

INDEX

01 | INTRODUCTION

- 3 Our Essence | 6 Message from the Chairman of the Board of Directors
- 8 Message from the Chief Executive Officer | 10 2016 Highlights

02 | WE ARE INTERCEMENT

- 15 Strategy | 19 Performance of Financial Indicators | 28 Corporate Governance
- 31 Safety | 32 Our Culture | 33 90 Years of Loma Negra

03 | HOW WE CREATE VALUE

- 36 Creation of Value for and by Customers clientes | 37 Creation of Value for Suppliers
- 38 Creation of Value for Communities | 40 Environmental Sustainability
- 45 Innovation

04 | OUTLOOK

48 – Value Creation and Deleveraging







Our Essence

TO CEMENT BULDING SUSTAINABLE PARTNERSHIPS

Based on the long-term goals established in the Strategic Plan and consolidated in our Vision 2023 – to keep InterCement among the ten largest international cement companies and among the five most profitable and solid –, the company has developed a strategic drive to achieve this target, together with its main stakeholders (customers, professionals, suppliers, shareholders and communities).

The ensemble formed by InterCement's Mission, Vision, Values, Tagline, Strategic Map and Attitudes follows the decisions taken to ensure the long-term continuity of the business.

The company's sustainability is made possible by continuous planning, strictness in the implementation of projects, programmes and processes and the high degree of experience and know-how of the teams, which enables the company to simplify business routes with agility and precision, whenever is necessary.

The excellence in execution and the search for continuous improvement of productivity clearly indicate the major focus placed on the delivery of results, both financial and socio-environmental.

DISTINCTION IN THE PRODUCTIVITY IMPLEMENTATION AND CONTINUOUS IMPROVEMENT ARE PARAMOUNT





MISSION

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

VISION 2023

Stand out to the customers through the level of collaboration and services provided, remaining in the top ten at all times and in the top five most solid and profitable international companies of the industry.

VALUES

RESPECT FOR PEOPLE AND THE ENVIRONMENT

Always act in a correct and fair manner in relation to its shareholders, employees, customers, suppliers, governments, communities and society in general. Operate responsibly in relation to the environment.

TRANSPARENCY

Provide clear and comprehensive information about activities, accomplishments, policies and performance, in a systematic and accessible form.

QUALITY AND INNOVATION

Assure that customers receive the highest quality possible in the execution of services or supply of products, and invest continuously in the improvement of the business and its employees.

RESPONSIBLE OPERATION

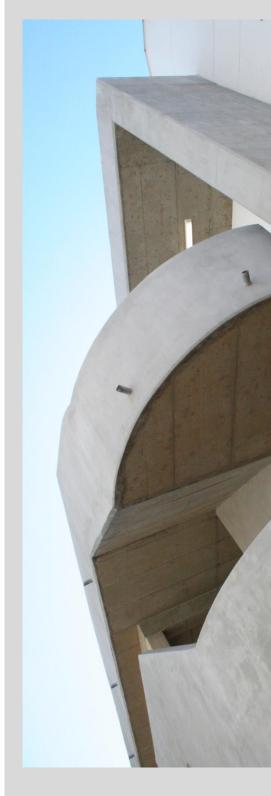
Respect the legislation of the countries and regions where the company operates; live up to the values defined herein; act with integrity and according to the universal standards of good human coexistence, without discrimination of race, gender, beliefs, religion, position or any other kind of discrimination.

FOCUS ON RESULTS

Always seek to maximise performance in order to assure business continuity, the investments made, shareholder returns and appropriate conditions for employees.

TAGLINE

"Building sustainable partnerships"



AMONG THE TOP TEN AND
THE FIVE MOST SOLID AND
PROFITABLE INTERNATIONAL
PLAYERS



STRATEGIC MAP

A strategic map has been designed based on Vision 2023. Its key topics or dimensions underpin all the company's action plans, namely:

- Results
- Partnerships
- Processes
- People and Culture

The strategic map also establishes three pillars that should permeate the dimensions referred to above and all actions derived from them and developed on a daily basis at the company. These pillars are: Safety, Innovation and Risk Management.

INTERCEMENT ATTITUDES

In terms of organisational culture, in 2015 the company consolidated a series of desired behavioural attitudes for all its employees, regardless of their hierarchy level or country where they operate.

The ten InterCement Attitudes characterise the company's way of being and conducting its business, and are embodied by the employees in their work. This is certainly one of the factors behind the company's success, as it covers personal behaviour and the importance given by the company to its customers, employees, suppliers and communities.





TAKE THE COSTUMER INTO CONSIDERATION



COMMIT TO RESULTS



LEAD BY EXAMPLE



STRENGTHEN THE TEAM



HAVE AN INNOVATIVE BEHAVIOUR



OPTIMIZE PROCESSES



THINK SAFE



EXERCISE POSITIVE INFLUENCE



PERMANEBTLY CHALLENGE YOURSELF

INTERCEMENT'S TEN
ATTITUDES ILLUSTRATE THE
COMPANY'S WAY OF BEING
AND DOING



Message from the Chairman of the Board of Directors

MATURITY IN GOVERNANCE

"IT IS POSSIBLE TO STATE THAT INTERCEMENT HAS PROGRESSIVELY PAVED THE WAY TOWARDS INTERNAL STRENGTHENING AND IS CURRENTLY A MORE ROBUST AND FLEXIBLE COMPANY THAT IS ABLE TO MEET THE NEEDS OF AN ENTERPRISE OF INTERNATIONAL ACTION."

The benefits of the internal adjustments in our governance processes are perceived by our employees, who operate in an environment with transparent policies, and also by our external partners, whether they are customers, suppliers or the communities in which our units are located.

In 2016, we completed the implementation of our new governance model, creating three committees so as to improve monitoring and advisory services to the Board of Directors: Audit, Risks and Compliance; Strategy, Investments and Finance; and Governance, Human Resources and Sustainability. With its scopes of action now defined, they will become strategic throughout this year.

Also in the area of governance, compliance is an intensively addressed topic at InterCement. In fact, it has been deeply woven into our culture since 2004. We believe that the longevity and health of our business is strictly connected with ethical conduct



and respect for the applicable standards and the law. Therefore, in 2016, once again, 100% of our management staff was given refresher training on compliance. Moreover, with our long-standing reliance on risk control and compliance mechanism, I am proud to acknowledge that we have achieved a comfortable level, with preparations under way for an external audit for certification on the topic.

Another topic that is the source of great satisfaction is the first full year in operation of InterCement's Institute for Community Development. In this short period of time, the projects developed by the Institute have had a positive impact on thousands of people in our different geographies. The strength of our volunteers have shown that active citizenship transforms schools, hospitals, parks, and can enhance care for the elderly, disabled and the vulnerable. The assessment of the Institute's Community Development Model indicated how social capital is created and shared, which means our mission to foster local empowerment is being achieved. The Institute's alignment to the company has resulted in increasing commitment, support and the identification of new opportunities in the social business and social finance fields. The ultimate goal is to innovate to increase social



impact by strengthening the communities and by creating new business models that increase the shared-value generated.

Our company is committed to its customers, employees, suppliers and communities, and all the dynamics dedicated to keeping the business at healthy levels is based on this commitment of ours. For this reason, even in a rather adverse scenario, our focus on our strategic drivers has always mobilised us, and will continue to mobilise us to ensure that InterCement is recognised not only for its successful business, but also for the quality of the relations established with all its stakeholders.

José Édison Barros Franco

Chairman of the Board of Directors of InterCement



Message from the Chief Executive Officer

MUCH MORE VALUE FOR OUR CUSTOMERS

"OUR COMPANY IS STRONGLY DRIVEN TOWARDS THE DELIVERY OF RESULTS. IN THIS REGARD, 2016 BROUGHT IN MANY CHALLENGES WHICH STIMULATED US TO BE EVEN MORE RESOURCEFUL AND CREATIVE IN ORDER TO ENHANCE THE PRODUCTIVITY OF EACH OF OUR UNITS."

External circumstances were rather adverse, with a significant decline of economic activity in Brazil and an unfavourable exchange rate evolution that took its toll in our international performance. Cement and Clinker Volumes Sold contracted by 14%, and Sales by 26%. Although this double trend penalized EBITDA (-33%), it was partially mitigated by the foundations laid by the company which resulted in efficiency and productivity gains, sustaining EBITDA margin at the international cement peers level.

The examples of these actions are plenty, however it is worth mentioning the restructuring of the corporate and business support areas. With our international diversified implantation the alignment of common guidelines disseminated by areas of corporate excellence is fundamental. With the achieved maturity of these areas in the performance and culture of each geography, a reduction of the support of corporate areas and the increase of the autonomy of each business unit was possible and will now enable further results without loss of central coordination.



We have also invested in increasing the productivity in Brazil, in the streamlining of the industrial operation, by expanding the focus of activity of the units that are more competitive. This effort has given rise to the improvement of our industrial indicators. I also highlight InterCement Mozambique, whose main indicators reached the company's benchmarks level thanks to a strong qualification of the professionals, allowing it to reach a new level of operational excellence.

We have shown progress in the upgrading of our energy matrix, which is now more flexible with a significantly stronger co-processing component. The installation of the coal mill in Egypt is also an example of our discipline of investments, for its capacity of fast return and focus on results. Financial discipline should also be stressed as an indispensable response to circumstantial adversity.

We have progressed in a crucial aspect which will benefit us in a more favourable business environment that is expected to arrive in the near future: commercial assertiveness or the focus on generating value perceived by



the customer. We have reinforced our Marketing area, responsible for customising plans for each region, always focused on what is the top priority to our customers and final consumers.

Creating more perceived value opens a world of opportunities, and it is on that basis that we will endeavour to ensure that InterCement brands are the first to be recalled where cement, concrete or aggregates are involved.

My final note celebrates the 90 years of Loma Negra, a top-of-mind brand in Argentina, a market leader that has already sold more than 160 million tonnes of cement since its foundation. Representing the commitment to the development of its country and high quality products and services, Loma Negra is a model of how we would like to be perceived by our customers in all the geographies where we are located.

Ricardo Lima

Chief Executive Officer of InterCement



2016 Highlights

OPTIMIZE THE ENERGY MATRIX

COAL MILL IN EGYPT

Having been the biggest investment in 2016 (total of 46 million euros), the start-up of the new coal mill in September has brought in important productivity gains, preparing InterCement Egypt to deal with the country's challenges of growth. With this investment, the energy matrix of this production plant will become much more flexible.

GLOBAL PROGRESS OF CO-PROCESSING

The company has shown progress in all geographies and has become a global leader in Co-processing. In 2016, InterCement achieved an average co-processing rate of 13.6%, an increase of 3 pp versus 2015.

EXPANSION OF THERMAL SUBSTITUTION IN SOUSELAS

The start-up of operations of the new drying facilities and other improvements made in November to increase the reliability of the wastederived fuel transport system enabled the Souselas plant of InterCement Portugal to expand its thermal substitution from 26% to 34%.

WASTE MANAGEMENT IN ALEXANDRIA

From mid-2016 onwards, the company led a project to obtain 450 tonnes of waste-derived fuel (WDF) per day. This WDF is co-processed in the cement kilns of the Egyptian plant. InterCement encouraged the installation of a Portuguese partner specialised in the preparation of waste and has promoted the advantages of this process at a local urban waste collection company.



THERMAL SUBSTITUTION IN SOUSELAS



ANTICIPATING THE NEEDS OF OUR CUSTOMERS

LAUNCH OF PREMIUM PRODUCTS IN BRAZIL

In the process of generating value perceived by the customer, InterCement Brazil invested in the relaunch of two regional cement brands: Zebu (produced at the João Pessoa plant) and Goiás (in Cezarina). The two brands were positioned as premium brands. The results were very good, not only due to the volume achieved, but also due to the customers' perception and tightening of relations with them in these regions.

NPC MOMENTS

Aimed at expanding the proposition of value perceived by the customer and strengthening InterCement South Africa as a strategic partner, this business unit created NPC Moments. It is an event in which the company's principal executives meet strategic customers in order to align expectations and boost potential results.

LEVERAGING THE PAST TO BUILD THE FUTURE

90 YEARS OF LOMA NEGRA

Loma Negra is one of the historic companies of Argentina. Due to its pioneering action and commitment to national development, it is one of the companies that launched the basis of Argentinian industrialisation and helped to build the country that we know today. In Argentina, Loma Negra means quality and trustworthiness in cement and concrete.

BUILDING THE FUTURE

InterCement Mozambique and the InterCement Institute assured the feasibility of the project Building the Future, aimed at productive social inclusion. With a duration of eighteen months, the project was closed at the end of 2016 with an impact on close to 40 micro-entrepreneurs of cement artefacts (blocks, tiles and cement artefacts). The action combined vocational training, management information and skills, improvement of work and safety conditions.







FINANCIAL COMPLIANCE

Anticipating a more favourable market context in 2017, along with a wider reach of the measures to enhance efficiency and alienate non strategic assets taken by InterCement, the company and bank creditors and debenturists agreed on the postponement of the measurement of financial covenants to 31 December 2017.

ALIENATION OF NON STRATEGIC ASSETS

In compliance with the capitalisation process under way, InterCement divested 19% of the capital of Machadinho Participações, S.A., its subsidiary holder of a stake in the capital of the consortium operating Machadinho Hydropower Plant (Brazil), two ships (Portugal) and several equipments from the concrete business in Brazil and Mozambique.



CUSTOMER FOCUS AND ENERGY MATRIX OPTIMIZATION. LAUCHING THE FOUNDATIONS FOR DELEVERAGING.











24 MILLION TONS of Cement and Clinker sold in 2016



TRADING - SALES OF MORE THAN 2 MILLION TONS to more then 20 countries



40 CEMENT PRODUCTION UNITS

(23 Integrated Plants and 17 Mills)



Strategy

PRIORITY: TO CREATE VALUE FOR THE CUSTOMER

InterCement's strategy is guided by Vision 2023, whose goal is to position the company among the 10 largest and the 5 most profitable international cement companies. To achieve this macro goal, the strategy is reviewed annually, with any necessary adjustments being made according to global and local scenarios of the geographies where the company operates.

The path created to achieve this major goal involves always acting with a strong sense of ethics, constantly investing in the improvement of processes, in innovation, in the respect for the environment and society, and above all in providing services of excellence to the customers.

In 2016, our efforts were concentrated on creating propositions of value perceived by the customer. General guidelines for team action are established at corporate level, but the action plans that must be adjusted to each country, and specifically to the different customer profiles, are decided locally. The company operates in markets of high potential growth. However, each market has particular features and, as such, requires solutions that are specifically adapted.

Thus, the excellence of InterCement is reflected in the dedication of the local teams in knowing and serving their customers and final consumers. This is possible thanks to the autonomy in the decision of local operations, which is in line with the process of decentralisation of the executive power that began in 2015, and the crucial importance given to the establishment of good relations with its stakeholders.

From the company's perspective, offering a product of high quality and suited to the needs of its customers is laying the foundations for excellence and creation of perceived value. Nevertheless, it is necessary to systematically expand the scope of action and continuously invest in relations, offering the customers unique and positive experiences.

As part of this major process of creating perceived value for the customer, the company introduced the Customer Partners Project (there are also Supplier and Community versions). The main objective of this project is to create actions aimed at positioning InterCement as a reference partner for its external stakeholders.

THE PATH TO ACHIEVE STRATEGIC OBJECTIVES MUST BE TRAVELED ETHICALLY





FOCUS ON EFFICIENCY AND PRODUCTIVITY

From an operating point of view, InterCement is constantly implementing initiatives to increase its efficiency and productivity. This is evident in the permanent drive to improve response to markets and its industrial performance – enhanced flexibility of the energy matrix, kiln performance and suitability of the additive level.

The key line of investment over the past few years, indeed especially in 2016, has focused on the upgrade of the energy matrix, making it more flexible so that the operations can use the energy source with best calorific power/cost ratio, without neglecting the safeguarding of the environment. In this field, the investments in the coal mill in Egypt and in co-processing have taken the lead.

Optimising energy use, primarily via co-processing, represents a strong productivity gain as well as environmental. This optimisation reduces the carbon footprint of InterCement and the industries whose waste is in this way eliminated correctly and reused in cement manufacture. InterCement treats co-processing as the central pillar of its goal to achieve a cleaner production. With this process, the company also provides a unique service to the societies and economies in which it operates.

The dynamics of increasing efficiency and productivity are also due to the investment in continuous improvement and innovation. The company has consolidated internal programmes for this purpose, alongside partnerships with education establishments of unquestionable merit for action that is intended to be more focused on research and development of innovative solutions.

It is based on initiatives such as those described above that InterCement applies Vision 2023 in its operations and different hierarchy levels, concentrating its drive to transform the macro strategy into actions and projects headed towards the ultimate goal of conquering and maintaining its position of distinction among the largest international cement companies.

As a summary, the company goal is clearly driven by the achievement of results, the aim of generating EBITDA by giving priority to the creation of perceived value for its customers, operational excellence, innovation and sustainable action from the socio-environmental point of view.



CONTINUOUS
IMPROVEMENT AND
INNOVATION LEAD TO
AN EFFICIENCY AND
PRODUCTIVITY
INCREASE



IMPROVING FINANCING STRUCTURE

2016 presented major challenges in the economic scenario of the countries where InterCement operates. The unfavourable macroeconomic environment in Brazil, the fall in the price of commodities and the adverse exchange rate evolution jeopardised the financial results. Nevertheless, the company went firmly ahead in the implementation of initiatives that, in addition to mitigating the impact of the external panorama on the overall financial result, has made it more efficient, robust, agile and ready to take on important opportunities that are expected in the near future.

In this context, EBITDA showed growing results over the successive quarters which, considering the more favourable environment forecast for the short and medium term combined with the capitalisation projects under way, enable foreseeing a financial deleveraging to a Net Debt/EBITDA level below 4.5 times at the end of 2017.

InterCement continued to pursue its Financing Policy, designed in 2014, based on two major guidelines: the reduction of financial leveraging and debt, and the adjustment of the debt profile.

Regarding the reduction of debt, the efforts of the previous year have been continued. The company stimulated the generation of cash and followed the policy of divestment of non-strategic assets. Here, we highlight the divestment of ships (Portugal) and the holding in Machadinho Hydropower Plant (Brazil) in 2016.

Even so, the value of debt reached 2,609 million euros, 16% above the figure as at 31 December 2015, with the results for 2016 not having permitted the release of sufficient cash to meet the requirements of the deleveraging process.

Anticipating this issue, in the 4th quarter, the company agreed with the banking and debenture creditors to release the measurement testing of the level of financial leverage (Net Debt/EBITDA), as at 31 December 2016. This testing had been established in its loan contracts with a covenant of 4.5X. The measurement will, then be perform on the basis of December 31, 2017 consolidated financial statements figures.



FUNDING FOLLOWS
GUIDELINES DRAWN UP IN
2014



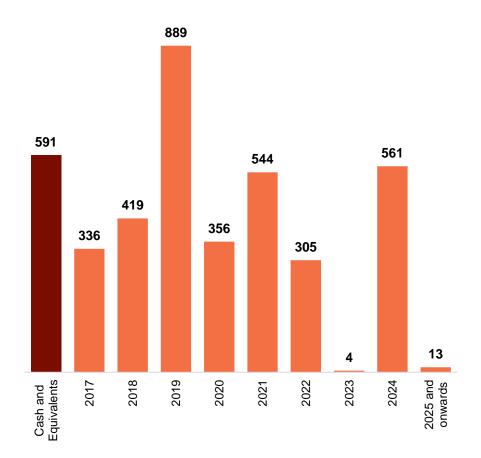
The refinancing processes of 2016 enabled improving the debt profile, primarily due to the reduction of the average cost of debt, but also due to the maintenance of a high liquidity level (591 million euros). This was sufficient to cover the financial commitments of the following 18 months, due to the continued concentration of major refinancing after 2019 and the safeguard of the average debt maturity period of 4 years.

Within the push down operations, business units assured financing for the cash tender offer of the 5.750% Senior Notes due 2024 issued by its subsidiary Cimpor Financial Operations B.V. ("Senior Notes 2024").

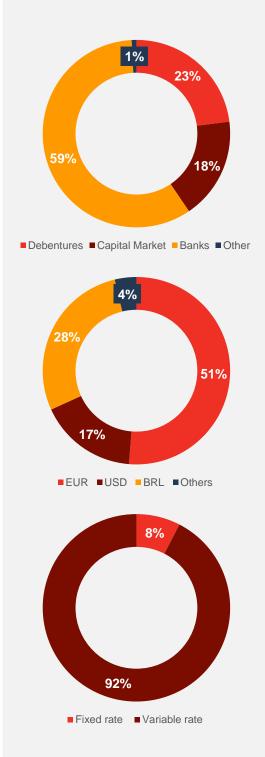
31 December, 2016

Maturities

(Million euros)



POLICY OF A CONTINUOUS EVALUATION OF THE OPPORTUNITIES FOR DEBT PROFILE IMPROVEMENT





Performance of Financial Indicators

REACT TO ADVERSITY BY BUILDING A FUTURE OF GROWTH

"Resilience" was the key word for 2016. The combination of adverse contexts, which is unusual in a portfolio as geographically diversified as that of InterCement, was offset by a series of initiatives aimed at increasing the competitiveness and consolidation of the company's financial position, preparing it for the economic upturn that is expected in the regions where it operates.

COMPETITIVENESS AND FINANCIAL CONSOLIDATION – 2016 INITIATIVES

- 1) Completion of the process of streamlining the concrete business in Brazil and in Mozambique, targeting a positive impact to EBITDA. In other words, divestment, rental and closure of a set of concrete plants, while contractually assuring their role as distribution centres.
- 2) Adjustment of the industrial network to market context, by hibernating economically less efficient assets, namely a grinding mill and two kilns, in Brasil, and a third kiln in Portugal the latter restarted in the beginning of 2017.
- 3) Reduction of unit variable cost by 11% (excluding the exchange rate factor), compression of fixed cost by 106 million euros and cutting of SG&A by 21%.
- 4) Restructuring and adjustment of headcount, dispensing circa 700 professionals, reaching a total of 7,734 professionals by the end of 2016.
- 5) Completion of the energy optimisation process in Egypt and CAPEX discipline.
- 6) Implementation of the operational Working Capital reduction programme.
- 7) Divestment/monetisation of non-strategic assets of a value above 80 million euros divestment of 2 vessels (Portugal) and sold preffered shares in Machadinho Hydropower Plant (Brazil).





The aforementioned measures reflect a three-dimensional approach to the search for efficiency. Firstly, in commercial terms, by acting swiftly to meet competition challenges and market needs and implementing a new distribution strategy via concrete in Brazil. Secondly, in industrial terms, through the adjustment of the industrial network, the reduction of fixed and variable costs, and the evolution of the performance of cement kilns and the energy matrix. And finally, in terms of management, through the reorganisation of corporate and administrative support to the production units.

However, although great progress has been achieved by actions focused on processes of continuous improvement of efficiency, and on their dissemination within the company via the sharing of best practices (InterCement Management System (IMS)), the impact of its start-up on the financial indicators so far has been limited to mitigating the adverse trend of the evolution of results in comparison to 2015.

2016 PERFORMANCE

Cement and clinker sales reached 24 million tonnes, standing 14% below the figure recorded in the previous year (despite the increased activity in the 2nd half of 2016). The contraction of the Brazilian market was determinant, while the Argentinian market corresponded to the expected adjustment, and exports from Portugal reflected the effect of the drop in the price of commodities on the purchasing power of its African customers.

Income Statement				
(million euros)				
, , , , , , , , , , , , , , , , , , ,	2016	2015	Var. %	
Sales	1,843.0	2,493.3	-26.1	
Net Operational Cash Costs	1,497.2	1,975.5	-24.2	
Operating Cash Flow (EBITDA) 1	345.7	517.7	-33.2	
Depreciations, amort. & impairments	593.0	238.3	148.9	
Operating Income (EBIT)	-247.3	279.4	n.m.	
Financial Results	-393.0	-324.6	21.1	
Pre-tax Income	-640.4	-45.2	n.m.	
Income Tax	15.0	-1.5	n.m.	
Net Results	-655.4	-43.7	n.m.	
Attributable to:				
Shareholders	-508.3	-20.2	n.m.	
Minority Interests	-147.1	-23.4	n.m.	

Notwithstanding the strengthening of commercial dynamics, sales were penalised by the adverse exchange rate and the reduction of the contribution of the concrete and aggregates business — in view of the recent sale of assets. Furthermore, the adjustment of the average price of cement (10% in local currency) in a context of cost inflation was not enough



BRAZILIAN CONTEXT AND EXCHANGE RATES
DETERMINE 2016 RESULTS

¹ EBITDA: Operating Results plus Amortizations and Impairments on Tangible Fixed Assets and Goodwill.



to offset the 26.1% decline of Sales in 2016. Excluding the exchange rate effect, sales contraction would have been limited to 9.5%.

The EBITDA margin stood at 18.8%, benefiting from the package of initiatives to increase efficiency referred to above – notwithstanding the implementation costs associated (47 million euros) -, but reflecting the reduction of the activity level and the inflation of costs.

Although EBITDA recorded a contraction of 33% in absolute terms (17% - excluding the exchange rate effect), it recovered along the year of 2016. Disregarding the non-recurrent costs following the efficiency increase initiaves 47 million euros – mostly launched on the 4th quarter -, there was a trend of improved results quarter-on-quarter. Under the same criteria full year EBITDA would have reached 393 million euros

The evolution of amortisation, provisions and impairments was marked by the identification of impairments in goodwill (Brazil –391 million euros). Financial results remained unfavourable, as incorporating the negative accounting effects of the exchange rate fluctuations in Intercompany Loans (without impact on cash). On the other hand, the acquisition of Senior Notes 2024, under the offer launched by the company in the 3rd quarter, had a positive impact.

Net income attributable to shareholders continued on negative ground: 508 million euros strongly influenced by the previously mentioned impairments in goodwill.

Free Cash Flow				
(C million)	2015		2016	
(€ million)	Year	H1	H2	Year
Adjusted EBITDA 1	545	170	223	393
Change in Working Capital	11	-156	64	-92
Others	-59	-19	-63	-82
Operating Activities	498	-4	224	220
Interests Paid	-222	-111	-131	-243
Income taxes Paid	-47	-19	-19	-38
Cash Flow bef. investments	229	-135	74	-61
CAPEX	-109	-76	-42	-117
Assets Sales / Others	61	4	87	92
Free C. Flow to the company	182	-206	120	-86
Borrowings, financ. & debent.	237	181	56	238
Repaym. of Borrowings F.& D.	-411	-42	-248	-290
Dividends	-50	-54	0	-54
Other investment activities	57	-8	-12	-20
Chang. in cash & cash equiv.	15	-129	-84	-213
Exchange differences	-48	-5	-9	-14
Cash and equivalents, EoP	768	635	541	541

The available cash flow recorded in the 4th quarter (138 million euros), revealing the sale of a stake of the minority participation on the Machadinho Hydropower Plant positevly influenced the total amount for



2016 SECOND HALF
IMPROVEMENT
INSUFFICIENT TO MEET
2015 FULL YEAR FIGURES

¹ Adjusted EBITDA: adjustment consists of non-recurring costs



2016, reaffirming the favourable evolution registered throughout the year. Nevertheless the performance of the FCF stood below the one recorded in 2015.

The slowdown of activity vs. 2015 was evident both in the evolution of EBITDA and working capital.

In terms of CAPEX, it is once again evident that the discipline imposed on its management was reflected in a 7% increase in this item, notwithstanding the completion of the coal mill in Egypt.

Lastly, note should be made of the positive contribution of the divestment of assets, namely in Portugal and in Brazil, for circa 90 million euros, essencially for the alienation of the two vessels and an indirect stake in Machadinho hydropower plant.

Consolidated Balance Sheet Summary				
(million euros)	Dec 31 '16	Dec 31 '15	Var. %	
Assets				
Non-current Assets	3,957	4,212	-6.0	
Derivatives	215	239	-9.8	
Current Assets				
Cash, Equivalents and Securities	591	791	-25.4	
Derivatives	26	25	6.8	
Other Current Assets	629	645	-2.4	
Total Assets	5,419	5,911	-8.3	
Shareholders' Equity attributable to:				
Equity Holders	564	1,049	-46.3	
Minority Interests	391	452	-13.3	
Total Shareholders' Equity	955	1,500	-36.3	
Current Liabilities				
Loans & Obligations under finance lease	336	117	186.7	
Derivatives	8	3	231.3	
Provisions & Employee benefits	1	1	0.4	
Other Current Liabilities	569	620	-8.1	
Non-current Liabilities				
Loans & Obligations under finance lease		3,174	-2.7	
Derivatives	7	5	62.3	
Provisions & Employee benefits	114	137	-16.3	
Other Non-current Liabilities	338	356	-5.0	
Total Liabilities	4,464	4,411	1.2	
Total Liabilities & Shareholders Equity	5,419	5,911	-8.3	

As at 31 December 2016, Total Assets amounted to 5,419 million euros, 8% below the figure recorded at 31 December 2015, primarily due to the accounting of impairment in the goodwill of Brazil (436 million euros).

Net Debt stood at 2,609 million euros, 16% above the closing amount for 2015. This evolution was penalised by the unusual business contraction and by the effect of exchange fluctuations.



EXPECTATIONS OF A MORE FAVORABLE ENVIRONMENT IN 2017 COUPLED WITH CAPITALIZATION INITIATIVES PAVE THE WAY FOR DELEVERAGING



MANAGEMENT FOCUSED ON RESULTS EXCELLENCE AND POTENCIAL

INTELLIGENT TOOLS STIMULATE INTERNAL BENCHMARKING

Although the financial results indicate a rather unfavourable period for business faced in 2016 in the countries where InterCement operates, the company achieved good measures of success in its operational internal indicators. This was possible thanks to the processes of continuous improvement implemented over the last few years, which include the permanent monitoring of the global management system, IMS (InterCement Management System).

InterCement also monitors the operational performance of various areas using its Business Intelligence tool, InterIntelligence. With this tool, managers can obtain indicators on sales, equipment performance and sustainability (such as pollutant emissions, energy and water consumption, among others).

In the technical area, the Book of Indicators is also used. This tool enables continuous real time comparison between all the company's units, analysing productivity (kilns, mills, labour, etc.) and sustainability, monitoring more than 100 indicators.

We also highlight the incremental implementation from 2015 onwards of the Lean Office, aimed at optimising administrative processes by making them more efficient, with fewer stages and, consequently, more simple.

In short, this set of tools enables mapping performance by unit, with indicators that can be compared, opening the way for the sharing of best practices and the establishment of internal benchmarks.

Continuous improvement is made possible because behind all processes and actions there are highly qualified employees who are constantly developing skills in line with the business needs and organisational strategy. In order to sustain high level training on an ongoing basis, the company launched in mid-2016 the InterCement Academy.



INTELLIGENCE TOOLS ARE KEY TO ACHIEVE BENCHMARKING



SUM-UP PER REGION

Cement and Clinker Volumes Sold					
(thousand tons)		Jan - Dec			
	2016	2015	Var. %		
Brazil	8,514	10,528	-19.1		
Argentina	5,893	6,572	-10.3		
Paraguay	464	398	16.4		
Portugal	2,990	4,427	-32.5		
Cape Verde	197	167	17.6		
Egypt	3,190	3,384	-5.7		
Mozambique	1,653	1,585	4.3		
South Africa	1,424	1,438	-1.0		
Sub-Total	24,323	28,499	-14.7		
Intra-Group Eliminations	-266	-380	-30.0		
Consolidated Total	24,058	28,119	-14.4		

Sales ¹				
(million euros)	Jan - Dec			
	2016	2015	Var. %	
Brazil	525	814	-35.6	
Argentina & Paraguay	645	817	-21.1	
Portugal & Cape Verde	260	318	-18.1	
Africa	412	509	-19.1	
Trading / Shipping & Others	223	348	-35.8	
Sub-Total	2,064.8	2,806.4	-26.4	
Intra-Group Eliminations	-222	-313	-29.2	
Consolidated Total	1,843.0	2,493.3	-26.1	

EBITDA				
(a 100 a a a a a a a	Jan - Dec			
(million euros)	2016	2015	Var. %	
Brazil	62.3	173.2	-64.1	
Argentina & Paraguay	163.2	200.2	-18.5	
Portugal & Cape Verde	38.0	32.1	18.4	
Africa	84.6	109.4	-22.6	
Trading / Shipping & Others	-2.3	2.8	n.m.	
Consolidated Total	345.8	517.7	-33.2	

EBITDA Margin				
	Jan - Dec			
(%)	2016	2015	Var. pp	
Brazil	11.9%	21.3%	-9.4	
Argentina & Paraguay	25.3%	24.5%	8.0	
Portugal & Cape Verde	14.6%	10.1%	4.5	
Africa	20.5%	21.5%	-0.9	
Trading / Shipping & Others	-1.0%	0.8%	-1.8	
Consolidated Total	18.8%	20.8%	-9.6	



BRAZIL AFFECTED BY ADVERSE CONDITIONS. OPERATING PROFITABILITY OF ARGENTINA AND PARAGUAY STAND OUT.

¹ For a simplified reading, this information is presented in aggregate form, being disclosed according to the corresponding segments adopted by the management of the company on the Financial Statements (note 26).



BRAZIL

The economic scenario for 2016, with special impact on the reduction of investment and on unemployment, led to greater idleness of the cement industrial capacity in Brazil. In view of this, InterCement followed its adjustment plan underpinned by a reinforcement of its commercial dynamics (innovating in products and services), by a rationalisation of the industrial assets combined with a plan to increase productivity, and by a new strategic approach to the concrete business (with rental and divestment of units, while keeping supply contracts).

This rationalisation of assets concentrated production in more competitive units, expanding their sphere of action somewhat, while others temporarily suspended their activity. However, all due care has been taken to assure maintenance, so that these units are always ready to be reactivated. Throughout the year a positive evolution in the performance of kilns and mills could be observed, as always aimed to sustainably operate at levels close to their nominal capacity.

Even so, the contraction of InterCement's activity in Brazil and the price constraint in a more competitive environment, plus the non-recurrent costs associated with the implementation of efficiency initiatives (25 million euros) ended up affecting both the generated EBITDA and the associated operating margin. Excluding non-recurrent costs EBITDA would have reached 85 million euros.



ARGENTINA

During a year of adjustment to the economic relaunch, InterCement's performance enabled it to sustain its operational profitability.

The Argentinian economic restructuring led to an exchange rate correction of 28% in late 2015 and consequent inflation, which, nevertheless, was accompanied throughout the year by a climate of recovery of the observed erosion.

Cement consumption corresponded to the expectations of adjustment after the record achieved in 2015, being 10% lower than in the previous year. Notwithstanding, the recovery observed in the 2nd half of the year allows foreseeing a trend of growth, which should mean that the level of 2015 may return in 2017.

In spite of the scenario described above, the initiatives regarding the market and increased efficiency of this business unit have enabled overcoming the inflation of production costs, also affected by the withdrawal of energy cost subsidies. Thus, the EBITDA margin surpassed 24%, standing slightly above the level observed in 2015.







PARAGUAY

The successful commercial strategy that led to sales growth above market performance clearly illustrates that honouring our commitment to customers generates value. In 2016, with the new integrated plant working at full capacity, EBITDA margin rose again, even surpassing the foreseen theoretical productivity of its equipment, thus reaffirming InterCement's internal benchmark.

Combined EBITDA from Argentina and Paraguay, reached 163 million euros, hardly affected by currency depreciations against the euro, but reavealing a 27% increase in local currency. Desregarding non-recurrent costs rising from efficiency increasing innitiatives the contribution from these two units would have reached 170 million euros.



The cost control initiatives have enabled InterCement to improve its EBITDA margin despite the local competitiveness and the exchange rate depreciation of the Egyptian pound at the end of 2016, following the agreements with the IMF and the liberalisation of the exchange rate policy.

In 2016, the start of operation of the coal mill was especially relevant in Egypt. It was an initiative incorporated in the plan to enhance the flexibility of the energy matrix of this business unit. Since last August, InterCement's production plant in Egypt can choose between coal, pet coke and alternative fuels to produce clinker, and may dispense the use of gas and fuel oil.

The investment in the coal mill enabled reducing its variable costs. It also had a positive influence over the operation's capacity in meeting local demand and increased the EBITDA margin to levels above 30% by the 4th quarter.

SOUTH AFRICA

InterCement's commercial response to local competitive pressure was determinant in 2016, as were all operational efforts to overcome the disastrous floods in the Durban region and pontual industrial constraints.

In terms of operation, we highlight the co-processing level of 18% of one of the kilns of the Simuma plant, through the use of whole tyres. This result was not only due to the sharing of the existing co-processing technology at the company, but also due to the search for and stimulation of partners to supply waste.









MOZAMBIQUE

The challenges posed by the political and economic scenario in Mozambique included the progressive exchange rate depreciation of the metical.

Even so, despite the fall in consumption by approximately 5% observed in the market, the progress of InterCement's commercial strategy and the relieving of import pressure led to a sales growth of 4%.

At the same time, the increased efficiency (clearly evident in the performance of the mills) and the capacity to offset the effect of inflation on production costs enabled an increase of the EBITDA margin of 0.8 p.p. However, this improvement did not result in the increase of the contribution of EBITDA to euros, due to the exchange rate depreciation of around 40%.

The operational improvement is a direct result of InterCement's commitment to enhance all the productivity indicators of this business unit. It is an effort that started at the end of 2014 with the implementation of the Mutirão Project, which allows the industrial, commercial and logistics staff to systematise an action plan to improve operational performance. This action plan goes together with a technical training plan for the staff.

Egypt, South Africa and Mozambique units contributed with 85 million euros to consolidated EBITDA, considerably affected by adverse currencies against the euro but in line with 2015 local currency figures. Excluding non recurring costs these countries would have post 90 million euros. ¹

PORTUGAL AND CAPE VERDE PORTUGAL

The initiatives to increase operating efficiency (including the suspension of activity of the Loulé kiln) have brought EBITDA margin up in relation to the previous year, thus mitigating the slowdown of the domestic market and exports – approximately 44% as a result of the dependence of international clients on the price of commodities.

InterCement has been giving more and more priority to co-processing across all its geographies. In Portugal, InterCement is proud of the substitution rate of 50% at which one of the kilns of the Alhandra plant is currently operating. The plant is using, or rather totally eliminating, shredded tyres, waste-derived fuel (commonly known as WDF) and fluff (light WDF).

CAPE VERDE

The economic growth supported by foreign investment, in particular in boosting construction for the tourist sector, enabled strengthening the contribution of this business unit.

The combined contribution from Portugal and Cape Verde to EBITDA reached 38 million euros, though excluding non-recurrent costs these would have amounted to 43 million euros.







¹ For a simplified reading, this information is presented in aggregate form, being disclosed according to the corresponding segments adopted by the management of the company on the Financial Statements (note 26). Non-recurring effects total EUR 1 million, EUR 4 million and EUR 1 million, respectively, for Egypt, Mozambique and South Africa.



Corporate Governance

FULL COMPLIANCE WITH GOOD PRACTICES OF GOVERNANCE AND CONTROL

Focused on improving controls and processes, and aimed at giving greater autonomy to local decision-making in the eight countries where the company operates, InterCement developed its own governance model. The main change took place in the Executive Committee which, at the end of 2015, began to include the four deputy chairmen of the operations of Brazil, Argentina and Paraguay, Portugal and Cape Verde, and Africa. This enabled stronger corporate integration among the units, thus enhancing the agility of the decision-making process.

The Executive Committee, which reports directly to the Board of Directors, has now eight members: the chairman of InterCement, the four deputy chairmen of the Business Units, the deputy chairman for Business Support, the deputy chairman for Finance and the director of Strategic Planning.

The Executive Committee is supported by six technical committees: Ethics and Compliance; Safety, Health and Environment; Human Resources; Efficiency and Productivity; Information Technology; Finance and Investments.

At a local level, each unit also has its own Management Committee, led by the local deputy chairman, and supported by two technical committees: Sustainability and Health, and Safety and Environment.

Three extra committees were created to support the Board of Directors: Audit, Risks and Compliance; Strategy, Investments and Finance; and Governance, Human Resources and Sustainability. The scope of action of these committees was established in 2016, and they will begin to operate strategically in 2017.

CONSOLIDATION OF CORPORATE GUIDELINES AND AUTONOMY ALLOW GREATER AGILITY





MONITOR COMPLIANCE

The concept of compliance encompasses the practices and disciplines adopted in order to comply with laws, regulations and control policies. Although this is a topic that has currently received great attention by companies worldwide, InterCement has been concerned with disseminating the concept and practices related to control at all hierarchy levels for over a decade.

The starting point of this internal process dates back to 2004, when the company's Code of Conduct was created (continuously reviewed and updated, with the most recent version being of 2015). Directed at all its employees, its main objective is to regulate relations with suppliers, customers, public authorities and other stakeholders.

In 2015, the company implemented its Corporate Compliance Policy in order to assure its shareholders and directors that local laws and regulations are being respected. This Policy describes the pillars of the internal compliance process (prevention, detection and response) and delineates the company's risk management. InterCement also has a Corporate Anti-Corruption Standard and a Corporate Standard for Relations with the Competition (Antitrust). All these policies can be consulted on the corporate website, especially the one dedicated to Compliance, at http://compliance.intercement.com/conduta.php.

In addition to being endowed with these fairly consolidated guidelines and policies, InterCement dedicates great effort in the training of its employees on this topic. In 2016, 100% of the managers were once again trained on compliance issues, within a process of continuous and annual refresher training. The internal maturity of the concept also places the company at quite another level in this regard. Since the end of 2016, the company has been interested in receiving an external audit on Compliance for possible ISO certification (global standard published at the end of 2014).

All whistle-blowing on deviations of conduct are received by the Ethics Line, a communication channel created by InterCement specifically for communications of this nature. It is available to all interested persons, both internal and external, by telephone and e-mail in all the countries where the company has business units. The service is operated by specialised and independent companies. The indicator on analysis, treatment and response is 100%. The Ethics Line is available at the website http://compliance.intercement.com/etica.php.

CODE OF CORPORATE CONDUCT



ETHICS AND COMPLIANCE PRINTED IN INTERCEMENT'S CULTURE



RISK MANAGEMENT

In challenging years for the business environment, such as 2015 and 2016 indeed were, the company is prepared to mitigate adversities thanks to various mechanisms, particularly risk management and control systems, which are absolutely essential in the agility of the company's response to its surrounding context. At InterCement, this management gained particular robustness in 2014, when a major corporate effort led to the design of the Risk Matrix, which was completed after re-appraisal of the most relevant factors of business and process risks.

It was on this basis that the Corporate Policies on Risk Management and Crisis Management were launched. Since then, these tools have been invaluable in the identification and assessment of the scenarios and factors that might affect the company's results, and have also helped in the preparation of proposals for contingency action to mitigate negative repercussions.

The methodology adopted by InterCement includes the identification of Business Risks as those which, if materialised, would significantly affect EBITDA, market share, the main debt covenants, business continuity, reputation and image. These risks are continuously monitored by the Executive Committee.

On a different note, Process Risks are those associated to operational and support activities that, if materialised, would affect operational activities. These risks are monitored within the compliance process.

Risk management is coordinated by the area of Risk Management, Compliance and Audit, and has a specific structure in each business unit.



MAPPING AND RISK
MANAGEMENT BY
CORPORATE AND LOCAL
TEAMS



SAFETY

ALWAYS ASSUMED AS A NON-NEGOTIABLE VALUE

Concerning safety, InterCement does not accept any goal other than zero accidents. The investment and continuous updating required to achieve this threshold is more consistently focused on activities related to active preventive care and safe behaviour.

Active preventive care, which was the topic addressed at the Internal Week on Accident Prevention (SIPAT) 2016 at all the production units, stressed the message of a virtuous cycle: I take care of myself, I take care of others and allow others to take care of me. In this way, there is a clear involvement of everyone during the development of their tasks.

The second stage of the safe behaviour programme was initiated in 2016, under the motto "safe behaviour and understood leadership", seeking to further reinforce the necessary commitment of everyone to safe attitudes, primarily of the leaders who will influence the teams and show exemplary behaviour. The processes of critical activities were also reviewed and analysed, and proactive Health, Safety and Environment indicators were implanted, with a view to achieving a level of excellence of change of culture towards safety.

The company's corporate slogan is, in itself, indicative of the value of safety: "either we do it safe, or we don't do it", which assures the employee the prerogative to refuse to carry out any action or task that he or she considers being risky.





Our Culture

DISSEMINATE THE VALUE PROPOSITION

People are the most important foundations for the company's development. From the very beginning of the company's internationalisation, and respecting the differences of the countries where its units are located, InterCement started to build a unique organisational culture, focused on respect for and valorisation of cultural differences, on the sharing of knowledge, on the certain choice of meritocracy, on the continuous search for the establishment of sustainable partnerships and respecting the principle that InterCement's employees are true business partners. The culture proposal continued to evolve, with the InterCement Attitudes having been presented and implemented in 2015.

In 2016, based on the consolidation of these Attitudes, InterCement advanced towards a new challenge: preparing an Employee Value Proposition (PVE), which shall be implemented throughout 2017. This is an action that will detail in a more incisive and direct manner what the company has to offer and what differentiates it from others in the market. The challenge is to generate the perception on the company's commitment to values, diversity, ethics and opportunities for improvement and development for the employees.

The employee value proposition is illustrative of the company's needs and also represents an answer to the desires and expectations indicated in the working climate survey conducted in 2015 (which will be conducted again in 2017).

The care taken to respond to the positioning portrayed in the working climate survey is indeed another important factor that shows the attention given by the company to the continuous improvement of the internal environment combined with the goal to deliver better results. Likewise, another example of this was the launch of the InterCement Academy, whose pilot project was implemented at the Brazilian plant, in the 1st quarter of 2016. Now established in Brazil, Argentina and Portugal, the Academy should reach other geographies during 2017. In short, the Academy's primary goals are: to develop through face-to-face or online training the skills of the employees for business needs in line with the organisational strategy; to stimulate self-development and sharing of knowledge; and to contribute significantly to the company's results.

TO NURTURE WHAT THE **COMPANY HAS TO OFFER DISTINGUISHES IT**



90 Years of Loma Negra

SYNONYMOUS WITH CEMENT IN ARGENTINA

More than 160 million tonnes of cement have been sold by Loma Negra, a leading brand in Argentina, over the course of its 90 years, celebrated in 2016. Not only is the brand synonymous with cement, but it is thought that over half the constructions in the country have been made with this company's products.

Its founder, Alfredo Fortabat, was an entrepreneur who, back in 1926, already knew that the company's longevity would also depend on a major cultural and social transformation of his country. From the very beginning, he invested in innovation, quality products and providing services of excellence, in the belief that in this way he would be contributing to national development.

The visionary Fortabat also understood that it was necessary to invest in people in order to assure the success of his enterprise. Thus, while the construction works were under way for his first factory, in Olavarría, he developed a neighbourhood with infrastructures such as a school, sports grounds, medical clinic and various stores, as this was where his future employees would find their homes. The first factory was inaugurated there on 5 August 1926, with installed cement capacity of 110 thousand tonnes/year.

As time progressed, Loma Negra expanded its business with more facilities, built or bought, in various regions of the country: Catamarca, San Juan, Zapala, Barker, Sierras Bayas, L'Amalí, LomaSer and Ramallo, in addition to the concrete plants under the Lomax brand. Nowadays, its total installed cement capacity is 8.7 million tonnes/year, with 6 integrated factories. 2 mills and 1 mixer.

In 2005, Loma Negra became part of the InterCement group, integrating into a Brazilian reference cement company, which has currently evolved to a positioning among the 10 largest international companies of its sector. Nevertheless, Loma Negra's international vocation has not changed its deep concern for the local community that was formally instituted in the creation of the Loma Negra Foundation in 2016.

MORE THAN HALF OF THE CONSTRUCTIONS IN ARGENTINA WERE ALREADY MADE WITH LOMA NEGRA PRODUCTS





10 YEARS OF THE LOMA NEGRA FOUNDATION

A new institution responsible for private social investment of InterCement was created in Argentina in 2016. Albeit with a different focus, this institution continues the work started by the Fortabat Foundation, created by the founders of Loma Negra in 1976.

The Loma Negra Foundation primarily invests in projects related to education, capacity-building, entry of young people into the labour market and inclusive productive business. The social action methodology reflects the InterCement Institution.

In a year of so many celebrations for InterCement Argentina, with the 90th anniversary of Loma Negra and 10th anniversary of the Foundation with the same name, we also highlight the 40 years of dedication of Osvaldo Schutz to the company.

A MAJOR VALUE

Born in Buenos Aires, Osvaldo was a corporate director, with four postgraduations (two of them at Harvard Business School, in the United States) and an enormous knowledge of sales management and the company's business processes. In addition to his numerous professional qualities, he was also considered to be of an exemplary character by employees, suppliers and customers of InterCement.

In the same year that Osvaldo marked his four decades of dedication to the company, he passed away in October. This great professional, friend and work colleague leaves an important legacy of professionalism, search for development and new professional skills and valorisation of human capital.



AN EXAMPLE THAT STAYS WITH US: OSVALDO SCHUTZ





Creation of Value for and by Customers

A COMMITMENT TO THE FUTURE

InterCement's foundational base consists of people. If, internally, the employees are those primarily responsible for the company's development and strength, the customers are the reason for its existence.

Therefore, InterCement creates sustainable value propositions perceived by its customers. In addition to the delivery of high quality products, InterCement promotes close relations with customers by endeavouring to know their profiles and needs, building long-lasting relations based on mutual trust, competitive edges and convergent medium and long-term strategic vision.

It is in this spirit that the Customer Partners Project progresses, adjusting the different features of each market. This project has already been implemented in Brazil, Argentina, Paraguay and Portugal, and during 2017 it should reach South Africa, Egypt and Mozambique. In 2016, the project covered initiatives in three key areas:

CUSTOMER LOYALTY PROGRAMMES – meetings with customers in South Africa, Egypt and Portugal, as well as the development of merchandising for Mozambique.

CAPACITY-BUILDING PROGRAMMES – training and seminars for distributors on products, good practices in construction, safety or accountancy in Egypt and Portugal, as well as partnerships with technical and business schools to enhance the capacity of customers in Argentina.

CUSTOMER SUPPORT PROGRAMMES – implementation of a customer support centre in South Africa, applications for mobile operative systems in Egypt, online tools for placement of orders in Argentina, creation of the customer portal in Portugal, provision of containers to distributors for sales in regions that are more distant from the major distribution centres in Mozambique, inauguration of distribution centres in Brazil, partnerships with other companies to share physical structures and thus improve customer support in Brazil and the launch of premium products in Brazil.





Creation of Value for Suppliers

CAPACITY-BUILDING AND RECOGNITION

InterCement has continued to develop the Supplier Partners Project started in 2015, through which it proposes to recognise and boost productivity and innovation, and encourage practices of sustainability, safety and social responsibility, distinguishing the best solutions and evolutions.

This is the essence of the Partners programme which, directed at major customers, has already been recognised as successful in Brazil and Argentina.

In 2016, projects were also launched aimed at strengthening the local economy by providing incentives for the integration of small and medium-sized enterprises or small community-based economic agents into the value chain of InterCement and its partners. While in Brazil these projects ranged from the provision of services and products to the supply of factory canteens, in Mozambique they were more directed at technical capacity-building and management of potential suppliers for the implantation of business activities that are also complementary to InterCement's activities. It is important to highlight that there is great potential integration of the value proposition actions for suppliers with the mission of the InterCement Institute, whose main lines of action involve investment in inclusive business, focused on the creation of jobs and value in the communities in which the company is present.





Creation of Value for Communities

STREAMLINE VOLUNTARY WORK AND PRIVATE SOCIAL INVESTMENT

COMMUNITY PARTNERS PROJECT – The Community Partners Project reaffirms InterCement's commitment, from the very beginning, to contribute to the development of the communities in which its units are located.

The InterCement Institute is currently responsible for coordinating the company's voluntary work and private social investment actions.

In 2016, in addition to the Open Doors programme (focused on the community's interest in visiting the operational units) having received over 7 thousand people at InterCement's production units, the Voluntary Ideal Action Groups (GAIVs) were especially active. These groups are structured spontaneously at the production units by employees who wish to act in causes of their interest within the local community with the financial and methodological support of the InterCement Institute.







SOCIAL ACTION – INTERCEMENT INSTITUTE

The InterCement Institute, which completed a year of operations in June 2016, is currently responsible for defining strategies and creating methodologies for the implementation of private social investment raised by the company since its formation.

In December, the Institute made a thorough review of its goals, having adjusted certain routes and redefined various strategies of action. The ongoing social voluntary work and community development activities will go on, although greater focus will be placed on encouraging business of high social impact and more in line with the company's action. The proposals that show a higher degree of replicability will also be prioritised, with gains in terms of agility and systematisation of programmes when applied to other geographies.

The InterCement Institute thus proposes to generate social and environmental value for the communities and partners, positioning itself at the methodological vanguard of private social investment. To do this, it will act in three fields: Community Development, Inclusive Business and Contribution to the Business Environment. For this reason, the Institute is structured along axes of action.

Among the different initiatives promoted by this Institute in 2016, special attention is drawn to the Doing Good Day (an annual project concentrated in a single day held in 2016 in all the geographies, that involved 13 thousand volunteers and benefited close to 66 thousand people) and the Baby Week (a programme aimed at assisting pregnant women, parents and children, held in 2016 by all the factories in Brazil, with high impact in the community).

Programmes of the InterCement Institute





DAY OF DOING GOOD: AN ICON AMONG INTERCEMENT SOCIAL INVESTMENT INITIATIVES



Environmental Sustainability

ESTABLISH SUSTAINABILITY IN THE STRATEGIC AGENDA

InterCement took a step further in the commitment to reduce its carbon footprint by including it in the definition of Vision 2023 and in the company's Strategic Map. In 2016, the company updated its Sustainability Agenda, redefining goals and ambitions for 2030, based on the materiality analysis carried out in 2015. Furthermore, the company gave its transversal commitment to this topic the status of internal compliance. Inprint

In this regard, the company assured the annual updating of its charts on social and environmental risks and the initiatives to be taken and completed for risk mitigation at the level of each productive unit, identifying the critical environmental investments to be made up to 2025.

In addition, this year InterCement will disclose the due Sustainability Report, which shall provide a more detailed account of the different ongoing initiatives in this area.

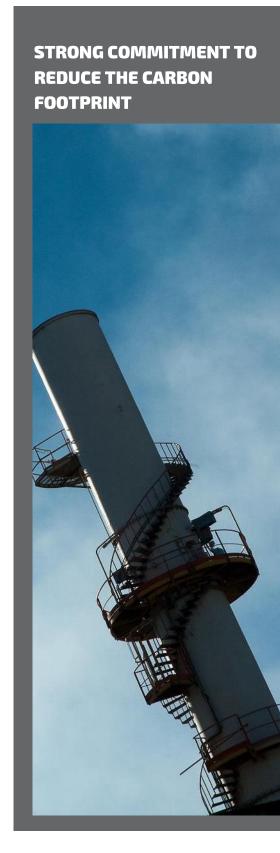
CONSOLIDATE AN INTERNATIONAL COMMITEMENT

InterCement is a founding member of the Cement Sustainability Initiative (CSI), an initiative of the World Business Council for Sustainable Development (WBCSD). It involves 24 cement producers that firmly believe in their contribution to the sustainable development of the sector. The company endorses the guidelines developed under the CSI as a global reference to be implemented in all the countries where it operates, having especially focused its attention in 2016 on the following initiatives:

In terms of sectors, the company participated (in its completion in Egypt and start-up in Brazil) in the definition of the respective "Roadmap for a Low Carbon Economy";

In its operations, the company progressed in the areas of co-processing, energy efficiency, replacement of clinker by cement additives and the development of new types of composite cements;

Turning towards the world, InterCement reaffirmed its commitment to the creation of a low carbon economy by subscribing to the Paris Agreement and to LCTPi Cement, and by initiating its participation in the MEET2030 project of BCSD Portugal. In Brazil, the company received, for the sixth consecutive year, the "Gold Seal of the Brazilian GHG Protocol Programme".





TO REDUCE EMISSIONS

The intensive use of thermal and electric energy is inherent in the cement manufacturing process. It causes the release of greenhouse gases (GHG) into the atmosphere, primarily carbon dioxide (CO₂).

Keenly aware of this environmental impact, InterCement has defined a Climate Change and Energy Strategy, which has involved the monitoring of its carbon footprint since 1990 and the development of mitigation actions, R&D and implementation of specific projects to reduce greenhouse gas emissions.

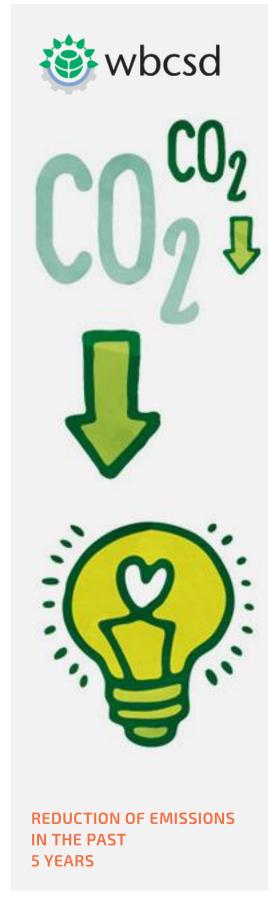
At InterCement, the calculation of GHG emissions follows the WBCSD/WRI Cement CO₂ & Energy Protocol 3.04 developed by the Cement Sustainability Initiative (CSI), pursuant to the GHG Protocol model. This calculation has been audited and certified since 2005 by an independent external entity in all the countries where the company operates. The application of this protocol continues to be extended to the Group's new facilities and the consolidated information published.

Net specific direct emissions have shown a positive evolution throughout the years, thus keeping the company in line with the objective of reducing defined for 2023 and placing it in a distinguished position among member companies of the CSI. At the same time, indirect emissions related to the electrical energy consumed by the company are also monitored and targeted in policies of reduction through the streamlining of electrical energy consumption at its facilities.

Over the last 5 years, InterCement has also cut its specific emissions of particulate matter, NO_x and SO_2 . The pollutant emissions from the main chimneys of the kilns are monitored daily on a continuous basis at all the productive units, and this information is consolidated at Group level with the same frequency.

Among the main initiatives to cut InterCement's emissions in 2016, we highlight the replacement of electrostatic filters by bag filters, already completed at the Matola plant (Mozambique) and currently under way at the Catamarca plant (Argentina), alongside various primary measures to reduce NOx emissions at several plants of InterCement.

Diffuse or fugitive dust emissions created and released during movement (loading and unloading), transport, storage and extraction of raw materials, clinker and cement were and are also targeted by mitigation plans. These plans include, among other initiatives, the covering of transporters, the improvement of dust removal from transport points for materials and the closing of the structures of various raw material and clinker storage buildings.





MITIGATE ENVIRONMENTAL IMPACTS BY CO-PROCESSING

InterCement has invested significantly in co-processing, and is currently one of the global leaders in the use of this technology with obvious advantages from the environmental point of view. Briefly, co-processing is a technique that uses waste, after all the possibilities of recycling have been exhausted, as an alternative fuel to feed the cement kilns or as alternative raw material.

This technique enables definitively eliminating the generated waste without adding to environmental liabilities, while making the most of its energy and/or mineral potential. Giving its features, nowadays this process is preferred by the European Union, United Nations and Stockholm Convention, among other international references. This is due to its potential to reduce the environmental liabilities of the industrialised countries, while simultaneously enabling the elimination of the depositing of waste in landfills and the reduction of greenhouse gas emissions, thus minimising environmental impacts and defending public health.

The co-processing rate increased once again at InterCement, having reached a level of 13.6%.

HIGHLIGHTS

In 2016, 675 thousand tonnes of waste were co-processed. This enabled:

- preventing the emission of 5,200 tonnes of CO₂ (the equivalent to the emission of 1.3 million cars during a year);
- preventing the burning of 2,516 tonnes of pet coke (enough to generate energy equivalent to the annual consumption of 5 million homes);
- preventing the consumption of 1,745 tonnes of minerals (sufficient to fill a hole the size of a football field and 250 metres deep);
- preventing the consumption of 952 m³ of water (enough for the annual consumption of 1.3 million people.

Co-processing is currently carried out in all the company's geographies and is given priority in the investment plan.

In 2016, in partnership with a Portuguese company that prepares waste and a waste collection company of the metropolitan area of Alexandria, InterCement started co-processing activities at its Amreyah plant, in Egypt.

InterCement Mozambique signed agreements with the urban waste management entities of Maputo and Matola in 2016, aimed at coprocessing urban waste from 2018 onwards.



INTERCEMENT A
REFERENCE IN
COPROCESSING: A
TECHNIQUE
INTERNATIONALLY ELECTED
WITHIN THE CIRCULAR
ECONOMY



InterCement Paraguay, that between 2015 and 2016 already coprocessed 10 thousand tonnes of industrial waste, made the necessary preparations to begin co-processing in 2017.

At the end of 2016, new drying facilities became operational to improve the reliability of the transport system of waste derived fuel of the main burner of one of the kilns at the Souselas plant, in Portugal. The investments enabled increasing thermal substitution from 26% to almost 34%.

SAFEGUARDING OF WATER RESOURCES

Active participant of the Water Pledge program, from World Business Council for Sustainable Development (WBCSD), InterCement continuously promotes the rationalisation of water consumption and defends rigorous standards in the use of this resource in all its production units. In this way there is in place an effective control of the measurement of consumption and loss, treatment, recycling and reuse of water, rainwater harvesting and actions for continuous awareness-raising aimed at more rational consumption.

InterCement has adopted the "Global Water Tool" developed by the WBCSD since 2011, for the purpose of systematically identifying the operations that are located in areas of water stress, scarcity and extreme shortage of water. These principles and best practices are included in the Blue Attitude water management programme of the company which identified a series of opportunities for a more efficient water consumption. For instance, nowadays, the majority of InterCement's production units have closed systems or circuits for recirculation of industrial water, allowing its almost total reuse.

In addition, at the end of 2014, the company became a signatory of the WBCSD Pledge for Access to Safer Water, Sanitation and Hygiene at Workplace, which provides for the implementation, until 2018, of a set of actions that guarantees access to drinking water, sanitation and hygiene conditions in the workplaces of Cement, Concrete & Aggregates activities and also in corporate areas. Through this commitment, InterCement actively contributes to ensuring the availability and sustainable management of water and sanitation for all, one of the United Nations' proposed Sustainable Development Goals (SDG).



WATER - A PRECIOUS COMMODITY REUSED CAREFULLY



PRESERVATION OF ECOSYSTEMS AND BIODIVERSITY

InterCement's sustainability objectives include the development of Rehabilitation Plans & Biodiversity Management Plans for all the quarries involved in the cement production activity. To this end, with the involvement of local stakeholders, the company follows a series of internally defined guidelines referred to as "Guidelines for Quarry Environmental Management".

A "Quarry Roadmap 2016-2025" was drawn up in 2015, based on risk analysis and aimed at assuring that by 2025 all the quarries will have sufficient robust environmental impact studies, rehabilitation plans and, where applicable, biodiversity management plans. This roadmap presents the timing of the intended interventions and defines the different steps to be followed in specific action plans.

The action plans, drawn up in 2015, began to be developed in 2016 for the most critical quarries and, in that same year, the action plans to be started in 2017 were launched for a new set of quarries.

Currently, of the total quarries involved in the company's cement activity, 63% have rehabilitation plans and 31% are located in classified biodiversity areas (GRI EN11 criterion). In the case of the latter, around half have already implemented biodiversity management plans



QUARRIES: THE NEW ECOSYSTEMS DEVELOPED BY INTERCEMENT



Innovation

INVEST IN I&D AND LOW CARBON ECONOMY

InterCement consistently invests in Innovation & Development (I&D) projects aimed at introducing new technologies, innovative processes, product improvements, business opportunities and, at the same time, finding solutions to mitigate environmental impacts and adapt to a future economy with carbon restrictions.

All these actions are being carried out in partnership with renowned universities and institutes recognised for their scientific capacity and quality. The company's I&D portfolio includes the development of around 10 large-scale projects, involving 15 research and education institutions, almost all directed at preparing the company for a low carbon economy. These projects have already led to applications for the registration of various patents.

To quote just a few of the projects that continued in progress during 2016, our current portfolio incorporates the production of a new family of hydraulic binders with low calcium content, the development of cements with replacement of a significant part of clinker by a combination of artificial pozzolanas (calcined clays) and limestone filler, the bio-fixing of CO₂ of the clinker kilns in microalgae for various purposes, the development of ecoefficient concrete (LEAP), the production of new hydraulic binders based on demolition and construction waste, the production of fodder plants for production of biomass intended for fuel.

Among the highlights of 2016, two are especially worthy of note: the Biomass Project, developed in partnership with EMBRAPA (Brazilian Agricultural Research Corporation), for use of agricultural crop biomass to generate energy to produce cement, and the launch of LEAP ecoconcrete, whose experiments at an industrial scale were conducted in the 2nd half of year.

INNOVATION LEADS TO COMPETITIVENESS AND SUSTAINABILITY





OPEN THE INNOVATION TO THE SERVICE OF SOCIETY

In 2016, InterCement launched a unique project in partnership with another three giants of the Brazilian civil construction sector – Gerdau, Tigre and Vedacit. The W.I.P. (Work in Progress) project, developed by one of the most respected startup hubs of Latin America, seeks to find disruptive solutions that will bring a better quality of life and sustainability to major Brazilian cities and operational efficiency to companies in the coming years. Under the concept of "open innovation", W.I.P. selected startups that meet the established objectives to participate in a programme of acceleration of their business that is due to start in April 2017.

Another project implemented by InterCement of an extremely innovative nature is the Vivenda Programme, a Brazilian business startup of social impact aimed at improving the housing conditions in communities by accomplishing fast and low cost reforms. InterCement, through its own startup Neogera has also made an investment in the Vivenda Programme, becoming a business partner. This partnership mobilised the company to organise a workshop, gathering representatives of the construction materials industry to promote the project's sustainability with their ideas.





INTERCEMENT: A
FOUNDATION STONE FOR
BUILDING THE FUTURE





Value Creation and Deleveraging

INTEGRATED DEVELOPMENT

InterCement entered into 2017 committed to strengthening relations with its partners, especially focused on the development of actions and value propositions perceived by the customer.

The company intends to be the first choice when there is a need for cement, concrete or other by-products. For which it is proposed to assess the needs and expectations of local markets, based on the corporate guidelines, while improving InterCement's response to the customers, as well as suppliers and communities, continuining the work of the "Partners" programme.

The company will continue to concentrate on the improvements of the productivity indicators, by incorporating new technologies and processes, and through investment in the training and capacity-building of its employees in InterCement Academy programmes.

The improvement of governance processes and compliance controls will continue to be a central topic of the agenda for 2017, as well as, reducing business risks and increasing the safety of individuals and goods within the scope of its activity.

From the environmental point of view, progresses are expected in terms of reducing impacts and expanding co-processing activity, that is, reducing the use of fossil fuels and raw materials. As in 2016, the demand for value-added energy alternatives will continue in 2017 occupying a prominent place in the long-term vision of the company

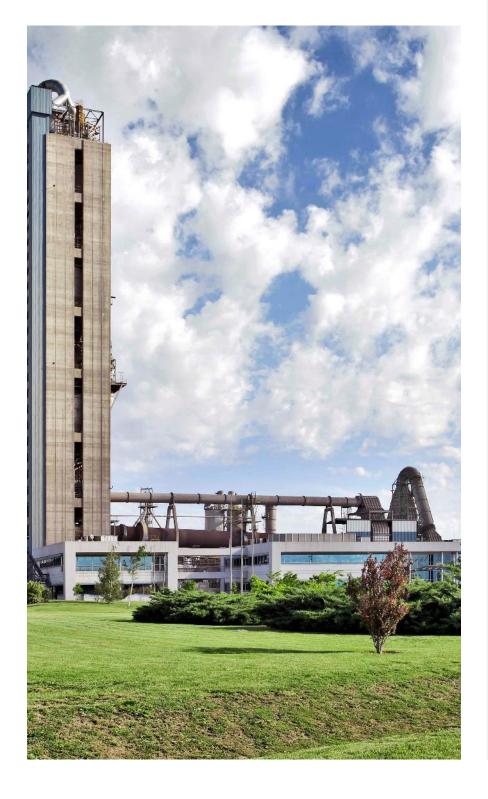
From the economic point of view, the projections are positive. Albeit in a rather discrete manner, global economic growth should advance by 2.7% in 2017, according to the World Bank report. Growth in the emerging markets, which is the case of the countries where InterCement has operations, should accelerate even more, reaching 4.2%.

As to the funding of its business, InterCement will continue to optimise its capital structure by lowering its level of financial leverage. To do so, the company will pursue a combination of reduced capital employed (through sale of non-strategic assets and minority holdings) with CAPEX discipline and increased cash generation (either via EBITDA or via the continuous improvement of average working capital).





For 2017, InterCement forecasts an increase in the generation of EBITDA, due to the progress in the operations in Argentina and the recovery of Portugal, trading activity and South Africa. This, toghether within the above mentioned, should boost the reduction of the level of financial leverage to values that are compatible with the company's funding requirements.





ARGENTINA WILL BE THE TRIGGER OF EBITDA RECOVERY. PORTUGAL AND SOUTH AFRICA WILL FOLLOW. SALE OF MINORITY INTERESTS AND MONETIZATION OF ASSETS FOR FURTHER CASH GENERATION.



SHORT-TERM OUTLOOK FOR INTERCEMENT'S BUSINESS UNITS

BRAZIL

Projections still point to a subdued growth of the Brazilian Gross Domestic Product (GDP) of merely 0.5% (according to the World Bank). While still expecting a decrease in demand for 2017, InterCement Brazil will implement the customer segmentation project, aimed at optimising the services provided according to the different profiles and behaviour, considering sales and channel, among other factors. The company will further extend its position as a strategic partner to accompany the customers, also contributing to their business growth.

The residential sector, in view of its scale and the housing deficit in the country, will continue to be the main driver of cement consumption in Brazil. Taking into account the delay of cement consumption in relation to economic recovery, the SNIC (Sindicato Nacional da Indústria do Cimento) outlook for 2017 is that there should still be a fall in consumption of 5 to 7%. Given this scenario the increased EBITDA margin should not be enough to lead to increased generation of EBITDA.



ARGENTINA

Following the economic adjustments of 2016, according to the World Bank, the country should grow by around 2.7% in 2017, opening up major expectations for InterCement. In this environment of recovery of growth, the company's goals will be to focus on creating new value propositions and continuously searching for business opportunities.

The launch of an infrastructure plan, the increased confidence of economic agents, both national and international, and a possible bumper agricultural harvest enable forecasting growth of cement consumption close to 8%, providing the necessary environment to offset the inflation of production costs.

In 2017, InterCement will pursue the initiatives aimed at enhancing commercial and operational efficiency, taking advantage of its scale and national market leadership position in this geography.







PARAGUAY

After consolidation of the industrial operation, now is the time to boost results and increase productivity. With the World Bank's forecast growth of around 3.6% for the economy, this business unit takes on the challendge of meeting the country's new needs of sustainable growth, with the highest efficiency standards.

Local cement consumption should grow by around 8%, which should allow InterCement's EBITDA margin in Paraguay to remain as the company's internal benchmark.



The country's GDP, according to the World Bank, is expected to grow by 4%, which is the second highest growth projection among the countries where InterCement is located. With the recent upgrade of its energy matrix, i.e. following the inauguration of the coal mill and operationalisation of the co-processing of solid waste in the region of Alexandria, the company is now prepared to reduce its operating costs and increase its productivity, responding rapidly to the expected growth of demand for 2017 (3%-5%).

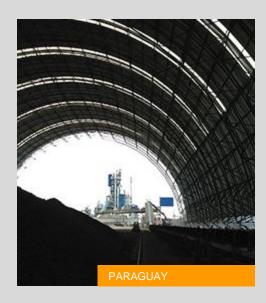
In this context, in spite of an estimated strong increase of EBITDA in local currency, the heavy competition in this market may constrain the offsetting of the inflation of imported raw materials, restricting the expected EBITDA margin increased.

MOZAMBIQUE

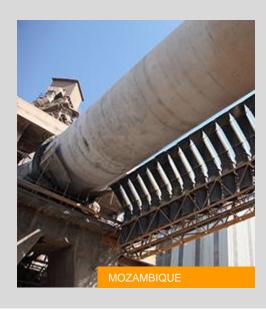
Notwithstanding the strong potential growth of Mozambican GDP, the political and economic context, combined with the prospects of a water crisis, will require some caution in the beginning of 2017.

In 2017, the company will invest even more in its relations and technical and commercial partnership with its customers, in order to maintain its leading position and contribute to the development of the partners' business and the country's growth.

In this context, InterCement expects that the ongoing local programme to enhance efficiency will produce an increase of the EBITDA margin in this geography.









SOUTH AFRICA

South African GDP growth is likely to be low in 2017. The World Bank points to 1.1%. InterCement's strategy is to invest in improving sales conditions and possibilities, strengthening partnerships and market research. This drive focuses on expanding market share and boosting the delivery of results.

Following a performance in 2016 that was affected by interventions for maintenance, unplanned production stoppages and climatic disasters, we expect a recovery of EBITDA in local currency, which will bring the margin up to a level of 30% and surpass the value presented in 2015.



PORTUGAL

As this is a mature economy, growth is forecast at 1.2%, within the average parameters of the euro area. The company's challenge in this market will be to expand the customised product and service solutions, in order to strengthen customer relations. The more favourable circumstances of the domestic market and positive export expectations enabled InterCement's announcement, in early 2017, of the reactivation of the kiln of its production unit in Loulé.

Although energy costs are likely to increase, InterCement in Portugal is expected to benefit from a more favourable internal market and regain the export venue, in order to present an EBITDA strong growth versus 2016.

CAPE VERDE

The development of tourist infrastructures should support local demand for cement and bolster growth of the operation's EBITDA.





