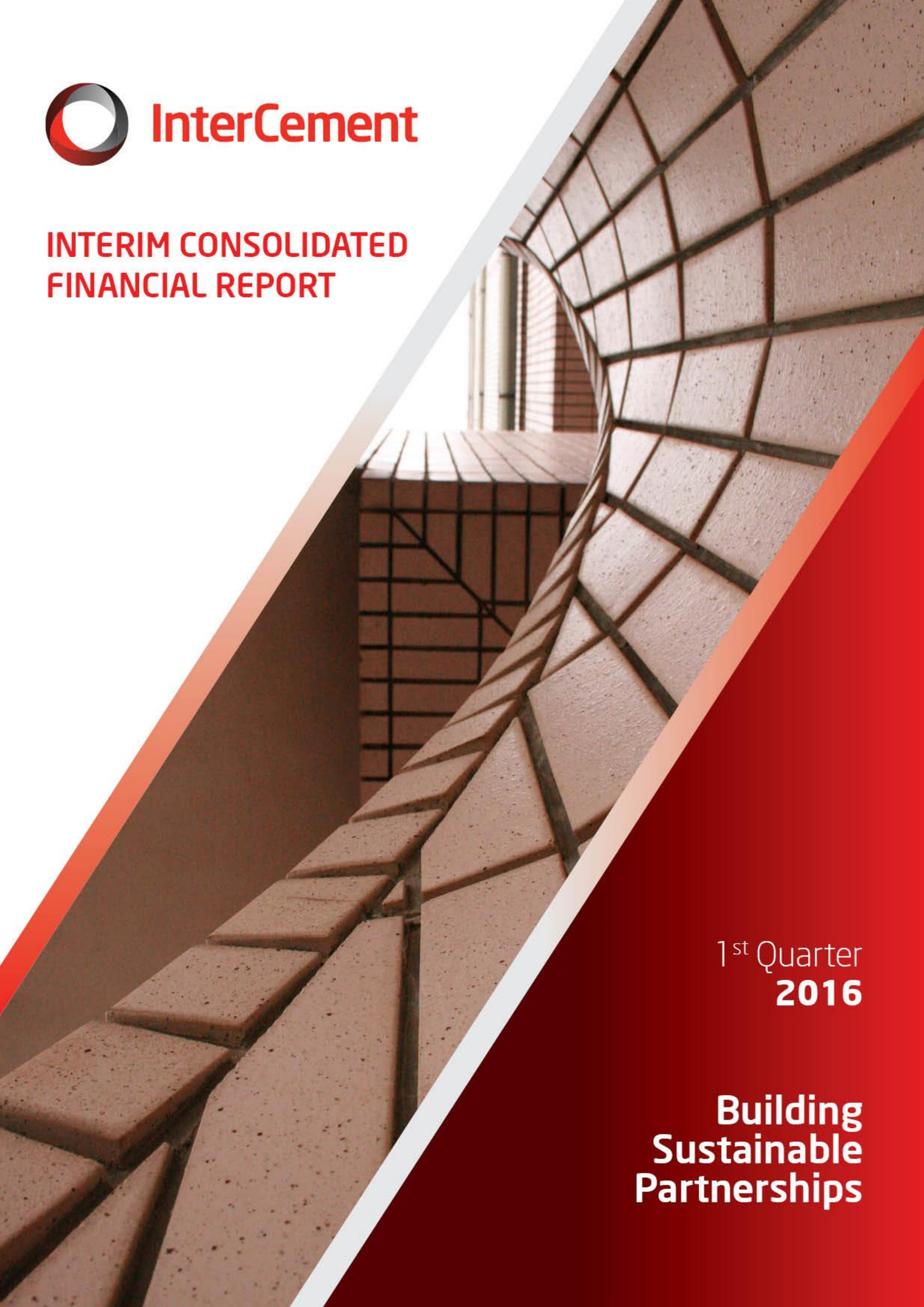
# InterCement

# INTERIM CONSOLIDATED FINANCIAL REPORT



1st Quarter
**2016**

**Building Sustainable Partnerships**

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# Q1 reflects Brazil instability and Argentina new cycle

Q1 results affected by political-economic context in Brazil, specific market conditions and forex.

Adverse currencies performance vs. euro in Argentina (-38%), Brazil (-25%) and South Africa (-24%).

Cement volumes sold reflect Brazil retraction and slower Portugal. Higher cement price compensates lower sales, though insufficient to offset forex. Concrete and aggregates lower contributions.

Efficiency initiatives mitigate markets adversity impact on EBITDA decline - 15% excluding the exchange rate effect. Currency depreciation impacted consolidated EBITDA by 30 million euros. EBITDA stands at 78 million euros.

- **Brazil** – Construction contraction and capacity increases, intensifies competition and drops sales;
- **Argentina** – Market leadership supports operating margin, despite local challenges;
- **Paraguay** – Local dynamics attracts imports;
- **Egypt** – Sales adjust in the context of intense competition;
- **Mozambique** – EBITDA doubles despite political-economic uncertainty;
- **South Africa** – EBITDA harmed by local currency devaluation and maintenance;
- **Portugal** – Exports (Algeria licenses and commodity prices) and domestic market slowdown;
- **Cape Verde** - Dynamic trend.

Depreciations, Amortization and Taxes positive evolution, offset by financial costs ('15 derivative gain).

**Net income** for shareholders deteriorated to negative 40 million euros.

Net Debt fell by 8% vs March'15. Assets reached 5.8 billion euros.

Despite EBITDA compression and non-recurring charges, Free Cash Flow after interest payment remains stable thanks to disciplined CAPEX and working capital.

| Main Indicators | | | |
|---|---|---|---|
| | Jan - Mar | | |
| (€ million) | 2016 | 2015 | Var. % |
| Cement and Clinker Volumes Sold (thousand ton) | 6,030.0 | 6,793.2 | -11.2 |
| Sales | 454.1 | 636.6 | -28.7 |
| EBITDA | 77.9 | 122.0 | -36.2 |
| *EBITDA Margin (%)* | *17.1%* | *19.2%* | *-2.0 p.p.* |
| Net Profit (1) | (39.6) | 17.6 | n.m. |
| Free Cash Flow to the company | (98.3) | (99.4) | -1.1 |

(1) Attributable to Shareholders

# 1. Operating Performance

## Cement and Clinker Volumes Sold

***Influence of contraction in Brazil and exports***

Cement and clinker volumes sold dropped by 11% in relation to the 1st quarter of 2015, in view of the decrease observed in Brazil – during a period marked by political instability and contraction of economic activity – and in exports from Portugal, which were affected by the delay in the attribution of import licenses in Algeria, one of its main customers.

In Argentina, the local macro economical corrections underway led to the immediate and already anticipated contraction in the consumption of cement, which is actually expected after a cycle of heavy growth. In this context, Loma Negra reaffirmed its market leadership by increasing its market share. On the other hand, the present attractiveness of Paraguay as an export destination for the neighbouring countries ended up by constraining the company's volumes sold in the country.

Although in Egypt the competition panorama led to a reduction in volumes sold, the performance observed in the other African countries was positive.

In Mozambique consumption grew by approximately 13%. While InterCement increased its volumes sold by more than 26%, leveraging its position of market leadership and taking advantage of the lower entry of imported cement in a context of devaluation of the metical.

Also in South Africa, InterCement led the market performance. Facing a slowdown in local consumption, the success of the commercial strategy, of expansion into new geographies and clients, combined with the partnership's program development, enabled a 3% growth of the cement and clinker volumes sold. This was the highest volume of the 1st quarter recorded in the last 6 years.

Finally, in Cape Verde, the company benefited from the buoyancy of the tourism sector and from the public investment programme.

| Cement and Clinker Volumes Sold | | | |
|---|---|---|---|
| (thousand tons) | Jan - Mar | | |
| | 2016 | 2015 | Var. % |
| Brazil | 2,268 | 2,731 | -17.0 |
| Argentina | 1,408 | 1,516 | -7.1 |
| Paraguay | 90 | 98 | -9.0 |
| Portugal | 730 | 1,119 | -34.8 |
| Cape Verde | 49 | 46 | 7.4 |
| Egypt | 851 | 872 | -2.3 |
| Mozambique | 368 | 291 | 26.3 |
| South Africa | 315 | 307 | 2.8 |
| **Sub-Total** | **6,079** | **6,980** | **-12.9** |
| Intra-Group Eliminations | -49 | -186 | -73.6 |
| **Consolidated Total** | **6,030** | **6,793** | **-11.2** |

## Sales

***Average cement price increase offsets volume decline but not exchange rate effects***

In the current inflationary context observed in most geographies, the commercial dynamics of InterCement enabled an increase of the average price of cement, which compensated the decreased in consolidated cement and clinker volumes sold. However, the effect of the appreciation of the euro against the currencies of operations – especially the Brazilian real and the Argentinian peso – actually penalised Sales by 150 million euros. Thus, InterCement recorded Sales of 454 million euros in this 1st quarter, 29% year on year.

Excluding the exchange rate effect, the reduction in Sales would have been limited to 7%. This was driven by the performance observed in Argentina, Mozambique, South Africa and Cape Verde, which offset the unfavourable contributions of Brazil, Portugal, Egypt and Paraguay.

In the 1st quarter, Brazil faced a scenario of greater idleness of its industrial tissue. In particular, the contraction of the construction sector and the increase of local competition ended up by dictating the Sales performance. Furthermore, this past quarter figures were affected by the reduction of concrete and aggregates volumes sold, following the recent asset sales.

In Portugal, the market also evolved in a less favourable manner – due to the weather conditions, late start-up of public contract works and the administrative suspension of exports to Algeria – with import pressure also being maintained. In Egypt, the pressure of competition continued although a recovery was observed in terms of prices in relation to the closing of 2015. Finally, in Paraguay, the import pressure, in view of the appreciation of the local currency against those of neighbouring countries, led to a decline in the price of cement.

On the other hand, in Argentina, the commercial positioning enabled overcoming the slowdown of volumes and thus mitigate to some extent the impact of the depreciation of the peso. The 43% growth, in local currency, observed in Mozambique – combining price and volumes – surpassed the impact of the depreciation of the metical (9 million euros). Also, in South Africa, the commercial performance enabled a 3% increase in Sales in local currency, while Cape Verde has already shown signs of recovery.

| Sales | | | |
|---|---|---|---|
| (€ million) | Jan - Mar | | |
| | 2016 | 2015 | Var. % |
| Brazil | 135 | 247 | -45.1 |
| Argentina | 134 | 168 | -20.5 |
| Paraguay | 10 | 14 | -26.2 |
| Portugal | 54 | 71 | -24.1 |
| Cape Verde | 8 | 7 | 20.7 |
| Egypt | 53 | 61 | -13.3 |
| Mozambique | 34 | 33 | 4.4 |
| South Africa | 23 | 30 | -22.3 |
| Trading / Shipping | 48 | 88 | -45.2 |
| Others | 11 | 12 | -8.6 |
| **Sub-Total** | **510.7** | **730.0** | **-30.0** |
| Intra-Group Eliminations | -57 | -93 | -39.3 |
| **Consolidated Total** | **454.1** | **636.6** | **-28.7** |

# EBITDA

***Management of context challenges, lower dilution of fixed costs and unfavourable exchange rate***

In the 1st quarter of 2016 EBITDA stood at 78 million euros, constrained not only by the current situation of Brazil, Egypt, Portugal and South Africa, but also by the depreciation of all the local currencies against the euro. Excluding the exchange rate effects, the contraction of EBITDA would have been contained to 15% (an impact of 30 million euros).

The EBITDA margin of 17.1% decreased by 2 p.p. in relation to the 1st quarter of 2015. The higher margin impact came from Egypt (higher energy costs and lower price) and South Africa (industrial interventions and higher cost of raw materials).

In Brazil, the slowdown of activity associated to the current inflation caused an EBITDA decline. On the other hand, the optimisation of the industrial network, the new strategy for the concrete business (sale and rental of plants with supply contracts), the stimulation to increase industrial, commercial and financial efficiency, and the restructuring of the areas supporting the operations mitigated the impact on EBITDA Margin.

In Argentina InterCement portrayed its capacity to adapt to the new circumstances. This was clearly evident in the EBITDA growth by more than 30%, in local currency, in a scenario of strong inflation and the increase in costs – in particular energy costs, due to the elimination of the corresponding subsidies. Nevertheless, in view of the depreciation of the Argentinian peso, EBITDA in euros would represent a retraction of 20%.

Concerning the operations in Paraguay, an internal benchmark with an EBITDA margin above 30%, an EBITDA correction was recorded due to the price effect following the current import pressure.

Portugal saw its contribution penalised by the postponement of internal consumption and the suspension of exports to Algeria, an obstacle that has since been overcome.

The assertive commercial and industrial management in Mozambique boosted an increase of activity. This combined with the favourable price evolution, offset the increase in costs (usually associated to the USD) doubling the EBITDA of the same quarter of the previous year. Cape Verde recorded an EBITDA improvement based on a higher cement and clinker volumes sold and the in price increase, compared to 2015.

In South Africa, EBITDA presented a reduction, in spite of the positive commercial performance. The increased costs of raw materials along with the maintenance interventions, in a context of depreciation of the South African rand, strongly contributed to the observed EBITDA reduction.

Finally, in Egypt, the pressure of competition did not allow the prices to reflect the increase in costs, leading to an EBITDA fall. On the 4th quarter, following the start of operation of the new coke mill, an EBITDA recovery is already foreseen.

| EBITDA | | | |
|---|---|---|---|
| (€ million) | Jan - Mar | | |
| | 2016 | 2015 | Var. % |
| Brazil | 16.8 | 40.6 | -58.7 |
| Argentina & Paraguay | 35.1 | 44.0 | -20.2 |
| Portugal & Cape Verde | 8.2 | 9.7 | -15.8 |
| Africa | 17.5 | 26.8 | -34.6 |
| Trading / Shipping & Others | 0.3 | 0.9 | n.m. |
| **Consolidated Total** | **77.9** | **122.0** | **-36.2** |
| ***EBITDA margin*** | ***17.1%*** | ***19.2%*** | ***-2.0 p.p.*** |

## 2. Depreciations and Amortisations

***Reduction due to depreciation of the main currencies***

Depreciations and amortisations presented a decrease of 5.5% to 50 million euros influenced by the exchange rate effect, namely of the Argentinian peso and the Brazilian real.

Impairments of 4 million euros registered on the first quarter.

## 3. Financial Results and Taxes

***Exchange rate items affect Financial Results.***

The Financial Results reflect the unfavourable exchange rate developments in several geographies, especially of the Argentinian peso and the Mozambican metical, which contrast with the exchange rate benefit year on year of the active exposure to the USD.

Recognition of previous years' taxes in Egypt €11M, softens magnitude of income tax improvement following Losses on Results before Income Taxes. Taxes favourable position of 3 million euros.

## 4. Net Income

***Accompanies the deterioration of Operating Income***

Net income reached negative 51 million euros, having deteriorated in relation to the 10 million euros recorded in the same quarter of 2015. This figure is influenced by the effects mentioned above, namely operating income and exchange rate effect.

| Income Statement | | | |
|---|---|---|---|
| (€ million) | Jan - Mar | | |
| | 2016 | 2015 | Var. % |
| **Sales** | **454.1** | **636.6** | **-28.7** |
| Net Operational Cash Costs | 376.2 | 514.6 | -26.9 |
| **Operational Cash Flow (EBITDA)** | **77.9** | **122.0** | **-36.2** |
| Depreciations and amortisations | 50.4 | 53.4 | -5.5 |
| **Operating Income (EBIT)** | **27.4** | **68.6** | **-60.0** |
| Financial Results | -81.3 | -39.4 | 106.3 |
| **Pre-tax Income** | **-53.9** | **29.2** | **n.m.** |
| Income Tax | -3.3 | 19.2 | n.m. |
| **Net Income** | **-50.6** | **10.0** | **n.m.** |
| Attributable to: | | | |
| Shareholders | -39.6 | 17.6 | n.m. |
| Minority Interests | -11.0 | -7.6 | 44.4 |

## 5. Balance Sheet

***Assets reach 5,760 million euros. Debt reflects seasonality and deleveraging efforts***

As at 31 March 2016, Total Assets (5,760 million euros) decreased by approximately 2.6% against the end of 2015, influenced by the exchange rate impact on assets and by the negative net income.

Net Financial Debt decreased by 8% year on year to stand at 2,353 million euros. The typical seasonality of the first quarters of each year, namely with respect to investment in working capital, affected the comparison of Net Financial Debt to the 2015 year-end figures, leading to an increase of 5%.

| Consolidated Balance Sheet Summary | | | |
|---|---|---|---|
| (€ million) | Mar 31 2016 | Dec 31 2015 | Var. % |
| Assets | | | |
| Non-current Assets | 4,197 | 4,212 | -0.3 |
| Derivatives | 179 | 239 | -25.2 |
| Current Assets | | | |
| Cash and Equivalents | 667 | 791 | -15.7 |
| Derivatives | 24 | 25 | -4.9 |
| Other Current Assets | 694 | 645 | 7.7 |
| **Total Assets** | **5,760** | **5,911** | **-2.6** |
| Shareholders' Equity attributable to: | | | |
| Equity Holders | 1,036 | 1,049 | -1.3 |
| Minority Interests | 451 | 452 | -0.1 |
| **Total Shareholders' Equity** | **1,487** | **1,500** | **-0.9** |
| Liabilities | | | |
| Loans & Obligations under finance leases | 3,210 | 3,291 | -2.5 |
| Derivatives | 11 | 7 | 57.8 |
| Provisions & Employee benefits | 123 | 137 | -10.2 |
| Other Liabilities | 929 | 975 | -4.8 |
| **Total Liabilities** | **4,274** | **4,411** | **-3.1** |
| **Total Liabilities and Shareholders' Equity** | **5,760** | **5,911** | **-2.6** |

## 6. Free Cash Flow

***Despite EBITDA compression and non-recurring charges, Free Cash Flow after interest payment remains stable thanks to disciplined CAPEX and working capital. Seasonality.***

Free Cash Flow of the 1st quarter of 2016 (98 million euros) is in line with the same period of the previous year, continuing to be strongly linked to the typical seasonality of this period.

Particular note should be made not only of the positive effect of the variation of the working capital, which offsets the decrease of EBITDA, but also of the discipline and containment of CAPEX and the reduction of interest paid, due to the effect of the exchange rate depreciation.

| | 2015 | | | | | 2016 |
|---|---|---|---|---|---|---|
| (€ million) | Q1 | Q2 | Q3 | Q4 | Year | Q1 |
| Adjusted EBITDA | 122 | 158 | 117 | 149 | 545 | 79 |
| Working Capital | -124 | 21 | 47 | 67 | 11 | -78 |
| Others | 2 | -7 | -4 | -50 | -59 | -15 |
| **Operating Activities** | **0** | **172** | **161** | **166** | **498** | **-14** |
| Interests Paid | -58 | -25 | -90 | -49 | -222 | -51 |
| Income taxes Paid | -1 | -27 | -4 | -15 | -47 | -6 |
| **Cash Flow before investments** | **-59** | **120** | **67** | **102** | **229** | **-71** |
| CAPEX | -48 | -28 | -33 | 0 | -109 | -28 |
| Assets Sales / Others | 8 | 2 | 1 | 50 | 61 | 1 |
| **Free Cash Flow to the company** | **-99** | **94** | **36** | **152** | **182** | **-98** |
| Borrowings, financing and debentures | 112 | 36 | 59 | 30 | 237 | 24 |
| Repayment of borrowings, financ. and debent. | -38 | -141 | -137 | -95 | -411 | -38 |
| Dividends | 0 | -50 | 0 | 0 | -50 | 0 |
| Other investment activities | 40 | 20 | -89 | 86 | 57 | -18 |
| Changes in cash and cash equivalents | 14 | -42 | -131 | 173 | 15 | -130 |
| Exchange differences | 38 | -29 | -47 | -11 | -48 | -14 |
| Cash and cash equivalents, End of the Period | 854 | 783 | 605 | 768 | 768 | 623 |