InterCement

INTERIM CONSOLIDATED FINANCIAL REPORT

1st Half
2016

Building Sustainable Partnerships

Results penalized by economic adversity, constrained operations and one-off impairment in Brazil

EBITDA positively impacted by growth in Mozambique, Paraguay and Cape Verde, although not enough to offset the contraction occurred in Brazil, Portugal and Egypt, while Argentina remain the leading contributor.

InterCement sold 12 million tons of cement and clinker on the 1stH. Consumption was down in Brazil (political-economic crisis), in Argentina (planned retraction following new government's adjustment programme), and exports (lower commodities prices).

Despite the improvement observed in average prices, Sales of 897 million euros contracted by 31% year-on-year and 11% excluding the negative exchange rate impact of 290 million euros.

EBITDA contracted 40% to 166 million euros, though initiatives on operating efficiencies and reduction in the concrete business in Brazil mitigated the slowdown and forex losses of 62 million euros.

Highlights per Business Unit:

- **Brazil** – construction sector highly affected by the exceptional political-economic instability;
- **Argentina** – leading contributor to EBITDA, though growth was offset by peso devaluation;
- **Paraguay** – Q2 EBITDA growth reflected rump-up completion;
- **Egypt** – higher competition while industry upgrades energy matrix;
- **Mozambique** – growth, despite political-economic instability impact on cement consumption;
- **South Africa** – commercial dynamics delivered. Maintenance stoppages curbed EBITDA;
- **Portugal** – contraction of local market; lower commodities prices affected exports;
- **Cape Verde** – market dynamics overcame previous quarter.

Net Losses of 271 million euros, reflected one-off charge of 243 million euros related to goodwill impairment in Brazil in addition to lower EBITDA and exchange losses.

Assets stood at 5,877 million euros, with rigorous disciplined CAPEX, while Net Debt slightly increased to 2,638 million euros influenced by BRL appreciation.

Main Indicators						
	Jan - Jun			2nd Quarter		
(€ million)	2016	2015	Var. %	2016	2015	Var. %
Cement and Clinker Volumes Sold (thousand ton)	11,791.7	14,044.4	-16.0	5,761.7	7,251.2	-20.5
Sales	897.5	1,302.6	-31.1	443.4	666.0	-33.4
EBITDA	165.5	275.5	-39.9	87.7	153.5	-42.9
EBITDA Margin (%)	*18.4%*	*21.1%*	*-2.7 p.p.*	*19.8%*	*23.0%*	*-3.3 p.p.*
Net Profit (1)	(271.1)	22.6	n.m.	(231.4)	5.0	n.m.
Free Cash Flow to the company	(206.2)	(5.6)	n.m.	(107.9)	93.8	n.m.

(1) Attributable to Shareholders

1. Operating Performance

Cement and Clinker Volumes Sold

Market constraints in Brazil, adjustment in Argentina and slowdown of exports

Cement and clinker volumes sold of 12 million tons in the first half were 16% below the same period of 2015, aggravated by lower consumption and increased competition in certain geographies observed in the 2nd quarter.

The political and economic instability in Brazil in the 1stH, impacting on unemployment, investment and government spending, ultimately retracted the construction activity, compressing cement consumption by 15%. Besides decline in demand, competition was intensified by the recent entrance of new production capacity.

In Argentina, Loma Negra reaffirmed its market leadership during a semester of expected retraction following new government's adjustment programme. In Paraguay, the operational efforts of InterCement (rump-up of its new capacity and attraction of new clients and markets) in a rather favourable market climate allowed for a 14.7% growth in sales in the 2nd quarter.

In Portugal, consumption contracted 9%, due to the completion of two major works in the infrastructure sector in 2015 and the delays in the start-up of public works in 2016. The Portugal Business Unit also recorded a decline of 40% in exports, derived from the lack of hard currency in African markets and a less favourable context of commodity prices.

InterCement Sales in Africa remained stable compared to the previous year. In fact, sales in Egypt fell by 12% in a stiff competition environment, although recorded growth in the other African countries. In Mozambique the company took advantage of a less competitive import business, having recorded a 2-digit growth in sales, while Cape Verde showed a sales growth of 17%, as a result of the strong vibrancy of works in the tourism sector and the local investment programme underway.

Cement and Clinker Volumes Sold						
(thousand tons)	Jan - Jun			2nd Quarter		
	2016	2015	Var. %	2016	2015	Var. %
Brazil	4,288	5,379	-20.3	2,021	2,648	-23.7
Argentina	2,772	3,226	-14.1	1,364	1,710	-20.3
Paraguay	201	196	2.8	112	98	14.7
Portugal	1,523	2,367	-35.7	793	1,248	-36.4
Cape Verde	104	89	17.4	55	43	28.1
Egypt	1,560	1,769	-11.8	708	898	-21.1
Mozambique	782	664	17.8	414	372	11.2
South Africa	658	625	5.2	342	319	7.5
Sub-Total	**11,889**	**14,315**	**-16.9**	**5,810**	**7,336**	**-20.8**
Intra-Group Eliminations	-97	-271	-64.1	-48	-84	-43.2
Consolidated Total	**11,792**	**14,044**	**-16.0**	**5,762**	**7,251**	**-20.5**

Sales

Stonger commercial dynamics mitigated sales contraction and forex effects

Sales reached 897 million euros, compared to the 1,303 million recorded in the 1st H of 2015. Although the average cement price increased, Sales declined due to both the contraction of activity, and essentially, the adverse impact of forex evolutions against the euro (290 million euros).

However, the reinforcement of InterCement commercial initiatives in the 2nd quarter mitigated the exacerbation of the sales contraction recorded in this period.

In local currency and compared to the 1st H of 2015, the positive performance of Argentina (+19%) outstood, as well as the performance of most of the operations in Africa, where Mozambique stood out growing more than 30%.

In Argentina, the buoyancy and commercial positioning of Loma Negra enabled mitigated the consumption adjustment and the depreciation of the local currency (38%) against the euro. This was also highly evident in Mozambique and South Africa, where InterCement increased its market share notwithstanding the price adjustments in line with the inflationary pressure of its costs.

In Brazil, the atmosphere of political and economic exceptional uncertainty on the 1st H to held back the construction sector - constraining cement demand for cement in both the infrastructure and residential areas-, while the industry brought in extra new capacity, which turned to increase competition locally affecting both volumes and prices – despite the recovery trend on the latter already observed in August.

Sales						
(€ million)	Jan - Jun			2nd Quarter		
	2016	2015	Var. %	2016	2015	Var. %
Brazil	257	474	-45.8	122	228	-46.5
Argentina	269	364	-26.2	135	196	-31.0
Paraguay	23	27	-13.7	13	13	-0.1
Portugal	114	151	-24.0	61	80	-24.0
Cape Verde	17	14	26.4	9	7	32.2
Egypt	96	124	-22.5	43	63	-31.3
Mozambique	64	73	-12.8	30	41	-26.6
South Africa	49	61	-19.3	26	31	-16.5
Trading / Shipping	83	173	-52.2	35	85	-59.4
Others	22	24	-5.0	11	12	-1.3
Sub-Total	**995.4**	**1,484.6**	**-33.0**	**484.6**	**754.6**	**-35.8**
Intra-Group Eliminations	-98	-182	-46.2	-41	-89	-53.5
Consolidated Total	**897.5**	**1,302.6**	**-31.1**	**443.4**	**666.0**	**-33.4**

EBITDA

Lower fixed costs dilution and forex offset increasing efficiency initiatives.

InterCement recorded EBITDA of 165.5 million euros, compared to 275.5 million euros of the 1st H of 2015. This outcome was especially conditioned by the adverse context in three markets – Brazil, Egypt and Portugal – and the dilution of fixed costs inherent to activity contraction, as well as by the depreciation of all the operating currencies against the euro. Excluding adverse forex impact of 62 million euros, EBITDA contraction would have been contained to 22%.

In Brazil, a stronger commercial approach together with the adjusting cost structure measures (rationalisation of the industrial network and various initiatives with impact on SG&A), though poising this business unit to benefit from the first recovery signs observed in 3rd Q, were still not enough to reverse the declining earnings observed in the 1st H.

In Egypt, EBITDA margin has already increased by 2.6 p.p. in the 2nd quarter with the on-going energy matrix optimisation process, a trend to boost from September onwards, with the start-up of the new coal mill. Even so, competition pressure pre-energy matrix optimization on the 1st H prevented EBITDA growth.

In Portugal, despite exports contraction and domestic consumption retracting to 2014 figures, operational restructuring initiatives and CO_2 permits management (benefits of 10 million euros vs. 14 million euros in the 1st half of 2015) allowed for an EBITDA higher than achieved in 2014 but still behind the one registered in 2015.

In Argentina, despite 1st H market adjustment, Loma Negra was able to mitigate the increase in costs (due to the pressure exerted by inflation), keeping the EBITDA margin stable in the semester. Loma Negra also demonstrated enhanced efficiency by increasing the generation of EBITDA in local currency by 16%.

In Paraguay, Cementos Yguazu showed a recovery in the 2nd quarter, leveraged by its successful commercial strategy. EBITDA surpassed that of the previous year (+29% against the 2nd quarter of 2015) and the EBITDA margin increased by 8 p.p. Once again, Cementos Yguazu stood out as having recorded the highest operating margin in InterCement's portfolio (37%).

In South Africa, commercial dynamics benefits on local sales were neutralised by the increased cost of raw materials, maintenance interventions and unfavourable forex. Nevertheless, the 2nd quarter recorded an improved performance, reflected on a modest increase of the EBITDA margin.

In Mozambique, Cimentos de Moçambique reaffirmed commercial strength reinforcing its market share and reflecting simultaneously on prices the impact of the depreciations of the metical (against the US dollar) on its production cost. This allowed an EBITDA increase on the 1st H, despite the effects of the recently observed political and economic constraints.

InterCement's EBITDA margin presented a positive evolution throughout the 1st half, having risen from 17.1% in the 1st quarter to 19.8% in the 2nd quarter. However, it was still below the EBITDA margin recorded in the same period of the previous year.

EBITDA						
(€ million)	Jan - Jun			2nd Quarter		
	2016	2015	Var. %	2016	2015	Var. %
Brazil	28.8	82.3	-65.0	12.1	41.7	-71.1
Argentina & Paraguay	70.7	95.3	-25.9	35.6	51.3	-30.7
Portugal & Cape Verde	25.1	35.6	-29.4	17.0	25.9	-34.5
Africa	42.4	57.6	-26.3	24.9	30.8	-19.1
Trading / Shipping & Others	-1.5	4.7	n.m.	-1.8	3.8	n.m.
Consolidated Total	**165.5**	**275.5**	**-39.9**	**87.7**	**153.5**	**-42.9**
EBITDA margin	***18.4%***	***21.1%***	***-2.7 p.p.***	***19.8%***	***23.0%***	***-3.3 p.p.***

2. Depreciations, Amortisations and Impairments

One-off goodwill impairment in Brazil

Depreciations Amortisations and Impairments amounted to 344 million euros. The increase versus the 108 million euros of the same period of the previous year was essentially due to the recognition of an impairment on the goodwill of Brazil. In spite of the undeniable potential of the Brazilian market (both due to its demographic features and its evident deficiencies regarding infrastructures and housing), the impact of the current political and economic context on the outlook for the economic and financial indicators determined an accounting adjustment of 243 million euros.

3. Financial Results and Taxes

Forex penalizes Financial Results

Financial Results were penalized by the accounting effects of the exchange rate fluctuations on Intercompany Loans, therefore with no cash implications.

Tax evolutions resulted from negative Earnings Before Taxes.

4. Net Income

1st H EBITDA decrease, impairments and forex led to Net Losses

Net Income reflected lower operating income, one-off goodwill impairment and adverse forex rate impact on both operating and financial results.

Income Statement						
(€ million)	Jan - Jun			2nd Quarter		
	2016	2015	Var. %	2016	2015	Var. %
Sales	**897.5**	**1,302.6**	**-31.1**	**443.4**	**666.0**	**-33.4**
Net Operational Cash Costs	732.0	1,027.2	-28.7	355.7	512.5	-30.6
Operational Cash Flow (EBITDA)	**165.5**	**275.5**	**-39.9**	**87.7**	**153.5**	**-42.9**
Deprec. Amort. and Impairments	343.5	107.6	219.3	293.1	54.2	440.5
Operating Income (EBIT)	**-178.0**	**167.9**	**n.m.**	**-205.4**	**99.3**	**n.m.**
Financial Results	-205.8	-131.4	56.7	-124.5	-91.9	35.4
Pre-tax Income	**-383.8**	**36.5**	**n.m.**	**-329.9**	**7.3**	**n.m.**
Income Tax	-25.9	22.7	n.m.	-22.6	3.5	n.m.
Net Income	**-357.8**	**13.8**	**n.m.**	**-307.3**	**3.8**	**n.m.**
Attributable to:						
Shareholders	-271.1	22.6	n.m.	-231.4	5.0	n.m.
Minority Interests	-86.8	-8.7	n.m.	-75.8	-1.2	n.m.

5. Balance Sheet

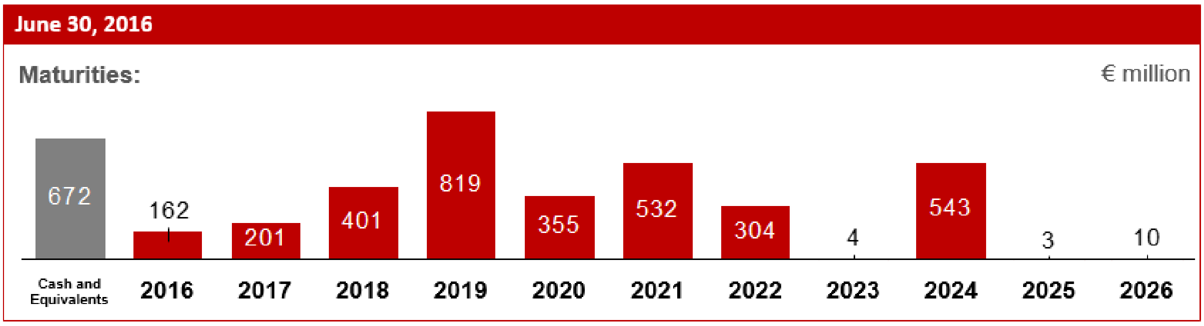
Impairment offset by BRL appreciation kept Total Assets value

As of June 30th, Total Assets stood at 5,877 million euros, similar level to December 31th, 2015, despite the one-off charge of 282 million euros related to goodwill impairment. The assumed country risk premium used for the impairment calculation was affected by the highly political-economic instability observed in Brazil in the last twelve months preceding June 30, although at a much lower level on the closure date of this report.

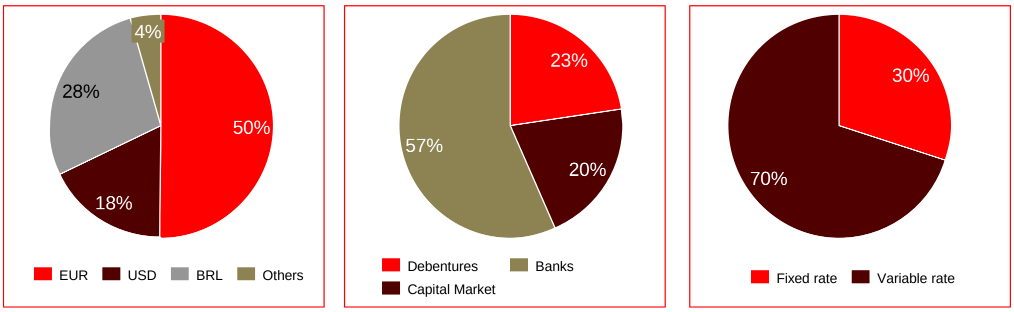
Net Financial Debt of 2,638 million euros increased by 18% in relation to 31 December 2015, reflecting the BRL appreciation and the free cash flow deficit of 206 million euros in the period. In comparison to the same period of the previous year, Net Financial Debt contained increase by 4%.

Consolidated Balance Sheet Summary			
(€ million)	Jun 30 2016	Dec 31 2015	Var. %
Assets			
Non-current Assets	4,235	4,212	0.6
Derivatives	227	239	-5.0
Current Assets			
Cash and Equivalents	672	791	-15.1
Derivatives	20	25	-18.2
Other Current Assets	723	645	12.1
Total Assets	**5,877**	**5,911**	**-0.6**
Shareholders' Equity attributable to:			
Equity Holders	839	1,049	-20.0
Minority Interests	459	452	1.6
Total Shareholders' Equity	**1,299**	**1,500**	**-13.5**
Liabilities			
Loans & Obligations under finance leases	3,542	3,291	7.6
Derivatives	16	7	118.5
Provisions & Employee benefits	130	137	-5.6
Other Liabilities	891	975	-8.6
Total Liabilities	**4,579**	**4,411**	**3.8**
Total Liabilities and Shareholders' Equity	**5,877**	**5,911**	**-0.6**

Average debt maturity of 5 years and liquidity to cover liabilities up to 2018 assure the financial soundness of InterCement.



Debt profile:



6. Free Cash Flow

EBITDA contraction constrained Free Cash Flow

As at 30 June 2016, Cash and Equivalents on FCF stood at 635 million euros, with cash requirements having reached 206 million euros.

Although cash used in the 1st Q of 2016 remained the same as in 2015, in the 2nd Q, unlike the previous year, Free Cash Flow was negative by 108 million euros, reflecting lower EBITDA generation and working capital requirements – the settlement of a lawsuit in Portugal and the CO_2 permit management, namely payments referring to 2015 and receivables from sales due to divestments in 2016.

Comparing the interest paid in the 2nd Q of 2016 with the value recorded in 2015, the latter benefited from the positive effect of a derivative instrument cancellation.

	2015				2016		
(€ million)	Q1	Q2	H1	Year	Q1	Q2	H1
Adjusted EBITDA *	122	158	280	545	79	91	170
Change in Working Capital	-124	21	-103	11	-78	-78	-156
Others	2	-7	-5	-59	-15	-3	-19
Operating Activities	**0**	**172**	**172**	**498**	**-14**	**10**	**-4**
Interests Paid	-58	-25	-83	-222	-51	-61	-111
Income taxes Paid	-1	-27	-28	-47	-6	-13	-19
Cash Flow before investments	**-59**	**120**	**61**	**229**	**-71**	**-64**	**-135**
CAPEX	-48	-28	-76	-109	-28	-47	-76
Assets Sales / Others	8	2	10	61	1	3	4
Free Cash Flow to the company	**-99**	**94**	**-6**	**182**	**-98**	**-108**	**-206**
Borrowings, financing and debentures	112	36	148	237	24	157	181
Repayment of borrowings, financ. and debent.	-38	-141	-179	-411	-38	-4	-42
Dividends	0	-50	-50	-50	0	-61	-61
Other investment activities	40	20	59	57	-18	17	-1
Changes in cash and cash equivalents	14	-42	-27	15	-130	2	-129
Exchange differences	38	-29	9	-48	-14	9	-5
Cash and cash equivalents, End of the Period	854	783	783	768	623	635	635

* Adjusted for non-recurrent figures.

7. Outlook

Present scenario requires management focus to capture future growth potential

With discipline and focus, InterCement is responding to the adverse combination of contexts in various regions that hinder medium-term visibility.

In Brazil, a country with an undeniable potential for the cement industry, recent political and economic uncertainty, leveraged by new production capacity in the sector, have penalized sales and intensified competition. Favourable political signs indicate a more favourable 2nd H, with better prospects for the economy and therefore for the cement business. Recent price increase (August) by the cement industry and InterCement's restructuring initiatives are to result in EBITDA margin improvements.

In Argentina, the political-economic adjustment programme shall lead to a heathy increase in consumption. Following the peak observed in 2015 (election year with record sales), it is expected that 2017 sets a new record. This recovery shall impact EBITDA margin, which is already benefiting from the strong commercial dynamics of Loma Negra. The company positioning has been progressively consolidating InterCement's activity in this geography, giving rise to its preparation for the envisaged new growth cycle.

Paraguay, despite being economically contaminated by the constraints of its neighbouring countries, continues to show prospects of growth of cement consumption. In this context, InterCement is operationally endowed with the unique conditions to capture this local growth.

Portugal presents a mature economy, with no expectation of significant GDP fluctuations. However, at this particular moment, the domestic cement market continues to be affected by the current lack of public and private investment. Nevertheless, the ongoing restructuring process of the local operations should enable a recovery of the EBITDA margin to around 25%.

The major development of the operations in Cape Verde, essentially due to investments in tourism, shall continue to contribute positively to the EBITDA of this Business Unit.

In Egypt the outlook for cement consumption remains positive despite some macro uncertainties, leveraged by the potential of the residential and large-scale infrastructure sector (Industrial Zone in the Suez Canal, New Urban Centre, etc.). In spite of the intensification of local competition, the incisive commercial strategy of InterCement has enabled it to keep its reference clients throughout its process of energy matrix optimization. The new coal mill, already on its commissioning phase, shall contribute directly on EBITDA margin, which is expected to rise significantly when compared to the current level.

In Mozambique, the current political and economic instability rather clouds the optimism felt with the progressive development of the local market. However, the operations improvement carried out by InterCement, have mitigated the impacts of the surrounding uncertainty, overcoming previous year results, and preparing the company to face the increasing competition expected for 2017.

Last but not least, in South Africa, the development of the national infrastructure programme is eagerly awaited. Sales are expected to increase, in line with market growth, as a result of the successful commercial strategy that has been mitigating the effect of the entry of new production capacity in the country.

InterCement's strategy will remain particularly driven towards increased efficiency - industrial grid optimization, across-the-board implementation of efficiency enhancement projects, seizing synergies, replicating best practices and promoting product and process development – and financial deleveraging – rigorous discipline in CAPEX, and, simultaneously pursuing opportunities to monetise non-core assets and divest minority holdings.

8. Subsequent Events

Offer to purchase bonds

On 11 July, InterCement Participações, S.A. announced a Cash Tender Offer (“Tender Offer”) to purchase all or any of the 5.750% Senior Notes (“Notes”) due 2024 issued by its subsidiary Cimpor Financial Operations B.V.. On 8 August, InterCement communicated that it had been informed that on the closing date of the previously mentioned offer (5 August), the amount (capital) of Notes validly offered under the terms of the Tender Offer reached 83,142,000 US dollars. This amount represents 12.4% of the Notes on the market (i.e. excluding the Notes held by InterCement and its subsidiaries), all of which were acquired by InterCement, in accordance with the Tender Offer terms. Regarding the consent solicitation, InterCement did not receive the necessary consent to make certain changes to the contract that regulates these Notes. As such, the contract was not amended.

Cimpship partial alienation

On 26 July, 2016 it was sold a stake of the investment held in the company Cimpship – Transportes Marítimos, S.A. by the amount of 7 million euros.