ANNUAL REPORT 2016

InterCement

Building sustainable partnerships

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InterCement

Building sustainable partnerships

CHAPTER 1

INTRODUCTION

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.

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 waste-derived 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.

COAL MILL IN EGYPT

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.

PREMIUM PRODUCTS IN BRAZIL

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.

LOMA NEGRA 90 YEARS

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.

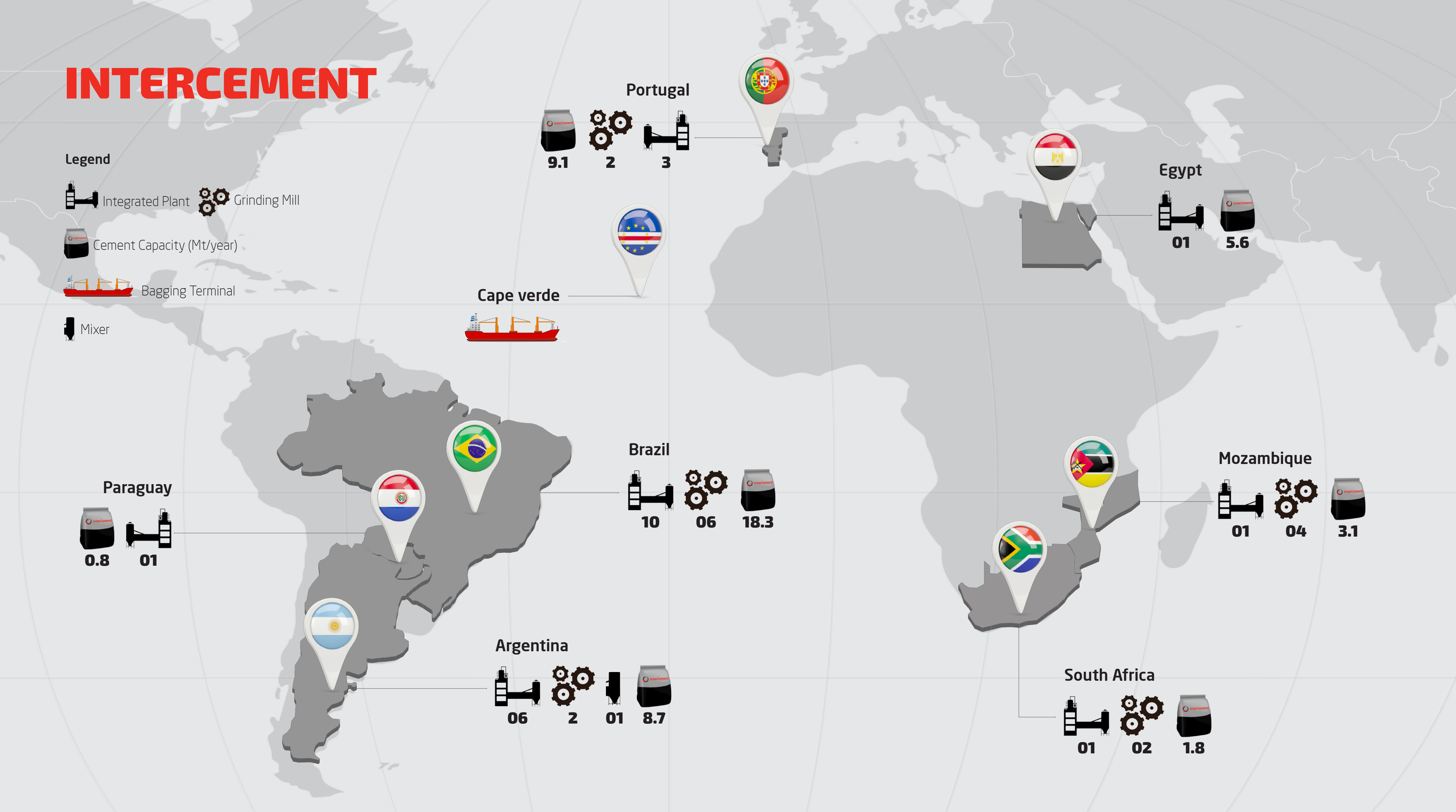
CUSTOMER FOCUS AND ENERGY MATRIX OPTIMIZATION. LAUCHING THE FOUNDATIONS FOR DELEVERAGING.

CHAPTER 2

WE ARE INTERCEMENT

Building sustainable partnerships

INTERCEMENT



7,734
PROFESSIONALS

PRESENCE IN 3 CONTINENTES AND 8 CONTRIES

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

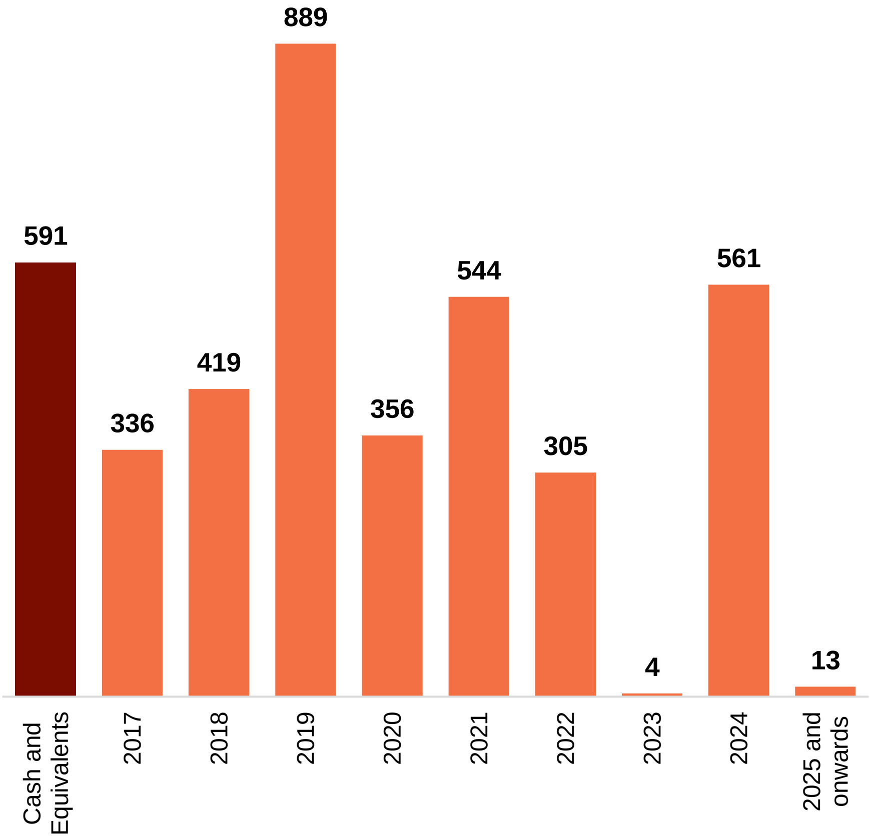
The refinancing processes of 2016 enabled improving the debt profile, primarily due to the reduction of the average cost of debt, but also due to the maintenance of a high liquidity level (591 million euros). This was sufficient to cover the financial commitments of the following 18 months, due to the 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"). .

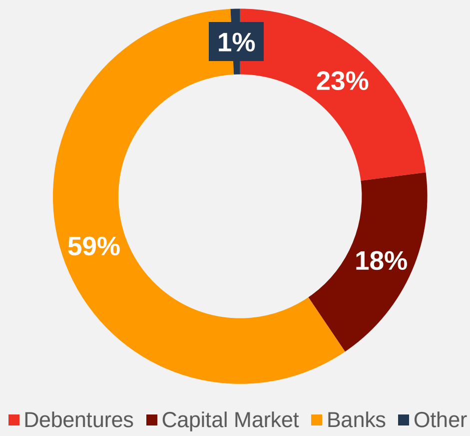
31 December, 2016

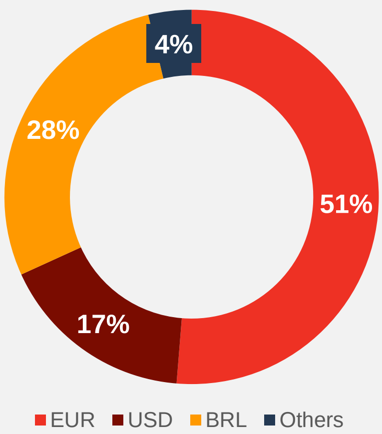
Maturities

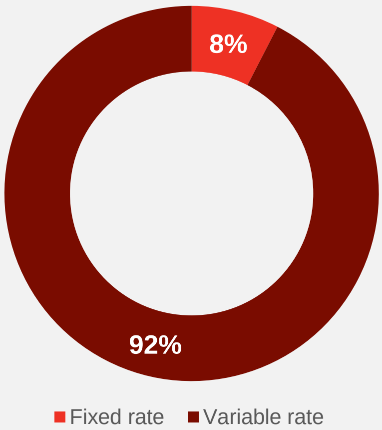
(Million euros)



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).

SET OF INITIATIVES REINFORCES FOUNDATIONS FOR VALUE CREATION

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.

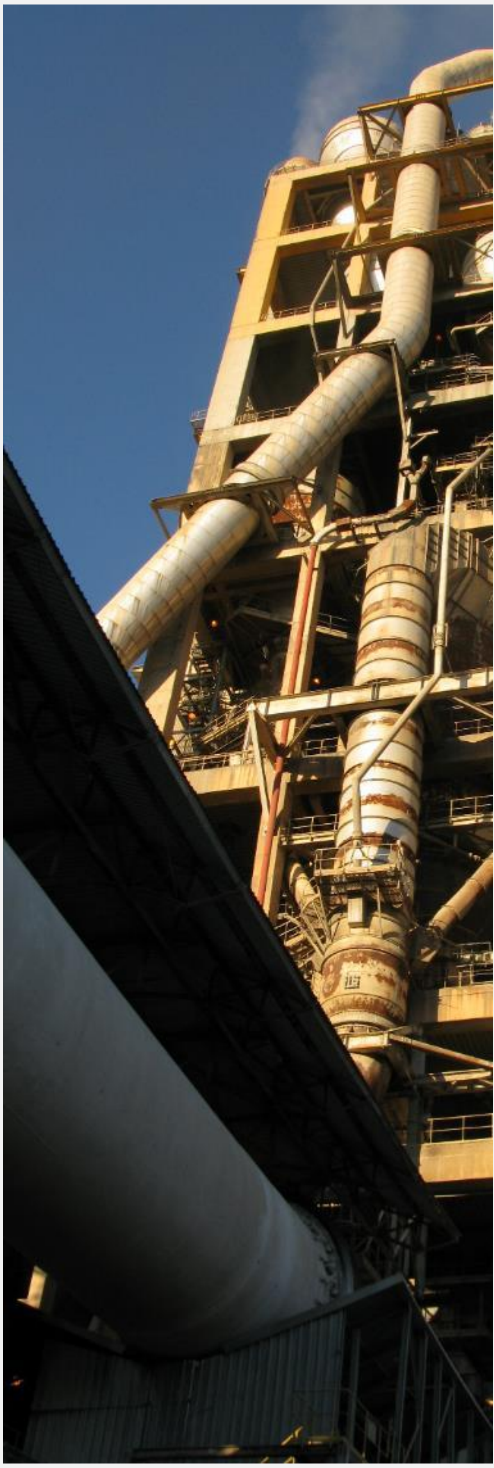
However, although great progress has been achieved by actions focused on processes of continuous improvement of efficiency, and on their dissemination within the company via the sharing of best practices (InterCement Management System (IMS)), the impact of its start-up on the financial indicators so 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)	Jan - Dec		
	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				
(€ million)	2015	2016		
	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

[1] Adjusted EBITDA: adjustment consists of non-recurring costs

2016 SECOND HALF IMPROVEMENT INSUFFICIENT TO MEET 2015 FULL YEAR FIGURES

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:	3,090	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 (million euros)	Jan - Dec 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%	0.8
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 AND PARAGUAY

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.

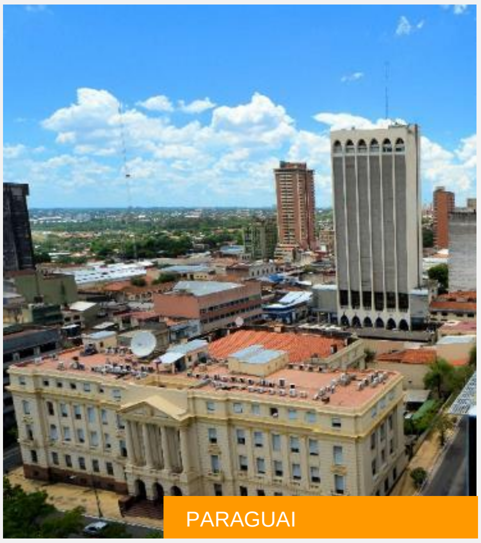
Cement consumption corresponded to the expectations of adjustment after the record achieved in 2015, being 10% lower than in the previous year. Notwithstanding, the recovery observed in the 2nd half of the year allows foreseeing a trend of growth, which should mean that the level of 2015 may return in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


PARAGUAI

EGYPT

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.


EGYPT

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.


SOUTH AFRICA

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

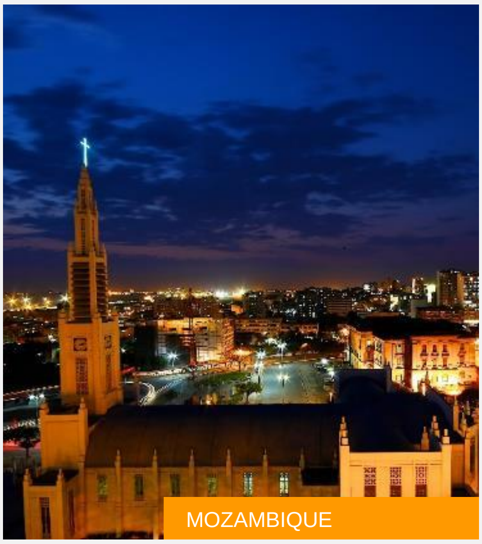
The initiatives to increase operating efficiency (including the suspension of activity of the Loulé kiln) have brought EBITDA margin up in relation to the previous year, thus mitigating the slowdown of the domestic market and exports – approximately 44% as a result of the dependence of international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

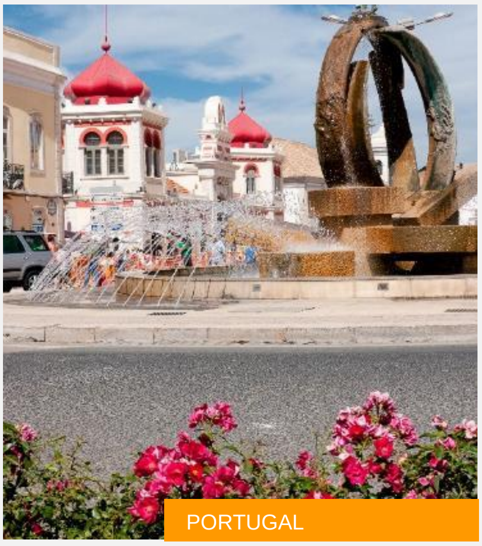
InterCement has been giving more and more priority to co-processing across all its geographies. In Portugal, InterCement is proud of the substitution rate of 50% at which one of the kilns of the Alhandra plant is currently operating. The plant is using, or rather totally eliminating, shredded tyres, 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.


MOZAMBIQUE


PORTUGAL


CAPE VERDE

[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

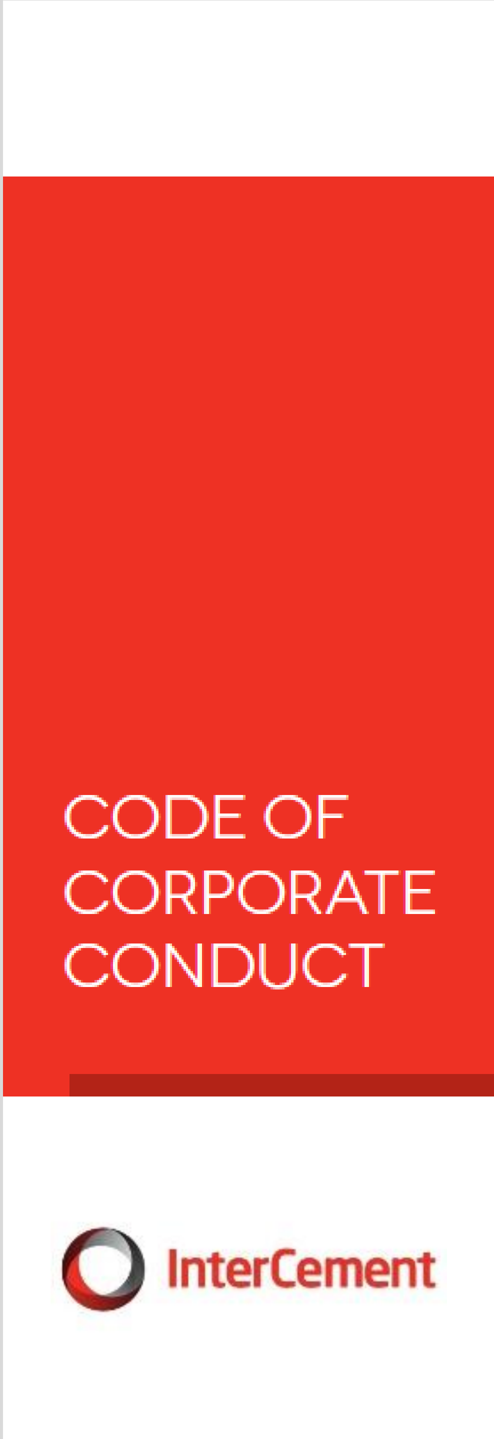
The concept of compliance encompasses the practices and disciplines adopted in order to comply with laws, regulations and control policies. Although this is a topic that has currently received great attention by companies worldwide, InterCement has been concerned with disseminating the concept and practices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



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.

INTERCEMENT FOCUSED ON "ZERO ACCIDENT" POLICY

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.

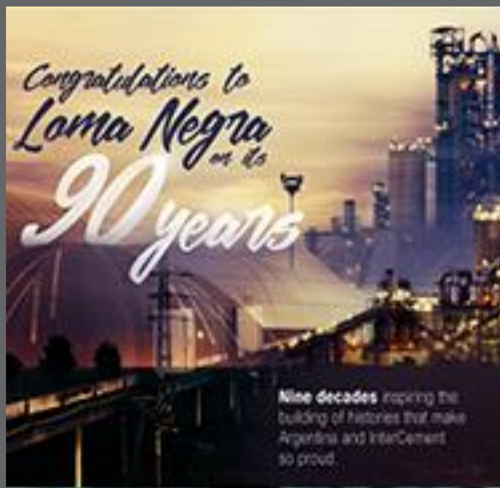
Its founder, Alfredo Fortabat, was an entrepreneur who, back in 1926, already knew that the company's longevity would also depend on a major cultural and social transformation of his country. From the very beginning, he invested in innovation, quality products and providing services of excellence, in 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 post-graduations (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.

Fundación LOMA NEGRA

AN EXAMPLE THAT STAYS WITH US: OSVALDO SCHUTZ

CHAPTER 3

HOW WE CREATE VALUE

Building sustainable partnerships

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.

CUSTOMER SERVICE, LOYALTY AND KNOWLEDGE IMPROVING

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.

INNOVATION AND SUSTAINABLE DEVELOPMENT - TOGETHER

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.

COMMITTED TO THE FUTURE, NAMELY OF THOSE AROUND US

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

Community Development				
Ideal Childhood Attention to very early childhood	**Ideal School** Literacy at the right age	**Ideal Future** Support to the transition to adult life	**Productive Inclusion** Fostering inclusion by doing business with the base of the pyramid and for the base of the pyramid	**Strengthening of Social Capital** Specific actions to support community development in each location
Voluntary Ideal – Support to civic action				

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".

STRONG COMMITMENT TO REDUCE THE CARBON FOOTPRINT

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 (CO_2).

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.

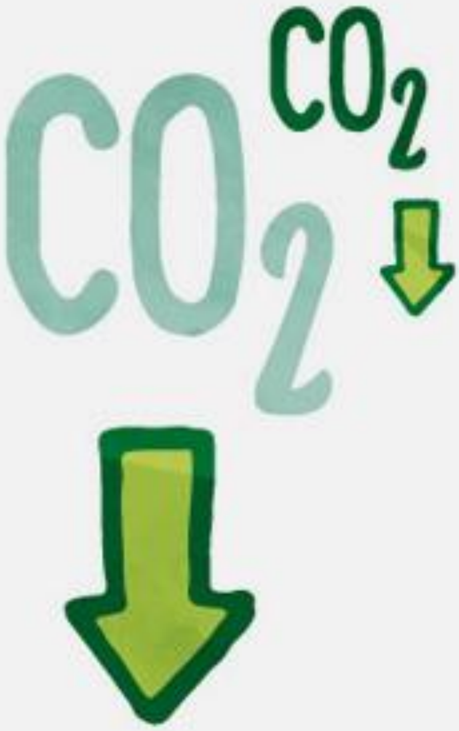
At InterCement, the calculation of GHG emissions follows the WBCSD/WRI Cement CO_2 & Energy Protocol 3.04 developed by the Cement Sustainability Initiative (CSI), pursuant to the GHG Protocol model. This calculation has been audited and certified since 2005 by an independent external entity in all the 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.



REDUCTION OF EMISSIONS IN THE PAST 5 YEARS

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 CO_2 (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 m^3 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 co-processing 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 co-processed 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 CO_2 of the clinker kilns in microalgae for various purposes, the development of eco-efficient 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 eco-concrete, 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.

PROGRAMA VIVENDA
A MUDANÇA VEM DE DENTRO

INTERCEMENT: A FOUNDATION STONE FOR BUILDING THE FUTURE

InterCement

CHAPTER 4

OUTLOOK

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.

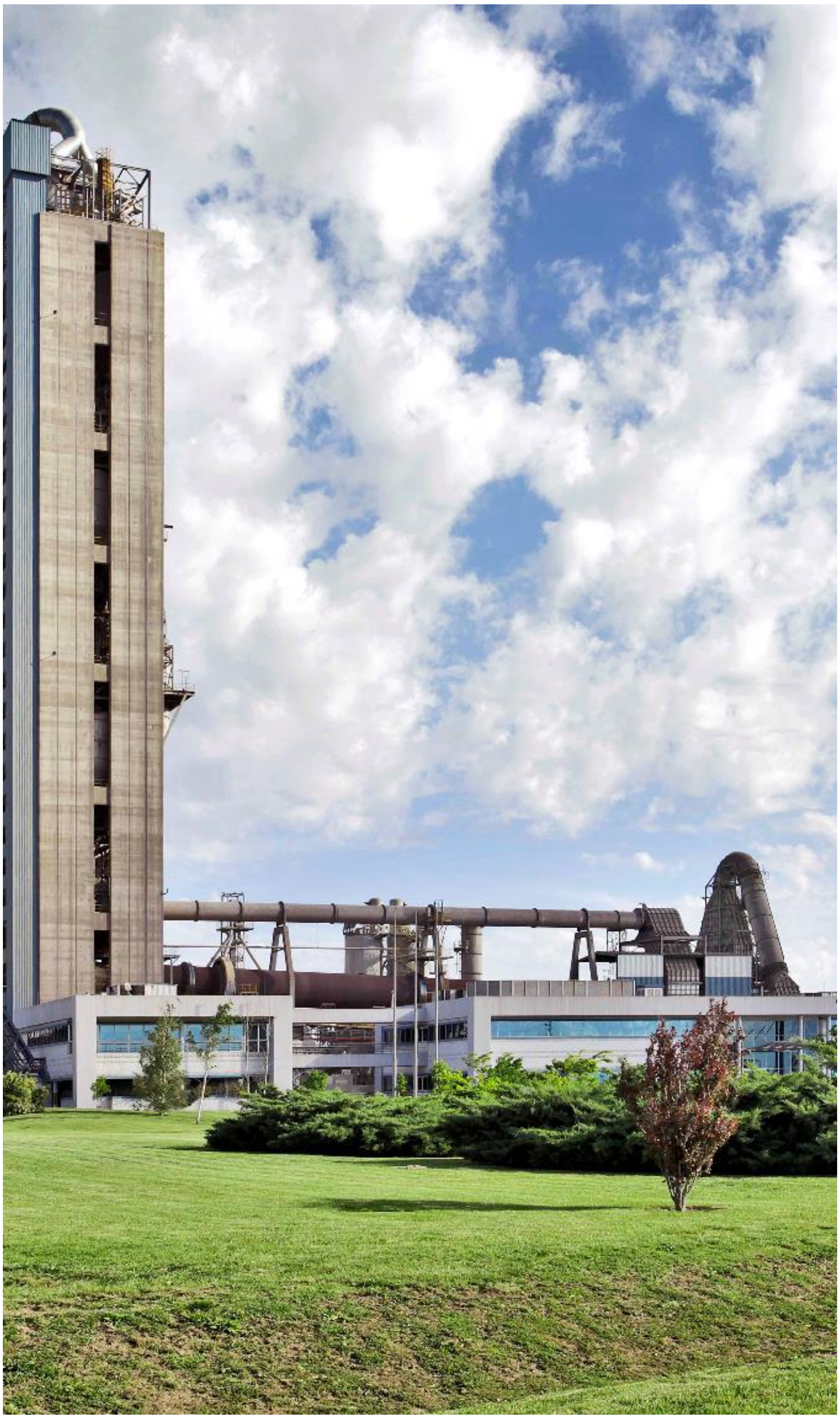
From the environmental point of view, progresses are expected in terms of reducing impacts and expanding co-processing activity, that is, reducing the use of fossil fuels and raw materials. As in 2016, the demand for value-added energy alternatives will continue in 2017 occupying a prominent place in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

FIRST CHOICE WHEN IN NEED FOR CEMENT, CONCRETE AND OTHER BY-

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.

BRAZIL

ARGENTINA AND PARAGUAY

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.

ARGENTINA

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.

EGYPT

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%).

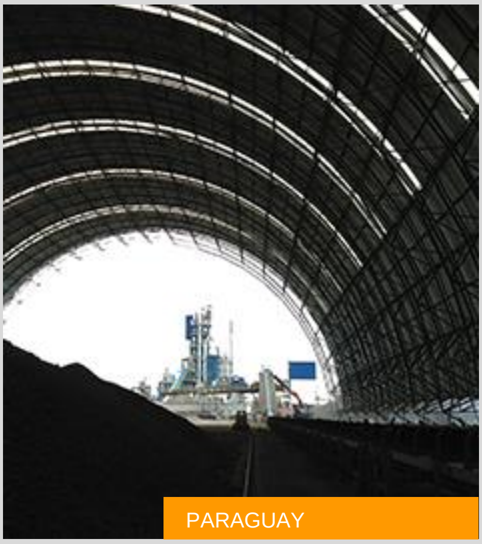
In this context, in spite of an estimated strong increase of EBITDA in local currency, the heavy competition in this market may constrain the offsetting of the inflation of imported raw materials, restricting the expected EBITDA margin increased.

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.


PARAGUAY


EGYPT


MOZAMBIQUE

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.


SOUTH AFRICA

PORTUGAL AND CAPE VERDE

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.


PORTUGAL

CAPE VERDE

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


CAPE VERDE

2016
FINANCIAL STATEMENTS

InterCement

Building sustainable partnerships

INDEPENDENT AUDITORS' REPORT

To the Shareholders, Directors and Management of
InterCement Participações S.A.
São Paulo - SP

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of InterCement Participações S.A. and its subsidiaries ("Company"), which comprise the consolidated statement of financial position as of December 31, 2016, and the consolidated statements of loss, comprehensive loss, changes in shareholder´s equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information accompanying the consolidated financial statements and the independent auditor's report

Management is responsible for the other information. The other information comprises the information included in the Annual Report.

Our opinion on the consolidated financial statements does not cover the Annual Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Annual Report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and its subsidiaries' financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company and its subsidiaries to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

São Paulo, March 14, 2017

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Roberto Torres dos Santos
Engagement Partner

INTERCEMENT PARTICIPAÇÕES S.A. AND SUBSIDIARIES

Consolidated Statements of Financial Position as of December 31, 2016 and 2015

(In thousands of euros - €)

ASSETS	Notes	12.31.2016	12.31.2015
CURRENT ASSETS			
Cash and cash equivalents	4	541,143	767,971
Securities	5	49,465	23,476
Trade receivables	6	137,605	145,501
Inventories	7	396,795	376,795
Recoverable taxes		42,603	54,787
Derivatives	26	26,450	24,770
Other receivables		52,079	67,509
Total current assets		1,246,140	1,460,809
NONCURRENT ASSETS			
Securities	5	2,928	2,361
Trade receivables	6	6,199	1,505
Inventories	7	12,461	13,994
Recoverable taxes		29,675	14,098
Deferred income tax and social contribution	18	29,827	74,218
Escrow deposits		19,923	13,659
Derivatives	26	215,450	238,895
Other receivables		27,473	22,785
Property Investment	10	7,442	-
Investments		13,340	15,735
Property, plant and equipment	8	2,047,838	2,144,857
Intangible assets:			
Goodwill	9	1,546,629	1,721,808
Other intangible assets	9	213,388	186,612
Total noncurrent assets		4,172,573	4,450,527
TOTAL ASSETS		5,418,713	5,911,336

LIABILITIES AND EQUITY	Notes	12.31.2016	12.31.2015
CURRENT LIABILITIES			
Trade payables		311,631	300,369
Debentures	12	121,926	-
Borrowings and financing	11 and 12	213,866	117,117
Interest payable		95,678	91,853
Taxes payable		67,618	50,265
Payroll and related taxes		43,589	40,760
Dividends and interest on capital		2,455	389
Advances from customers		18,130	32,683
Actuarial liabilities	15	903	899
Derivatives	26	8,287	2,501
Other payables		30,223	103,228
Total current liabilities		914,306	740,064
NONCURRENT LIABILITIES			
Trade payables		9,199	8,694
Debentures	12	1,157,415	1,262,123
Borrowings and financing	11	1,932,136	1,911,827
Provision for tax, civil and labor risks	13	52,474	83,845
Provision for environmental recovery	14	39,954	36,613
Taxes payable		13,138	5,222
Deferred income tax and social contribution	18	301,829	332,578
Actuarial liabilities	15	21,825	16,107
Derivatives	26	7,468	4,602
Other payables		13,831	9,177
Total noncurrent liabilities		3,549,269	3,670,788
TOTAL LIABILITIES		4,463,575	4,410,852
SHAREHOLDER'S EQUITY			
Capital	17	1,080,949	1,080,949
Capital reserves	17	555,114	498,724
Earnings reserves	17	155,653	228,423
Accumulated losses	17	(507,726)	(20,657)
Other comprehensive income	17	(720,321)	(738,671)
Equity attributable to the Company's owners		563,669	1,048,768
Noncontrolling interests		391,469	451,716
Total equity		955,138	1,500,484
TOTAL LIABILITIES AND EQUITY		5,418,713	5,911,336

The accompanying notes are an integral part of this consolidated financial statements.

INTERCEMENT PARTICIPAÇÕES S.A. AND SUBSIDIARIES

Consolidated Statements of loss for the years ended December 31, 2016 and 2015

(In thousands of euros - €, except per earnings per share)

	Notes	12.31.2016	12.31.2015
NET REVENUE	19 and 28	1,842,984	2,493,277
COST OF SALES AND SERVICES	20	(1,463,581)	(2,003,133)
GROSS PROFIT		379,403	490,144
OPERATING INCOME (EXPENSES)			
Administrative and selling expenses	20	(277,647)	(245,672)
Other income (expense)	20	(349,066)	34,969
Equity result		868	1,325
PROFIT (LOSS) BEFORE FINANCIAL INCOME (EXPENSES), INCOME TAX AND SOCIAL CONTRIBUTION		(246,442)	280,766
FINANCIAL INCOME (EXPENSES)			
Foreign exchange losses, net	21	(124,111)	(93,792)
Financial income	21	68,503	81,071
Financial expenses	21	(338,306)	(313,196)
LOSS BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		(640,356)	(45,151)
INCOME TAX AND SOCIAL CONTRIBUTION			
Current	18	(49,196)	(51,553)
Deferred	18	34,149	53,050
LOSS FOR THE YEAR		(655,403)	(43,654)
LOSS ATTRIBUTABLE TO			
Company's owners	23	(508,316)	(20,228)
Noncontrolling interests	28	(147,087)	(23,426)
LOSS PER SHARE			
Basic/diluted loss per share	23	(22.41)	(0.89)

The accompanying notes are an integral part of this consolidated financial statements.

INTERCEMENT PARTICIPAÇÕES S.A. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Loss for the years ended December 31, 2016 and 2015

(In thousands of euros - €)

	Notes	12.31.2016	12.31.2015
LOSS FOR THE YEAR		(655,403)	(43,654)
Other comprehensive income:			
Items that will not be reclassified subsequently to the income statement:			
Employee benefits		(4,794)	(345)
Items that might be reclassified subsequently to the income statement:			
Exchange differences arising on translating foreign operations		138,313	(634,711)
Hedging derivatives financial instruments		(40,131)	14,737
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(562,015)	(663,973)
COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
Company's owners		(487,685)	(388,310)
Noncontrolling interests		(74,330)	(275,663)

The accompanying notes are an integral part of this consolidated financial statements.

INTERCEMENT PARTICIPAÇÕES S.A. AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2016 and 2015
(In thousands of euros - €)

				Earnings reserves						
	Notes	Share capital	Capital reserves	Legal	Investments	Other comprehensive income	Accumulated losses	Total attributable to the Company's owners	Noncontrolling interests	Total equity
BALANCE AT DECEMBER 31, 2014		1,080,949	467,150	18,063	210,360	(371,196)	-	1,405,326	829,422	2,234,748
Loss for the year		-	-	-	-	-	(20,228)	(20,228)	(23,426)	(43,654)
Realization of deemed cost of property, plant and equipment		-	-	-	-	607	(607)	-	-	-
Acquisition of noncontrolling interests	16	-	14,005	-	-	-	-	14,005	(105,434)	(91,429)
Sale of noncontrolling interests	17	-	17,569	-	-	-	-	17,569	4,450	22,019
Transactions with shareholders recognized directly in equity		-	-	-	-	-	-	-	251	251
Dividends paid to noncontrolling interests		-	-	-	-	-	-	-	(1,311)	(1,311)
Prescribed dividends		-	-	-	-	-	179	179	-	179
Other comprehensive income	17	-	-	-	-	(368,082)	-	(368,082)	(252,237)	(620,319)
BALANCE AT DECEMBER 31, 2015		1,080,949	498,724	18,063	210,360	(738,671)	(20,657)	1,048,768	451,716	1,500,484
Loss for the year		-	-	-	-	-	(508,316)	(508,316)	(147,087)	(655,403)
Realization of deemed cost of property, plant and equipment		-	-	-	-	(2,281)	2,281	-	-	-
Sale of noncontrolling interests	17	-	56,390	-	-	-	-	56,390	18,307	74,697
Loss absorption throught earnings reserves		-	-	-	(18,965)	-	18,965	-	-	-
Dividends to ordinary and preferred shares - paid	17	-	-	-	(53,804)	-	-	(53,804)	-	(53,804)
Other		-	-	-	-	-	-		(3,646)	(3,646)
Dividends paid to noncontrolling interests		-	-	-	-	-	-	-	(579)	(579)
Other comprehensive income	17	-	-	-	-	20,631	-	20,631	72,757	93,388
BALANCE AT DECEMBER 31, 2016		1,080,949	555,114	18,063	137,591	(720,321)	(507,726)	563,669	391,469	955,138

The accompanying notes are an integral part of this consolidated financial statements.

INTERCEMENT PARTICIPAÇÕES, S.A. AND SUBSIDIARIES

Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015

(In thousands of euros - €)

	Notes	12.31.2016	12.31.2015
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before income tax and social contribution		(640,356)	(45,151)
Adjustments to reconcile income before income tax and social contribution with net cash generated by operating activities:			
Depreciation, amortization and impairment losses		593,048	238,290
Recognition (reversal) of allowance for potential losses, net		(22,478)	(6,191)
Interest, accrued charges, and exchange differences		394,606	327,697
Gain on sale of long-lived assets		(11,858)	(27,460)
Equity result		(868)	(1,325)
Other noncash operating losses (gains)		(424)	869
Decrease (increase) in operating assets:			
Related parties		1,320	(935)
Trade receivables		(11,290)	(23,036)
Inventories		(48,866)	(12,949)
Recoverable taxes		1,714	2,598
Other receivables		(1,261)	955
Increase (decrease) in operating liabilities:			
Related parties		167	45
Trade payables		70,285	93,002
Payroll and vacation payable		1,024	(16,683)
Other payables		(109,606)	(36,348)
Taxes payable		5,003	4,744
Cash generated by operating activities		220,159	498,123
Income tax and social contribution paid		(38,018)	(46,602)
Interest paid		(242,847)	(222,135)
Net cash generated (used) by operating activities		(60,706)	229,386
CASH FLOW FROM INVESTING ACTIVITIES			
Redemption of (investments in) securities		(7,510)	56,805
Purchase of property, plant and equipment		(116,087)	(105,109)
Increase in intangible assets		(1,104)	(4,177)
Sale of non-current asset for sale and joint-ventures		79,851	-
Sale of long-lived assets		6,440	38,750
Sale of noncontrolling interests		-	21,175
Dividends received		869	1,506
Net cash generated (used) in investing activities		(37,541)	8,950
CASH FLOW FROM FINANCING ACTIVITIES			
Borrowings, financing and debentures		237,606	236,971
Swap transactions		-	39,640
Acquisition of noncontrolling interests	16	-	(91,429)
Repayment of borrowings, financing and debentures		(290,197)	(410,901)
Dividends paid		(53,804)	(50,462)
Other instruments		(8,053)	52,382
Net cash used in financing activities		(114,448)	(223,799)
DECREASE IN CASH AND CASH EQUIVALENTS		(212,694)	14,537
EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS		(14,134)	(48,321)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	4	767,971	801,755
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	541,143	767,971

The accompanying notes are an integral part of this consolidated financial statements.

INTERCEMENT PARTICIPAÇÕES, S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements for the year ended December 31, 2016

(Amounts in thousands of euros - €, unless otherwise stated)

1. General Information

InterCement Participações, S.A. ("Company") is a private held company headquartered in the City of São Paulo, State of São Paulo, Brazil, engaged in holding equity interests and investments abroad, leading a business group present in 8 countries ("ICP Group" or "Group"). Its ultimate parent company is Camargo Corrêa S.A. The Group is primarily engaged in the manufacture and sale of cement and cement byproducts, in addition to the extraction of the minerals used to manufacture these products.

The Company owns 40 cement plants, 62 concrete plants, and 21 aggregates plants (located in Brazil, Argentina, Paraguay, Portugal, Egypt, Mozambique and South Africa). It also owns one port terminal in Cape Verde, and seven plants producing lime, packaging and mortar. Additionally, Brazil holds electric power generation equity interests and assets, as a self-generator for some of its production.

2. Basis of Preparation and Significant Accounting Policies

2.1. Basis of presentation

The accompanying consolidated financial statements were prepared on a going concern basis from the books and accounting records of the Company and the companies included in the consolidation, maintained in accordance with Brazilian accounting practices, which are equivalent to International Financial Reporting Standards ("IFRS"). Such standards include the IFRS issued by the International Accounting Standards Board ("IASB"), the International Accounting Standards ("IAS") issued by the Accounting Standards Committee ("IASC") and the interpretations issued by the IFRS Interpretation Committee ("IFRIC"). These standards and interpretations are hereinafter referred to collectively as "IFRS".

The Company's functional currency is the Brazilian real (R$) and the financial statements are presented in euros (presentation currency), for the convenience of readers outside Brazil and, as prescribed by IAS 21, paragraph 38 - The Effects of Changes in Foreign Exchange Rates, the Company may present its financial statements in any currency.

2.2. New standards and interpretations, revisions and amendments

a) New standards and interpretations

The new standards and accounting interpretations bellow, which were issued until December 31, 2016 by the "International Accounting Standards Board - IASB", were not applied in advance by the Company in the financial statements for the year ended December 31, 2016. Those standards will be implemented as soon as its application becomes obligatory. The Company has not yet estimated the possible impacts of these on its financial statements.

Standard	Description	Effective date
IFRS 9	Financial Instruments' with IFRS 4 - Insurance Contracts	Effective for annual periods beginning on or after January 1, 2018.
IFRS 15	Clarifications to IFRS 15 - Revenue from Contracts with Customers issued	Effective for annual periods beginning on or after January 1, 2018.
IFRS 16	Leases	Effective for annual periods beginning on or after January 1, 2019.
Amendments to IFRS 2	Amended by Classification and Measurement of Share-based Payment Transactions	Effective for annual periods beginning on or after January 1, 2019.
Amendments to IFRS 10 and IAS 28	Amended by Annual Improvements to IFRS Standards 2014–2016	Effective for annual periods beginning on or after January 1, 2018.
Amendments to IAS 7	Disclosure Initiative	Effective for annual periods beginning on or after January 1, 2017.
Amendments to IAS 12	Amended by Recognition of Deferred Tax Assets for Unrealized Losses	Effective for annual periods beginning on or after January 1, 2017.
IFRIC 22	Foreign Currency Transactions and Advance Consideration issued	Effective for annual periods beginning on or after January 1, 2018.
Amendments to IAS 40	Amended by Transfers of Investment Property	Effective for annual periods beginning on or after July 1, 2018.

b) New and revised standards and interpretations implemented during 2016

Standard	Description	Effective Date
Amendment to IAS 1	Amended by Disclosure Initiative	Effective for annual periods beginning on or after January 1, 2016.
Amendments to IAS 16 and IAS 38	Amended by Clarification of Acceptable Methods of Depreciation and Amortization	Effective for annual periods beginning on or after January 1, 2016.
Amendments to IAS 16 and IAS 41	Amended by Agriculture: Bearer Plants	Effective for annual periods beginning on or after January 1, 2016.
Amendments to IFRS 11	Amended by Accounting for Acquisitions of Interests in Joint Operations	Effective for annual periods beginning on or after January 1, 2016.
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Exception of Consolidation	Effective for annual periods beginning on or after January 1, 2016.

There were no significant effects in the consolidated financial statements resulting from the adoption of the standards, interpretations, amendments and revisions, which mandatory application for the first time in the year ended December 31, 2016.

2.3. Critical accounting judgements/estimates

The preparation of financial statements in accordance with IFRS recognition and measurement principles requires the Board of Directors ("Management") to make judgements, estimates and assumptions that can affect the presented amount of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, as well as of income and expenses.

These estimates are based on the best knowledge existing at each moment and the planned actions, and are regularly reviewed based on the information available. Changes in facts and circumstances can lead to a revision of the estimates and so actual results may differ from these estimates.

The significant estimates and assumptions made by the Management in preparing these financial statements include assumptions used in estimating the following items:

• Impairment of non-current assets (excluding Goodwill)

The determination of a potential impairment loss can arise as result from the occurrence of several events, many of them external to the ICP Group, such as macroeconomic conditions, industry and market considerations, cost factors, financial performance or any other changes, either internal or external, to ICP Group.

The identification of impairment indicators and the determination of the assets' recoverable amount, are subject of a Management's judgement referring to the identification and evaluation of the different impairment indicators, cash-generating units, expected cash flows, applicable discount rates, growth rates, useful lives and transaction values.

• Impairment of goodwill

Goodwill is subjected to annual impairment tests or whenever there are indications of a possible loss in value. The recoverable amounts of the cash-generating units to which goodwill has been allocated, is the higher between the market value, determined according with recent transaction multiples, and the value in use, determined according to the expected cash flows. The calculation of these amounts requires the use by the Management of estimates regarding the future evolution of the activity and the discount rates considered.

• Accounts receivable impairment

The credit risk associated to accounts receivable is evaluated at the end of each reporting period, taking into consideration the debtor's historical information and his risk profile. The accounts receivable are adjusted by the assessment of the estimated collection risks at the balance sheet dates, which might differ from the effective risk to incur.

• Useful lives of intangible and tangible fixed assets

The useful life of an asset is the time period during which an entity expects that an asset will be available for use and it must be reviewed at least at the end of each year.

The determination of the assets useful lives, amortization/depreciation method to apply, its residual value and of the estimated losses resulting from the early replacement of equipment, due to technological obsolescence, is essential to determine the amount of amortization/depreciation charge to the profit and loss of each year.

These parameters are defined according to Management's best estimate, for the assets and businesses in question, also considering the best practices adopted by companies operating in the same business activity.

• Provisions recognition and contingent liabilities disclosure

The Group periodically analyses possible obligations that arise from past events that should be recognized or disclosed. The inherent subjectivity to the determination of the probability and amount of internal resources required to settle the obligations, might lead to significant adjustments, either by the variation of the assumptions used or by the future recognition of provisions previously disclosed as contingent liabilities.

• Recognition of deferred tax assets

Deferred tax assets are only recognised when there is strong expectation that there will be sufficient future taxable income to utilise them or when there are deferred tax liabilities whose reversal is expected to occur in the same period of the reversal of the deferred tax assets. The carrying amount of deferred tax assets is reviewed by Management at the end of each year and takes into consideration the expectation about the future performance.

• Retirement and healthcare benefits

An actuarial valuation made by independent experts and based on economic and demographic assumptions is performed each year in order to assess the liabilities resulting from retirement and healthcare benefits granted to Group's employees. Any change in these assumptions will have an impact on the on the amount of the liability for retirement and health benefits, being the Group's policy to periodically review the assumptions.

• Measurement of derivative financial instruments

The measurement of derivative financial instruments involves a number of estimates and assumptions, in particular expectations about interest rate and exchange rates, as well as estimates of the Group's credit risk and the various involved counterparties, which may differ those who will actually occur.

2.4. Consolidation principles

a) Controlled companies

Controlled companies have been consolidated in each accounting period. Control is considered to exist where the Group holds, directly or indirectly, a majority of the voting rights at Shareholders' General Meetings, or has the power to determine the companies' financial and operating policies.

Third party participation in shareholders' equity and net profit of such companies is presented separately in the consolidated statement of financial position and consolidated statement of comprehensive income under the caption "Non-controlling interests".

The results of controlled companies acquired or sold during the period are included or excluded in the consolidated statement of comprehensive income from the date of their control is obtained to the date of their control is lost, respectively.

Significant balances and transactions between controlled companies are eliminated in the consolidation process. Capital gains or losses within the Group on the sale of subsidiary and associated companies are also eliminated.

Whenever necessary, adjustments are made to the financial statements of subsidiaries and associated companies to conform to the Group's accounting policies.

b) Business combinations

Business combinations, namely the acquisition of controlled companies are recorded in accordance with the purchase method.

Acquisition cost is determined by the sum of the fair value of the assets given, liabilities and contingent liabilities incurred or assumed and equity instruments issued by the Group in exchange for the assumption of control in the entity acquired. Costs relating to the acquisition are recognized as expenses when incurred. Where applicable, cost includes the fair value of the contingent payments measured as of the date of acquisition. Subsequent changes in the value of the contingent payments or deferred payments, measured in accordance with IFRS 13, are recorded in profit or loss.

The identifiable assets, liabilities and contingent liabilities of a subsidiary that meet the criteria to be recognised in accordance with IFRS 3 - Business Combinations ("IFRS 3"), are measured by their fair value as of the purchase date, except for non-current assets (or groups of assets) that are identified as held for sale in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5"), which are recognised and measured by their respective fair values less costs to sell.

Any excess of cost plus the amount of the non-controlling interests over the fair value of the identifiable assets and liabilities acquired as of the purchase date is recorded as Goodwill. Where acquisition cost increased with non-controlling interests is lower than the fair value of the net assets identified, the difference is recorded as a gain of profit and loss for the period in which the acquisition is made after reconfirmation of the fair value attributed.

If the process for recording combinations of business activities is incomplete at the end of the year in which the combination occurs, the Group discloses the situation and the amounts provided can be adjusted during the provisional measuring period (the period between the date of acquisition and the date the Group obtains complete information on the facts and circumstances that existed as of the date of acquisition, up to a maximum of 12 months).

Non-controlling interests without control are reflected separately in equity from the interests of the shareholders. Non-controlling interests can initially be measured at their fair value or by the proportion of the fair value of the assets and liabilities of the subsidiary acquired. This option is made separately for each transaction.

After initial recognition, the book value of the non-controlling interests is determined as the amount initially recognized plus the proportion of changes in equity of the subsidiary. Comprehensive income of a subsidiary is attributed to non-controlling interests even if it is negative.

The results of subsidiaries acquired or sold during the period are included in the statement of comprehensive income as from the date of acquisition or up to the date of sale.

In specific situations in which the Group has in substance control of other entities created for a specific purpose, even if it does not have participations directly in the entities, they are consolidated.

Changes in the percentage of control over subsidiaries that do not result in loss of control are recorded as equity transactions. The value of the Group's non-controlling interests is adjusted to reflect changes in percentages. Any difference between the amount for which the non-controlling interests is adjusted and the fair value of the transaction is recorded directly in equity and attributed to the shareholders of the parent company.

When the Group loses control over a subsidiary, the gain or loss on the sale is calculated as the difference between (i) the aggregated amount of the fair value of the assets received and the fair value of the interests retained and (ii) the book value of the assets (including goodwill) and liabilities of the subsidiary and the non-controlling interests. Amounts previously recognized in equity as “Other comprehensive income”, namely the exchange effect resulting from the translation of foreign currency financial statements as set in the Note 2.9 below, are transferred to profit and loss or to retained earnings in the same way as would happen if related assets or liabilities were sold. The fair value of the interests retained corresponds to the fair value at the initial recognition for purposes of the subsequent recording in accordance with IAS 39 – Financial instruments or, where applicable, cost for purposes of the initial recognition of an investment in an associate or joint venture.

c) Investments in associates

An associated company is one over which the Group exercises significant influence, but does not have control or joint control, through participation in decisions relating to its financial and operating policies.

Investments in the associated companies are recorded in accordance with the equity method, except where they are classified as held for sale, being initially recorded at cost which is then increased or decreased by the difference between cost and the proportional value of the equity of such companies as of the purchase date or the date the equity method and adjusted, whenever necessary, to reflect the Group’s accounting policies.

In accordance with the equity method investments are recorded at cost at purchase date, adjusted periodically by the amount of comprehensive income in the associate (including net results of associated companies) by corresponding entry to net profit for the year or other comprehensive income, respectively, and dividends received.

Losses in associated companies in excess of the investment in them are not recognised, unless the Group has assumed commitments to participate in the losses.

Any excess of cost over the fair value of the identifiable net assets and contingent liabilities is recorded as “Investments in associates – Goodwill”. Where acquisition cost is lower than the fair value of the net assets and contingent liabilities identified, the difference is recorded as a gain in the consolidated statement of comprehensive income for the period in which the acquisition is made.

In addition, dividends received from these companies are recorded as decreases in the amount of the investments.

A valuation is made of investments in associated when there are indications that the asset may be impaired, any impairment losses being recognized. When impairment losses recognized in previous periods cease to exist, they are reversed. The reversal of impairment losses is recognized as income up to the carrying amount of the investment that would have been determined had no impairment loss been recognized.

d) Interest in joint ventures and operations

Investments in joint ventures are recorded using the equity method. According to this method, investments are recorded at their acquisition cost, adjusted by the amount corresponding to the Group's share of changes in equity (including net profit) of these companies, against gains or losses for the year and dividends received net of accumulated impairment losses.

The classification of financial interests in jointly controlled entities is determined based on: i) shareholders' agreements governing joint control; ii) the effective percentage of detention; iii) the voting rights held.

Investments in joint operations are joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Company records assets, liabilities and operations based on the rights and obligation determined in such arrangement.

e) Goodwill

Differences between the cost of investments in subsidiaries, plus the fair value of non-controlling interests, and the fair value of the identifiable assets, liabilities and contingent liabilities of these companies as of the date of acquisition, if positive, are recognized as goodwill.

Goodwill is recorded as an asset and is not amortised, being reflected in a separate caption of the consolidated statement of financial position. Annually, or whenever there are indications of a possible loss in value, goodwill is subjected to impairment tests. Any impairment loss is immediately recorded as a cost in the consolidated statements of profit and loss and other comprehensive income for the period and is not subject to subsequent reversal.

Goodwill is included in determining the gain or loss on the sale of a subsidiary.

Goodwill is stated in the functional currency of the respective cash-generating unit, being translated to the Company functional currency (Brazilian reais) at the rate of exchange as of the balance sheet date. Exchange differences generated in that translation are recorded in the equity caption “Currency translation adjustments”.

Goodwill on acquisition prior to 31 December 2008 was maintained at the former amount and denominated in reais, being subject to annual impairment tests as from that date.

Where cost is lower than the fair value of the net assets and contingent liabilities identified, the difference is recorded as a gain in the consolidated statement of profit and loss and other comprehensive income for the period in which the acquisition takes place.

2.5. Intangible assets

Intangible assets, which comprise essentially contractual rights and costs incurred on specific projects with future economic value, are stated at cost less accumulated amortisation and impairment losses. Intangible assets are only recognised if it is probable that they will produce future economic benefits for the Group, they are controlled by the Group and their value can be determined reliably.

Internally generated intangible assets, namely current research and development costs, are recognised as costs when incurred.

Internal costs relating to the maintenance and development of software are recorded as costs in the statement of profit and loss and other comprehensive income when incurred, except where such costs relate directly to projects which will probably generate future economic benefits. In such cases these costs are capitalised as intangible assets.

Amortisation of such assets is provided on a straight-line basis as from the date the assets are available for use, in accordance with their estimated useful life.

2.6. Property, Plant and Equipment

Property, plant and equipment used in production, rendering services or for administrative use are stated at cost, including expenses incurred with their purchase, less accumulated depreciation and impairment losses, when applicable.

Depreciation of tangible fixed assets is provided on a straight-line basis over their estimated useful lives, except when another method is shown to be more adequate based on its use, as from the date the assets become available for their intended use and in the proper place, in accordance with the following estimated periods of useful life:

	Useful life in years
Buildings and other constructions	3 to 50
Machinery and equipment	2 to 50
Vehicles	2 to 16
Furniture and fixtures	2 to 33
Mines and ore reserves	(*)
Reservoirs, dams and feeders	50
Furnaces, mills and silos	30 to 53
Software licenses	3 to 5

(*) The depletion of mines and ore reserves is conducted: (a) based on actual output as compared to total expected yield; or (b) on a straight-line basis over the mine's useful life.

Land relating to stone quarry operations and mineral resources is depreciated on a straight-line basis over their expected operating periods less, where applicable, their residual amount.

The amount subject to depreciation does not include, when determinable and significant the estimated residual value of the assets at the end of their useful lives. Additionally, the assets stop being depreciated when they are classified as assets held for sale.

Improvements are only recognised as assets when they increase the useful life or efficiency of the assets, resulting in increased future financial benefits.

Tangible assets in progress correspond to tangible assets under construction/production and are recorded at acquisition or production cost less possible impairment losses. These assets are depreciated as from the date they become available for their intended use.

Gains and losses arising from the sale or write off of tangible assets, which are determined by the difference between the proceeds of the sale of the assets and their net book value at the date of sale, are recognised by its net amount in the statement of profit and loss as “Other operating income” or “Other operating expenses”.

2.7. Leases

Lease contracts are classified as: (i) finance leases, if substantially all the risks and benefits of ownership are transferred under them; and (ii) operating leases, if substantially all the risks and benefits of ownership are not transferred under them.

Leases are classified as finance or operating leases based on the substance and not form of the contract. Property, plant and equipment acquired under finance lease contracts, as well as the corresponding liabilities are recorded in accordance with the financial method. In accordance with this method, the cost of assets are recorded as property, plant and equipment assets, the corresponding liability is recognised and the interest included in the lease instalments and depreciation of the assets, calculated as explained in item 2.6, are recognised in the consolidated statement of comprehensive income for the period to which they relate.

In the case of operating leases, the lease instalments are recognised on a straight- basis, in the consolidated statement of profit and loss over the period of the lease contracts.

In accordance with IFRIC 4 – Determination if an agreement contains a lease, if an agreement entered into contains a lease in substance, including transactions that transfer the right to use an asset or, if compliance with the agreement depends on the use of a specific asset, the Group analyses the agreement so as to assess if it contains a lease and if the requirements of IAS 17 – Leases should be applied.

2.8. Impairment of non-current assets, excluding goodwill

Impairment valuations are made whenever an event or change in circumstances is identified that indicates that the book value of an asset may not be recovered. Where such indications exist, the Group determines the recoverable value of the asset, so as to determine the possible extent of the impairment loss. In situations in which the individual asset does not generate cash flows independently of other assets, the recoverable value is estimated for the cash generating unit to which the asset belongs.

Whenever the book value of an asset exceeds its recoverable amount, an impairment loss is recognised by charge to the consolidated statement of comprehensive income caption “Depreciation, amortisation and impairment losses on goodwill, tangible and intangible assets”.

The recoverable amount is the higher between the net selling price (selling price, less costs to sell) and the value in use. Net selling price is the amount that would be obtained from selling the asset in a transaction between knowledgeable independent entities, less the costs directly attributable to the sale. The value in use is the present value of the estimated future cash flows resulting from the continued use of the asset and sale thereof at the end of its useful life. The recoverable amount is estimated for each asset individually or, where this is not possible, for the unit generating the cash flows to which the asset belongs.

Impairment losses recognised in prior periods are reversed when there are indications that such losses no longer exist or have decreased. The reversal of impairment losses are recognised in the consolidated statement of comprehensive income caption “Depreciation, amortisation and impairment losses on goodwill, tangible and intangible assets”. However, the impairment loss is reversed up to the amount that would have been recognised (net of amortisation or depreciation) if the impairment loss had not been recorded in prior periods.

2.9. Foreign currency assets, liabilities and transactions

Transactions in currencies other than the functional currency of the respective subsidiary are recorded at the exchange rates in force on the date of the transaction. Foreign currency monetary assets and liabilities at the balance sheet dates are translated to the functional currency of the respective subsidiary at the rates of exchange in force on that dates.

Exchange gains and losses resulting from differences between the exchange rates in force on the dates of the transactions and those in force on the dates of collection, payment or the balance sheet date are recognised as income or expenses in the consolidated statement of comprehensive income, except for those relating to non-monetary items where the change in fair value is recognised directly in shareholders' equity ("Currency translation adjustments").

The foreign currency financial statements of subsidiary and associated companies are translated as follows: assets and liabilities at the exchange rates in force on the balance sheet dates; shareholders' equity captions at the historical exchange rates; and consolidated statement of profit and loss and other comprehensive income and statement of cash-flows captions at the average exchange rates.

The exchange effect of such translations is recognized in the shareholders' equity caption "Currency translation adjustments" in the case of subsidiary companies and in the shareholders' equity caption "Reserves - Adjustments in investments in associates" in the case of investments in associated companies, and is transferred to the statement of profit and loss when the corresponding investments are sold.

In accordance with IAS 21, goodwill and fair value corrections determined on the acquisition of foreign entities are considered in the reporting currency of such entities, and are translated to Brazilian Reais at the exchange rate in force on the balance sheet date. Exchange differences arising from these translations are reflected in the equity caption "Currency translation adjustments", except when they correspond to a discontinued operation, in which case they are included in Net result of discontinued operations.

2.10. Borrowing costs

Costs incurred on loans obtained directly to finance the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for its intended use or sale ("qualifying assets") are capitalised as part of the cost of the assets during that period.

To the extent that variable interest rate loans, attributable to finance the acquisition, construction or production of qualifying assets, are being covered through a cash flow hedge relation, the effective portion of fair value of the derivative financial instrument is recognized in Reserves and transferred to profit and loss when the qualifying asset has an impact on results. Additionally, to the extent that fixed interest rate loans used to finance a hedged item are covered by a fair value hedge relation, the financial burden in addition to the cost of the asset should reflect the interest rate covered.

Any financial income generated by loans obtained in advance to finance specific capital expenditure is deducted from the capital expenditure subject to capitalisation.

2.11. Subsidies

Subsidies are recognised based on their fair value, when there is reasonable certainty that they will be received and that the Group will comply with the conditions required for them to be granted.

Investment subsidies relating to the acquisition of tangible fixed assets are recorded in the caption “Other non-current liabilities” or deducted from the asset cost and transferred to profit and loss for the period on a consistent straight-line basis in proportion to depreciation of the subsidised assets.

2.12. Inventories

Merchandise and raw, subsidiary and consumable materials are stated at average cost using the average cost as the costing method.

Finished and semi-finished products and work in progress are stated at production cost, which includes the cost of the raw materials incorporated, labour and production overheads.

Inventories are adjusted when net realisable value is lower than book value, through the recognition of an impairment loss, the reduction being reversed when the reasons that gave rise to it cease to exist.

2.13. Non-current assets held for sale and discontinued operations

Non-current assets (or disposal group) are classified as held for sale if their value is realizable through a sale transaction rather than through its continued use. This situation is only considered to arise when: (i) the sale is highly probable; (ii) the asset is available for immediate sale in its present condition; (iii) the management is committed to a plan of sale; and (iv) the sale is expected to take place within a period of twelve months.

Non-current assets (or disposal group) classified as held for sale are measured at the lower of the book value or their fair value less the costs incurred in their sale, and are presented separately in the consolidated statement of financial position.

A discontinued operation is a component of an entity which was either sold or is classified as available for sale and:

- Represents a significant separate operating or geographic business line;
- Is part of a single coordinated plan to sell a significant separate business line or geography
- Is a subsidiary acquired exclusively to be resold.

The amounts included in the consolidated statement of profit and loss and other comprehensive income and consolidated statement of cash flows relating to these discontinued operations are presented separately for the current period and all earlier periods that are presented in the financial statements.

Assets and liabilities relating to discontinued operations (not yet sold) are presented in separate lines for the latest year presented, without readjustment of prior years.

2.14. Segment reporting

An operating segment is a distinguishable component of an entity that is engaged in providing a product or service or a group of related products or services which are different from those of other segments.

The Group reports its assets and liabilities, as well as its operations, as geographical segments, following the way Management carries out businesses.

2.15. Balance sheet classification

Assets to be realized and liabilities to be settled within one year of the balance sheet date are classified as current assets and current liabilities, respectively.

In addition, the liabilities are also classified as current, when there is no unconditional right to defer its settlement for a period of at least twelve months after the balance sheet date.

2.16. Net operating income

Net operating income includes operating income and expenses, including restructuring costs and operating income and expenses associated to tangible assets and intangible assets. Also comprise gains or losses on the sale of direct or indirect subsidiaries and joint operations. As such the operating results, the net financial expenses, the share of results of associates, other financial investments and income tax are excluded.

2.17. Provisions

Provisions are recognised when: (i) exists an obligation (legal or constructive) resulting from a past event; (ii) under which it is probable that it will have an outflow of resources to settle the obligation; and (iii) the amount of the obligation can be reasonably estimated. At each balance sheet date provisions are reviewed and adjusted to reflect the best estimate as of that date.

When one of the conditions described is not completed the Group disclosures the events in question as contingent liabilities, unless the possibility of outflow of resources is remote, in which case they are not subject to disclosure.

a) Provisions for restructuring costs

Provisions for restructuring costs are recognised by the Group whenever there is a formal detailed restructuring plan which has been communicated to the parties involved.

b) Environmental recovery

In accordance with current legislation and practices in force in several business areas in which the Group operates, land used for quarries must be environmentally rehabilitated.

In this regard, provisions are recorded to cover the estimated cost of environmentally recovering and rehabilitating the land used for quarries, whenever this can be reasonably determined. Such provisions are recorded together with a corresponding increase in the amount of the underlying assets, based on the conclusions of landscape rehabilitation studies, being recognised in profit and loss as the corresponding assets are depreciated.

In addition, the Group has the procedure of progressively rehabilitating the areas freed up by the quarries, using the recorded provisions.

2.18. Financial instruments

Financial assets and liabilities are recognised when the Group becomes part to the contractual relationship.

a) Cash and cash equivalents

The caption "Cash and cash equivalents" includes cash, bank deposits, term deposits and other treasury applications which mature in the short term (three months or less), highly liquid and immediately convertible into cash with insignificant risk of change in value.

b) Accounts receivable

Accounts receivable are measured at fair value on the initial recognition and are subsequently stated at amortised cost in accordance with the effective interest rate method. When there is evidence that the accounts receivable are impaired, the corresponding adjustment is recorded in profit and loss, for the difference between the book value of the accounts receivable and the present value of the cash flows discounted at the effective interest rate determined upon initial recognition.

c) Other investments

Other investments are recognised (and derecognised) as of substantially all the risks and benefits of ownership are transferred under them, irrespective of the settlement date.

Investments are initially recognised at cost, which is the fair value of the price paid, including transaction costs. The subsequent measurement depends on its classification.

Investments are classified as follows:

- Held-to-maturity investments;
- Assets at fair value through profit and loss; and
- Available-for-sale financial assets.

Held-to-maturity investments are classified as non-current assets, except if they mature in less than twelve months from the balance sheet date and include, investments with a defined maturity date which the Group intends and has the capacity to hold up to that date. These investments are recognised at amortised cost, using the effective interest rate, net of capital repayments and interest received. Impairment losses are recognised in the profit and loss when the recorded amount of the investment is higher than the estimated value of the cash flows discounted at the effective interest rate determined at the time of initial recognition. Impairment losses can only be reversed subsequently when there is an increase in the recoverable amount of the investment can be objectively related to an event occurring after the date in which the impairment loss was recognised. In any case the recognised amount of the investment cannot exceed the amount corresponding to amortised cost of the investment had the impairment loss not been recognised.

After initial recognition, assets measured at fair value through profit and loss and available-for-sale financial assets are revalued to fair value by reference to their market value as of the balance sheet date with no deduction for transaction costs that could arise up to the date their sale. Investments in equity instruments not listed on regulated markets, where it is not feasible to estimate their fair value on a reliable basis, are maintained at cost less possible impairment losses.

Available-for-sale financial assets are classified as non-current assets. Gains and losses due to changes in the fair value of available-for-sale financial assets are reflected in the shareholders' equity caption "Fair value reserve" until the investment is sold, collected or in any other way realised, or where impairment losses are believed to exist, in which case the accumulated gain or loss is transferred to profit and loss. Those who do not have listed in an active market and whose fair value cannot be reliably measured are kept at cost adjusted for estimated impairment losses.

d) Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contract independently of its legal form. Equity instruments are contracts that have a residual interest in the Group's assets after deducting its liabilities.

Equity instruments issued are recorded at the amount received net of costs incurred to issue them.

The Company also has contracts, which contains components of equity instruments and financial instruments, these components are classified separately according to their contractual characteristics. Equity instruments are measured at historical cost and derivative financial instruments at fair value through profit or loss.

e) Loans

Loans are initially recorded as liabilities at the amount received, net of loan issuing costs, which corresponds to their fair value on that date. Loans are subsequently measured at amortised cost, being the corresponding financial costs calculated at the effective interest rate.

Accrued interest is recognized on an accruals basis and is presented in the consolidated statement of financial position caption "Other current liabilities – Accrued interest".

f) Accounts payable

Accounts payable are initially recognised at fair value and subsequently measured at amortised cost in accordance with the effective interest rate method.

g) Derivative financial instruments and hedge accounting

The Group has the policy of using to financial derivative instruments to hedge the financial risks to which it is exposed as a result of changes in interest and exchange rates.

The Group contracts financial derivative instruments in accordance with internal policies set and approved by the Board of Directors.

Financial derivative instruments are measured at fair value. The method of its recognition depends on the nature and purpose of the transaction.

Hedge instruments

Derivative financial instruments are designated as hedging instruments in accordance with the provisions of IAS 39, as regards their documentation and effectiveness.

Changes in the fair value of derivative instruments designated as "fair value hedging" are recognised as financial income or expense for the period, together with changes in the fair value the asset or liability subject to the risk.

Changes in the fair value of derivative financial instruments designated as "cash flow hedging" instruments are recorded as other comprehensive income in the caption "Reserves - Hedging operations" regarding their effective component and in financial income or expense for the period regarding their non-effective component. The amounts recorded under "Reserves - Hedging operations" are transferred to financial income or expense in the period in which the effect on the hedged item is also reflected in profit and loss.

Changes in the fair value of derivative financial instruments hedging net investments in a foreign entity, are recorded as other income and costs in the equity caption "Currency translation adjustments" regarding their effective component. The ineffective component of such changes is recognised immediately as net financial expenses for the period. If the hedging instrument is not a derivative, the corresponding variations resulting from changes in the exchange rate are recorded as income and costs in the equity caption "Currency translation adjustments".

Hedge accounting is discontinued when the hedging instrument matures, is sold or exercised, or when the hedging relationship ceases to comply with the requirements of IAS 39.

Trading instruments

Changes in the fair value of derivative financial instruments which are contracted for financial hedging purposes in accordance with the Group's risk management policies, but do not comply with all the requirements of IAS 39 to qualify for hedge accounting, are recorded as net financial expenses in the statement of profit and loss for the period in which they occur.

h) Treasury shares

Treasury shares are recorded at cost, as a decrease in shareholders' equity. Gains and losses on the sale of treasury shares are recorded in equity.

i) Fair value of financial instruments

The fair value of financial assets and financial liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;

- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flows analysis using prices from observable current market transactions;

- The fair value of derivative financial instruments is calculated using market prices. Where such prices are not available, fair value is determined based on discounted cash flows, which includes some assumptions that are supportable by observable market prices or rates.

2.19. Impairment of financial assets

At each balance sheet date, the Group reviews for any indication that a financial asset or a group of financial assets may be impaired.

Available-for-sale financial assets

For the financial assets classified as available-for-sale, a continuous or a significant decline in the fair value of the instrument below its cost, is considered as an indicator of impairment. In this situation, the eventual cumulative loss – measured as the difference between the asset's carrying amount and the current fair value, less any impairment loss already recognised in profit and loss – is removed from reserves (other comprehensive income recognised in equity) to profit and loss for the period. Impairments losses on equity instruments are recognized in profit and loss; however, in case such financial assets increase again are not recorded through profit and loss for the period and directly affecting other income recognized in equity.

Clients, debtors and other financial assets

Impairment losses are recorded whenever there are clear indicators that the Group will not be able to collect all the amounts it should receive, according to the original terms contracted. To identify these losses, several indicators are used, such as:

- accounts receivable ageing;
- debtor’s financial difficulties;
- debtor’s bankruptcy probability.

The impairments are determined by the difference between the recoverable amount and the book value of the financial asset and recognized by corresponding entry to profit and loss. Whenever a trade or other receivable it is considered as uncollectible it is derecognized using the respective impairment. Subsequent recovery of these amounts is recorded in profit and loss.

2.20. Employee benefits - retirement

Responsibilities for the payment of retirement, pensions, disability and survivor are recorded in accordance with IAS 19 - Employee benefits (“IAS 19”).

Defined benefit plans

Costs of these benefits are recognised as the services are rendered by the beneficiary employees.

Therefore, at the end of each accounting period actuarial valuations are performed by independent entities to determine the amount of the liability as of that date and the pension cost to be recognised in the period, in accordance with the “projected unit credit” method. The liability thus estimated is compared with the market value of the pension fund, so as to determine the amount of the difference to be recorded in the consolidated statement of financial position.

As established in the above mentioned standard, pension costs are recognised in the caption “Payroll costs – retirement benefits”, based on the amounts determined on an actuarial basis, and include current service costs (increase in the liability), which corresponds to the additional benefits accrued to the employees during the period and net interest costs, which result from updating the initial past service liability using the discount rate. Actuarial gains and losses are recorded as other comprehensive income directly in equity.

Defined contribution plans

Contributions made by the Group to defined contribution plans are recorded as costs when they are due.

2.21. Employee benefits - healthcare

Some Group companies provide supplementary healthcare benefits to their employees in addition to those provided by the Public Social Security, extensive to their families, early retired and retired personnel. The liability resulting from these benefits is recorded in a similar manner to the retirement pension liability, in the caption “Payroll costs - healthcare benefits”.

As in the case of retirement benefits, actuarial valuations made by an independent entity are obtained at the end of each accounting period, so as to determine the amount of the liability as of that date. Actuarial gains and losses are recognized directly in the statement of comprehensive income.

2.22. Contingent assets and liabilities

A contingent liability is (i) a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events; or (ii) a present obligation that arises from past events, but that is not recognized because an outflow of funds are not probable or the amount cannot be reliably measured.

Contingent liabilities are not recognised in the financial statements but are disclosed in their notes, unless the possibility of an outflow of funds affecting future economic benefits is remote, in which case they are not subject to disclosure.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events.

Contingent assets are not recognised in the financial statements, but are disclosed in the notes to the financial statements when a future economic benefit is probable.

2.23. Revenue recognition and accruals basis

Income resulting from sales is recognised in the profit or loss when the risks and rewards of assets ownership are transferred to the purchaser and the revenue amount can be reasonably quantified. Sales are recognised at the fair amount received or receivable, net of taxes, discounts and other costs incurred to realise them, by the fair value of the amount received or receivable.

Income from services rendered is recognised in the statement of comprehensive income in the period in which they are rendered considering the phase of completion of the transaction as of the balance sheet date.

Interest and financial income are recognised on an accrual basis in accordance with the effective interest rate.

Costs and income are recognised in the period to which they relate regardless the date of invoicing. Costs and income, the amount of which is not known, are estimated.

Costs and income attributable to the current period which will only be paid or received in future periods, as well as amounts paid and received in the current period that relate to future periods and will be attributed to each of the periods by the amount corresponding to them, are recorded in the captions “Other current assets” and “Other current liabilities”.

Dividends relating to investments recorded at cost or in accordance with IAS 39 are recognized when is given the right to receive them.

2.24. Income tax

Tax on income for the year is calculated based on the taxable results of the companies included in the consolidation and takes into consideration deferred taxation.

Current income tax is calculated based on the taxable results (which could differ from the accounting results) of the companies included in the consolidation, in accordance with the tax rules applicable to the area in which the tax jurisdiction of each Group company.

Deferred taxes refer to temporary differences between the amounts of assets and liabilities for accounting purposes and the corresponding amounts for tax purposes and are recorded in the statement of profit and loss, except when they are related with items registered as other comprehensive income recognised directly in equity, in which case the deferred tax is recorded in equity.

Deferred tax assets and liabilities are calculated and assessed periodically using the tax rates expected to be in force when the temporary differences reverse, and are not subject to discounting.

Deferred tax liabilities are recognised for all the taxable temporary differences. Deferred tax assets are only recognised when there is reasonable expectation that there will be sufficient future taxable income to utilise them. At each balance sheet date a reappraisal is made of the temporary differences underlying the deferred tax assets so as to recognize or adjust them based on the current expectations of their future recovery. The compensation of deferred tax assets and liabilities is not allowed, except if: i) there is a legal right to compensate such assets and liabilities or there is the intention and its allowed to do such compensation; ii) such assets and liabilities are related to income taxes due to the same tax authority; iii) there is an intention to clear those balances for settlement purposes.

Deferred income taxes assets are recognized by unused tax losses when it is probable that future income subject to taxation will be available and against which they will be used in accordance with each subsidiary's tax regulations.

2.25. Earnings per share

Earnings per share are calculated dividing the result attributable to the ordinary shareholders of the parent company, by the weighted average number of shares in circulation during the period.

The diluted earnings per share are calculated dividing the result attributable to the ordinary shareholders of the parent company, by the weighted average number of shares in circulation during the period, adjusted by potential ordinary diluting shares.

Potential ordinary diluting shares can result from options over shares and other financial instruments issued by the Group, convertible to shares of the parent company.

2.26. Subsequent events

Events that occur after the date of the balance sheet that provide additional information on conditions that existed as of the balance sheet date are reflected in the financial statements.

Events that occur after the balance sheet date, that provide information on conditions that exist after the balance sheet date, if material, are disclosed in the notes to the financial statements.

2.27. Interest on capital

Stated as allocation of profit for the year directly in equity, and interest received or receivable from investments in subsidiaries, joint ventures, and associates is recorded as investment credit, when applicable. For tax purposes, interest on capital is treated as financial income or expenses, thus reducing or increasing the income tax and social contribution tax base.

2.28. CO_2 emission licences – Emissions market

Some of the Group's production units in Portugal are covered by the European greenhouse effect gas emissions market. While the IASB does not issue accounting policies covering the granting and trading of emission licences, the Group adopts the following policy:

- Emission licences granted at no cost, as well the corresponding emissions covered by that licences, do not give rise to the recognition of any asset or liability;

- Gains from the sale of emission rights are recognised in Net operating income;

- When it is estimated that annual CO2 emissions will exceed the licences granted annually, a liability, measured in accordance with the price at the end of the year, is recognised by corresponding charge to "Other operating expenses";

- Licences acquired are recognised at cost, in a specific intangible assets account under the "Industrial property and other rights" caption.

The main exchange rates used to translate the financial information were as follows:

		Closing exchange rate (R$)		Average exchange rate (R$)	
Currency		12.31.2016	12.31.2015	12.31.2016	12.31.2015
USD	US Dollar	3.25910	3.90480	3.46213	3.30915
EUR	Euro	3.43840	4.25040	3.83057	3.66811
MZN	Mozambique Metical	0.04572	0.08397	0.05456	0.08557
CVE	Cape Verde Escudo	0.03118	0.03855	0.03474	0.03327
EGP	Egyptian Pound	0.18110	0.49870	0.35427	0.42113
ZAR	South African Rand	0.23790	0.25100	0.23558	0.26501
ARS	Argentinian Peso	0.20510	0.29945	0.23342	0.36217
PYG	Paraguayan Guaraní	0.00056	0.00067	0.00061	0.00065

Consolidation

The consolidated financial statements incorporate the following direct and indirect subsidiaries and joint operations:

	12.31.2016		12.31.2015	
	Equity interest - %		Equity interest - %	
	Direct	Indirect	Direct	Indirect
SUBSIDIARIES:				
HOLDINGS AND BUSINESS AND CORPORATE SUPPORT COMPANIES SEGMENT				
InterCement Austria Holding GmbH	100.00	-	100.00	-
CIMPOR - Cimentos de Portugal, SGPS, S.A.	-	74.63	-	74.63
Cimpor Trading e Inversiones, S.A.	-	74.63	-	74.63
InterCement Austria Equity Participation GmbH	-	74.63	-	74.63
Caue Austria Holding GmbH	-	74.63	-	74.63
Cimpor Financial Operations, B.V.	-	74.63	-	74.63
Cimpor Reinsurance, S.A.	-	74.63	-	74.63
Cimpor - Serviços de Apoio à Gestão de Empresas S.A.	-	74.63	-	74.63
Cimpor Portugal, SGPS, S.A.	-	74.63	-	74.63
Kandmad - Sociedade Gestora de Participações Sociais, Lda.	a)	-	-	74.63
Cimpship - Transportes Marítimos, S.A.	d)	-	-	44.78
Cecime - Cimentos, S.A.	a)	-	-	74.63
Cement Trading Activities – Comércio Internacional, S.A.	-	74.63	-	74.63
BRAZIL SEGMENT				
InterCement Brasil S.A.	-	74.63	-	74.63
Cauê Finance Limited	-	74.63	-	74.63
CCCimentos Participações Ltda.	a)	-	-	74.50
Companhia Camargo Corrêa de Energia	a)	-	-	74.63
Transviária Logística e Transportes Ltda.	a)	-	-	74.63
Neogera Investimentos em Inovação Ltda.	-	74.63	-	73.71
Barra Grande Participações, S.A.	b)	60.52	-	74.63
Estreito Participações S.A.	-	74.63	-	74.63
Machadinho Participações S.A	c)	60.68	-	
ARGENTINA AND PARAGUAY SEGMENT				
Loma Negra C.I.A. S.A.	-	74.21	-	74.21
Cofesur S.A.	-	72.06	-	72.47
Recycomb S.A.	-	74.21	-	74.22
Cementos del Plata S.A.	-	0.25	-	0.25
Yguazu Cementos S.A.	-	37.85	-	37.92
JOINT OPERATIONS:				
BRAZIL SEGMENT				
BAESA - Energética Barra Grande S.A.	-	6.72	-	6.72
CONSORTIUM:				
BRAZIL SEGMENT				
Consórcio Estreito Energia - OESTE	-	3.31	-	3.31
Consórcio Machadinho	-	3.94	-	3.94

PORTUGAL AND CAPE VERDE SEGMENT				
Cimpor - Indústria de Cimentos, S.A.	-	74.63	-	74.63
Mossines - Cimentos de Sines, S.A.	a)	-	-	74.63
Cimentaçor - Cimentos dos Açores, Lda.	-	74.63	-	74.63
Betão Liz, S.A.	-	73.51	-	73.51
Agrepor Agregados - Extracção De Inertes, S.A.	-	74.63	-	74.63
Sogral - Sociedade de Granitos, S.A.	a)	-	-	74.63
Sanchez, S.A.	a)	-	-	74.63
Bencapor - Produção de Inertes, S.A.	a)	-	-	55.97
Ibera - Indústria de Betão, S.A.	-	37.32	-	37.32
Prediana - Sociedade de Pré-Esforçados, S.A.	a)	-	-	74.63
Sacopor - Sociedade de Embalagens e Sacos de Papel, S.A.	-	74.63	-	74.63
Ciarga - Argamassas Secas, S.A.	-	74.63	-	74.63
Alempedras - Sociedade de Britas, Lda.	a)	-	-	74.63
Cimpor Imobiliária, S.A.	-	74.63	-	74.63
Mecan - Manufactura de Elementos de Casas de Construção Normalizada, Lda.	a)	-	-	74.63
Sogesso - Sociedade de Gessos de Soure, S.A.	a)	-	-	74.63
Transformal, S.A.	a)	-	-	74.63
Cimpor Cabo Verde, S.A.	-	73.24	-	73.24
EGYPT SEGMENT				
Cimpor Egypt for Cement Company, S.A.E.	-	74.63	-	74.63
Amreyah Cement Company, S.A.E.	-	73.99	-	73.99
Amreyah Cimpor Cement Company, S.A.E.	-	74.15	-	74.15
Cement Services Company, S.A.E.	-	74.34	-	74.34
Cimpor Sacs Manufacture Company, S.A.E.	-	74.56	-	74.56
Amreyah Dekheila Terminal Company, S.A.E.	-	74.16	-	74.16
Amreyah Cimpor Ready Mix Company, S.A.E.	-	74.07	-	74.07
MOZAMBIQUE SEGMENT				
Cimentos de Moçambique, S.A.	-	61.67	-	61.67
Cimpor Betão Moçambique, S.A.	-	61.67	-	61.67
Imopar - Imobiliária de Moçambique, S.A.	-	74.63	-	74.63
Cimentos de Nacala, S.A.	-	61.74	-	61.74
SOUTH AFRICA SEGMENT				
Natal Portland Cement Company (Pty) Ltd.	-	74.63	-	74.63
Durban Cement Ltd.	-	74.63	-	74.63
Npc - Cimpor (Pty) Limited	-	55.23	-	55.23
Simuma Rehabilitation Trust	-	24.85	-	24.85
Npc Concrete (Pty) Ltd.	-	74.63	-	74.63
South Coast Stone Crushers (Pty) Ltd.	-	41.05	-	55.23
South Coast Mining (Pty) Ltd.	-	74.63	-	74.63
Sterkspruit Aggregates (Pty) Ltd.	-	41.05	-	55.23
Intercement South Africa (Pty) Ltd.	e)	74.63	-	-

Changes in ownership from 2015 to 2016 are mainly as follow:

(a) Such entities were excluded from the consolidation financial statements as a result of mergers with other subsidiaries and liquidations;

(b) BAESA – ENERGÉTICA BARRA GRANDE S.A (“BAESA”) is a company incorporated with the specific purpose ("SPE") to build, operate, maintain, manage and explore the Barra Grande hydroelectric use.

On April 22, 2015, the company Barra Grande Participações S.A. ("Barra Grande") was incorporated by InterCement Brasil, engaged in holding interest in other companies. On December 8, 2015, its capital was increased in R$63,828 thousand, through the conference of all shares held in the jointly operation, BAESA – Energética Barra Grande S.A. ("BAESA"), in the amount of R$62,828 thousand, in addition to the contribution of R$1,000 thousand. With the referred capital increase, the subsidiary Barra Grande held 63,829,456 shares, of which 51,701,860 ordinary shares and 12,127,596 preference shares, without voting rights, but with priority in the distribution of dividends.

On December 29, 2015, InterCement Brasil signed a promissory contract of transferring to third parties 12,127,596 preference shares, representing 18.91% of the share capital of the subsidiary Barra Grande, by R$240,769 thousand, recorded under the caption "other payables". The obligations of the parties to conclude the foreseen in the agreement, including the transfer of shares, depends on the compliance of certain contractual conditions, since the effective transfer of shares was pending of compliance a set of preceding contractual conditions during the year 2016.

The compliance with the contractual conditions and certain agreement changes occurred on October 28, 2016, with the acquisition of these preferred shares (corresponding to, approximately, 19% of the shares). Consequently, such transaction generated a net gain of €41,049 (R$141,141 thousand, net of income tax and social contribution) recorded as transactions between shareholders.

(c) On April 22, 2015, the company Machadinho Participações S.A. ("Machadinho") was incorporated by InterCement Brasil, engaged in holding interest in other companies. On July 28, 2016, its capital was increased in R$30,795 thousand, through the conference of all shares held in the consortium Machadinho. With the referred capital increase, the subsidiary Barra Grande held 31,795,658 shares, of which 25,849,870 are common shares and 5,945,788 preferred shares, with no voting rights, but with priority in the distribution of dividends.

On December 16, 2016, all the preferred shares of Machadinho, equivalent to 18.07% of the shareholding interest, were sold by the amount of R$249,650 thousand, resulting in a net gain of €42,764 (R$147,039 thousand, net of income tax and social contribution) recorded in shareholders' equity.

(d) During the first semester it was transferred to non-current assets held for sale and subsequently sold during the second semester;

(e) Company incorporated in July 2016 by the incorporation of NPC's assets related to the cement business in that business segment.

3. Change in accounting policies and errors

During the year ended December 31, 2016, there were no changes in accounting policies in relation to those considered in the preparation of the financial information for the year ended on December 31, 2015, except as regards the adoption of the revised or amended standards and interpretations, revisions and amendments mentioned in Note 2, which did not have a significant impact on financial position or comprehensive income, nor were any identified errors that should have been corrected.

4. Cash and Cash Equivalents

	12.31.2016	12.31.2015
Cash and bank accounts	325,110	336,719
Short-term investments	216,033	431,252
Total cash and cash equivalents	541,143	767,971

Short-term investments were as follows:

	12.31.2016	12.31.2015
Bank certificates of deposit (CDBs)	2,209	1,631
Short Term Investment in Reais	1,718	85,677
Exclusive funds:		
National Treasury Bills (LTNs)	12,781	21,520
National Treasury Bills (LTFs)	32,663	23,896
CDBs	1,135	1,300
Fixed-income funds	9,081	78,423
Others	-	1,320
Short-term investments in foreign subsidiaries:		
Investment fund in Argentinean pesos	28,082	12,548
Short-term investments in US dollars	91,490	38,413
Short-term investments in euro	16,267	62,873
Short-term investments in Egyptian pound	2,717	55,568
Short-term investments in South African rand	8,256	18,019
Short-term investments in Mozambique metical	6,914	28,626
Short-term investments in Cape Verd escudos	2,720	1,360
Other	-	78
Total short-term investments	216,033	431,252

5. Securities

Securities are classified as financial assets, as follows:

	12.31.2016	12.31.2015
Market investments	44,143	18,177
Other	8,250	7,660
Total	52,393	25,837
Total - current	49,465	23,476
Total - noncurrent	2,928	2,361

6. Trade Receivables

	12.31.2016	12.31.2015
Domestic and foreign customers - current	166,328	173,451
(-) Impairment for doubtful accounts – current	(28,723)	(27,950)
Trade receivables - current	137,605	145,501
Domestic and foreign customers - noncurrent	6,295	1,598
(-) Impairment for doubtful accounts – noncurrent	(96)	(93)
Trade receivables - noncurrent	6,199	1,505

The impairment losses for doubtful debts are set up based on the estimated or determined uncollectible amounts pursuant to the past default experience and analysis of the ability to pay of each debtor, also taking into account the collaterals provided by such debtors.

<u>Aging list of trade receivables</u>

	12.31.2016	12.31.2015
Current	100,961	117,407
Past-due:		
0 to 30 days	21,597	23,364
31 to 60 days	20,133	6,498
61 to 90 days	2,529	1,857
91 to 180 days	2,445	2,351
181 days or more	24,959	23,573
Total	172,623	175,049

Changes in the allowance for doubtful debts

	12.31.2016	12.31.2015
Opening balance	28,043	29,125
Recognitions	3,187	1,848
Amounts written off in the year as uncollectible	(3,693)	(209)
Exchange gains or losses	1,281	(2,722)
Closing balance	28,819	28,043

7. Inventories

	12.31.2016	12.31.2015
Current:		
Finished products	36,168	37,289
Work in process	110,245	83,290
Raw material	86,132	106,171
Fuel	45,457	35,864
Spare parts	103,310	104,583
Advances to suppliers	3,394	881
Packaging and other	14,622	12,572
Allowance for losses	(2,533)	(3,855)
Total	396,795	376,795
Noncurrent:		
Spare parts	10,627	12,320
Allowance for losses	(127)	(150)
Advances to suppliers	1,962	1,824
Total	12,461	13,994

8. Property, Plant and Equipment

	12.31.2016		
	Cost	Depreciation	Net book value
Land	187,522	(14,409)	173,113
Buildings	548,572	(191,537)	357,035
Machinery and equipment	1,782,857	(688,410)	1,094,447
Vehicles	44,809	(17,140)	27,669
Furniture and fixtures	11,036	(7,616)	3,420
Mines and ore reserves	104,055	(71,952)	32,103
Reservoirs, dams and feeders	80,553	(18,756)	61,797
Other	15,116	(10,121)	4,995
Spare parts	4,549	-	4,549
Advances to suppliers	26,614	-	26,614
Construction in progress	262,096	-	262,096
Total	3,067,779	(1,019,941)	2,047,838

	12.31.2015		
	Cost	Depreciation	Net book value
Land	211,523	(16,399)	195,124
Buildings	508,471	(169,358)	339,113
Machinery and equipment	1,756,519	(578,232)	1,178,287
Vehicles	89,047	(46,377)	42,670
Furniture and fixtures	12,613	(8,041)	4,572
Mines and ore reserves	77,874	(43,801)	34,073
Reservoirs, dams and feeders	60,580	(12,939)	47,641
Other	12,778	(7,832)	4,946
Spare parts	6,208	-	6,208
Advances to suppliers	31,043	-	31,043
Construction in progress	261,180	-	261,180
Total	3,027,836	(882,979)	2,144,857

During the year ended December 31, 2016, the Company capitalized financial charges amounting to €854 (€4,589 as of December 31, 2015) related to loans granted to finance eligible assets.

Construction in progress and advances to suppliers as of December 31, 2016 and 2015, refers basically to investments in the expansion and construction of new units in Brazil, Argentina, and Egypt, and investments in improvement of installations and equipment of the cement plants of other business units.

Changes in property, plant and equipment were as follows:

Balance at December 31, 2014	2,634,356
Additions	183,239
Write-offs	(10,347)
Depreciation	(231,684)
Effect of changes in exchange rates	(435,670)
Other	4,963
Balance at December 31, 2015	2,144,857
Additions	153,918
Write-offs	(5,290)
Depreciation	(194,239)
Effect of changes in exchange rates	(32,332)
Other	(19,076)
Balance at December 31, 2016	2,047,838

As of December 31, 2016, in the caption “Other” is included the reclassification occurred in the first semester of the ships owned by Cimpship – Transportes Marítimos, S.A. to the caption “Assets classified as held for sale” in the net amount of €7,873. Additionally, it has been recognised impairment losses related to those assets of about €4,300 (Note 27). This company was sold during 3rd quarter of 2016 by the amount of €7,245.

Impairment losses

As of December 31, 2016 and 2015, impairment testing were performed for some group of assets which had indications of possible impairment losses, which generated losses recorded by Company totalling of about €4,300 (€16,100 in 2015). No other impairments were identified.

9. Intangible Assets

	12.31.2016	12.31.2015
Other intangible assets:		
Mining rights	187,283	163,515
Concession-related assets	4,823	4,420
Software licenses	5,883	4,303
Project development costs	5,598	4,564
Trademarks, patents and others	9,801	9,810
	213,388	186,612
Goodwill:		
Loma Negra C.I.A. S.A.	280,824	227,175
CBC - Companhia Brasileira de Cimentos ("CBC")	29,849	24,147
Cia. Industrial e Mercantil de Cimentos S.A. ("CIMEC")	22,045	17,834
Cimpor - Cimentos de Portugal, SGPS, S.A.	1,191,478	1,433,632
Other	22,433	19,020
	1,546,629	1,721,808
Total	1,760,017	1,908,420

Impairment on assets

Goodwill is subject to impairment tests annually and whenever there are indications of possible impairment, which are made based on the recoverable amounts of each of the corresponding business segments.

Attending to business model and considering the financial statement structure adopted for management purposes, goodwill is attributed generally to each operating segment, due to the existence of synergies between the units of each segment in a perspective of vertical integration of business.

The recoverable value of each group of cash-generating units is compared, in the tests performed, with the respective recognized value of assets and liabilities ("book value"). An impairment loss is only recognized when the book value exceeds the higher of the value in use and transaction value, based on cash flow projections under medium and long term business plans approved by the Board of Directors.

Changes in scenario which led to the recognition of impairments in Brazil

In the year ended December 31, 2016, the test performed for the Brazilian business area resulted in an impairment recorded, due to the deterioration of the economic and political scene of the country, in the amount of €436 million (R$1,499,100 thousand), entirely affected to Goodwill.

Conditions in this market, which had already registered a strong recession in 2015, deteriorated in 2016, with a sharp contraction in GDP and with rating agencies lowering Brazil's credit rating.

In this macroeconomic context of the country, the cement market follows a downward trend as compared to 2015. The situation is made even worse by the increase of industry's idleness, due to the entry into operation of new plants, which in a competitive environment led to reductions in average prices.

Cash Flow projections

Based on the context described above, the Group has revised assumptions underlying to the determination of recoverable amount of liquid assets in the Brazilian business area, considering the estimate of cash flows for a period of five years plus perpetuity, on the basis of an operational plan approved by the Board of Directors. That basis includes, among other, a set of estimates related to market growth, market share, investments and costs.

In general, the plan was projected by applying growth rates for the market, considering that the demand for building materials decreased due to the financial and economic crisis, reinforced by political instability.

It is assumed a recovery in demand, as a result of the recovery of the political and economic crisis, however to levels still below pre-crisis levels in the first years and a returning at a historical average level in the future.

The projected sales volumes are based on the assumption of the capacity usage and market shares according to historical levels.

Concerning to variable costs, it was assumed an evolution in line with the sales development, being expected an improvement in gross margin, leading to a partial improvement in operating margins through savings achieved by cost reduction programs and initiatives for price recovery, expecting to achieve in the 5th year of projection a margin close to the historical reference margin in the Brazilian market.

Determination of discount rate

Discount rates are calculated for each cash generating unit based on relevant local risk-free rate adjusted by the country risk premium, among other parameters. For impairment test in the Brazilian business area, performed for the year end of 2016, the group has reviewed the discount rates applied, raising the measure of country risk, in line with the reduction of the Brazilian credit rating attributed by the international rating agencies, despite the conviction in the economic recovery of the country in the medium term.

The determination of the value in use was based on discounted cash flows calculated in local currency, using the corresponding WACC and perpetuities rates, as follows:

		12.31.2016			12.31.2015		
Segments	Currency	Goodwill	"WACC" rate	Long term growth rate	Goodwill	"WACC" rate	Long term growth rate
Brazil	BRL	799,396	10.5%	0.0%	999,375	10.4%	0.0%
Argentina and Paraguay	ARS - PYG	283,171	16.1%	0.0%	229,947	22.3%	0.0%
Egypt	EGP	21,506	22.9%	0.0%	47,907	18.1%	0.0%
Portugal and Cape Verde	EUR	304,858	6,7% - 7,8%	0.0%	304,861	6,2% - 12,1%	0.0%
Mozambique	MZN	35,100	17.5%	0.0%	52,149	14.3%	0.0%
South Africa	ZAR	102,599	9.3%	0.0%	87,569	11.0%	0.0%

(*) Discount rate calculated after taxes.

As of December 31, 2016, the Group calculate the eventual impact of a 0.5% change in discount rate and in the EBITDA margin in relation with Brazil segment projections which resulted in the following impacts at level of the recoverable value and of the recognized impairment:

	+50 BP	-50 BP
"WACC" rate	(164.980)	193.940
EBITDA margin	15.678	(15.547)

Based on the impairment tests performed relating to the other segments, no other situation was identified leading to the recognition of impairment losses, including in the scenarios of 0.5% change in the corresponding rates.

Changes in intangible assets in the year ended December 31, 2016 and 2015 were as follows:

Balance at December 31, 2014	2,374,533
Additions	4,197
Write-offs	(89)
Amortization	(8,207)
Effect of changes in exchange rates	(461,393)
Transfers	(621)
Balance at December 31, 2015	1,908,420
Balance at December 31, 2015	2,513,651
Additions	6,938
Sales	(3)
Amortization	(8,118)
Impairment	(391,352)
Effect of changes in exchange rates	(364,636)
Transfers	3,537
Balance at December 31, 2016	1,760,017

10. Property Investment

In the year ended December 31, 2016, the Company has reclassified at cost some concrete plants rented in the Brazilian business area.

11. Borrowings and Financing

								12.31.2016		12.31.2015	
Functional Currency	Business unit	Type of financing	Currency	Interest rates (b)	Contract date	Maturity		Current	Noncurrent	Current	Noncurrent
EUR	Holdings and Financial Vehicles (*)	Bilateral	US$	Floating rate indexed to US Libor	May/12	Jan/22		-	396,651	-	455,333
EUR	Holdings and Financial Vehicles (*)	Bilateral	EUR	Floating rate indexed to Euribor	Feb/12	Feb/22		-	306,796	-	303,805
EUR	Holdings and Financial Vehicles (*)	Bilateral	EUR	Floating rate indexed to Euribor	Feb/14	Feb/19		6,037	54,041	-	59,953
EUR	Holdings and Financial Vehicles (*)	Bilateral	US$	Floating rate indexed to US Libor	Feb/14	Feb/19		20,616	183,992	-	197,803
EUR	Holdings and Financial Vehicles (*)	Bilateral	EUR	Floating rate indexed to Euribor	Feb/14	Feb/19		-	60,078	-	59,953
EUR	Holdings and Financial Vehicles (*)	Bilateral	US$	Floating rate indexed to US Libor	Feb/14	Feb/19		-	204,605	-	197,800
EUR	Holdings and Financial Vehicles (*)	Bilateral	US$	Floating rate indexed to US Libor	Feb/14	Feb/21		-	224,536	-	216,886
EUR	Holdings and Financial Vehicles (*)	Bilateral	US$	Floating rate indexed to US Libor	May/14	May/19		-	46,974	-	45,374
EUR	Holdings and Financial Vehicles (*)	Commercial paper	EUR	Floating rate	Mar/16	Mar/20		-	50,000	-	50,000
EUR	Holdings and Financial Vehicles (*)	Bilateral	EUR	Fixed rate	Dec/14	Dec/18		-	22,949	-	22,394
EUR	Holdings and Financial Vehicles (*)	Bilateral	EUR	Fixed rate	Jan/15	Dec/16		-	-	215	-
ARS	Argentina and Paraguay	Several bilateral	ARS	Floating rates indexed to Badlar	Several	Several		30,702	25,989	18,204	45,949
ARS	Argentina and Paraguay	Several bilateral	US$	Floating rates indexed to US Libor	Several	Several		53,714	45,293	57,372	2,355
BRL	Brazil	Several bilateral	BRL	Fixed and floating rates	Several	Several	(a)	12,716	151,819	10,837	62,752
PYG	Argentina and Paraguay	Several bilateral	US$	Fixed and floating rates	Several	Several		21,224	62,782	18,723	70,675
PYG	Argentina and Paraguay	Several bilateral	PYG	Fixed rates	Oct/15	Feb/17		13,751	-	8,968	-
ZAR	South Africa	Several bilateral	ZAR	Floating rate indexed to Jibar	Several	Several		31,135	13,838	-	35,432
EUR	Portugal and Cape Verde	Several bilateral	EUR	Fixed and floating rates	Several	Several		-	75,000	-	75,000
MZN	Mozambique	Several bilateral	MZN	Floating rates indexed to BT 3M	Several	Several		1,541	268	1,467	7,055
EGP	Egypt	Several bilateral	EGP	Floating rates indexed to Corridor	Several	Several		22,430	6,525	1,331	3,310
								213,866	1,932,136	117,117	1,911,827

(*) Takes into consideration the set of companies included in the holding companies segment and business support, corporate, and trading entities.

(a) Guaranteed by Company's controlling entities, amounting to €39,615 in the year ended December 31, 2016. Changes in Brazil refers, essentially, to a financing contract with HSBC in the amount of R$300 million, with maturity till June, 2018;

(b) For the major funding, the variable rates contracted, both in dollars and in euros, consider spreads between 2.5% and 3.5%.

As of December 31, 2016 and 2015, the incurred interest related to those financing agreements classified in current liabilities and presented as 'Interest payable' amount to €26,130 and €28,890, respectively.

Maturity schedule

As of December 31, 2016 and 2015, the noncurrent portions mature as follows:

Period	12.31.2016	12.31.2015
2017	-	121,455
2018	297,981	184,987
2019	767,802	730,235
2020	234,851	241,957
Following years	631,502	633,193
	1,932,136	1,911,827

Covenants

The loan and financing agreements contain certain restrictive covenants, including change of control clauses, cross acceleration, and those requiring the maintenance of certain financial ratios within pre-established parameters.

The Company and its subsidiaries monitor these ratios systematically and constantly to make sure the requirements are met. Such measurements are performed annually, which depends of conditions agreed in each contract with financial institutions. The Company agreed with the bank creditors to release covenants calculation as of December 31, 2016 and such obligation will only be measured again with financial figures as of December 31, 2017.

12. Debentures

							12.31.2016		12.31.2015
Functional Currency	Business unit	Instrument	Currency	Issue date	Interest rate (b)	Final maturity	Current	Noncurrent	Noncurrent
BRL	Brazil	Debênture - Brazil (a)	BRL	Mar-12	Floating rate indexed to CDI	Apr-22	63,920	320,168	352,116
BRL	Brazil	Debênture - Brazil	BRL	Aug-12	Floating rate indexed to CDI	Aug-22	58,006	290,483	281,694
EUR	Holdings and Financial Vehicles (*)	Senior Notes (c)	USD	Jul-14	5.75%	Jul-24	-	546,764	628,313
							121,926	1,157,415	1,262,123

(*) Takes into consideration the set of companies included in the holding companies segment and business support, corporate, and trading entities.

(a) Guaranteed by Company's controlling entities.

(b) The contracted floating rates have spreads between 8% and 15% above the CDI (Interbank deposit rate in Brazil).

(c) In July, 2014, the Senior Notes ("Notes") were issued by Cimpor Financial Operations, B.V., with a payment maturity of 10 years. The notes were launched with coupon of 5.75% per annum and are listed on the Singapore Stock Exchange. The net funds of this issuance was used to refinance existing debt and for corporate use in general, allowing an increase in the average maturity of the company's debt. In the twelve months ended December 31, 2016, the Group purchased bonds in the nominal value of USD 108,378 thousand, for an average price of 78%, which results in recognition of a gain in the amount of €23,429 (Note 21). In the twelve months period ended December 31, 2015, the Group holds bonds in the nominal value of USD 54,290 thousand (€49,876).

As of December 31, 2016 and December 31, 2015, the incurred interest classified in current liabilities and presented as 'Interest payable' amount to €69,548 and €62,963, respectively.

Maturity schedule

As of December 31, 2016 and 2015, the debentures mature as follows:

Period	12.31.2016	12.31.2015
2017	-	113,620
2018	120,710	113,620
2019	120,710	113,620
2020	120,710	113,620
Following years	795,285	807,645
	1,157,415	1,262,123

Covenants

Debentures contain certain restrictive covenants that require compliance with financial ratios calculated based on the Company's consolidated financial statements. The Company agreed with the bank creditors to release covenants calculation as of December 31, 2016 and such obligation will only be measured again with financial figures as of December 31, 2017.

13. Provisions and Contingent assets and liabilities

The Group is subject to tax, civil and labor risks. Management periodically reviews known contingencies, assesses the likelihood of losses and recognizes corresponding provision based on its legal counsel's opinion and other available data at the date of the annual reporting period.

The provision for risks is broken down as follows:

	12.31.2016	12.31.2015
Labor and social security	27,703	29,175
Tax (a)	18,822	35,235
Civil and other	8,825	22,681
	55,350	87,091
Escrow deposit (b)	(2,876)	(3,246)
Total	52,474	83,845

(a) Brazil: Refer basically to tax assessment notices and lawsuits related to: (i) ICMS (state VAT) - discussion on the tax base of ICMS owed under the reverse charge system, the tax base in transfers of goods between units; (ii) COFINS (tax on revenue) - discussion on the regularity in the offset of COFINS debts against FINSOCIAL (Social Investment Fund) credits, authorized by court; (iii) SUNAB (National Supply Authority) fine - discussion on the assessment of alleged violations of Laws 7784/89, 8035/90 and 8178/91, and (iv) IRPJ (corporate income tax) - discussion on the alleged tax underpayment related to the required inflation adjustment of the compulsory loan to Eletrobrás, in 1982, base year 1981.

Portugal: Refer basically to the provisions for tax risks related to income tax, amounting to €10,000 (€23,000 in 2015), which are being challenged in courts.

(b) The Group have escrow deposits tied to the provision for tax, civil and labour risks as follows:

	12.31.2016	12.31.2015
Labor and social security	2,329	2,824
Tax	497	384
Civil and other	50	38
Total	2,876	3,246

Contingent liabilities

In the normal course of its business the Group is involved in several legal cases and complaints relating to its products and services as well, as of an environmental nature, labor cases and regulatory.

As of December 31, 2016, the Group has an exposure of €932 million (€659 million in December 31, 2015), being €7 million of contingencies related to labor contingencies (€8 million in December 31, 2015), €674 million of tax contingencies (€459 million in December 31, 2015), €251 million of civil contingencies and administrative processes of other natures (€192 million in December 31, 2015), whose likelihood of loss was considered possible, according to the opinion of legal counsellors.

The most significant of the contingencies are:

Brazil

The Group and other companies in the industry were parties to administrative proceedings related to antitrust regulation in progress at the Administrative Council for Economic Defence ("CADE"). In July, 2015, CADE's tribunal judged the administrative appeal presented by the Group under the process initiated in 2007 by the competition authorities in Brazil (as well by other involved companies), maintaining the condemnation decision as regards cartel formation and the imposition of a pecuniary fine and other accessory penalties. The fine imposed to the Group, amounted to, approximately, €127 million (which corresponds to R$241,700 thousand to Intercement and R$297,820 thousand to CCB, meanwhile merged), besides the obligation to sell 20% of its concrete´s assets in Brazil, among other accessory penalties. On December 31, 2016 the fine imposed reach to, resulting from its financial actualization, €185 million (R$635 million).

After the referred administrative CADE's decision become final, the Group appealed judicially, having obtained, on 22 October 2015, the grant of the preliminary injunction to suspend all penalties imposed by CADE, by the presentation of real guarantees (two plants), until the judgment decision. Such preliminary injunction decision was judicially appealed by CADE, which was rejected. Based on the opinion of its legal advisors, that the risk of loss before the court is considered as possible, no provision was recorded for this contingent liability as of December 31, 2016 and 2015.

Still regarding Brazil, concerning to tax contingencies, to be noted, their increase in about €222 million, as a result of several tax inspections, essentially, under indirect taxes (PIS/COFINS and ICMS) which justifies part of the increase of tax contingencies around €353 million in 2015 to around €575 million in 2016 (a significant effect comes also from the exchange rate conversion of the BRL to Euros).

Egypt

In the context of the industrial licensing process in the industrial unit of Amreyah Cimpor Cement Company, the Industrial Development Authority (IDA), an Egyptian government entity, claims a payment in the amount of EGP 217 million (around €11.4 million). The Board of Directors, based on the understanding of the company's legal advisors, believes that the payment is not due, having submitted a legal petition in this respect. In 2013, there was an unfavourable legal decision. Under this process, a bank guarantee in favour of the Industrial Development Authority (IDA) is being negotiated.

As a result of a tax inspection, one of our company was subject to an additional tax assessment on income for the year 2008 in the amount of EGP104 million (€5.5 million). Adding to this assessment interests and penalties of EGP88 million (€4.6 million).

Spain

As a result of tax inspections of the years 2002 to 2004 and 2005 to 2008, additional tax assessments were realized, of approximately €27 million and €120 million, respectively. Already in 2015, the Supreme Court issued a ruling that annulled the additional payments made by the tax authorities the financial years 2002 to

2004. The additional assessments relate essentially to net financial items resulting mainly from interpretations not adjusted to the nature of certain transactions, Management believes that the conclusion of the legal processes resulting from the actions in progress, which has been already contested, will not result in significant costs for the Group. This opinion is confirmed by the understanding and opinion of its legal and tax advisors, which consider the possibility of loss, with the processes of 2005 to 2008, as possible (around €86 million) to remote (around €34 million). Following such assessments the company submitted to the Spanish tax administration guarantees, which at this time amount to approximately €120 million.

During the second half of 2014, the Spanish tax authorities began inspecting the years 2009 to 2012. For the years 2009 to 2011, were already presented tax authorities reports, maintaining their interpretations, which lead to corrections since 2002, resulting in a correction to negative taxable income of about €28 million.. For the year 2012, the inspection is ongoing. As in previous years, the Board of Directors and its legal and tax counsellors remains convinced that from the conclusion of the legal proceedings contesting these corrections, no significant charges will occur in the Group.

Contingent assets

In the year ended December 31, 2015, it was mentioned a contingent liability for a tax dispute related to tax assessments that were made to a company in Egypt, referring to the years 2000 to 2004, which were subject to a judicial appeal. At the end of the third quarter of 2016, to avoid penalties, a staged payment agreement until 2021 of those taxes was signed with the competent tax authorities. Because the conditions of such agreement do not meet the conditions for such payments being recognized as an asset of the company, until the court decision becomes effective, in this year a tax charge corresponding to the total responsibility inherent to the agreement, amounting to around EGP91 million (Note 13) has been already recognized.

Changes in the provision for risks for the years ended December 31, 2016 and 2015 are as follows:

	Labor and social security	Tax	Civil and other	Escrow deposit	Total
Balance at December 31, 2014	34,449	39,219	14,317	(4,356)	83,629
Recognition/deposit	3,769	931	13,141	(906)	16,935
Payment/deposit derecognition	(5,273)	(192)	(1,593)	977	(6,081)
Reversal	(341)	(3,234)	(2,061)	-	(5,636)
Transfers	(125)	(86)	211	-	-
Exchange differences	(3,304)	(1,403)	(1,334)	1,039	(5,002)
Balance at December 31, 2015	29,175	35,235	22,681	(3,246)	83,845
Recognition/deposit	5,275	8,595	3,184	(2,834)	14,220
Payment/deposit derecognition	(7,450)	(8,960)	(12,490)	2,683	(26,217)
Reversal	(946)	(6,999)	(2,078)	-	(10,023)
Exchange differences	1,649	(9,049)	(2,473)	521	(9,352)
Balance at December 31, 2016	27,703	18,822	8,825	(2,876)	52,474

14. Provision for Environmental Recovery

Changes in the provisions for environmental recovery in the years ended December 31, 2016 and 2015 are as follows:

	Environmental recovery
Balance at December 31, 2014	43,116
Recognition	1,956
Payment	(695)
Reversal	(463)
Exchange differences	(7,301)
Balance at December 31, 2015	36,613
Recognition	2,807
Payment	(1,495)
Exchange differences	2,029
Balance at December 31, 2016	39,954

15. Postemployment Benefits

Defined benefit plans

Some subsidiaries have defined benefit retirement pension plans and healthcare plans, for which the liability is determined annually based on actuarial valuations made by independent entities, the cost determined by these valuations being recognised in the year.

Most of the liability for the benefit plans are managed by specialised independent entities.

The valuations as of December 31, 2016 and 2015 were made using the “Projected Unit Credit” method and were based in the following assumptions and technical bases:

	12.31.2016	12.31.2015
Actuarial technical rate (in local currency)		
Portugal	1.85%	2.4%
South Africa	9.9%	9.6%
Annual pension growth rate		
Portugal	1%	1%
Annual fund income rate		
Portugal	1.85%	2,4%
Annual salary growth rate		
Portugal	2%	2%
Mortality tables		
Portugal	TV88/90 e TV73/77	TV88/90
South Africa	SA 85-90	SA 85-90
Disability tables		
Portugal	EKV 80	EKV 80
Nominal growth rate of medical costs		
Portugal	2%	2%
South Africa	9.2%	9.3%

In accordance with the actuarial valuations the pension and healthcare benefits costs for the years ended December 31, 2016 and 2015 were as follows:

		Pension plans	
		12.31.2016	12.31.2015
Current service cost		460	538
Interest cost		1,648	1,838
Administrative costs		172	-
Expected return of the plans' assets		(1,429)	(2,990)
Total cost/(income) of the pension plans	(I)	852	(614)

		Healthcare plans	
		12.31.2016	12.31.2015
Current service cost		79	85
Interest cost		285	319
Plan change		(132)	(245)
Expected return of the plans' assets		-	-
Total cost/(income) of the healthcare plans	(II)	232	159
Total cost/(income) of the defined benefit plans	(I) + (II)	1,083	(455)

Changes in the amount of the responsibilities for defined benefit plans and related market value of fund assets during the years ended December 31, 2016 and 2015 were as follows:

	Pension plans		Healthcare plans		Total	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Defined benefit liability - 1 january	70,527	73,663	10,088	10,716	80,615	84,378
Benefiits and bonuses paid	(4,828)	(4,855)	(784)	(787)	(5,613)	(5,643)
Current service cost	460	538	79	85	539	624
Past service cost	-	-	(132)	(245)	(132)	(245)
Interest cost	1,648	1,838	285	319	1,933	2,156
Actuarial gains and losses	4,277	(656)	2,386	145	6,663	(511)
Exchange differences	-	-	116	(145)	116	(145)
Defined benefit liability - 31 december	72,084	70,527	12,038	10,088	84,122	80,615
Value of the pension funds - 1 january	64,069	66,246	-	-	64,069	66,246
Benefits and bonuses paid	(4,828)	(4,855)	-	-	(4,828)	(4,855)
Expected income of the funds' assets	1,429	2,990	-	-	1,429	2,990
Actuarial gains and losses in income from the funds' assets	896	(311)	-	-	896	(311)
Administrative costs	(172)	-	-	-	(172)	-
Value of the pension funds - 31 december	61,394	64,069	-	-	61,394	64,069

As of December 31, 2016, the effect of the decrease of 0.02 p.p. in the discount rate on the liability for defined pension benefit plans in the Portuguese business area, which represents more than 95% of the Group's liability was estimated to amount to a decrease of around €151 in the liability and the effect of an increase of 0.55 p.p in discount rate for the healthcare plans which result into a decrease of €753 in the liability.

The movements of net actuarial gains and losses during the years ended December 31, 2016 and 2015 were as follows:

	12.31.2016	12.31.2015
Changes during the year:		
Related to the liabilities	(6,663)	511
Related to the funds assets	896	(311)
Corresponding defferred tax	972	(332)
Non-controlling interests	-	(213)
	(4,794)	(345)

In addition, actuarial gains and losses include the following experience adjustments:

	12.31.2016	12.31.2015
Related to the liabilities	896	1,027
Related to the funds assets	-	(311)

The difference between the present value of the benefit plan liability and the market value of the funds' assets for the last five years ended 31 December was as follows:

Pension plans	12.31.2016	12.31.2015	12.31.2014	12.31.2013	12.31.2012
Liability	72,084	70,527	73,663	71,402	74,715
Value of the pension funds	(61,394)	(64,069)	(66,246)	(68,085)	(68,582)
Deficit	10,690	6,458	7,417	3,317	6,133
Liability for employee benefits:					
Current liability	-	-	-	-	-
Non-current liability	10,690	6,917	7,417	3,317	6,133
	10,690	6,917	7,417	3,317	6,133
Fund surplus	-	460	-	-	-
Total exposure	10,690	7,377	7,417	3,317	6,133

Healthcare plans	12.31.2016	12.31.2015	12.31.2014	12.31.2013	12.31.2013
Liability for employee benefits:					
Current liability	903	899	904	903	902
Non-current liability	11,135	9,190	9,812	13,320	14,995
Total exposure	12,038	10,088	10,716	14,223	15,897

The Group has not established funds for the healthcare plans. The main assets of the funds as at 31 December 2016 and 2015 are as follows:

	12.31.2016	12.31.2015
Shares	15.3%	15.1%
Fixed rate bonds	65.9%	67.7%
Variable rate bonds	1.6%	1.6%
Real estate investment funds, hedge funds, cash and insurance	17.2%	15.6%
	100.0%	100.0%

For the year ended December 31, 2016, real estate investments include a property valued at €5,900, which is leased to the Group for an annual rental of €373 (€372 in the year ended December 31, 2015).

Defined contribution plans

For the years ended December 31, 2016 and 2015, the Company incurred costs of €1,781 and €1,644, on defined contribution plans, respectively.

16. Related Parties

Transactions and balances between Group companies consolidated by the full consolidation method were eliminated in the consolidation process and therefore are not disclosed here. The balances and transactions between the Group and associated companies and with other related parties fall within normal operational activities, and include advances, loan agreements, sales and purchases of products and services.

In 2015, there was an acquisition from Camargo Correa Cimentos Luxembourg S.à.r.l ("CCC LUX") of an additional stake of 4.49% of Cimpor shares, by €91,429 (R$342,208 thousand) which lead to a gain of €14,005 recognized directly in equity.

Balances as of December 31, 2016 and 2015, are as follows:

	Current assets			Non current assets	Current liabilities			
	Trade receivables	Dividends receivable	Other receivables	Other receivables	Trade payables	Advances from customers	Other payables	Dividends payable
Affiliates:								
Allpar S.E.	-	-	-	-	-	-	38	-
AVE- Gestao Ambiental e Valorização Energética, S.A.	2	-	-	-	852	-	-	-
Camargo Corrêa Desenvolvimento Imobiliário, S.A.	176	-	-	-	-	-	-	-
Camargo Correa Infraestrutura S.A.	9	-	-	-	-	-	1	-
Camargo Corrêa Construções e Participações S.A.	-	-	80	-	-	-	-	-
CCR S.A.	74	-	-	-	-	-	18	-
Companhia de Mineração Candiota	-	6	-	-	-	-	-	-
Concret Mix S.A.	444	-	-	-	740	-	-	-
Construções e Comércio Camargo Corrêa, S.A.	43	-	291	1,832	512	-	38	-
Construshopping S.A.	28	-	-	-	-	-	-	-
Construtora Acaray S.A.	128	-	-	-	-	-	-	-
OCHO A S.A.	17	-	-	-	-	-	-	-
Setefrete - SGPS, S.A.	-	-	8	-	207	-	-	-
Others noncontrolling interests	-	-	17	-	-	-	-	-
ICB others	-	-	-	-	-	-	-	366
Loma Negra others	-	-	-	-	-	-	-	42
Egypt others	-	-	-	-	-	-	1	84
Controlling shareholders:								
Camargo Corrêa S.A.	-	-	61	-	7	-	1	-
Total as of December 31, 2016	921	6	457	1,832	2,319	-	98	492
Total as of December 31, 2015	1,110	-	4,944	1,718	539	304	-	389

Transactions conducted in the years ended December 31, 2016 and 2015 are as follows:

	12.31.2016	
	Sales	Purchases/ expenses
Affiliates:		
Allpar S.E.	27	-
AVE- Gestao Ambiental e Valorização Energética, S.A.	18	2,445
Camargo Correa Infraestrutura S.A	82	-
CCDI and subsidiaries	-	2
CCR S.A.	4,001	-
Comican	-	(21)
Concret Mix S.A. and subsidiaries	3,964	7,066
Construções e Comércio Camargo Corrêa S.A.	1,883	4,738
CPFL and subsidiaries	1,925	562
IEHL	27	-
Instituto InterCement	-	(3)
PARMV Properties-Empreendimentos, S.A.	-	1,448
Setefrete - SGPS, S.A.	19	2,064
VIOL SPE Ltda.	1	-
Controlling shareholders:		
Camargo Corrêa S.A.	-	(74)
Participações Morro Vermelho S.A.	-	910
Total as of December 31, 2016	11,947	19,139
Total as of December 31, 2015	7,071	10,634

Management compensation

Of the amount €11,653 paid in the year ended December 31, 2016: (i) €11,539 refers to short-term benefits, such as fees, charges, and other benefits, and (ii) €114 refers to long-term postemployment benefits, such as pension plan contributions (€12,600 in the year ended December 31, 2015, of which (i) €12,503 refers to short-term benefits, and (ii) €97 refers to long-term postemployment benefits, such as pension plan contributions.

17. Shareholder's Equity

As of December 31, 2016, the Company's share capital is represented by 25,046,440 registered shares which 22,687,439 are common shares and 2,359,001 are preferred shares.

Preferred Shares – InterCement Participações Company

The preferred shares grant their holders the right to receive minimum dividends, not accumulating losses, do not grant voting rights in the Company's shareholders' meetings, and can be redeemed by decision of the Board of Directors. Any contractual obligations are guaranteed and recorded at Company's controller shareholder; consequently, the Company does not have any contractual obligation assumed with such holders of the preferred shares.

Preferred Shares – Special Purpose Entities

The preferred shares of Barra Grande Participações and Machadinho Participações have certain specific characteristics, in particular, in terms of:

- Right to priority dividends of the profit and/or reserves distributed in each year;
- Absence of voting rights (except for specific matters established in the corresponding statutes);
- Priority relating to the common shares in case of liquidation;
- Be converted into common shares (conversion rights);
- Non-participation in future capital increases.

There is also contracts clauses establish a set of assumptions which regulate terms of an eventual divestment by the holders, including rights to receive minimum dividends, as well as rights to convert preferred shares into common shares. The Company is not required or obligated to repurchase these preferred shares any time.

Considering all contract characteristics, attending to the disposals of IAS 32, the referred instruments (either Barra Grande or Machadinho) acquire characteristics of equity and financial instruments components, taking into account that those instruments simultaneously incorporate components that can be classified as an equity instrument and a financial instrument (financial asset or liability). Consequently, these components were measured and recognized separately in the financial statements, as follows:

a) The initial contribution received as a consideration of such preferred shared by InterCement Brasil was classified as an equity instrument, taking into consideration that, under the terms established, there is no obligation to repurchase those shares (obligation to deliver cash or other financial assets), as well as convertibility clauses in common shares (by option of the shareholders) and their respective dividends;

b) There are also contractual clauses regards to options of minimum return and possible coverage of significant devaluation of these investments, for a period up to seven years or by the holders during that period, respectively. Such options generated gain or loss for the Company and such instruments were classified as derivative financial instruments and measured at fair value at the date of the financial statements.

Capital Reserves

In the year ended in December 31, 2016 it was included in this caption the amount net of tax effect of €75 million (€84 million including non-controlling interests), related to the gain on the sale of the participations in Baesa and Machadinho (Note 2). In the year ended December 31, 2015 it was included in this caption the amount of €32,100 related to the gain (net of the tax effect of €17,569 in the sale of non-controlling interests related to the subsidiary Yguazu Cementos.

Earnings reserves

Corresponds to the retention of earnings to be used in investment projects, according to the budget to be submitted to the approval of the Shareholders' Meeting, pursuant to article 194 of Law 6404, of December 15, 1976.

Dividends

The holders of common shares are entitled to annual minimum mandatory dividends equivalent to 25% of profit for the year adjusted as provided for by the bylaws and the Brazilian Corporate Law.

On April 27, 2016, the Company has approved dividends to preferred and ordinary shares amounting to R$212,717 thousands and R$2,310 thousands, respectively (€53,226 and €578), which has already been paid during the first half of 2016. Dividends are calculated and paid disproportional in accordance with shareholders' agreements and rights for each class of shares.

Other comprehensive income

In the year ended December 31, 2016, other comprehensive income includes the positive equity amount of €93,388 corresponding to: i) the negative equity recognition of actuarial losses on the liability to employees in the amount of €4,794; ii) the positive equity recognition of exchange differences arising on translating foreign operations in the amount of €138,313 and iii) the negative equity recognition of hedging operations amounting to €40,131.

In the year ended December 31, 2015, other comprehensive income includes the negative equity amount of €620,319 corresponding to: i) the negative equity recognition of actuarial losses on the liability to employees in the amount of €345; ii) the negative equity recognition of exchange differences arising on translating foreign operations in the amount of €634,711 and iii) the positive equity recognition of hedging operations amounting to €14,737.

18. Income Tax and Social Contribution

For the years ended December 31, 2016 and 2015 the reconciliation between the nominal and the effective income tax was as follows:

	12.31.2016	12.31.2015
Loss before income tax and social contribution	(640,356)	(45,151)
Tax rate	34%	34%
Income tax and social contribution at statutory rates	217,721	15,351
Adjustments to calculate income tax and social contribution at effective rates:		
Equity method gain	295	450
Permanent additions / (deductions), net (a)	(7,320)	(13,205)
Impairment losses on goodwill	(133,060)	-
Unrecorded deferred income tax and social contribution tax (b)	(80,302)	(1,099)
Other (c)	(12,381)	-
Income tax and social contribution expense	(15,047)	1,497
Income tax and social contribution expense - Current	(49,196)	(51,553)
Income tax and social contribution expense - Deferred	34,149	53,050

(a) Includes the effect of the differences in tax rates;

(b) In the year ended December 31, 2016 includes the elimination of deferred assets regarding non recoverable tax losses in Spain, Portugal and Austria in the amount of around €66 million;

(c) The caption Other includes the registration of a tax income charge of around €12 million, related to additional tax assessments made by tax authority to one of our companies in Egypt, referring to the years 2000 to 2004. The Board of Directors has judicially appealed and, supported by the counsellors opinion, understands that the tax authorities have no grounds regarding the maintenance of the substantial of those assessments.

However, the alternative found to avoid penalties, was to formalize a staged payment agreement until 2021, which does not imply the recognition of the reasons that led to such assessments, not even prevent the maintenance of the judicial proceedings to enforce that the reason is on the side of the company, and which expressly provides for the compensation of those values, now agreed to be paid, after the judicial decision in favour of the company, moment that the settled amounts will then be recognized in the assets of that company (Note 13).

Deferred income tax and social contribution

Deferred income tax and social contribution were recognized on tax loss carryforwards and temporary differences in the recognition of revenues and expenses between tax and corporate books, to the extent considered realizable by the subsidiaries.

In addition to the income tax charge, in year ended December 31, 2016 and 2015, the Group recorded deferred tax of €31,342 and €14,400, respectively, directly in income and costs recognized in equity, mainly in connection with shareholders' transactions.

Deferred income tax and social contribution are broken down as follows:

	12.31.2016	12.31.2015
Assets:		
Tax loss carryforwards	77,026	112,009
Tax, labor and civil liability	15,466	16,062
Valuation of the useful lives of property, plant and equipment	1,983	3,734
Allowance for doubtful debts	4,293	763
Provision for environmental recovery	6,186	4,910
PIS and COFINS on financial income and other nonoperating income (taxes in installments)	8,118	5,875
Accrued profit sharing	3,350	663
Provision for outside services	1,976	167
Exchange rate changes taxed on a cash basis	7,582	-
Other temporary provisions	35,817	13,643
Total assets	161,797	157,826
Liabilities:		
Goodwill amortization (future earnings)	152,112	116,976
Deemed cost of property, plant and equipment	52,370	77,708
Useful life estimate of property, plant and equipment (a)	42,513	20,448
Measurement of assets acquired at fair value (b)	162,091	171,492
Provision for environmental recovery	3	13
Present value adjustment - Banco Itaú debt - Fomentar	1,313	1,261
Other temporary provisions	23,397	28,288
Total liabilities	433,799	416,186
Total net in noncurrent assets	29,827	74,218
Total net in noncurrent liabilities	301,829	332,578

(a) For tax purposes, these taxes will continue to comply with Decree 3000/99, Income Tax Regulation (RIR).

(b) Refers to the revaluation of assets at fair value on the acquisition of subsidiary CIMPOR, in 2012.

As of December 31, 2016 and 2015, considering management expectation the realization of the majority tax loss carry forwards will occur only after 2020, which depends of profitable taxes results for each tax jurisdiction.

These estimates are based on the Company's history of profitability, projected future taxable income and estimated period for reversal of temporary differences.

19. Net Revenue

The breakdown of the Company's net revenues for the years ended December 31, 2016 and 2015 is as follows:

	12.31.2016	12.31.2015
Products sold	1,972,718	2,584,666
Services provided	118,986	240,543
(-) Taxes on sales	(212,498)	(280,711)
(-) Rebates/discounts	(36,222)	(51,221)
Total	1,842,984	2,493,277

Taxes on sales comprise federal, state and municipal taxes such as Federal VAT (IPI), State VAT (ICMS), Taxes on Revenues (PIS and COFINS), and Service Tax (ISS).

20. Information on the Nature of the Costs and Expenses Recognized in the Income Statement

The consolidated income statement is presented based on a classification of expenses according to their function. Information on the nature of such expenses is as follows:

	12.31.2016	12.31.2015
Depreciation, amortization, and impairment losses (a)	(593,048)	(238,290)
Salaries and employee benefits	(273,950)	(324,596)
Raw materials and consumables	(419,807)	(637,646)
Tax expenses	(17,837)	(24,369)
Outside services	(195,237)	(228,553)
Rental	(23,178)	(36,543)
Freight expenses	(168,802)	(231,065)
Maintenance costs	(101,053)	(122,216)
Fuel	(133,440)	(185,416)
Electricity	(133,746)	(154,380)
Reversal (recognition) of provision for risks	(2,936)	(3,807)
Gain on sale of property, plant and equipment	11,858	27,460
Gain on sale of carbon credits	6,231	2,528
Restructuring and other nonrecurring costs	(47,693)	(27,664)
Other (expenses)/income (net)	2,344	(29,280)
Total	(2,090,294)	(2,213,836)
Cost of sales and services	(1,463,581)	(2,003,133)
Administrative and selling expenses	(277,647)	(245,672)
Other (expenses)/income (net) (a)	(349,066)	34,969
Total	(2,090,294)	(2,213,836)

(a) In the year ended December 31, 2016 includes the impairment in the goodwill amounting to R$1,499,100 thousand (€391,352) (Note 9).

21. Financial Income (expenses) and Foreign exchanges losses (net)

	12.31.2016	12.31.2015
Foreign exchange losses, net (a):		
Exchange gain	72,591	165,268
Exchange loss	(196,702)	(259,060)
Total	(124,111)	(93,792)
Financial income:		
Inflation adjustment	8,420	4,895
Financial earnings	23,594	31,475
Interest income	1,679	2,862
Derivative financial instruments (b)	-	22,506
Other income (c)	34,810	19,333
Total	68,503	81,071
Financial expenses:		
Inflation adjustment	(7,402)	(5,615)
Expenses on interest and charges	(264,941)	(243,241)
Expenses on banking commissions	(21,290)	(24,646)
Fines	(515)	(297)
Derivative financial instruments (b)	(3,975)	(5,481)
Other expenses	(40,183)	(33,916)
Total	(338,306)	(313,196)

(a) In the years ended December 31, 2016 and 2015, the unfavourable and favourable exchange differences are mainly influenced by the effect of the devaluation and valuation of functional currencies in Group against USD and Euro in the conversion of liabilities and assets registered in those currencies.

(b) These captions are composed by fair value variation of trading derivative financial instruments contracted to cover exchange and interest rate risks;

(c) In the year ended December 31, 2016 and 2015, this caption is also influenced by the repurchase of bonds issued by Cimpor Financial Operations, B.V. with a nominal value of USD108,378 thousand and USD54,290 thousand, respectively, which generated a financial income in the amount of €23,429 and €12,863, respectively (Note 11).

22. Commitments

(a) Lease agreements as lessee

Operating land lease agreements are effective from five to ten years. Lease payments are expected to be paid, in nominal amounts, as follows:

	12.31.2016	12.31.2015
Up to one year	4,288	14,290
From one to five years	51,509	24,497
More than five years	4,059	9,202
Total	59,856	47,989

The Company recognized, for the year ended December 31, 2016, as operating lease expenses in the amount of €16,507 (€25,687 for the year ended December 31, 2015).

(a) Purchase agreements

InterCement Brasil has a contractual agreement for purchase of raw slag effective until 2021 adjusted by the General Market Price Index (IGP-M), whose total estimated cash disbursements, in nominal amounts, are as follows:

	12.31.2016	12.31.2015
2016	-	10,852
2017	12,344	10,852
2018	12,344	10,852
2019	12,344	10,852
2020	12,344	10,852
After 2020	1,029	10,853
Total	50,405	65,113

Other subsidiaries are parties to contractual agreements for the purchase of inventories and property, plant and equipment, and the operation of facilities located in third-party properties, as follows:

	12.31.2016	12.31.2015
		30,039
2016	24,452	20,402
2017	15,333	19,517
2018	14,797	15,595
2019	10,721	15,595
2020	22,212	32,528
Total	87,515	133,676

23. Earnings Per Share

The table below shows the reconciliation of profit for each period with the amounts used to calculate basic and diluted per share:

	12.31.2016	12.31.2015
Loss for the year attributable to Company's owners	(508,316)	(20,228)
Loss for the year attributable to common shares	(508,316)	(20,228)
Weighted average number of common shares	22,687,439	22,687,439
Basic/diluted earnings (loss) per common share	(22.41)	(0.89)

As a result of the net loss for the years ended December 31, 2016 and 2015 the loss per share calculation does not include profit allocation to preferred shares.

24. Insurance

Each business area is covered by Cimpor Reinsurance, S.A. that is a reinsurance company responsible for managing the operational risk. This company directly assumes all property damage and machinery breakdown risks with indemnity limits of up to € 3,0 million per insured event, and third-party and product risks up to €250 per insured event; in each case, the excess is covered by international insurance companies. Cimpor Reinsurance, S.A. covers all business areas, except for third-party and product risks of the companies in business area Argentina.

Argentina business area companies have the policy of coverage insurance for third-party and product risks according to Management's assessment.

25. Guarantees

The comfort letters and guarantees given in the Group, in the amount of €3,3 billion, relates to financial liabilities already reflected in the consolidated financial position. In addition, as of December 31, 2016, several Group companies obtained guarantees with third parties, mainly related with tax process, in the amount of €473 million (€421 million as of December 31, 2015).

26. Financial Instruments

The Group conduct transactions involving financial instruments, including derivatives, all of which recorded in balance sheet accounts, which are intended to meet their operating and financial needs. The Company contracts short-term investments, borrowings and financing, as well as derivatives.

26.1 Capital risk management

The Group capital structure consists of net debt (borrowings less cash equivalents and securities) and equity (which includes issued capital, reserves, retained earnings and noncontrolling interests).

The refinancing processes of 2016 allowed an improvement in the debt profile, by reducing the average cost of debt, ensuring a level of liquidity (€591 million), sufficient to cover the financial commitments of the next 18 months and the concentration of large refinancing only after 2019 safeguarding the average debt term of 4 years.

Concerning to the financing of its activity, ICP will continue to optimize its capital structure by promoting the reduction of the level of indebtedness leverage. For this purpose, it will combine the decrease in capital employed, the sale of non-strategic assets and minority interests, the CAPEX discipline and the increase in cash flow generation - either through EBITDA, or through the development of the working capital program.

For 2017, a slight increase in generation of EBITDA, in the context of the above described dynamics, optimizes the level of leverage to values compatible with the requirements of its financing.

26.2 Financial risk management

The Group's Corporate Treasury Department manages the financial risks for the wholly-owned subsidiaries by coordinating access to domestic and foreign markets, monitoring and managing transaction-related risks, through internal reports by level and materiality, such as the currency risk, the interest rate risk, the price risk, the credit risk, and the liquidity risk.

26.3 Categories of financial instruments

	12.31.2016	12.31.2015
Current assets:		
Financial assets at amortized cost:		
Cash and bank accounts (Note 4)	325,110	336,719
Short-term investments - financial asset	160,373	304,794
Trade receivables (Note 6)	137,605	145,501
Other receivables	52,079	67,509
Financial assets at fair-value:		
Exclusive funds	105,125	149,935
Derivatives	26,450	24,770
Non-current assets:		
Financial assets at amortized cost:		
Long-term investments - financial asset	2,928	2,361
Trade receivables (Note 6)	6,199	1,505
Other receivables	27,473	22,785
Financial assets at fair-value:		
Derivatives	215,450	238,895
Current liabilites:		
Financial liabilities at amortized cost:		
Debentures (Note 12)	121,926	-
Borrowings and financing (Note 11)	213,866	117,117
Trade payables	311,631	300,369
Interest payable (Notes 11 and 12)	95,678	91,853
Other payables	30,223	103,228
Financial liabilities at fair value:		
Derivatives	8,287	2,501
Non-current liabilites:		
Financial liabilities at amortized cost:		
Debentures (Note 12)	1,157,415	1,262,123
Borrowings and financing (Note 11)	1,932,136	1,911,827
Trade payables	9,199	8,694
Other payables	13,831	9,177
Financial liabilities at fair value:		
Derivatives	7,468	4,602

26.4 Foreign exchange exposure and details on derivative transactions

Foreign exchange risk

The Group has assets and liabilities in currencies other than their own functional currencies, mainly the US dollar, and their results may be materially impacted by exchange rate fluctuations.

The main account groups exposed to foreign exchange risk are as follows:

	12.31.2016	12.31.2015
Assets:		
Cash and cash equivalents	298,927	257,015
Trade receivables	5,396	16,194
Related parties (a)	458,849	284,470
Other credits	373	17,356
Exposed assets	763,545	575,034
Liabilities:		
Interest, borrowings, financing and debentures	546,738	643,482
Foreign trade payables	51,439	65,818
Related parties (a)	458,237	289,536
Exposed liabilities	1,056,413	998,836

(a) It relates to intercompany balances with currency exposure at least in one of the related companies, considering subsidiaries have different functional currencies, where balances (assets and liabilities) are eliminated during the consolidation; however, gain or loss impact is not totally eliminated.

Derivatives

As of December 31, 2016 and December 31, 2015, the fair value of derivatives is as follows:

	Assets				Liabilities			
	Current asset		Noncurrent assets		Current asset		Noncurrent assets	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015
Trading derivatives	-	-	200	-	4,876	-	-	-
Cash flow hedges - Interest rate and cross currency swaps	26,450	24,770	215,249	238,895	3,411	2,501	7,468	4,602
	26,450	24,770	215,450	238,895	8,287	2,501	7,468	4,602

The following schedule shows the operations at December 31, 2016 and 2015 that qualify as hedging accounting instruments:

Type of hedge	Notional	Type of Operation	Maturity	Economic purpose	Fair value 12.31.2016	Fair value 12.31.2015
Cash-flow	USD 200.000.000	Cross Currency Swap to EUR	Jul/24	Swich a USD loan into EUR loan	36,488	45,281
Cash-flow	USD 200.000.000	Cross Currency Swap to EUR	Jul/24	Swich a USD loan into EUR loan (a)	-	-
Cash-flow	USD 100.000.000	Cross Currency Swap to EUR	Jul/24	Swich a USD loan into EUR loan	15,960	19,566
Cash-flow	USD 50.000.000	Cross Currency Swap to EUR	Jul/24	Swich a USD loan into EUR loan	9,073	11,059
Cash-flow	USD 150.000.000	Cross Currency Swap to EUR	Jul/24	Swich a USD loan into EUR loan	26,021	32,581
Cash-flow	USD 217.500.000	Cross Currency Swap to EUR	Feb/19	Swich a USD loan into EUR loan	28,977	25,434
Cash-flow	USD 217.500.000	Cross Currency Swap to EUR	Feb/19	Swich a USD loan into EUR loan	43,488	38,045
Cash-flow	USD 424.000.000 (a)	Cross Currency Swap to EUR	Jan/22	Swich a USD loan into EUR loan	81,692	85,676
Cash-flow	EUR 379.218.809	Interest Rate Swap	Jan/22	Swich to fixed interest rate	(10,878)	(7,103)
Cash-flow	USD 49.000.000	Foreign Exchange Future	May/16	Swich a USD loan into ARS loan	-	6,022
					230,821	256,561

(a) During the year ended December 31, 2016, such derivative instrument was partially settled (nominal of USD74 million).

As of December 31, 2016, in addition to the financial instruments above there are derivative financial instruments that do not qualify as hedge accounting, as follows:

(i) a cash flow derivative of a debenture loan of USD50,000 thousand, whose fair value recorded as liability is in the amount of €4,429 and classified as fair value to profit and loss;

(ii) Written-put options in connection with "Baesa" and "Machadinho" operations (Notes 2 and 17), whose fair value is recorded as liability and net fair value of €248.

26.5 Market values

Estimated fair value – assets measured at fair value

The following table presents the Group's assets and liabilities measured at fair value as of December 31, 2016 in accordance with the following fair value seniority levels:

– Level 1: the fair value of financial instruments is based on listings on net active markets as of the date of the financial statements;
– Level 2: the fair value of financial instruments is not based on listings on net active markets but rather based valuation models;
– Level 3: the fair value of financial instruments is not based on listings on net active markets but rather on valuation models, the principal inputs of which are not observable in the market.

Category	Item	Level 1	Level 2	Level 3
Assets:				
Financial assets at fair value	Cash and cash equivalents	105,125	-	-
Financial assets at fair value	Financial derivative instruments	-	241,899	-
Liabilities:				
Financial liabilities at fair value	Financial derivative instruments	-	15,755	-

Estimated fair value – assets and liabilities not measured at fair value

Measurement of fair value of derivatives financial instruments is based on criteria extracted from external database agencies, and the results obtained faced with the corresponding evaluations made by counterparties.

Except as regards non-current loans the majority of financial assets and liabilities mature in the short term and so their fair value is considered to be the same as their book values.

Regarding loans and debentures, as shown in Notes 11 and 12, in general, are contracted at variable interest rates. Consequently, it is understood that the corresponding book value (amortized cost) does not differ significantly from their corresponding market value, except for the Senior Notes issued by Cimpor B.V. and for the fixed interest rate loans contracted in the Brazilian, Argentinian and Paraguayan business areas, which effect of their valuation to fair value in relation to their book value being as follows:

	12.31.2016	12.31.2015
Fair value	1,410,143	1,187,446
Carrying amount	1,500,195	1,399,226

26.6 Exposure to interest rate risks

The Group is exposed to floating interest rates and inflation rates mainly related to changes in the IGP-M, CDI, Libor, Euribor, Broad Consumer Price Index (IPCA) and TJLP on borrowings and debentures. Interest rates on short-term investments are mostly linked to the CDI and Selic fluctuation. These positions are as follows:

	12.31.2016	12.31.2015
Assets:		
CDI	55,795	184,128
SELIC	33,466	24,214
Total assets	89,261	208,342
Passivo:		
IGP-M	8,513	6,685
CDI	903,445	707,442
EURIBOR	531,411	882,338
LIBOR	458,907	321,294
TJLP	45,025	42,465
Outros	120,225	112,925
Total do passivo	2,067,525	2,073,149

26.7 Credit risk

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist primarily of short-term investments and trade receivables. The Company and its subsidiaries maintain bank accounts and short-term investments with financial institutions approved by Management, and only carry out sale transactions according to credit approval criteria for minimizing default risks.

26.8 Sensitivity analysis of financial instruments

As of December 31, 2016, the sensitivity analysis of financial instruments of the Company and its subsidiaries, considering material assets and liabilities is as follows:

a) Interest rate

Exposure to interest-rate risk results in the variability of the Group's net financial expenses. The results of a sensitivity analysis of exposure at December 31, 2016 were as follows:

Considering that the EUR and USD monetary rates are at levels below 1% only scenarios relating to increase in the Euribor and Libor were simulated.

A parallel change of +/- 1% in the interest rate curve with all the other assumptions remaining constant would result in an increase in financial costs for the year then ended (before taxes) of approximately €9 million on the euro liability indexed to the variable rate and USD 4 million on the variable rate loan, as shown in table below:

Indexing	Currency	Value	1%	2%	3%
Euribor	EUR	936,493	9,365	18,730	28,095
US Libor	USD	443,646	4,436	8,873	13,309

In the case of rates indexed in R$ (Brazilian reais), 3 scenarios were simulated: Scenario 1, assuming the expected rates according with the market, and two scenarios of increase of 25% (Scenario 2) and 50% (Scenario 3, Remote) in the rates, being specifically considered that as there were significant amounts invested in this currency, there was a simulation of the impact that an decrease in rates would have on these applications (CDI and Selic – Assets). The results for the assets and liabilities impacts are as follows:

	Total	Risk	Scenario 1	Scenario 2	Scenario 3
Liability:					
CDI	55,795	Index Decrease	6,288	4,716	3,144
SELIC	33,466	Index Decrease	3,872	2,904	1,936
Asset:					
IGP-M	8,513	Index Increase	556	695	834
CDI	903,445	Index Increase	101,818	127,273	152,727
TJLP	45,025	Index Increase	4,318	5,398	6,477

b) Exchange rates

In the debt and financial derivatives components, considering the currency distributing aforementioned, the exchange rate risks result from exchange rate volatility as well as its impact on consolidated financial results.

Considering the Group's financial asset and liability profile at December 31, 2016 the more significant impact on net financial results would be as follows:

				USD depreciation			USD appreciation	
Amount in USD	Funcional currency	FX Rate (31-12-16)		-10%	-5.0%	0.0%	5.0%	10.0%
-58,922	EUR	1.0550	Efect in EUR	-5,585	-2,792	-	2,792	5,585
-118,208	ARS	15.89	Efect in ARS	-187,833	-93,916	-	93,916	187,833
			Efect in EUR	-12,449	-5,897	-	5,335	10,186
-81,203	PYG	5,774.63	Efect in PYG	-46,891,805	-23,445,903	-	23,445,903	46,891,805
			Efect in EUR	-8,552	-4,051	-	3,665	6,997
79,252	BRL	3.26	Efect in BRL	25,829	12,914	-	-12,914	-25,829
			Efect in EUR	8,347	3,954	-	-3,577	-6,829
45,985	ZAR	13.70	Efeito em ZAR	62,997	31,499	-	-31,499	-62,997
			Efect in EUR	4,843	2,294	-	-2,076	-3,962
-99,593	MZN	71.28	Efeito em MZN	-709,939	-354,970	-	354,970	709,939
			Efect in EUR	-10,489	-4,968	-	4,495	8,582

				EUR depreciation			EUR appreciation	
Amount in EUR	Funcional currency	FX Rate (31-12-15)		-10%	-5.0%	0.0%	5.0%	10.0%
-33,130	ZAR	14.45	Efect in ZAR	47,883	23,942	-	-23,942	-47,883
			Efect in EUR	3,489	1,653	-	-1,495	-2,855
165,067	BRL	3.44	Efect in ZAR	-56,757	-28,378	-	28,378	56,757
			Efect in EUR	-17,384	-8,235	-	7,450	14,224

				EGP depreciation			EGP appreciation	
Amount in EGP	Funcional currency	FX Rate (31-12-15)		-10%	-5.0%	0.0%	5.0%	10.0%
260,482	EUR	18.99	Efect in EUR	1,372	686	-	-686	-1,372

27. Supplemental Cash Flow Information

a) Investment and financing activities not involving cash

	12.31.2016	12.31.2015
Interest capitalization	854	4,589
Purchase of property, plant and equipment through financing	-	34,604
Non-cash acquisition of property, plant and equipment	19,186	-
Purchase of property, plant and equipment through trade payables	17,791	35,394
Purchase of intangibles through trade payables	6,141	20
Sales of property, plant and equipment that will be received futurally	4,275	19,989
Dividends prescribed	-	161
Other property plant and equipment effects	-	3,543

28. Operating Segment

The operating segments are identified based on the internal reports on the Company's components, periodically reviewed by the Chief Executive Officer (CEO), the chief operating decision-maker, so that funds can be allocated to the segments and their performances assessed.

To manage its business taking into consideration its financial and operating activities, the Company classified its business into each geographical area where the Company operates.

The profit and loss information are as follows:

	12.31.2016				12.31.2015			
	Net Revenue				Net Revenue			
	Foreign sales	Intersegment sales	Total	Results	Foreign sales	Intersegment sales	Total	Results
Operating segments:								
Brazil	523,198	1,305	524,503	(406,147)	814,169	-	814,169	98,494
Argentina and Paraguay	644,733	-	644,733	123,224	817,192	-	817,192	153,046
Portugal and Cape Verde	199,495	60,828	260,323	(3,642)	201,062	116,614	317,676	(23,531)
Egypt	176,860	-	176,860	12,507	217,243	-	217,243	14,146
Mozambique	123,764	-	123,764	13,568	161,439	-	161,439	16,611
South Africa	108,509	2,955	111,464	22,542	126,321	4,394	130,715	33,569
Total	1,776,559	65,088	1,841,647	(237,948)	2,337,426	121,008	2,458,434	292,335
Other (a)	66,426	144,243	210,669	(9,362)	155,851	191,840	347,691	(12,894)
Eliminations	-	(209,331)	(209,331)	-	-	(312,848)	(312,848)	-
Sub-total	1,842,984	-	1,842,984	(247,310)	2,493,277	-	2,493,277	279,441
Share of profit of associates				868				1,325
Income before financial income (expenses)				(246,442)				280,766
Financial income (expenses), net				(393,914)				(325,917)
Income before income tax and social contribution				(640,356)				(45,151)
Income tax and social contribution				(15,047)				1,497
Loss for the year				(655,403)				(43,654)

(a) This caption includes; (i) holding companies and trading companies not attributable to specific segments and, (ii) intra-group eliminations between segments.

As of December 31, 2016, operating results in the segment "Portugal and Cape Verde" are positively influenced by a net gain of €6,231 (€2,528 as of December 31, 2015), as a result of the sale of 2,250,000 tonnes of CO2 emissions (3,400,000 tonnes of CO2 emissions thousand at December 31, 2015) deducted of the liability of

€9,426 thousand (€22,652 as of December 31, 2015), corresponding to 2,001,491 tonnes of CO2, above the portfolio licenses, in a total of 2,070,838 tonnes of CO2 (2,936,144 tonnes of CO2 emitted in the year ended December 31, 2015).

Note also that, in the year ended the purchase of 2,940,000 of CO2 emissions allowances was also contracted, by the amount of €22,296 (of which, 2,750,000 were contracted in 2015 by the amount of €21,156). In April 2016, 2,927,535 licenses were returned, relating to emissions in the year 2015.

It should also be notice that, as a result of restructuring processes in progress in Group, in particular in the Argentinian, Brazilian and Portuguese business areas, in the year ended December 31, 2016, nonrecurring costs with indemnities and others amounted to around €47,693 (around €27,664 in the year ended December 31, 2015).

The profit for each years above includes the full amount of the Company's segments disregarding the following amounts attributable to noncontrolling interests:

	Noncontrolling interests	
	12.31.2016	12.31.2015
Operating segments:		
Brazil	(120,711)	(15,922)
Argentina and Paraguay	10,273	2,266
Portugal and Cape Verde	(1,794)	(4,594)
Egypt	(3,864)	2,936
Mozambique	(15,806)	(6,779)
South Africa	2,489	10,983
	(129,413)	(11,110)
Unallocated	(17,674)	(12,316)
	(147,087)	(23,426)

Other information:

	12.31.2016		12.31.2015	
	Capital expenditure	Depreciation, amortisation and impairment losses	Capital expenditure	Depreciation, amortisation and impairment losses
Operating segments:				
Brazil	38,104	468,297	67,534	74,751
Argentina and Paraguay	60,444	40,004	67,466	47,116
Portugal and Cape Verde	8,341	41,689	6,427	55,660
Egypt	42,044	22,399	23,740	27,659
Mozambique	5,722	6,170	13,432	8,284
South Africa	4,442	7,421	5,982	9,091
	159,097	585,980	184,581	222,561
Other	1,759	7,068	2,856	15,729
Total	160,856	593,048	187,437	238,290

The impairment losses, when it occurs, respects to impairment losses on goodwill, tangible and intangible assets. In the year ended December 31, 2016 impairment losses were recorded, in goodwill in the amount of R$1,499,100 thousand (€391,352), and in tangible assets unallocated to operating segments, in the amount of about €4,300 (Notes 8 and 9).

In addition, segment assets and liabilities reconciled with the consolidated balances as of December 31, 2016 and 2015 are as follows:

	12.31.2016			12.31.2015		
	Assets	Liabilities	Net assets	Assets	Liabilities	Net assets
Operating segments:						
Brazil	2,634,316	1,422,322	1,211,994	2,530,303	1,246,302	1,284,001
Argentina and Paraguay	815,454	467,661	347,793	766,382	408,275	358,107
Portugal and Cape Verde	755,806	411,951	343,855	826,241	473,964	352,277
Egypt	254,226	110,963	143,263	488,082	123,843	364,239
Mozambique	204,868	173,504	31,364	281,777	179,310	102,467
South Africa	351,045	145,045	206,000	315,606	123,514	192,092
Total	5,015,715	2,731,446	2,284,269	5,208,391	2,555,208	2,653,183
Other	1,023,499	2,362,606	(1,339,107)	1,264,602	2,429,059	(1,164,457)
Eliminations	(630,477)	(630,477)	-	(573,415)	(573,415)	-
Other investments	9,976	-	9,976	11,758	-	11,758
Total segments	5,418,713	4,463,575	955,138	5,911,336	4,410,852	1,500,484

The assets and liabilities not attributable to segments include:

(a) assets and liabilities not attributable to specific segments basically allocated to holding and trading companies;

(b) intragroup eliminations between segments; and

(c) other investments.

29. Events After the Reporting Period

Nothing to report.

30. Authorization for Completion of Financial Statements

At the meeting held on March 14, 2017, the Board of Directors authorized the completion of this consolidated financial statements.