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## **Loma Negra Fourth Quarter 2017 Earnings Call and Webcast March 9, 2018 at 11:00 AM Eastern**

### **CORPORATE PARTICIPANTS**

**Gaston Pinnel – Investor Relations**

**Sergio Faifman – Chief Executive Officer & VP, Board of Directors**

**Marcos Gradin – Chief Financial Officer**

### **About Loma Negra**

Founded in 1926, Loma Negra is the leading cement company in Argentina, producing and distributing cement, masonry cement, aggregates, concrete and lime, products primarily used in private and public construction. Loma Negra is a vertically-integrated cement and concrete company, with nationwide operations, supported by vast limestone reserves, strategically located plants, top-of-mind brands and established distribution channels. The Company also owns a 51% equity stake in an integrated cement production plant in Paraguay, which is one of two leading cement producers in that country. Loma Negra is listed both on BYMA and on NYSE in the U.S., where it trades under the symbol "LOMA". One ADS represents five (5) common shares. For more information, visit [www.lomanegra.com](http://www.lomanegra.com)

### **Disclaimer**

This release 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 and in Argentina, 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. Any or all of Loma Negra's forward-looking statements in this release may turn out to be wrong. You should consider these forward-looking statements in light of other factors discussed under the heading "Risk Factors" in the prospectus filed with the Securities and Exchange Commission on October 31, 2017 in connection with Loma Negra's initial public offering. Therefore, readers are cautioned not to place undue reliance on these forward-looking statements.

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 expectations.

## **PRESENTATION**

### **Operator**

Good day and welcome to the Loma Negra Fourth Quarter 2017 Earnings Call and Webcast. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (\*) key followed by zero (0). Please note that this event is being recorded. I would now like to turn the conference over to Gaston Pinnel, Investor Relations. Please go ahead.

### **Gaston Pinnel**

Thank you. Good morning everyone and thank you for joining us today. Speaking during today's call will be Sergio Faifman, our CEO and Vice President of the Board of Directors and Marcos Gradin, our CFO. All will be available for the Q&A session.

Before we proceed, I would like to make the following Safe Harbor statement. Today's call will contain forward-looking statements, and I refer you to the forward-looking statement section of our earnings release and recent filings with the SEC. We assume no obligations to update or revise any forward-looking statement to reflect new or changed events or circumstances.

I would now like to turn the call over to our CEO, Sergio Faifman.

### **Sergio Faifman**

Thank you, Gaston. Hello everyone and thank you for joining us today. It's a pleasure to welcome you to Loma Negra's first earnings conference call.

Starting with slide 3. Loma Negra reported solid results, underscoring attractive market dynamics that resulted in growth in volume and price, and achieving record annual sales and adjusted EBITDA. During the quarter we also achieved a significant milestone for our Company with the successful completion of our IPO on November. The Loma Negra shares now trade on both the Buenos Aires and New York Stock Exchanges. Reflecting the opportunity ahead for the Company, the offering was priced at the high-end of the market range and was more than 10 times over-subscribed. Let me also point out that Loma Negra was the largest IPO by an Argentine company since 1993 and the largest ever for a Cement company. The global investment community showed an appreciation for the potential with a broad base of new shareholders, mainly from the USA. We raised \$114 million dollars in a primary offering and \$982 million in a secondary offering. The IPO marks an exciting new chapter in our history, strengthening our capital structure to support growth plans, primarily the expansion of our L'Amali plant. Once up and running, this new production line will allow us to expand production capacity by 40% to address growing demand in Argentina. In the quarter, revenues and adjusted EBITDA were both up 57% in pesos equivalent to 38% in US dollar terms, and profitability almost tripling in US dollars. Our growth in the quarter and the full year was supported by broad-based economic expansion in Argentina. The construction sector was one of the major beneficiaries of the economic expansion driven by public infrastructure works and private construction. This, in turn, drove robust demand for cement and concrete.

Please turn to slide 4. While I had the opportunity to meet many of you during the recent IPO Roadshow, there are many that are new to our story. So before I get into the results of the recent quarter, I want to spend a few minutes discussing who we are and the

opportunities ahead of us. Over its 90-year history, Loma Negra has built an undisputed leadership position in the Argentine cement market as one of the strongest local brands and the preferred choice for cement in the country. At the year-end 2017, we held a 45% market share in Argentina, 20 percentage points above the second largest player. With nationwide market coverage and facilities strategically located close to the most relevant cement markets in Argentina, Loma Negra is well-positioned to continue leveraging the attractive growth opportunity ahead. Over 90% of our adjusted EBITDA is generated by the Cement business, and around 88% of our total adjusted EBITDA comes from our combined Argentine operations. Through our subsidiary Yguazu Cementos, Loma Negra also held a 44% market share in its neighbor country Paraguay. Additionally, we operate Ferrosur, a 3100 km railway concession connecting five of Loma Negra's plants with the main urban centers and other strategic locations.

I will now hand off the call to Marcos Gradin, who will review our operations and financial results, and then I will comment on our L'Amali expansion project and our view for the year. Afterward, we will open the call for questions. Please Marcos, go ahead.

**Marcos Gradin**

Thank you, Sergio. Good day everyone. I am pleased to be discussing our solid performance during our first earnings call.

Turning to slide 5, let me start by providing a quick overview of the macro environment. Economic activity in Argentina is expanding at a solid pace with GDP growing by 2.8% last year, with positive dynamics across most sectors and is forecast to expand at 3% this year. Construction activity posted a strong recovery last year, leading growth in 2017 – up almost 13% in the year - mainly driven by public sector expenditure in infrastructure and improved economic activity. This has resulted in robust growth in cement sales, recovering to record levels of 2015. Looking ahead, we see two key factors driving cement demand: First, continued overall economic recovery and the expansion of the mortgage market that is anticipated to boost household consumption of cement; and second, the ongoing execution of the public infrastructure plan, along with other private investments. The strong pick-up in the public infrastructure resulted in record levels in industry bulk cement dispatches, together with a robust expansion of our Concrete volumes. The overall mix between Bulk and Bag cement dispatches climbed from 36% to 40%. Bagged cement, in turn, expanded at a lower rate and remains still below 2015 volumes, as private construction trends follow closely GDP growth.

Now, moving on to our performance on slide 6. On the back of these positive economic dynamics, sales volumes of cement, masonry, and lime, our largest business segment, increased by 22% year-on-year during the quarter. Growth in Argentina accelerated to 14% in this period from the 9% posted in the third quarter, while we continue to balance growth and profitability. On the other hand, Paraguay contributed with 130,000 tons. For the full year, total cement, masonry and lime volumes increased 19%, reaching almost 7 million tons, with Argentina expanding 9%, or 530,000 tons, and Yguazu Cementos, which we began to consolidate at the start of the year, contributing with over 570,000 tons. Further supported by solid pricing dynamics, net revenues increased by almost 60% in the quarter reaching 4.5 billion pesos, or slightly over \$250 million dollars. This brought annual sales to 15.3 billion pesos – equivalent to over \$920 million dollars and

increasing 38% in U.S. dollar terms. As a reminder, there is some seasonality to our business with second half of the year stronger than the first one. Particularly, in 2017, demand has grown since March and accelerated in the second half.

Taking a deeper look at our segments on slide 7. Our participation in the leading infrastructure projects in the cities of Buenos Aires and Greater Buenos Aires as well as Rosario in the province of Santa Fe contributed to a 54% year-on-year growth in concrete sales volumes. Sales volumes at Ferrosur, our railroad segment, increased 6% year-on-year during the quarter with growth mainly driven by higher transportation volumes of Cement and Aggregates. Finally, while we are seeing strong demand in Aggregates, sales volumes in the quarter were up 7% year-on-year reflecting current capacity constraints. In February we received a new crusher which will enable us to double our production capacity in this segment, alleviating the constraint experienced in the fourth quarter. We expect production to start during the second quarter of this year.

Turning to slide 8, gross profit for the quarter was up 57%, with gross margin stable year-over-year at 29.1%, both at a consolidated level and at our Argentine operations. While cost of sales rose 57% year-on-year, costs remained stable on a relative basis at almost 71% of revenues. In addition to sales volume growth, costs for the quarter were impacted by higher thermal costs along with increased wages and maintenance costs. Costs also reflect the full consolidation of our Paraguayan operation. In addition, during the quarter, higher operational leverage along with our continued focus on cost control allowed us to reduce SG&A as a percentage of revenues by almost 300 basis points year-on-year to 7.8%. For the full year, gross profit was up 68% with gross margin rising 260 basis points to 29%, benefitting from scale and a growing efficiency rate. SG&A as a percentage of revenues decreased 160 basis points to 7.8%.

Moving on slide 9, we reported strong profitability in the fourth quarter of 2017 driven by robust revenues and operating leverage. Adjusted EBITDA for the quarter was up 57% year-on-year, reaching nearly 1.2 billion pesos, or \$68 million dollars. For the full year, we achieved record high adjusted EBITDA of 3.9 billion pesos representing \$238 million US dollars, with adjusted EBITDA margin for the year expanding by 200 basis points. Excluding a non-recurring gain of 84 million pesos in connection with the recovery of the Ferrosur canon (a concession fee) in fourth quarter 2016 as well as a gain of 69 million pesos related to the international offering in fourth quarter 2017, comparable adjusted EBITDA would have increased 66%, with adjusted EBITDA margin expanding 137 basis points to 25.4% in fourth quarter of 2017. Likewise, net profit attributable to the owners of the Company for the quarter more than tripled year-on-year to 665 million pesos, contributing to net profit of 1.6 billion pesos for the full year of 2017. In US dollar terms, net profit attributable to the owner of the Company increased 189% reaching \$96 million dollars in full-year 2017, up from \$33 million in 2016. The effective tax rate declined to 14% in the quarter from 37% a year ago, benefiting mainly from: First, an adjustment in deferred taxes as a result of the recent Tax Reform introducing a progressive reduction down to 30% this year from 35%; and second, the full consolidation of Yguazu Cementos, which is subject to a lower income tax rate of 10%.

In terms of the balance sheet and cash flow on slide 10, our strong financial position, with

adequate FX and currency exposure, provides us with a solid foundation to continue to grow our business. Cash and cash equivalents at December 31, 2017 totaled 3.2 billion pesos, primarily reflecting cash flow from operations and net IPO proceeds to the Company, after deducting transaction-related costs, of 1.9 billion pesos. As a result, the net debt to adjusted EBITDA ratio declined to 0.3 times at the close of 2017 from 1.5 times at year-end 2016. Separately, yesterday our Board has submitted for consideration at the upcoming General Shareholders' Meeting the recommendation to fully re-invest Loma Negra's 2017 earnings, taking into account the ongoing expansion project.

Let me now turn back the call back to Sergio.

**Sergio Faifman**

Thanks Marcos. Turning to slide 11, let me speak briefly about our initiatives to capture additional growth in Argentina. With strong growth underway, we believe Argentina will soon face a cement deficit. To ensure that we are well positioned to continue capturing this growth potential, we are expanding the capacity of our L'Amalí plant by 2.7 million tons per year and increasing our total capacity by approximately 40%. The brownfield project consists of adding a second production line at the L'Amalí plant, located in Buenos Aires, the most relevant region in Argentina. This plant was originally planned for this expansion, which reduces execution risk and enables infrastructure sharing with the existing production line - such as the quarry, electric power and natural gas lines, overhead, and spare parts. Once finished, will result in both higher sales and profitability. Total investment is estimated at \$350 million, which translates into \$130 per ton of Capex. Following our successful experience in Paraguay, last July we signed an EPC agreement with Sinoma, the leading manufacturer of cement plants worldwide. During the fourth quarter we completed Phase 1, which involves basic engineering and soil studies, and also obtained the relevant permits. We have now started Phase 2, with start-up expected for early 2020.

Turning now to slide 12. Looking ahead, we are confident that we will continue to see healthy dynamics in our markets, although growing at a slower pace following the high recovery rates experienced in 2017 and that have continued early this year. In Argentina, our largest market, we expect overall industry cement demand to continue expanding in the coming years, driven by public infrastructure works and private construction, further supporting our expansion plans. Through our strong market position, efficient nationwide distribution, and top of mind brand we are well positioned to continue to maximize the attractive growth opportunity in our markets. Importantly, our facility located in the key geographic centers with the highest growth potential will also allow us to further benefit from the anticipated growth in infrastructure projects. The high-efficiency expansion project at our L'Amali plant is a key priority for us. We remain focused on progressing with the expansion, which will enable us to significantly increase production capacity and continue to drive profitability gains. This is further supported by our solid cash flow generation and balance sheet, which provide us with a robust foundation to pursue our strategic initiatives.

We are now ready to take questions. Operator, please open the call for questions.

## QUESTIONS AND ANSWERS

### Operator

Thank you. We will now be conducting the question-and-answer session. If you would like to ask a question, please press star (\*) one (1) on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star (\*) two (2) if you need to remove your question. For participants using speaker equipment, it may be necessary to pick up your handset prior to pressing the star (\*) keys. Once again, star (\*) one (1) on your telephone keypad. We also ask that you please limit your questions to one question and one follow up, please. If you have additional questions, you may re-queue and those questions will be addressed. Also note that Mr. Sergio Faifman will be responding in Spanish immediately following by English translation. Please pause momentarily while we conduct the queue.

Our first question comes from Daniel Sasson of Itau. Please go ahead.

### Daniel Sasson

Ah, hi everyone. Thanks for the opportunity. My first question is related to prices in Argentina. I understand that with the strong demand we have been seeing over the past year it's likely that you are going to be able to implement the price increases that you recently announced. So I'd like to have an update on how well those new higher prices are sticking, and if you could please give us a sense on how much lower cement prices in Argentina compare to import parity levels? Thank you.

### Marcos Gradin

Hi Daniel, this is Marcos. Thank you for your question. I would say that in line with our commercial strategy, we have adjusted prices to accommodate for cost increases both driven by both fx impact and inflation. Today, even with the last movement of the FX in late December, we have been able to increase prices, boosting our profitability, and I would say reflecting the different dynamics of the adjustments of different prices or relative prices of cement at a lower cost.

Regarding import parity gap, this is a, it's a theoretical calculation, yes, we don't have relevant imports in Argentina, they are lower than 1%, but I would say that this import parity could narrow, in fact, but nevertheless we have to keep in mind that making this, the Argentine market would be more permeable to imports and that would interfere with the rationale of local capacity increase, yes. Loma Negra is position to address increased demand we see in Argentina, we will import until the L'Amali plant expansion is finished and we firmly believe in the benefits of addressing demand with local production, promoting efficiency, and high quality standards.

### Daniel Sasson

Thanks a lot Marcos. Just a follow-up on your comments on margins and margins being boosted by higher prices. On the cost front, can you give us an update, an idea of how do you see electricity and thermal costs evolving throughout 2018, please? Thank you.

### Marcos Gradin

I would say electricity energy, we are expecting further increases in transportation costs. One part of electricity is tied to U.S. dollar, the other is tied to pesos, but they could increase in 2018 in real terms just a little bit above inflation. Regarding thermal energy, we are seeing the same prices of natural gas, yes. We are seeing an increase in transportation and distribution but not being above inflation or in real terms increases. On the part of electrical energy, the contract with renewable energy is already running, yes, and it's going to be providing 8% of our energy metrics. We are assessing new contracts which could allow to achieve even lower costs, not this year, but from next year and then on.

**Daniel Sasson**

Thank you.

**Operator**

The next question comes from Louis Prieto of Nau. Please go ahead.

**Louis Prieto**

Good morning, gentlemen. I had a couple of very brief questions. The first one is digging a bit deeper on the pricing front. Can you give us an idea of where bulk prices are at the moment, in dollars? And the second question is if you could shed a bit of light on the increase in trade receivables that we have seen in '17, sort of H1 '17, full '17, versus the '16 numbers. There's a big jump in trade receivables and working capital as a result. Thanks.

**Marcos Gradin**

Thank you, Louis, for the question. We are not giving that kind of information off the bulk but what we can say is that it is slightly above the bag prices, yes? And the other question was about the increase in trade receivables? The main impact there, it's volumes and prices of our materials and products sold. Also, you have to take into account increase in concrete, yes, a 57% increase inside of concrete. Concrete has a longer payable term and also the mix between bulk and bagged cement also increases the average collection period of cement.

**Louis Prieto**

So today's figure is what's going to be in the future, right?

**Marcos Gradin**

Today's figure is more about what it's going to be in the future, yes.

**Louis Prieto**

Yes, excellent. Thank you very much.

**Marcos Gradin**

You're welcome.

**Operator**

The next question comes from Fernando Sanchez of UBS. Please go ahead.

**Fernando Sanchez**

Hi, thanks for taking my question and congratulations on the results. I guess just a follow-up on the question of margins, given the recent sharp peso depreciation against the dollar and the likelihood of rising [unintelligible] imports, I just want to get a better sense of what we can expect in terms of EBITDA margin for 2018. Thank you.

**Marcos Gradin**

So Fernando, I would say in terms of profitability, that the impact of the late movement of FX we have been trying to adjust the prices, to cost increases on our costs, so we are not seeing a decrease in margins, yes. I would say given the different dynamics maybe our price adjusts faster than our costs. In terms of imports, I would say in our initial plan we are not importing this year. We are not importing cement bags. But if needed to import cement bags in the second semester of the year, that should impact our margins. We are importing bags with profitability but not profitability of producing in Argentina.

**Fernando Sanchez**

Okay. Thanks.

**Operator**

The next question comes from Dan Altman of Bradesco. Please go ahead.

**Dan Altman**

Hi, good morning. Just a question about your relationship with the buy side and the sell side and your clients and customers since you've become a public company. I'm just curious what your impressions have been so far and what do you think are the key challenges going forward? Thanks.

**Marcos Gradin**

I would say, Dan, thanks for the question. I would say that since the IPO and being a public company has strengthened and added value to our brand name, yes? So nothing has changed, yes, but we are more, I would say, more, it's a sense of more valuable for our clients and suppliers, yes? And business is as usual. It remains as usual.

**Dan Altman**

Thanks. And just to follow up. In terms of telling your story to the market, what do you think is the, I guess the key piece that you think the market is missing at this point, if anything?

**Sergio Faifman (via interpreter)**

Hi Dan, this is Sergio Faifman. Well, after the IPO we are developing a relationship with the market. We are attending different conferences and meetings with investors, and we are telling them about all the projections that we see. I would say that our first concern today is the execution of the L'Amali extension plan and how to supply the market until L'Amali is up and running. As Marcos said before me, we see very good perspective for the company in the future as we have seen the, considering the industry growth for the



first two months and the forecast that we have for the rest of the year.

**Dan Altman**

Okay. (Spanish Remarks).

**Operator**

The next question comes from Eduardo Altamirano of HSBC. Please go ahead.

**Eduardo Altamirano**

Thank you, gentlemen, for taking my question. You seem to have pretty good performance in terms of the aggregates results. One of the things that we've seen in some other markets in the Americas, a large part of the story of, let's say the building of roads and other infrastructure has been more of an aggregate story than even just a cement story. How much of a risk do you think this is going forward and basically if this is the case, are you positioning yourselves to take advantage of any sort of aggregates sort of growth going forward?

**Sergio Faifman (via interpreter)**

Hello Eduardo, this is Sergio. Thank you for your questions. Well, in Argentina the aggregate business is also increasing. It's growing, particularly in the Buenos Aires area, due to the public works project infrastructure and construction. Well when we first entered the aggregate business, it was due to a commercial strategy to supply our concrete business. Last year, during the increase we have seen in that business and the projections, we are considering increasing it. We are almost doubling our current install capacity through the incorporation of a new crusher, which will be in operation next month.

**Eduardo Altamirano**

Gracias. Well, let me ask in English, then. So going forward, should we expect much of a mix in terms of let's say in terms of kind of a revenue mix, just a product mix or is the way you shift further into aggregates or is it roughly kind of what we've been seeing for the past two quarters plus the uncertain amount of, let's say, visibility that we have?

**Sergio Faifman (via interpreter)**

Okay, in the next year we are seeing an increase in the share of concrete and the aggregate business lines, but cement is still our core business with 90% of share.

**Eduardo Altamirano**

(Spanish Remarks)

**Sergio Faifman**

(Spanish Remarks)

**Operator**

The next question comes from Christine Rowley of Sloane Robinson. Please go ahead.

**Christine Rowley**

Thank you very much for taking my question. I wanted to ask about your next expansion

plans after the L'Amali plant comes on stream, whether you can consider another brownfield expansion at that location or any of your other locations, please?

**Marcos Gradin**

Yes, thanks for the question Christine. I would say the next expansion project depends on how the demand evolves, yes, in the different parts of the country. But when we analyzed L'Amali we also analyzed other projects, yes, and that includes a kiln expansion in our Catamarca plant, could be a new mill in our plant at Ramallo, a complete new line in Barker for instance, or a greenfield in San Juan. So those are more or less the projects that we have in mind and we also believe that in Paraguay in the middle, in the mid-term we also will need to expand another second line in Paraguay.

**Christine Rowley**

And when would you be making the decision about the next round of expansion? Is that something that you would be able to tell your shareholders about later on this year, or would it be in calendar 2019? Is there a timeframe by which you would make a decision about that and a timeframe under which you would start the investment in these projects?

**Sergio Faifman (via interpreter)**

Well, for you to have an idea, well, when it comes to cement plants, from the time you first have the idea to build it until it's up and running, it takes from 3-4 years. Based on the projections and the market behavior and as we have told you, or many of you at least during the road show, we will be making a decision by the end of 2019.

**Christine Rowley**

Thank you. And may I just ask a follow-up question regarding competition? I know that your expansion at L'Amali is large relative to the entire domestic market in Argentina. Are you hearing any comments from other participants in the industry regarding expansion plans from other industry participants aside from Loma Negra? Thank you.

**Marcos Gradin**

While we do not comment on our competitors, what we can tell you is what we heard from the recent announcements. Two of them are expanding, yes, they are adding 1.4 million tons of production capacity. They are finishing by 2020. And here it's important to note that both projects are in different regions from the one that we are making our expansion in Buenos Aires. These are in the regions where we don't have a dominant position, which are Cordoba, the province of Cordoba, and the province of San Luis.

**Christine Rowley**

Thank you very much.

**Operator**

Again, if you have a question please press star (\*) then one (1). Our next question comes from Alvin Chew of Trend Capital. Please go ahead.

**Alvin Chew**

Thank you, gentlemen, for taking my call. Sorry, I'm new to the company so could you

tell me as of today what is your average sales price of your cement? And the second question relates to the price increases you intend to do for this year, because I think I heard earlier on that EBITDA margins will be flat, right, for this year? So does that mean that you intend to pass through all of the cost increases this year in terms of the higher prices? Thank you.

**Marcos Gradin**

Again, we are not commenting, we try not to comment on cement prices. It's a sensitive issue. But again, we have been able to pass through our prices, our cost inflation both affected by inflation and by FX movement.

**Alvin Chew**

What's the selling price right now, today?

**Marcos Gradin**

Sorry, we are not disclosing that figures.

**Alvin Chew**

Uh, a follow-up question on the L'Amali plant expansion, Capex of \$350 million. How do you intend to fund the Capex?

**Marcos Gradin**

We have raised the, well, around \$140 million in the IPO, yes? We are still assessing financial alternatives. We are not foreseeing to raise new money in 2018, yes, but we are still assessing opportunities. But we believe that our cash flow generation and the capital increase, we are well positioned to finance the expansion. We have also submitted to our AGM the, our intention not to pay dividends in 2018. That's in order to fund the L'Amali plant.

**Operator**

Once again, if you have a question please press star (\*) then one (1). The next question is a follow-up from Christine Rowley of Sloane Robinson. Please go ahead.

**Christine Rowley**

Thank you for taking my additional question. With respect to Ferrosur Roca, you mentioned in the call earlier that the sales volume for Ferrosur Roca rose 6.3% year on year, reaching 1.3 million tons. That's tracking below industry cement volume growth, and I wanted to just ask a couple of questions regarding Ferrosur. First of all, are you planning to renew the contract, the franchise for the railway through beyond 2023? And secondly, what are the prospects for volume growth or the outlook for volume growth at Ferrosur Roca this year and next year, including usage directly from Loma Negra and possibly external clients? Thank you.

**Sergio Faifman (via interpreter)**

Christine, this is Sergio. Well, in terms of the extension of the concession contract was, which expires in 2023, we have already requested for an extension of the concession contract because we need to present or request the extension five years in advance,

according to the contract. And the government then has one year to decide to grant that extension to us. As per the concession agreement, that extension would be for a 10-year period. But in terms of the growth of volume in transporting materials by Ferrosur, in terms of cement, stone, we are, our forecast is similar to Loma Negra, to what we're handling today, 6%, and but we do see major growth in frac sand shipping. But we need to bear in mind that the shipping of frac sand for the Vaca Muerta project implies longer extensions in kilometers at a better price so that allows us to have higher profitability.

**Christine Rowley**

And will those shipments start in calendar 2018 or is that something in the midterm for the Company, for Ferrosur?

**Sergio Faifman (via interpreter)**

Well, we have already started shipping frac sand two years ago, almost, and we had a significant growth in 2017 and for 2018 we're expecting a 50% growth in volume. For this year our expected figure is 700,000 tons of frac sand.

**Christine Rowley**

Thank you. Thank you very much.

**Operator**

The next question comes from Alejandra Obregon. Please go ahead. Please go ahead, Alejandra. Your line may be muted.

**Alejandra Obregon**

Can you hear me?

**Operator**

Yes we can.

**Alejandra Obregon**

Thank you. Hi, good morning everyone and thank you for taking the call. I was wondering if you could just give us some sense of, on the permits that were recently released by the government in terms of certain trucks being able to go through some roads that were not allowed before, and how can these affect your competitive advantage in terms of the vertical integration with the railroad that compares to other peers that might be using these trucks --

**Interpreter**

Sorry, sorry to interrupt you but we cannot hear you correctly, so could you come closer to the mic and try to speak slower?

**Alejandra Obregon**

Can you hear me better now?

**Unidentified Female**

Yes.

**Marcos**

Yes.

**Alejandra Obregon**

My question is related to some permits that I believe were released by the government in this last month in terms of trucks being able to go through some routes that they were not allowed before. So I was wondering if you could give us some color there and if you are worried on that perhaps challenging your competitive advantage in terms of the vertical integration with the rail compared to your peers?

**Sergio Faifman (via interpreter)**

Hi Alejandra. Thank you for your question. Sincerely, we see no impact in our operation in terms of the permits to be granted by the government as to our railway operation. I'm talking about both the bi-trains or double trains and double tracks. When it comes to logistics and shipping, we should always bear in mind volume and distance. It's the equation between volume and distance and nothing beats the railway when we think of those two, volume and distance. And we don't see the double trains that are going to be permitted by the government impacting us or being able to beat the railway. And we believe that the government is taking these measures in order to reduce logistics costs in Argentina and to increase our shipping capacity in Argentina to cater to our current growth.

**Alejandra Obregon**

Thank you very much. That was really helpful.

**Operator**

Again, if you have a question please press star (\*) then one (1). Our next question comes from Christine Rowley from Sloane Robinson. Please go ahead.

**Christine Rowley**

Hi. Thank you again for taking an additional question. I was looking at slide 8 in your presentation included within the webcast, which shows that the gross profit margin for Loma Negra was stable on a year-on-year basis in the fourth quarter of '17 relative to the fourth quarter of '16 at 29%, but obviously the Company achieved a very good improvement in terms of selling, general, and administrative costs as a portion of sales, dropping from 10.7% to 7.8%. As we look into 2018, if the volume growth that you expect that we've seen coming through the 18% year-on-year in January and 14% year-on-year in February for the industry overall sustains in calendar 2018, is there potential for the Company to again benefit from a declining share of SG&A expenses as a portion of sales or at 7.8% are you already at the kind of best level that you can hope to achieve in that area?

**Sergio Faifman (via interpreter)**

Thank you, Christine, for your question. Well, the volume increase that we have seen in January and February are quite particular because if we compare it to last year's

performance, growth started in March. The Argentine Association of Cement Manufacturers is projecting a 6% growth for this year, but based on how we started we are a bit more optimistic than that already. In order to increase our capacity in Argentina, we don't need to increase G&A or fixed costs, so our margins will stay at the same levels or improve. So as Marcos said, if we import cement in the second semester, our margins, our consolidated margin would go down but relative EBITDA would increase.

**Christine Rowley**

Okay. And if you expect the industry growth to be 6% per the Association and perhaps it comes in slightly higher than that at say 8% or 10%, is it correct for us to assume that by the second semester you would need to start importing cement at that juncture? Or would you be at full capacity in terms of what you can produce internally? Until the L'Amali cement plant expansion comes on stream in 2020.

**Sergio Faifman (via interpreter)**

Well, based on our current estimates at 6% or a bit beyond 6%, we wouldn't be needing to import but if we go beyond that percentage, yes, we will need to import. Well when we see cement consumption growth, we need to bear in mind that cement cannot be stocked or stored, right, so if the volume increase takes place in September and onward, which is our big month, our big period, yes, we would need to import. Before importing cement, we will first import clinker. This is what we did last year and this year, and when we import clinker, we import a similar profitability than our locally produced cement.

**Christine Rowley**

So if you have a rising share of clinker imports in the second semester of 2018 and into 2019 but the pricing environment and the operational environment remains fairly steady in Argentina as you project, then we shouldn't expect that to negatively impact your margins at the EBITDA level, is that correct?

**Sergio Faifman**

Yes, that's correct.

**Christine Rowley**

Okay. Thank you very much.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back to Gaston Pinnel for any closing remarks.

**CONCLUSION**

**Gaston Pinnel**

Thank you for joining us today. We appreciate your interest in our Company. We look forward to meeting more of you over the coming months and providing financial and business updates next quarter. In the interim, the team remains available to answer any questions that you may have. Thank you and enjoy the rest of your day.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

