends	-1	0	-50	0	0	-50
Other investment activities	-117	40	20	-89	86	57
Changes in cash and cash equivalents	-479	14	-42	-131	173	15
Exchange differences	53	38	-29	-47	-11	-48
Cash and cash equivalents, End of the Period	802	854	783	605	768	768

The combination of greater efficiency in working capital management, greater discipline of CAPEX and sale of assets, made it possible to increase by EUR 68 million the Free Cash Flow which stood at EUR 182 million, despite de drop observed in EBITDA generation.

The implementation of the programme to increase working capital management efficiency was evident in the reduction of invested capital (EUR 52 million) especially in Brazil, Portugal and Egypt, where several initiatives were implemented to reduce the cash conversion cycle.

Greater CAPEX austerity, giving priority to large investments with rapid returns implies cash outflow restraint, of EUR 90 million in 2015 compared to 2014.

The Others item of Operating activities has contracted, reflecting the costs of restructuring, the reacquisition of a credit (Portugal) and also the transfer of non-recurring effects recorded in EBITDA.



Cash in from the sale of quarries and concrete units in Brazil, as well as the minority stake in Yguazu Cementos (Paraguay), is recorded in the Sale of assets/Others item.

Lastly, it should be noted that Other investing activities include funds, received in December, from the promissory sale agreement of a minority stake in Brazil<sup>5</sup> (EUR 56 million),

# Performance by country

Geographical diversification is a competitive advantage, but it requires continuous monitoring of the scenarios in each country and region and decision-making flexibility. Each country has its challenges, and InterCement acts to maximize the opportunities and minimize the possible risks as much as possible.

# BRAZIL BUSINESS UNIT

The Political and economic instability in Brazil in a post-elections year with many uncertainties ended up being reflected in a contraction of the economy estimated at over 3.8%, and in the depreciation of the real against the US dollar (by 29.0%) and euro (by 14.9%).

This climate led to a reduction in the level of investment, and therefore the demand for cement (-10%), which combined with the recent increase in competition by the startup of new production capacity in the Northeast and South markets, which are major business areas of this company, led to a slowdown in sales of InterCement (-16.3%).

InterCement implemented a series of measures to adjust to this situation and prepare to embrace the short-term challenges and development potential that the Brazilian market structurally holds. These measures were:

- Implementation of a programme to improve productivity, adjustment of the allocation of human and other resources and reduction of production costs - including innovation by additives;
- O Pursue the implementation of co-processing, optimizing its energy matrix;
- New approach to markets, intensifying the sales strategy and introducing innovative products and services;
- Closer relations with suppliers, strengthening partnership relations;

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<sup>&</sup>lt;sup>5</sup> Operation described in Financial Statements (notes 2, 5 and 29)



- Making the cement production structure more adequate, with the suspension of the operation of underutilized and low profitability units in the face of market conditions - such as the Jacarei and Suape mills as well as the kiln of the integrated João Pessoa plant ensuring the more efficient distribution of cement among the other units;
- Sale and rental of concrete plants in a restricted manner, i.e. guaranteeing loyalty contracts for the supply of cement by InterCement, in order to leverage the cement distribution channel in this way;
- O Disposal of non-strategic assets, such as the Guarulhos and Barueri quarries at the end of 2015 for EUR 20 million.

The above-stated measures, although their actual scope is still not reflected in 2015, have already contributed to the support of EBITDA, and it is hoped that their effective impact occur in 2016.





### ARGENTINA AND PARAGUAY BUSINESS UNIT





The growth dynamic of sales and increased efficiency of operations in these two countries, resulted in a 3.3 p.p. increase in EBITDA margin to 24.5% highlighting the effective costs reduction with full production in Paraguay - which posted the best margin of the company in individual terms.

The Argentina and Paraguay business unit made the greatest contribution to consolidated EBITDA in 2015, with EUR 200 million, accounting for about 39% of the total EBITDA of the company. These results embody an impressive growth of 19pp.



The pre-election period in Argentina stimulated the economy in 2015, contributing to an increase in investment and cement consumption. In this year, the construction sector established itself as one of the pillars of the economy, stimulated by both public investment in infrastructure and by residential development.

2015 was again a record year for InterCement cement sales in Argentina. Sales grew 6.4% from 2014 and even surpassed 2013, which was already a year of record sales.

Strategically customer oriented and focused on satisfying local demand dynamics, InterCement has reaffirmed its leadership position locally, proceeding with a continued and sustained growth of its market share.

The operational efficiency of production and distribution, together with the adopted commercial policy, drove an yoy increase in EBITDA margin, despite the exchange rate pressure on costs – rising from the depreciation of the peso against the dollar, which was heightened in the post-election period, at the end of the year.

Thus, EBITDA growth in 2015 compared with 2014 was more than 50%, reflecting the merits of the local operation and assertiveness of its strategy.

The continued growth and improved operating performance of the business in Argentina gives this country a prominent role in the portfolio of InterCement, broadly contributing to the increasing representation of the Argentina and Paraguay business unit in the generation of the company's EBITDA.





Paraguay continued to benefit from a positive economic cycle in 2015. Even though its economy was contaminated by the uncertainty in neighbouring countries, it was one of the countries with the highest economic growth in Latin America, hence encouraging foreign investment.

Cement demand growth remained strong in 2015. However, the economic slowdown and the depreciation of the currencies of neighbouring countries, especially in the 4<sup>th</sup> quarter, spurred an important flow of imports of cement surpluses at lower prices, reflected in the sales of local producers and a fall of average prices in this market.

InterCement registered, for the first time in 2015, a full year of integrated cement production in Paraguay, which combined with operational stability, confirmed the merits of InterCement having invested in the local integrated cement plant. This strategy allowed EBITDA and the EBITDA margin to almost double, making it a benchmark of the company.

In terms of investments, the new palletizing sector opened at this unit in 2015 is to be mentioned.



# PORTUGAL AND CAPE VERDE BUSINESS UNIT

The good performance of Portugal was the key driver for the growth of the operating results of the business unit. This business area, driven by the recovery of the Portuguese domestic market, increased its EBITDA excluding non-recurring items by approximately 20% in 2015, with a margin improvement of 1.8 p.p. compared with 2014.



The Portuguese economy confirmed the previous year's growth trend, functioning as an incentive for the growth of cement consumption, estimated at about 10% compared with 2014.

Sales of InterCement accompanied the good momentum of the internal market, while export activity declined due to the economic downturn in some destination countries in North Africa, which were economically impacted by the fall in the oil price. Nevertheless, the 10% increase of domestic sales allowed the volume of consolidated sales of Portugal to surpass the values observed in 2014 by 1.3%.

The increase of the share of domestic sales over exports had a positive effect on the evolution of turnover which surpassed 2014 by 6.4%, operating as a foundation for the generation of EBITDA in the year.



The financial loss from the repurchase of a credit related to ongoing legal process, justifies EUR 8.4 million non-recurring impact affecting EBITDA.



2015 was marked by a slowdown in cement consumption in Cape Verde, mainly due to the slowdown of construction projects funded by the State. This decline was however mitigated by the development of investments in the tourism sector.

The work of the management team should be noted, which despite a reduction in sales and turnover, managed to generate more EBITDA than in 2014 through costs containment.

#### **OPERATIONS IN AFRICA**

Operations on the African continent posted, in consolidated terms, a lower operating result than that of 2014, essentially due to the anticipated adjustment in Egypt and the impact of the depreciation of the metical against the dollar. As a result, the joint contribution of InterCement operations in Africa to the group in 2015 was 21% while in 2014 it was 23%. Nevertheless, it is expected that its contribution gains further share in the consolidated results of 2016.



The GDP of Egypt will have grown by around 4% in 2015 and the cement market followed this trend, achieving national consumption over 53 million tons in the year.

InterCement in Egypt as envisaged, recorded a sales correction after having reached an extraordinary level in 2014 (over 18% in terms of sales and over 37% in turnover higher than in 2013) - a period in which InterCement, anticipating the shortage of fuel, implemented management of fuel and raw materials stocks that allowed it to constantly supply market demand, unlike some of its competitors.

Competitiveness increased in 2015, by virtue of the need for the profitability of different investments made by competitors, causing a widespread fall in cement prices. This fact, combined with an increase of energy costs by about 15%, has penalized the generation of EBITDA.

Considering the current energy policy in Egypt, which comprises the removal of government subsidies on energy consumption, InterCement is pursuing a programme of optimization of its energy matrix. This programme, besides the investments in co-processing, includes the operational startup



of a new coal mill in 2016, an investment of around EUR 47 million, which will have a significant impact on the profitability of the operation.

# MOZAMBIQUE BUSINESS UNIT



The Mozambican economy is estimated to have grown by about 7% in 2015, positively influencing the construction industry.

The cement market, although limited by some delays in the performance of public works, followed this trend. It is forecast it grew positively from 2014, by around 3.3%. On the other hand, the pressure of imports has decreased, also as a consequence of devaluation of the metical against the dollar which ended up inflating the price of imported cement.

Again InterCement has reaffirmed its leadership with a market share of about 60%. In fact, after a less favourable 1<sup>st</sup> quarter in terms of sales, and 2<sup>nd</sup> and 3<sup>rd</sup> quarters with timid growth, the last quarter of the year posted a double digits growth rate compared with the same period of 2014. This growth is similar to that registered in 2014 and it raises the prospects of 2016 being a year of strong growth.

In view of the devaluation of the local currency against the dollar, the commercial strategy implemented from the beginning of the year turned out to be crucial to achieve the turnover in local currency with growth of 15.6%.

The impact of some operational constraints in the 1<sup>st</sup> quarter and disruptions in the energy supply in the 3<sup>rd</sup> and 4th quarters were observed on the cost side. The depreciation of the metical against the dollar also impacted on local costs. The latter effect had a greater impact, given the need to import raw material to offset the above-referred constraints, and in order to meet the growing demand observed throughout the year.

Nevertheless, the EBITDA in local currency increased compared with 2014 – which was, however, consumed by the exchange rate - already benefiting from the effects of the management measures set out by the "Mutirão" and "Mutirão Gente" projects. These projects aim to improve operating efficiency and optimize local resources.

Investments made in Mozambique in 2015 include the new bag filter system in the Matola unit, in Mozambique, as part of the policy to align this unit with the corporate sustainability guidelines of InterCement.

InterCement announced in June, aware of the immense potential of this country, the beginning of the process to build a new integrated cement production plant in Nacala.



# SOUTH AFRICA BUSINESS UNIT



In South Africa, boosted by GDP growth at the same pace of previous years (1.4%), it is estimated that the cement market followed the same trend, resulting in growth slightly over 1% compared with 2014.

Although 2015 cement and clinker sales in South Africa were 4.3% below sales in 2014, the performance of cement sales, individually, exceeded 2014 values by 5.9%. This is due to the fact that in 2014 the company registered atypical total clinker sales owing to sporadic sales completed.

The opposite trend in EBITDA and Sales should be noted. Sales recorded growth of around 4% compared with 2014. 2015 performance reflects not only the growth of cement sales in the total mix, but also the commercial approach to the market as well as the measures to improve efficiency introduced in the second half of the year.







# SECTION E OUTLOOK



# **Outlook – InterCement Perspectives**

Focus on efficiency, discipline and agility, consolidate bases for prosperous development

2015 was a year of challenges. Nonetheless, several measures taken in terms of governance, management of operations and strengthening the balance sheet, allowed InterCement to prepare for 2016 soundly and with expectation of growth.

The increasing integration of its international portfolio along with the measures and actions of 2015 reported herein, equip InterCement with the flexibility needed to perform the fine and rapid adjustments of its operations and their management, in order to fully comply with its 2023 Vision: to be among the top ten international cement companies and among the five most profitable.

A new corporate structure, with participation on the Executive Committee of heads of all InterCement regions and changes in the Board of Directors ensure greater proximity of the company's highest decision-making bodies to the operational routines. This governance change significantly reduces the time for the effective implementation of the necessary strategic changes in the light of new scenarios, whether macroeconomic or market-based.

From a macroeconomic point of view, the performance of the BRICS in 2016 should influence the international economic outlook. The increasing possibility of a slowing Chinese economy and its effects on world economies coupled with the scenario of GDP decreases in Brazil and Russia may have implications on other world economies. On the other hand, the slow but consistent growth of the world's major economies can bring beneficial balance to international trade.

2015 was a year of mergers of the giants of the cement industry and 2016 should be a year of consolidation and strengthening of the positions acquired or defence of the space already won in the past.

InterCement shall pursue a strategy of strengthening its position in the markets in which it operates, with a particular focus on South America, in order to be better positioned for the potential economic recovery of the region and its impact on cement consumption.

The focus on the development of its strategic operations, moving closer to the markets and its customers, together with the increased productivity, greater occupation of capacity and operational efficiency will be the constant emphasis in forthcoming years. The opportunities in the additives field and expansion of co-processing processes will be developed across the board throughout the entire company.

In financial terms, InterCement continues with the initiatives to strengthen its balance sheet, including:

- The working capital efficiency plan, which in 2015 reduced EUR 118 million and 14 days of net revenue compared to 2014;
- Fine-tuning its debt profile;



- Investment discipline (budgeted at about EUR 110 million for 2016) which, in addition to maintenance investment of about EUR 65 million per year, for the next three years, focuses on the completion of the coal mill in Egypt and the co-processing and additives projects;
- Identification of non-strategic assets to be sold.

In other words, a set of initiatives that have an impact on the generation of immediate and future free into a reduction of debt. This, along with EBITDA generation cash flow, will translate stimulus(expected to keep this indicator at the present level in 2016), will allow the company's leverage ratio to be reduced.

By these means InterCement is preparing to re-embrace new development opportunities, alone, or doing justice to its slogan of "building sustainable partnerships", or together with new partners.



2016 is expected to be a year of major challenges for the Brazilian economy, with the latest outlook pointing to a slowdown in GDP of 3.5% and a scenario of stagnation in 2017<sup>6</sup>. Brazil, still under the spectre of political instability, is faced with the need to restore the confidence of economic agents, promoting the containment of inflation and reducing the budget deficit, in order to alleviate fiscal and monetary contraction.

The residential sector, due to its scale and the deficit of housing, continues to be the main driver of cement consumption in Brazil. Although it is affected by the current economic context, it will benefit from government interventions such as the start of the 3rd phase of the "my home, my life" programme. The urgency of infrastructure in Brazil has promoted a government policy of delivery of concessions and privatization projects in order to ensure their construction is accelerated.

It is forecast that in 2016 cement demand will still be slow, translating into a fall of between 7 and 10%, although, on the other hand, it is estimated that the signs of greater definition and the political stability expected for 2016 will drive, in 2017, the growth in demand for cement suppressed to then.

In Brazil, InterCement will continue to implement a set of adjustment measures in the current context of the local market, while at the same time it will continue with the introduction of measures to increase the efficiency of its operations - improving its costs structure. This will create the conditions to contain EBITDA decline below 5%7 arising from the activity slowdown, and come to leverage its growth in the market upturn expected to occur in subsequent years.

#### These measures include:

- The adequacy of prices and products, aiming for greater alignment with demand;
- II. The sale of concrete plants, keeping InterCement cement supply contracts and thus safeguarding its distribution channels today on the ground;

<sup>&</sup>lt;sup>6</sup> Data IMF World Economic Outlook (WEO) January 2016 Update

<sup>&</sup>lt;sup>7</sup> In local currency



- III. The suspension of the activity of underutilized units at times of a weaker market, constantly monitoring their profitability and strategic direction;
- IV. Various investment to increase productivity and energy efficiency, which include those allocated to the development of the co-processing activity.



# **Argentina**

Surpassing the exchange rate adjustment that had been predicted (28% depreciation of the peso in 2015), Argentina enters 2016 in a climate of optimism and confidence with its new economic guidelines that will be reflected in the level of activity from 2017. Greater economic liberalization and opening up to the exterior, the prospect of resolving the issues with international creditors, the IMF intervention request and the panoply of measures to rebalance public accounts have been promoting an increase of confidence among domestic and international economic agents and well as attracting domestic and foreign investment for the development of the Argentine economy in the short term.

The residential sector will continue to show good momentum. On the infrastructure side the plan envisaged by the government amounts to USD 25 billion over four years, while the power generation and oil and gas projects, to be completed by 2024, are budgeted at about USD 300 billion.

In this context, InterCement in the role of market leader, reaffirms its commitment to ensure the supply of cement demand assuming its role as a catalyst for the local economy and reopening the analysis of capacity expansion projects it has in its portfolio.

After a cycle of more than 10 years of growth, cement consumption in Argentina reached a sustainable level, registering record sales peaks in 2015. Thus, despite the expected stability in sales and commercial dynamics, the depreciation of the local currency will prevent the growth of sales, when consolidated in euros. Subject to the same effect, the generation of EBITDA may also be impacted by the current time of adjustment in the local economy, i.e. the increase of labour and energy costs (removal of subsidies and the pricing in USD).



The positive dynamics of the Paraguayan economy should continue to stand out in the region, with the construction sector as one of its main drivers, albeit with lower growth rates in 2016 due to the commodity price decline and the "el niño" effect.

In a market where the residential sector accounts for about 70% of cement consumption, the new micro-credit projects aimed at financing the housing shortage, estimated at about one million homes, are to be highlighted.



InterCement, with local integrated production capacity, will pursue its activity in Paraguay focused both on the development of its commercial position - already envisaging a double-digit increase of sales in 2016, and the inherent increase in market share — in line with the optimization of the efficiency of its latest production facility. This context should result in an EBITDA increase<sup>8</sup> estimated at over 30%, increasing the EBITDA margin of Yguazu Cementos to a benchmark for the company.



The Portuguese economy continues showing recovery, mainly driven by private consumption and national export growth.

InterCement predicts growth of sales internally (with demand indicating growth between 5 and 7%) but slower exports - due to the retraction of the economies of some of its customers, particularly affected by the decrease of the oil price.

InterCement is advancing with the exploration of new markets to counter this trend, having already extended its portfolio of export customers beyond the West African coast, to today supply from Portugal customers in North and South America, among others.

Operations in Portugal will continue to pursue productivity initiatives, making their response to the external market more agile, which is presently the destination of 70% of its production.

In this context, the strengthening of the domestic market should allow EBITDA growth in 2016.



The Cape Verde economy is stable providing the desirable attractiveness to foreign investment. The development of tourism infrastructure along with the "home for all" programme in the residential sector will fuel local demand.

<sup>&</sup>lt;sup>8</sup> In euros





It is estimated that the Egyptian economy will advance at a rate of 4.26% in 2016<sup>9</sup>, in an environment of growing political and economic stabilization and accreditation of its institutions. Simultaneously, the economic adjustment measures introduced by the Egyptian government have been promoting investor confidence and attracting foreign investment.

The strengthening of the country's economic growth is to be achieved. Demographic and social characteristics that support the residential sector growth in Egypt, accounting for about 75% of cement consumption, are to be kept. Furthermore, the infrastructure plans are encouraging, ranging from the urban development plans for a new capital, the expansion of the Cairo subway system and the modernisation and expansion of the rail and port networks.

The EBITDA contribution of this business unit to consolidated EBITDA is expected to grow to more than 30%, in 2016<sup>10</sup>.

This will be a year of significant improvements in InterCement operations, against a backdrop of price recovery - particularly due to the improvements made to Kiln 1 at the Amreyah plant and optimization of the energy matrix. In addition to the expansion of co-processing, the entry into operation of the new coal mill in the 2<sup>nd</sup> half of 2016, will immediately provide increased flexibility and raise energy efficiency, which will benefit the competitive positioning of InterCement in this region.



The economic outlook for Mozambique remains robust, despite some recent political uncertainty. Local GDP growth is estimated at 8.2% for 2016, despite the monetary and fiscal adjustments<sup>11</sup>. Growth of 7.5%-8% per year may be envisaged the medium to long term – driven in particular by the potential investments in natural gas and coal exploration projects.

The prospects of the activity of InterCement in Mozambique are especially optimistic in view of the conditions of operational stability, the expected recovery in cement consumption (growth above 15%) and the less favourable environment for cement imports. These facts ensure appropriate competitiveness, a catalyst for major growth of InterCement's operations in Mozambique, as a local operator.

<sup>&</sup>lt;sup>9</sup> Data IMF World Economic Outlook Database October 2015

<sup>10</sup> In euros

<sup>&</sup>lt;sup>11</sup> Data IMF World Economic Outlook Database October 2015



Moreover, the interventions resulting from the company's industrial, commercial and human resources task forces in Mozambique – Mutirão and Mutirão Gente – have already had a positive impact on EBITDA generation, which is expected to grow in euros by over 8%<sup>12</sup>.

Lastly, we refer to the start of the project to build a new integrated cement production plant in Nacala, Mozambique.



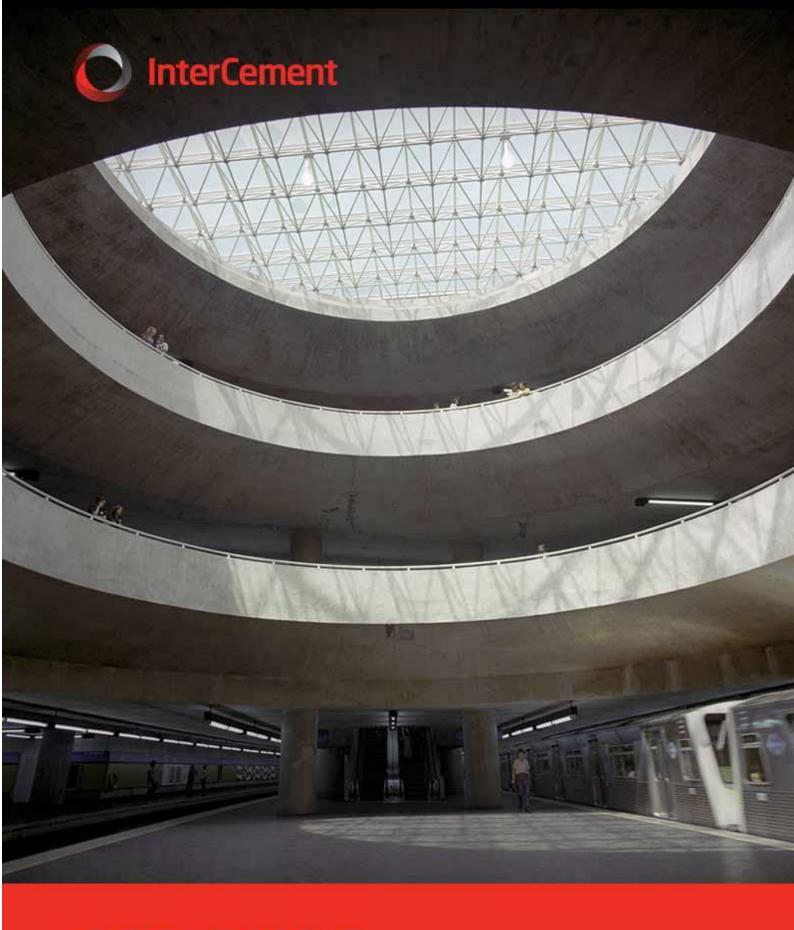


The South African economy is expected to record GDP growth short of 2% in the short term, however expectations of average growth of 2.5% over the next four years should drive the increase in cement consumption in the country. <sup>13</sup>

In South Africa InterCement continues with customer loyalty initiatives already started in 2015, expanding its operating zone beyond the immediate neighbouring urban areas of its plants. It is also conducting, in parallel, a programme to raise efficiency, with the most significant results in 2017. Increased EBITDA generation is not forecast for 2016.

<sup>12</sup> In euros

<sup>&</sup>lt;sup>13</sup> Data IMF World Economic Outlook Database October 2015



SECTION F
SUBSEQUENT EVENTS



# **Subsequent Events**

# Reacquisition of Credit (Portugal)

As mentioned in Note 36, in January 25, 2016 the Supreme Administrative Court refused the claim presented by the Group and already in February 2016 the Group held the reacquisition of the equivalent credit for the amount of EUR 14.2 million. Based on the doctrine and jurisprudence known about the matter, and in the context of specific review of the constitutionality attributed to the Constitutional Court, in February 8, 2016, the Group filed an appeal against the decision to that Court. It remains convinced of the merits of its case and, therefore, expects, in the end, the preservation of the credit in the amount that had been initially recognised.

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