# INTERIM CONSOLIDATED FINANCIAL REPORT

3rd QUARTER
2019

InterCement

Building sustainable partnerships

# Adj. EBITDA 9M19 up 2%, boosted by Brazil operational performance improvement

## 1. 3Q19 Performance

- Cement and clinker volumes decreased by 1.3% in the period when compared to 3Q18, reaching 5,377 tons, mostly due to declining volumes in Argentina and Egypt, which remained on a downward trend. Meanwhile, Brazil and Mozambique expanded volumes in a single digit pace of growth, driven by the recovering on economic activity.
- Total Sales posted a 8.5% decline vs. 3Q18, reaching 341 million euros, mostly as result of Argentinian peso depreciation in the period but also affected by weak revenues in Egypt. Excluding forex impact, sales would have risen 19%.
- Adjusted EBITDA reached 66 million euros, a decline of 7% YoY, when compared to 3Q18 adjusted EBITDA from continuing operations of 71 million euros, mostly affected by Argentinian peso depreciation, while Brazil registered a 8 million euros expansion (+130% up). Adjusted EBITDA reached 196 million euros for the nine months, a 2% increase vs. 193 million euros from 9M18, driven by material growth in Brazil – 17 million euros increase in the period. Adjusted EBITDA margin increased to 19.3% (up 0.4 p.p.), while raising 1.8 p.p. for the nine months period.
- Free Cash Flow to the company was neutral in the period, with 1 million euros registered in the third quarter of the previous year, as result of working capital initiatives in 3Q19 more than offsetting lower EBITDA generation and higher Capex disbursement (mostly related to L'Amali II project).
- Net Debt totaled 1,470 million euros, a reduction of 7.9% from 2018 year-end level as consequence of the company focus on strengthening its capital structure. Currently, management is progressing on reprofiling discussions with intercement main banks if, and when, better conditions are reached, the Company will reflect its impacts on the financial statements.
- Co-processing remained at healthy level, at 16.1% energy substitution ratio, helped by a significant increase in Mozambique and South Africa.

KEY FIGURES

| (mn €, unless otherwise expressed) | 3Q19 | 3Q18 | Var. % | YTD 3Q19 | YTD 3Q18 | Var. % |
|---|---|---|---|---|---|---|
| Cement and Clinker Sales ('000 ton) | **5.377** | 5.450 | (1,3%) | **15.023** | 15.359 | (2,2%) |
| Sales | **341** | 373 | (8,5%) | **1.035** | 1.123 | (7,9%) |
| EBITDA | **59** | 84 | (29,4%) | **173** | 203 | (14,7%) |
| Adjusted EBITDA[1] | **66** | 71 | (6,6%) | **196** | 193 | 1,9% |
| Net Debt[2] | **1.470** | 1.671 | (12,0%) | **1.470** | 1.671 | (12,0%) |
| Net Debt (31 Dec) | **-** | 1.595 | (7,9%) | **-** | 1.595 | (7,9%) |
| FCF | **0** | 1 | (84,3%) | **237** | (297) | 179,7% |

1 Adjusted EBITDA = EBITDA excluding non-recurring items

2 Net Debt = gross debt (w hich excludes interest payable), less cash and cash equivalents and securities

## 2. Profit and Loss

INCOME STATEMENT

| | 3Q19 | 3Q18 | Var. % | YTD 3Q19 | YTD 3Q18 | Var. % |
|---|---|---|---|---|---|---|
| **Sales** | **341** | **373** | **(8%)** | **1.035** | **1.123** | **(8%)** |
| Net Operational Cash Costs | 282 | 289 | (2%) | 862 | 920 | (6%) |
| **Operational Cash Flow - EBITDA** | **59** | **84** | **(29%)** | **173** | **203** | **(15%)** |
| Deprec. Amort. and Impairments | 42 | 31 | 37% | 123 | 104 | 19% |
| **Operating Income - EBIT** | **18** | **54** | **(67%)** | **50** | **100** | **(50%)** |
| Financial Results | (70) | (69) | (2%) | (126) | (182) | 31% |
| **Pre-tax Income (Loss)** | **(52)** | **(15)** | **(247%)** | **(76)** | **(83)** | **7%** |
| Income Tax | 9 | 10 | (4%) | 26 | 25 | 1% |
| Net Inc.(Los.) from continuing Operations | (61) | (25) | (149%) | (102) | (108) | 5% |
| Net Inc.(Los.) from discontinuing Operations | (5) | (1) | (541%) | 304 | 4 | 7858% |
| **Net Income (Loss)** | **(66)** | **(25)** | **(162%)** | **202** | **(104)** | **295%** |
| Attributable to: | | | | | | |
| Shareholders | (66) | (23) | (188%) | 172 | (98) | 276% |
| Minority Interests | (0) | (2) | 85% | 30 | (6) | 577% |

**Volumes Sold** fell 1.3% in spite of Brazilian positive trend, which posted single digit pace of growth of 5.4%, and recovering Mozambique, which registered mid-single digit expansion (+6.6%) potentially helped by improvements on economic conditions, consequence of declining volumes in Egypt, due to the continuous challenging scenario, in Argentina (macroeconomic volatility) and in South Africa (market conditions deterioration).

**Sales**, despite rising on a local currency basis (+19.4%), declined 8% in euros, mostly affected by Argentinian Peso depreciation. Although the increase in consolidated average cement price, it was offseted by currencies devaluation and by the decrease on volume sold.

Despite cash cost improvements overall, **EBITDA** dropped 29.4%, totalling 59 million euros, mostly due to declining revenues. But also affected by Argentinian Peso depreciation in the period and tough comparison base in 3Q18 in Brazil, which had one-off gain related to taxes reversal (excluding one-off gain in Brazil, EBITDA would have fell 14.9%). Meanwhile Mozambique posted a 15% expansion when compared to 3Q18, driven by increasing demand. Consolidated EBITDA margin dropped 5.2 p.p. to 17.4%, mostly due to tougher comparison base, while Paraguay expanded margins by 1.3 p.p. and Brazil, if excluded 3Q18 one-off gain, would have expanded margin to 12.1% from 5.6%.

**Adjusted EBITDA**[1], considering continuing operations, decreased 6.6% YoY, reaching 66 million euros, while its margin increased 0.3 p.p. to 19.3%. Meanwhile in 9M19 it totalled 196 million euros, a 1.9% expansion, mainly driven by Brazilian operational improvement, leading margins to raise 1.8 p.p. Non-recurring items registered negative 13.5 million euros in 3Q18, as result of already mentioned tax reversal gains, while 3Q19 registered +6.5 million euros from non-recurring mostly related to lay-off expenses in Argentina and expenses in Portugal.

**Depreciation and Amortizations** were up 37% in the quarter, at 42 million euros, mostly affected by IFRS16 implementation, which became effective on Jan 1st 2019 (see more details in explanatory note 2.3 of interim consolidated financial statement) and had an impact of around 10 million euros in 3Q19.

**Financial Results** were flat at negative 70 million euros, driven by lower financial revenues, which were mostly offset by forex positive impact along with lower financial expenses - consequence of 12.0% net debt decrease vs. 3Q18 as result of the execution of InterCement Deleveraging and Liability Management Plan.

**Income taxes** were relatively stable, at 9 million euros.

**Net Income** came at 66 million euros loss representing a sharp decline from 25 million euros in 3Q18, driven mainly by weaker top line along with larger amount of Depreciation & Amortization, as a consequence of the recent investments in Argentina

## 3. Free Cash Flow

Free Cash Flow generation is presented in an Integral Basis, reflecting in 2018 the contribution from the Portuguese and Cape Verde operations.

[1] EBITDA excluding non-recurring items

### FREE CASH FLOW GENERATION MAP

| | 3Q19 | 3Q18[1] | YTD 3Q19 | YTD 3Q18[1] |
|---|---|---|---|---|
| Adjusted EBITDA | 66 | 83 | 196 | 240 |
| Fluctuation in Operational Assets/Liabilities | 45 | 33 | (126) | (179) |
| Others | (10) | (20) | (29) | (28) |
| **Operating Activities** | **101** | **96** | **42** | **33** |
| Interests Paid & Derivative Unwinding | (58) | (59) | (124) | (169) |
| Income taxes Paid | (11) | (6) | (25) | (28) |
| **Cash Flow before investments** | **32** | **31** | **(108)** | **(165)** |
| CAPEX | (53) | (30) | (181) | (136) |
| Assets Sales / Others[2] | 21 | 0 | 642 | 4 |
| Intersegment payments to carved-out companies | - | - | (117) | - |
| **Free Cash Flow to the company** | **0** | **1** | **237** | **(297)** |
| Borrowings, financing and debentures | 41 | 27 | 131 | 48 |
| Repayment of borrowings, financ. and debent. | (41) | (18) | (385) | (580) |
| Capital Increases/Decreases | - | - | (67) | - |
| Dividends | - | - | (47) | - |
| Other investment activities | (9) | (0) | (9) | 31 |
| Changes in Cash, Equivalents and Securities | (10) | 10 | (140) | (797) |
| Exchange differences | (5) | (29) | (2) | (58) |
| Cash, Equivalents and Securities, End of the Period | 260 | 283 | 260 | 283 |

1 Integral Basis

2 Please refer to explanatory note 2.4 of Interim Consolidated Financial Statement

Cash flow from operations was positive at 101 million euros, mainly due to working capital management initiatives, which improved by 80 million euros when compared to 3Q18. This was result of improvement on payables and suppliers accounts in Argentina (mostly L'Amali II), Egypt and Mozambique.

Interests paid in 3Q19 were similar to 3Q18 since most relevant interest payments of this period were not materially affected by the Liability Management Plan. Repayments of borrowings were higher than 3Q18 by 23 million euros due to repayments of short-term debts at the business unit levels.

CAPEX disbursement raised 74% when compared to 3Q18, mostly as related to L'Amali II project, which represented 72% of the CAPEX in the quarter, vs. 25% in 3Q18. L'Amali II is expected to be concluded in mid-2020 and total investments are estimated to reach around 300 million euros to be disbursed in 3-4 years. During the first nine months of the year, we saw around 130 million euros investment vs. around 35 million euros in 9M18.

The Company already cash collected from the sale of Portugal and Cape Verde discontinued operations a total amount of 696 million euros (20 million euros during 3Q19), see more details in explanatory note 2.4 of interim consolidated financial statement).

Cash and Cash Equivalents as at June 2019 totalled 260 million euros, including financial instruments such as securities. A decrease of 15 million euros vs. previous quarter while Cash and Cash Equivalents in 3Q18, on an Integral Basis (including Portugal and Cape Verde), were 283 million euros.

## 4. Balance Sheet

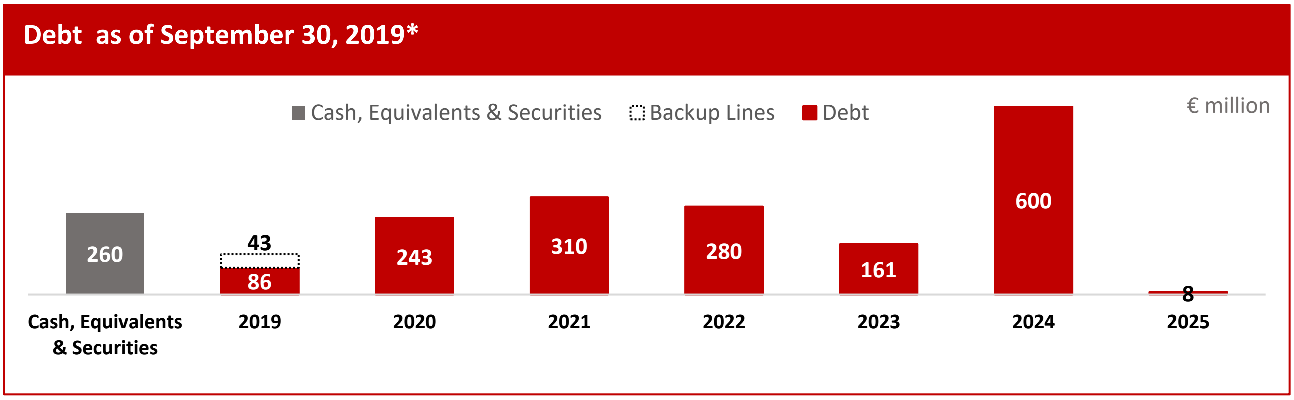
**Total Assets** stood at 3,542 million euros, a reduction of 180 million euros when compared to June 2019, mostly as result of a 100 million euros decrease in Non-current Assets.

**Gross Debt**, registered 1,730 million euros, and net debt of 1,470 million euros, representing an increase of 36 million euros when compared to 2Q19 due to the cash reduction in the period of 15 million euros and FX variation that impacted the balance sheet. Up to 3Q19, 421 million euros of the proceeds of the sale of Portugal and Cape Verde assets led to debt reduction under the efforts of the liability management program.

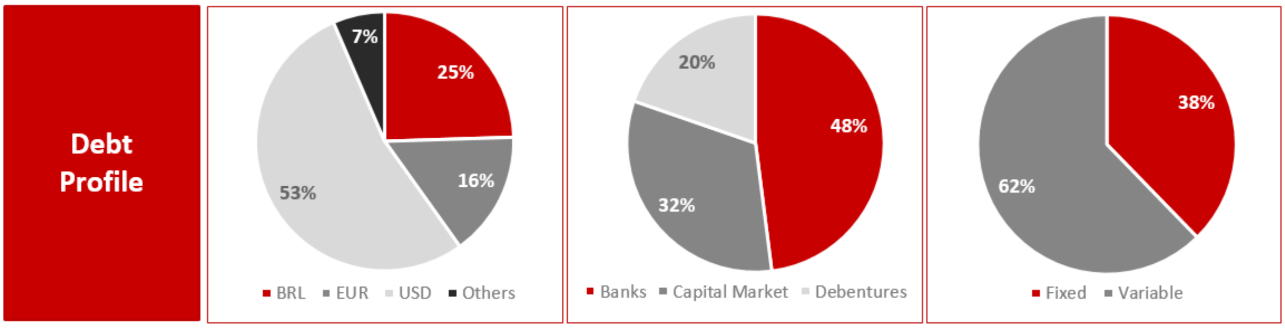
CONSOLIDATED BALANCE SHEET SUMMARY

| (€ million) | 3Q19 | 4Q18 | Var. % |
|---|---|---|---|
| Assets | | | |
| Non-current Assets | 2.790 | 2.677 | 4,2% |
| Derivatives | 8 | 3 | 131,0% |
| Current Assets | | | |
| Cash, Equivalents and Securities | 260 | 342 | (23,8%) |
| Derivatives | - | - | 0,0% |
| Other Current Assets | 484 | 415 | 16,7% |
| Assets classified as held for sale | - | 747 | (100,0%) |
| **Total Assets** | **3.542** | **4.184** | **(15,3%)** |
| Shareholders' Equity attributable to: | | | |
| Equity Holders | 747 | 882 | (15,2%) |
| Minority Interests | 299 | 282 | 6,1% |
| **Total Shareholders' Equity** | **1.047** | **1.164** | **(10,1%)** |
| Current Liabilities | | | |
| Loans & Obligations | 356 | 491 | (27,5%) |
| IFRS 16 | 16 | - | 0,0% |
| Derivatives | - | 0 | (100,0%) |
| Provisions & Employee benefits | - | 0 | (100,0%) |
| Other Current Liabilities | 392 | 427 | (8,2%) |
| Non-Current Liabilities | | | |
| Loans & Obligations under finance leases | 1.374 | 1.447 | (5,0%) |
| IFRS 16 | 20 | - | 0,0% |
| Derivatives | - | 0 | (100,0%) |
| Provisions & Employee benefits | 72 | 70 | 3,0% |
| Other Liabilities | 265 | 278 | (4,6%) |
| Liabilities assoc. w/ assets classified as held for | - | 307 | (100,0%) |
| **Total Liabilities** | **2.495** | **3.021** | **(17,4%)** |
| **Total Liabilities and Shareholders' Equity** | **3.542** | **4.184** | **(15,3%)** |

The profile of Debt as of September 30, 2019 was as follows.




* In 2019, 55 million euros of Debentures were postponed to 2020, resulting in 31 million euros Debt to be amortized or refinanced in 2019.




## 5. Operations in-depth look – 3Q'19

### Brazil

InterCement's cement and clinker sales remained on its positive trend, posting, once again, single digit growth, + 5.4%, helped by the pick-up in housing sector launches seen in recent months. Industry also showed signals of improvement (up 2.8% YoY in 9M19 vs 1.5% in 1H19), moving towards Industry Association projection of 3% growth potential for FY19. Meanwhile, In 9M19, InterCement registered +6.3% growth. On the negative side, industry high idle capacity remains in place, along with fierce competitive environment that could keep adding pressure on prices.

EBITDA in Q3 declined by 6.3 million euros YoY, affected by tough comparison base as we saw one-off gains related to taxes reversal in 3Q18. Excluding such effect, adjusted EBITDA registered an expansion of 8 million euros (or +130% YoY), from 6 million euros one year ago to 14 million euros now. Adjusted EBITDA margin reached 12.3% from 5.6%, driven by rising top line and lower fixed costs.

### Argentina & Paraguay

Argentina and Paraguay business unit posted EBITDA significant expansion of 38% in local currency, however Argentinian Peso devaluation, of 60%, led EBITDA in the region to decrease by 9.2 million euros. Still, EBITDA margin was able to expand 1.2 p.p. to 29.3%.

Argentina political and economic context remained challenging, leading demand to remain on a weak trend, driving cement and clinker sales to drop 7.5% YoY (or around 120k tons) in the period. Nevertheless, Loma Negra's solid market approach allowed price adjustments in order to mitigate inflationary pressure. However, it should take longer to catch up the devaluation effect, leading thus EBITDA to decrease by 24.7% in 3Q19, while margins faced a 0.6 p.p. expansion. L'Amali plant expansion on track to be concluded in mid-2020, which should add 2.7mn tons per year capacity and is expected to raise business unit profitability.

Paraguayan cement and clinker sales fell 1% YoY in 3Q19 affected by production capacity limitation along with its import restrictions Nevertheless, the continuous industrial improvement allowed EBITDA to expand by 1.3% YoY, leading EBITDA margin to raise.

## Africa

InterCement's cement and clinker volumes sold in Africa decreased 4.1% YoY in 3Q19, driven by Egypt and South Africa declines in the period while offset by Mozambique significant improvement.

In Mozambique, after weak volumes registered in 1Q19 due to the tropical cyclones impacts, cement volumes sold remained on a positive trend, accelerating its pace of growth to 6.6% YoY in 3Q19, potentially driven by economic activity pick up. Moreover, pricing policy also contributed, leading top line to post double-digit pace of growth. Despite rising variable cost, management focus on fixed costs and G&A expenses, helped EBITDA to increase by 0.9 million euros.

Cement volumes sold in South Africa posted mid-single digit decline, while expanding sales helped by average price increase. In the cost side, variable costs continued to be affected by higher fuel costs. EBITDA declined by 2.7 million euros while margins dropped by 7.6 p.p. in 3Q19 compared to 3Q18.

The heated competitive environment and weak demand remained in Egypt, affecting its top line. Revenues were down by 6% YoY, while declining 17% in local currency due to EGP appreciation. As a result, EBITDA decreased by 0.8 million euros, while EBITDA margin fell by 1.5 p.p. when compared to the same quarter of the previous year.

**CEMENT AND CLINKER VOLUMES SOLD**

| | 3Q19 | 3Q18 | Var. % | YTD 3Q19 | YTD 3Q18 | Var. % |
|---|---|---|---|---|---|---|
| BRA | 2.242 | 2.128 | 5,4% | 6.278 | 5.906 | 6,3% |
| ARG & PAR | 1.640 | 1.763 | (7,0%) | 4.618 | 5.099 | (9,4%) |
| AFRICA | 1.495 | 1.559 | (4,1%) | 4.127 | 4.354 | (5,2%) |
| **Sub-Total** | **5.377** | **5.450** | **(1,3%)** | **15.023** | **15.359** | **(2,2%)** |
| Intra-Group Eliminations | - | - | s.s. | - | - | s.s. |
| **Consolidated Total** | **5.377** | **5.450** | **(1,3%)** | **15.023** | **15.359** | **(2,2%)** |
| Operations in Continuation | 5.377 | 5.450 | (1,3%) | 15.023 | 15.359 | (2,2%) |
| Discontinued Operations | - | 838 | (100,0%) | - | 2.417 | (100,0%) |

**NET REVENUES**

| (€ million) | 3Q19 | 3Q18 | YoY | YTD 3Q19 | YTD 3Q18 | YoY |
|---|---|---|---|---|---|---|
| BRA | 118 | 111 | 6,3% | 318 | 314 | 1,2% |
| ARG & PAR | 122 | 160 | (23,9%) | 444 | 519 | (14,4%) |
| AFRICA | 99 | 97 | 1,7% | 265 | 263 | 0,7% |
| Others | 6 | 17 | (65,6%) | 65 | 62 | 4,6% |
| **Sub-Total** | **344** | **385** | **(10,5%)** | **1.092** | **1.158** | **(5,7%)** |
| Intra-Group Eliminations | (3) | (12) | 74,9% | (57) | (35) | (63,4%) |
| **Consolidated Total** | **341** | **373** | **(8,5%)** | **1.035** | **1.123** | **(7,9%)** |
| Operations in Continuation | 341 | 373 | (8,5%) | 1.035 | 1.123 | (7,9%) |
| Discontinued Operations | - | 70 | (100,0%) | - | 185 | (100,0%) |

**ADJ. EBITDA - BU OPENING**

| (€ million) | 3Q19 | 3Q18 | Var. % | YTD 3Q19 | YTD 3Q18 | Var. % |
|---|---|---|---|---|---|---|
| BRA | 14 | 6 | 132,3% | 29,9 | 12,4 | 140,5% |
| ARG & PAR | 37 | 45 | (17,0%) | 132,7 | 136,3 | (2,6%) |
| AFRICA | 18 | 20 | (12,9%) | 42,3 | 50,1 | (15,6%) |
| Others | (4) | (1) | 230,6% | -8,5 | -6,0 | 41,1% |
| **Consolidated Total** | **66** | **71** | **(6,6%)** | **196,5** | **192,8** | **1,9%** |
| ***ADJ. EBITDA Margin*** | **19,3%** | **18,9%** | **0,4 p.p.** | **19,0%** | **17,2%** | **1,8 p.p.** |
| Operations in Continuation | 66 | 71 | (6,6%) | 196,5 | 192,8 | 1,9% |
| Discontinued Operations | - | 12 | (100,0%) | - | 46,4 | (100,0%) |

## 6. Corporate and subsequent events

### Debenture payment postponement

In November 2019, management agreed with the debenture holder to extend the amortization of €55,035 (R$250,000 thousand) that was due on November 21, 2019 to January 21, 2020 and does not result in a covenant breach. The above extension will be included on the reprofiling program that management is designing with the company's main lenders.

## 7. Political and Market Remarks

### Argentina

The results of the primary presidential election in Argentina occurred on August 11, 2019 brought a new significant political and economic trends, resulting in a significant depreciation of the Argentinean pesos in comparison with USD (and EURO).

On September 1, 2019, the Necessity and Urgency Decree ("DNU") No. 609/2019 imposed several rules to enter and/or negotiate in the exchange market. The Central Bank of Argentina ("BCRA") established the terms and conditions to operate in foreign currency, which among other matters, will require prior authorization to financial transactions in foreign currency and distribution of profits and dividends to foreign countries.

After the election of Mr. Alberto Fernandez as the president of Argentina, the BCRA imposed new limitations on the purchase of foreign currency with the objective of preserving its reserves, which had a significant fall due to retail demand in the weeks prior to the election.

The Company's management is continuing monitoring the issue and the potential impact in the Company's business and financial information, if any.

*Disclaimer:*
*This announcement contains forward-looking statements within the meaning of federal securities law that are subject to risks and uncertainties. These statements are only predictions based upon our current expectations and projections about possible or assumed future results of our business, financial condition, results of operations, liquidity, plans and objectives. In some cases, you can identify forward-looking statements by terminology such as “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “predict,” “potential,” “seek,” “forecast,” or the negative of these terms or other similar expressions.*
*The forward-looking statements are based on the information currently available to us. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including, among others things: changes in general economic, political, governmental and business conditions globally, changes in inflation rates, fluctuations in the exchange rate of the peso, the level of construction generally, changes in cement demand and prices, changes in raw material and energy prices, changes in business strategy and various other factors.*
*You should not rely upon forward-looking statements as predictions of future events. Although we believe in good faith that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or will occur. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this release to conform these statements to actual results or to changes in our expectation.*