# INTERIM CONSOLIDATED FINANCIAL REPORT

# 1st HALF 2017

Building sustainable partnerships

InterCement

**InterCement**
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## EBITDA stabilized thanks to Argentina, Paraguay and South Africa. Deleveraging projects progress.

EBITDA growth from Argentina, Paraguay and South Africa, and to a lesser extent from Portugal, mitigated adversities in other geographies. EBITDA excluding non-recurring items remained stable vs. 1H'16 level.

Free Cash Flow generation recovered, benefiting from the unwinding of the derivative's portfolio (€209M), though still negative on the back of one-off inventory requirements on Q1'17.

Brazilian business unit struggled with local context, dropping EBITDA generation, but persisted with new efficiency initiatives to address short-term challenges. Even though, the delay on the recovery of the local market required an assets impairment registration (€192M), which implied a Net Loss of €172M.

The subsidiary Loma Negra, the Argentinian market leader, saw its volume back to 2015 levels, signalizing the local economy recovery. The new commercial approach of the subsidiary Yguazú Cementos, in Paraguay, boosted volume growth by 37% exulting local industrial efficiency.

The Portuguese market estimated to have risen close to 20%, while InterCement exports continued to recover. Business in South Africa, posted a 35% increase in sales and a two-digit EBITDA growth.

Egypt contribution to consolidated results mirrored the local on-going economic adjustment and exchange rate impact, while Mozambique contracted reflecting the economic instability.

Financial results benefited from USD favourable context and from the derivatives unwinding.

Net Debt decreased 1%, vs. December 31st 2016, and 6% vs. March 31st, 2017, profiting from the sale of a minority participation on the Estreito hydroelectric company in Brazil.

The projects to sell minority interests on InterCement subsidiaries evolved in H1'17, targeting the company deleveraging process - which is also to benefit from the expected full year positive Free Cash Flow generation in 2017.

| Income Statement | | | | | | |
|---|---|---|---|---|---|---|
| (€ million) | 2nd Quarter | | | 1st Half | | |
| | 2017 | 2016 | YoY | 2017 | 2016 | YoY |
| **Sales** | **467.9** | **443.4** | **5.5%** | **920.9** | **897.5** | **2.6%** |
| Net Operational Cash Costs | 389.1 | 355.7 | 9.4% | 757.9 | 732.0 | 3.5% |
| **Operational Cash Flow (EBITDA)** | **78.8** | **87.7** | **-10.1%** | **163.0** | **165.5** | **-1.5%** |
| Deprec. Amort. and Impairments | 239.0 | 293.1 | -18.5% | 290.1 | 343.5 | -15.5% |
| **Operating Income (EBIT)** | **-160.2** | **-205.4** | **-22.0%** | **-127.1** | **-178.0** | **-28.6%** |
| Financial Results | 32.2 | -124.5 | n.m. | -28.7 | -205.8 | -86.0% |
| **Pre-tax Income** | **-128.0** | **-329.9** | **-61.2%** | **-155.8** | **-383.8** | **-59.4%** |
| Income Tax | 13.1 | -22.6 | n.m. | 16.3 | -25.9 | n.m. |
| **Net Income** | **-141.1** | **-307.3** | **-54.1%** | **-172.1** | **-357.8** | **-51.9%** |
| Attributable to: | | | | | | |
| Shareholders | -109.3 | -231.4 | -52.8% | -135.6 | -271.1 | -50.0% |
| Minority Interests | -31.8 | -75.8 | -58.0% | -36.5 | -86.8 | -57.9% |

## 1. H1'17 Performance

*EBITDA contracted 1.5% vs H1'16, on the back of non-recurring costs, without which it would have been stable, contradicting lower cement volumes sold (-2.7%) and cash costs increase (+3.5%).*

*Commercial assertiveness allowed higher avg. price (+10%) driving sales up by 2.6%.*

*Argentina rise in the new growth cycle, expanding activity in Paraguay - which benchmarked in industrial efficiency-, strong Portuguese market recovery and South Africa operating excellence drivers, offset the Brazilian persistent unfavourable market conditions, the on-going adjustment of the Egyptian economy and the adverse context in Mozambique.*

*Financial Results improve but the asset impairment in Brazil (€192) determined the Net Loss to shareholders (-€136M).*

*Q2 positive FCF (€89M), drives an H1'17 improvement on H1'16 though still cash burning. Set-up for short-term growth and inventory management to minimize variable costs required working capital investment back in Q1. Capex addressed energy upgrade, environmental requirements and concrete business cost efficiency real estate acquisitions in Brazil.*

*Net Debt improvement throughout the period.*

**Volumes** added up to 11.5M tons in H1, benefiting from the rising consumption in Argentina, increasing market share in Paraguay and South Africa and Portuguese operations recovery. Even so, consolidated cement and clinker volumes were down by 2.7% penalized by the Brazilian crisis, the Egyptian economic adjustments and the adverse Mozambican context.

**Sales** of €921M rose 2.6%. An average price adjustment of +10% offset lower volumes sold. Argentina incorporated price cost inflation, Paraguay rose on volume grounds and so did Portugal, while South African business unit outperformed the local market addressing new market segments.

**EBITDA** of €163M was below H1'16 (1.5%) on the back of non-recurring costs. Excluding the latter, it remained stable, and would have increased (+4.7%) if also disregarding CO2 permits management.

Non-recurring costs on H1'16 amounted to €7.8M - indemnity and compensation expenses -, mostly registered in Egypt and Argentina regarding efficiency increase initiatives. CO2 allowances management registered a sale of €3M in H1'17 vs €10M in H1'16.

A reinforced commercial approach combined with the efficiency initiatives pack undertook back in 2016 – adjustments on the industrial grid, optimization of energy matrix and redesigned support to operations – mitigated both the lower activity observed in H1'17 and the cost increase, namely observed on energy costs (petcock price increased 33%).

The delayed recovery of the Brazilian market required the recognition of an impairment on assets allocated to capacity increase projects, which currently lack of short-term demand expectations grounds to proceed. The referred impairment may be reversed if, and when, the profitability assumptions change in the future. This asset impairment explains the **Depreciations, Amortisations and Impairments** value. On H1'16 InterCement registered an irreversible goodwill impairment.

**Financial Results** improved by 86% vs H1'16. Net costs were down to €28M on the back of the €111M positive exchange rate effect led by the impact the USD depreciation on debt - which benefit from the USD- Euro derivatives unwinding operation concluded in Q2'17.

**Net Income,** though still negative due to the asset impairment registration, improved vs H1'16 amounting to €-172M.

**Free Cash Flow** generation improved by €192M vs H1'16. Q2'17 FCF positive of €89M partially compensated Q1'17 €-103M – affected by inventory management requirements to minimize variable costs. Q2'17 registered the unwinding of the derivative portfolio, which rose cash and cash equivalents of USD223M (circa €209M). H1'17 Capex addressed energy upgrade, environmental requirements together the concrete business cost efficiency real estate acquisition in Brazil.

On May 2017, InterCement signed an agreement to sell part of its stake in the Estreito hydroelectric plant for circa €77M. The completion of this process in H2'17 will allow the correspondent funds to be transferred from the current escrow account in use and therefore to figure on the Free Cash Flow Statement.

Reference should be made that in 2017, unlike H1'16, InterCement did not pay dividends.

**Free Cash Flow Generation Map**

| (€ million) | 1st Half | |
|---|---|---|
| | 2017 | 2016 |
| Adjusted EBITDA * | 171 | 170 |
| Change in Working Capital | -167 | -156 |
| Others | -11 | -19 |
| **Operating Activities** | **-7** | **-4** |
| Interests Paid | 97 | -111 |
| Income taxes Paid | -19 | -19 |
| **Cash Flow before investments** | **71** | **-135** |
| CAPEX | -89 | -76 |
| Assets Sales / Others | 4 | 4 |
| **Free Cash Flow to the company** | **-14** | **-206** |
| Borrowings, financing and debentures | 107 | 181 |
| Repayment of borrowings, financ. and debent. | -268 | -42 |
| Dividends | 0 | -54 |
| Other investment activities | 24 | -8 |
| Changes in cash and cash equivalents | -151 | -129 |
| Exchange differences | -23 | -5 |
| Cash and cash equivalents, End of the Period | 367 | 635 |

* Adjusted for non-recurrent figures.

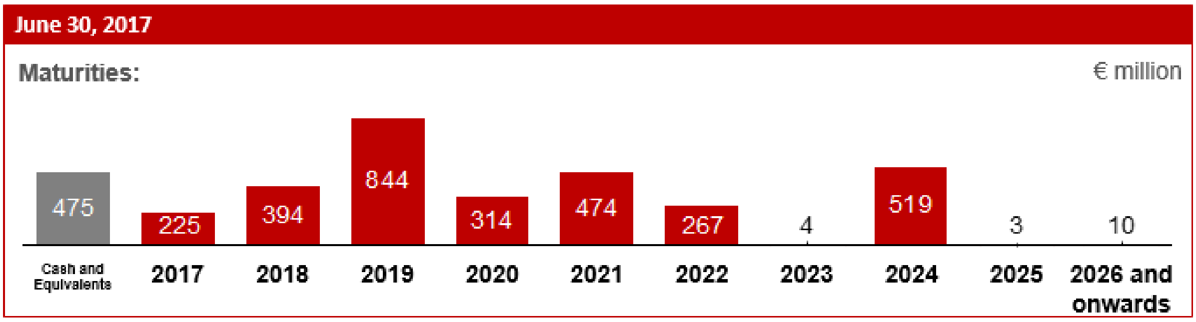
**Total Assets** stood at €4,651M, a 14% reduction from December 31, 2016. Following the depreciation of the booking currencies of the main assets (BRL and ARS), as well as the referred assets impairment (with a Balance Sheet effect of €176M) and usual assets depreciation and amortization.

| Consolidated Balance Sheet Summary | | | |
|---|---|---|---|
| (million euros) | Jun 30 '17 | Dec 31 '16 | Var. % |
| Assets | | | |
| Non-current Assets | 3,481 | 3,957 | -12.0 |
| Derivatives | 2 | 215 | -99.2 |
| Current Assets | | | |
| Cash, Equivalents and Securities | 467 | 591 | -21.0 |
| Derivatives | 0 | 26 | -100.0 |
| Other Current Assets | 702 | 629 | 11.5 |
| **Total Assets** | **4,651** | **5,419** | **-14.2** |
| Shareholders' Equity attributable to: | | | |
| Equity Holders | 348 | 564 | -38.3 |
| Minority Interests | 293 | 391 | -25.1 |
| **Total Shareholders' Equity** | **641** | **955** | **-32.9** |
| Current Liabilities | | | |
| Loans & Obligations under finance leases | 494 | 336 | 47.1 |
| Derivatives | 0 | 8 | -100.0 |
| Provisions & Employee benefits | 1 | 1 | -17.2 |
| Other Current Liabilities | 552 | 569 | -3.0 |
| Non-current Liabilities | | | |
| Loans & Obligations under finance leases | 2,559 | 3,090 | -17.2 |
| Derivatives | 1 | 7 | -82.1 |
| Provisions & Employee benefits | 107 | 114 | -6.2 |
| Other Non-current Liabilities | 296 | 338 | -12.3 |
| **Total Liabilities** | **4,010** | **4,464** | **-10.2** |
| **Total Liabilities & Shareholders Equity** | **4,651** | **5,419** | **-14.2** |

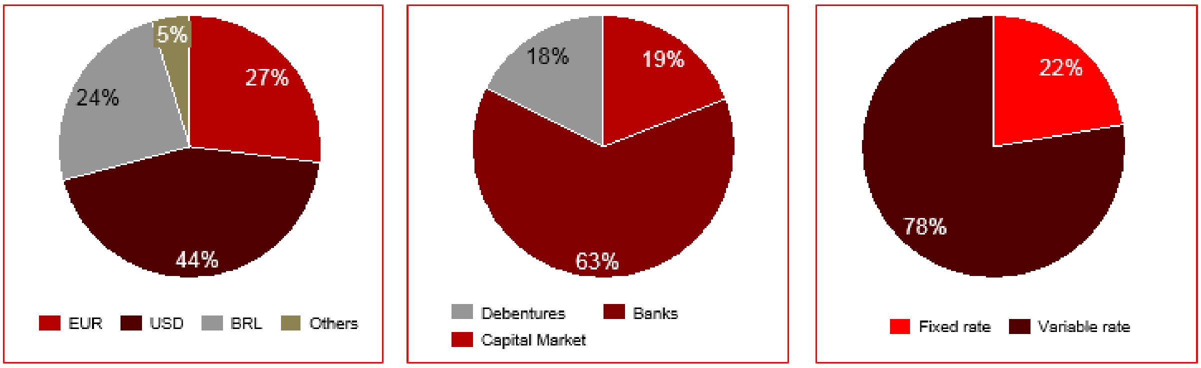
**Net Debt** reached €2,586M, 1% below December 31, 2016, whereas 6% below March 31, 2017. This follows the recent sale, by circa €77M, of the 19.2% stake in Estreito Participações, S.A. – a fully owned InterCement subsidiary and the holder of a 4.44% stake in the share capital of the exploring consortium of the CESTE – Consórcio Estreito Energia Usina Hidreletrica Estreito hydroelectric plant (Rio Tocantins, Tocantins – Brazil).

This transaction, together with those concerning InterCement stakes on Barra Grande (BAESA) and Machadinho (MAESA), completes the sale of energy assets, defined within the company's capital strengthening program.

Among the initiatives being undertaken by InterCement to reduce its leverage, the company progressed on the projects to sell minority interest stakes in its subsidiaries, particularly in what concerns Loma Negra, as disclosed on "4. Corporate and subsequent events" in this report.




*Debt profile:*




## 2. Operations in-depth look – H1’17

### Brazil

Economic constraints affect cement consumption – down by 8.8% - on a high idle capacity moment, penalizing pricing environment.

InterCement exposure to highly competitive regions drew down cement and clinker volumes by 11%. Recent implemented efficiency initiatives have mitigated EBITDA deterioration in presence of increasing electricity prices and lower fixed cost dilution.

In H1’17 InterCement struggled to adjust to the current market context succeeding to lower its cash costs to €218, 4.3% lower than in H1’16.

Even so, with the current rate of capacity utilization of the Brazilian cement industry, it is not expectable in the coming months to find the necessary conditions to re-start the capacity increase investments. Therefore, the company registered an assets impairment amounting to €192M.

### Argentina & Paraguay

Argentina and Paraguay business unit increased EBITDA generation by 46% vs H1’16, sustaining EBITDA margin at 26.4%, reaffirming InterCement presence in the region.

### Argentina

The country appears to be initiating another healthy economic cycle which continued to favour cement volumes sold, which revealed increasing growth pace month by the month. The improved cost structure together with the commercial reaction towards inflation adjustments requirements proved successful.

Argentina EBITDA grew 45% vs. H1'16, despite non-recurring costs relating to indemnities and compensation.

### Paraguay

The reinforced commercial approach expanded sales reach and drove up cement and clinker volumes sold by 34%. Industrial operating excellence combined with higher activity reaffirmed EBITDA margin as an internal and external benchmark. Operations ramp-up completed, overcoming the recent installed integrated plant technical performance.

## Africa

Political and economic instability in Egypt and Mozambique contracted EBITDA generation, despite the return from the new InterCement business approach taken in South Africa.

### Egypt

Current macro-economic dislocation justifies the 50% depreciation of the EGP and constrains cement consumption, despite its already proven resilience.

InterCement reacted, redesigning its commercial strategy taking advantage of its premium brand profile to tackle market underperformance and, simultaneously, started exporting.

The operating flexibility and efficiency brought by the recently installed coal mill (energy matrix upgrade program), partially offset the steep increase of energy costs following the subsidies redraw (+44% fuel, +20% electricity) and indemnities and compensations from head count reduction (€2.7M).

### Mozambique

Dealing with a challenging political and economic context since late 2016, local cement demand in Mozambique dropped more than 30% dragging sales down by 28%. Even so, InterCement benefited from the local commercial policy, being able to repass partially cost increases and somehow containing local currency sales decrease to 13%.

Ongoing efficiency initiatives implementation were offset by energy price increases: Gcal tariff rose 50%, while Mwh prices registered a threefold increase vs 1H'16.

### South Africa

The reinforced commercial approach stimulated volumes growth up to 15%, feeding the industrial excellence plan as urging further capacity utilization.

Though benefiting from a 20% appreciation of the local currency, EBITDA raised moderately, reflecting maintenance interventions in Q1'17.

### Portugal & Cape Verde

Portuguese internal market and exports recovery combined with the recently implemented efficiency pack increased EBITDA generation. However, CO2 allowances management, namely €10M sales in H1'2016 compared to €3M sales in H1'2017, justify the 14% EBITDA decrease from this business unit. EBITDA performance ex-CO2 management reveals a 21% increase.

### Portugal

Local demand continued to recover - 20% estimated increase - while exports (mainly clinker) were triggered in the Q2, resulting in a 17% volumes sold increase in H1'17. Sales increased by 14%.

### Cape Verde

Major new works delay start to come back online, being expected to result in a gradual recover.

| Cement and Clinker Volumes Sold | | | | | | |
|---|---|---|---|---|---|---|
| (thousand tons) | 2nd Quarter | | | 1st Half | | |
| | 2017 | 2016 | YoY | 2017 | 2016 | YoY |
| Brazil | 1,891 | 2,018 | -6.3% | 3,811 | 4,285 | -11.1% |
| Argentina | 1,495 | 1,364 | 9.6% | 2,941 | 2,772 | 6.1% |
| Paraguay | 129 | 112 | 15.5% | 277 | 201 | 37.4% |
| Portugal | 1,008 | 793 | 27.2% | 1,780 | 1,523 | 16.8% |
| Cape Verde | 50 | 55 | -10.0% | 93 | 104 | -11.1% |
| Egypt | 657 | 708 | -7.3% | 1,379 | 1,560 | -11.6% |
| Mozambique | 265 | 414 | -36.0% | 516 | 782 | -34.0% |
| South Africa | 400 | 336 | 18.9% | 750 | 652 | 15.1% |
| **Sub-Total** | **5,895** | **5,801** | **1.6%** | **11,547** | **11,880** | **-2.8%** |
| Intra-Group Eliminations | -54 | -48 | 13.2% | -86 | -97 | -11.4% |
| **Consolidated Total** | **5,841** | **5,753** | **1.5%** | **11,461** | **11,783** | **-2.7%** |

| Sales | | | | | | |
|---|---|---|---|---|---|---|
| (€ million) | 2nd Quarter | | | 1st Half | | |
| | 2017 | 2016 | YoY | 2017 | 2016 | YoY |
| Brazil | 109 | 122 | -10.2% | 230 | 257 | -10.4% |
| Argentina | 188 | 135 | 39.4% | 360 | 269 | 34.0% |
| Paraguay | 14 | 13 | 6.8% | 31 | 23 | 31.8% |
| Portugal | 69 | 61 | 13.6% | 130 | 114 | 13.6% |
| Cape Verde | 8 | 9 | -12.9% | 15 | 17 | -14.1% |
| Egypt | 21 | 43 | -52.3% | 45 | 96 | -53.5% |
| Mozambique | 25 | 30 | -18.1% | 46 | 64 | -28.2% |
| South Africa | 35 | 26 | 35.4% | 67 | 49 | 35.4% |
| Trading / Shipping | 49 | 35 | 40.6% | 95 | 83 | 15.0% |
| Others | 12 | 11 | 2.6% | 23 | 22 | 1.2% |
| **Sub-Total** | **528.9** | **484.6** | **9.1%** | **1,041.4** | **995.4** | **4.6%** |
| Intra-Group Eliminations | -61 | -41 | 48.1% | -121 | -98 | 23.1% |
| **Consolidated Total** | **467.9** | **443.4** | **5.5%** | **920.9** | **897.5** | **2.6%** |

| EBITDA | | | | | | |
|---|---|---|---|---|---|---|
| (€ million) | 2nd Quarter | | | 1st Half | | |
| | 2017 | 2016 | YoY | 2017 | 2016 | YoY |
| Brazil | 3.5 | 12.1 | -70.7% | 12.5 | 28.8 | -56.8% |
| Argentina & Paraguay | 50.0 | 35.6 | 40.4% | 101.9 | 70.7 | 44.2% |
| Portugal & Cape Verde | 11.0 | 17.0 | -35.0% | 21.6 | 25.1 | -14.2% |
| Africa | 14.6 | 24.9 | -41.1% | 25.9 | 42.4 | -39.0% |
| Trading / Shipping & Others | -0.4 | -1.8 | n.m. | 1.2 | -1.5 | n.m. |
| **Consolidated Total** | **78.8** | **87.7** | **-10.1%** | **163.0** | **165.5** | **-1.5%** |
| ***EBITDA margin*** | ***16.8%*** | ***19.8%*** | ***-2.9 p.p.*** | ***17.7%*** | ***18.4%*** | ***-0.7 p.p.*** |

## 3. Outlook

InterCement identifies a set of positive signs on the short-term markets outlook, which enable a positive perspective up to year-end and, therefore, enhances short-term results estimates. On the costs side, energy tariffs will be carefully monitored following the steep increase observed in H1'17, while general fixed costs are to be diluted as activity increases.

The combination of the estimates announced by the Brazilian Central Bank– which bring Brazil's economy out of recession in 2017 (estimated GDP growth of 0,41% and further 2,3% growth in 2018), the BOVESPA positive trend and the apparent pick up of the some economic sectors in H1, allow a better short term economic environment expectation.

This could overall benefit the cement industry while enhancing medium/long term cement demand – as the sector traditionally has a lagging recovery pace – and increase capacity utilization currently at a 50% level. On the short run its worth mentioning that, by June 2017, while cement demand was cumulative down by 9%, updated SNIC estimates pointed to a 5% to 9% for the full year, therefore signalling a potential start for demand picking.

Meanwhile InterCement progresses with further efficiency initiatives to address the market constraints, positioning itself to embrace further market opportunities in a new efficiency level. Such initiatives comprehend – intensive CRM, further operating cost cutting, asset optimization and supply relationship management.

The prospects for InterCement activity in Argentina and Paraguay are particularly positive. The Argentina economic restructuring is already fruitful and shows on macroeconomic figures, which consensually present steady growth for the years to come. Cement consumption has performed and should close 2017 with a circa 8% growth.

Loma Negra operations are to benefit from the strong market momentum, driving EBITDA generation further and reinforcing Loma Negra's market leadership. In order to accommodate further demand growth InterCement is analysing a potential capacity expansion in case the potential market growth becomes reality.

In Paraguay, industrial cruise speed is to leverage the recent market share expansion addressing favourable economic development.

African businesses will benefit from further political and economic stability in Mozambique – IMF intervention and coal exports recovery anticipate a better H2 vs H1-, while in Egypt the restructuring economic measures are to stimulate overall economy in the short term, allowing the start-up of the vaste project pipeline and feeding a robust structural demand for cement in 2018. InterCement will continue to pursue the optimization of its energy matrix with a greater flexibility following the recent installation of its coal mill.

In South Africa the company will proceed with its current business approach addressing the new market segments with an emphasized commercial strategy.

Portugal residential and commercial sectors will further feed cement demand. Exports growth pattern is to progress throughout 2017 as the company expands its diversified international client base, benefiting from current industrial benchmarking units in Portugal.

Asset monetization progressed in H1'17 - completing the sale of Estreito hydropower - and the projects aiming to sell minority interests evolved, targeting InterCement deleveraging process - which is also to benefit from the expected full year positive Free Cash Flow generation.

## 4. Corporate and subsequent events

### Cimpor Delisting Process

InterCement Austria Holding GmbH, a fully controlled subsidiary of InterCement Participações S.A., holds directly 74.64% of Cimpor's share capital. Cimpor is a listed company on the NYSE Euronext Lisbon. On June 21, 2017, following a proposal presented by the above mentioned InterCement Austria Holding GmbH, Cimpor's shareholder meeting approved the loss of public company status pursuant to article 27 no.1B, no. 3 and no.4of the Portuguese Securities Code.

### Loma Negra - Argentina

On September 5, 2017, InterCement turned public that among the initiatives being undertaken by the company to reduce its leverage, the board of directors of its subsidiary in Argentina, Loma Negra, C.I.A.S.A. ("Loma Negra"), continued to promote initiatives to enable Loma Negra to be in a position to pursue an equity offering in the domestic and international capital markets, having filled on that same date with the U.S. Securities and Exchange Commission ("SEC") a Form F-1 (Registration Statement Under the Securities Act of 1933).

### Yguazú Cementos - Paraguay

On August 8, 2017, the subsidiary Yguazú Cementos, in Paraguay, has contracted two new loans in Guarani, in the total amount of PYG 423,000M, equivalent to approximately €65M. In the first year, interest rates vary between 8.5% and 9% per year, and for the remaining years, interest will be calculated according to the average rate published by the Central Bank of Paraguay, plus spread. The interests are payable in a semi-annually basis from February 2018, and the principal will be paid in fifteen semi-annual tranches, starting in August 2018. The funds will be used for the advance payment of all the loans of the subsidiary Yguazú Cementos. The mentioned loans are guaranteed by a pledge on the plant in Paraguay.