

# CEMENTOS ARGOS S.A.

## Report for Q2 2011

BVC: CEMARGOS / ADR LEVEL 1: CMTOY.PK

### EXECUTIVE SUMMARY

- Cementos Argos obtained more than COP 1.6 billion (USD 891 million) in consolidated revenues for the first half of this year, showing a growth of 11% in pesos or 18% in dollars.
- Consolidated operating earnings for this same period came to COP 137 thousand million or USD 75 million, showing an increase of 17% in pesos or 24% in dollars. Here it is worthwhile noting that the Company's operating earnings have not reached the COP 90 thousand million mark (US 50 million) since Q3 2009.
- Cementos Argos posted more than COP 295 thousand million or USD 161 million in consolidated EBITDA, showing a growth of 7% in pesos or 14% in dollars, compared to 1H last year. The Company's consolidated EBITDA margin therefore came to 18% versus the 18.7% obtained last year. Here it is worthwhile noting that this drop in our EBITDA margin is due solely to the lower EBITDA figure obtained by the Company's real estate division during this past quarter. As previously mentioned, although our horizontal land development business is already fully functioning and has its own exclusively dedicated personnel, it nonetheless depends on transactions which are sporadic in nature thus the corresponding stream of income is neither regular nor recurring. In the light of this, upon isolating the effect of its real estate division in terms of revenues and EBITDA for the first half of both 2011 and 2010, Cementos Argos' consolidated EBITDA so far this year would have reached 18%, that is to say 20 bp above that of last year.
- The Company's consolidated net earnings came to COP 386 thousand million (USD 214 million). Here it is important to bear in mind that net earnings on a YTD basis at June 2011 have been affected by certain extraordinary items such as having sold off the Company's shares in Grupo de Inversiones Suramericana to our parent company, Inversiones Argos, which represented non-operating profits on sales of investments totaling COP 574 thousand million. This measure not only obeyed the Organization's strategy to centralize portfolio investments in the name of its parent company, Inversiones Argos, but also effectively formed part of the tactics to finance the purchase of assets in the southeast of the US.

Also COP 246 thousand million was posted in non-operating expense during the first half of this year as a result of certain extraordinary items such as having written off certain brands, the amortization of goodwill, actuarial calculations, some deferred items as well as the withdrawal of fixed assets from our Betania plant, which is now no longer operating.

- Assets, on a consolidated basis came to COP 17 billion (USD 9 billion) showing an increase of 7% in pesos or 15% in dollars compared to year-end 2010. During this same period liabilities rose by 8% in pesos or 16% in dollars, for a total of COP 5 billion (USD 3 billion). Shareholders' Equity came to COP 12 billion (USD 7 billion) showing an increase of 7% in pesos or 15% in dollars.

## RESULTS FOR Q2 2011

Cementos Argos got off to a good start this year and this effectively extended into the second quarter. The results obtained by our Colombia Division continued to reflect the country's dynamic construction sector, where both the civil engineering and the housing subsectors continue to attend the same level of demand as for previous months.

On the other hand, the countries belonging to our Caribbean Division are now seeing a recovery with their respective demands, after the economic slowdown in 2010. Also the new production line in our Cartagena plant, which as you well know, is classified under our Caribbean Division continues to produce excellent results in terms of both efficiency and productivity and is now running at its maximum capacity, attending the markets in the Caribbean, Central America as well as Colombia with superior cost-efficiency.

Conversely, the figures posted by our US Division, although better than for the previous quarter, were nevertheless affected by a lukewarm recovery on the part of the US economy as well as the havoc wreaked by adverse weather patterns during this past quarter. Nevertheless, we are now beginning to see signs of improvement with prices of both cement and concrete, which has made us more optimistic with the coming summer months and the advent of autumn, which have always seen spikes in sales.

As for having acquired the Lafarge operations in the south-eastern part of the US, as we informed the market last May, it is important to note that the Q2 figures reported for the US Division do NOT include the assets formerly belonging to this French cement group, since as we had anticipated earlier on, this acquisition shall be finalized at the end of August, whereupon we shall be including the results of its operations. In this respect, the schedule for taking over these assets, as well as the terms and conditions laid out in the respective shareholders' agreement are being faithfully complied with. We recently received HSR approval from the US anti-trust authorities, giving us the go-ahead for this transaction.

So based on the above, and as we opportunely informed the market, this acquisition consisting of 2 cement and 79 concrete plants along with clinker grinding facilities in the south-east of the US, for USD 760 million, shall be financed with the Company's own funds. As a result of this, we wish to announce that based on the divestiture plan associated with this upcoming acquisition, Cementos Argos had more than USD 600 million in immediately available funds at the end of June 2011, as a result of having sold off equity shares from its portfolio, as well as existing cash and a bridge loan for USD

200 million that has already been obtained from HSBC, all of which shall guarantee payment for this acquisition.

On the other hand, and in keeping with our efforts to create a portfolio of Green Cement Technologies within our Organization, we would like to inform the public that after a thorough evaluation of the technical and financial issues at stake as well as strategically adjusting our Company's expectations, on May 6, 2011 Cementos Argos invested in Ceratech, a US company that manufactures a cementitious material using fly ash. This initial investment, costing USD 5 million, shall allow us to take part in the strategic decisions to be made by Ceratech Inc. (the parent company that owns this technology). This has been a worthy accomplishment for Argos, since we are firmly convinced that in order to secure a sustainable future for both our Company and the environment, an enterprising attitude and a gift for innovation are qualities that all our employees must strive towards on a daily basis.

## RESULTS BY REGIONAL DIVISION

### COLOMBIA REGIONAL DIVISION

Our local division obtained a rather good level of results this past quarter, in keeping with the dynamics shown by the Colombian construction sector over previous months. On the one hand, we had better weather conditions favoring the ongoing infrastructure projects being carried out throughout the country. Also in April we made a correction to our average local prices of both cement as well as concrete, this in order to compensate the hike in energy prices and overland transport costs. This has driven up the Division's sales volumes and revenues to outstanding levels, over and above those of the previous quarter, producing a record sales figure never before seen in the history of the Company.

For H1 2011, our Colombia Division obtained COP 875 thousand million in revenues for a growth of 18%. On the other hand, EBITDA came to COP 262 thousand million, going 11% above that of the same period last year. The Division's EBITDA margin came to 30%, which was 200 bp lower than for the same period last year, due to hikes in transport, fuel and energy costs during the first 6 months of the year.

Volumes of Argos grey cement in Colombia for H1 2011 came to 2.4 million tons, showing a YoY increase of 21%. 406 thousand tons of this figure were sold by our subsidiary, Concretos Argos, that is to say 17% of the total amount of cement sold by Argos in Colombia was shipped via our vertically-integrated concrete business.

Concrete sales in Colombia came to 1.2 thousand cubic meters, showing an increase of 50% compared to the same period last year.

## USA REGIONAL DIVISION

As mentioned earlier, the results of the US Division for this past quarter continued to mirror a very slow recovery on the part of the construction sector in this part of the world. Nevertheless, although cement and concrete prices remain low, we have seen over the last few months an upswing which we hope shall continue into the coming months. So, although EBITDA was negative for Q2, we are nevertheless seeing significant improvement compared with Q1.

It is also important to bear in mind that in Q2 our US Division, mainly the states of Arkansas and Texas were adversely affected by tornados and heavy rainfall which interrupted normal shipments of concrete to these parts of the country, hence the negative impact on the Division's earnings.

During the first half of this year, we sold 1.8 million cubic meters of concrete in the US, which was 2% lower than last year's figure. This drop in volumes was entirely due to adverse weather conditions in Arkansas, since volumes remained stable in Texas and even increased by 4.6% in the Southeast.

Consequently the Division's revenues came to USD 183 million, showing a decline of 8% compared to the same period last year. EBITDA was negative in the amount of USD 8 million, compared to USD 2 million for the same period last year.

With regard to the results actually obtained by our US Division and our recent acquisition in this geography, we would like to remind the public that we have a more long-term vision of the US economy. Moreover, and as we mentioned when we first announced this transaction, we are expecting the US market to show important signs of recovery as of 2013, once housing inventories drop to lower levels and prices consequently rise and the various states where we are present recover their former financial robustness and begin to invest in infrastructure. Based on this and although results for this past quarter show a negative EBITDA, we would like to stress the fact that we were not expecting a positive EBITDA for the first six months of this year, since we were well aware of the low prices affecting the sector coupled with the hikes in energy prices that we had anticipated at the outset.

Also, in spite of the weak figures reported so far by our US Division, we have been rather encouraged by the latest data released by the US Department of Commerce showing that the housing starts increased by 15% between May and June, for a total

annual figure of 629 thousand units, which compares nicely to the 575 thousand units that market analysts were expecting. Also the amount of construction permits that have been issued came to 624 thousand on an annual basis, compared to the 595 thousand previously estimated by the analysts. So all in all, these figures are showing positive signs of a possible shift in the US housing sector.

## **CARIBBEAN REGIONAL DIVISION**

In Q2, all the different markets that make up this Division continued to perform at positive levels. With regard to our new production line at the Cartagena plant, just a few days ago we commissioned a study of the production and efficiency guarantees on the part of the kiln manufacturer FLSmidth, the results of which were excellent.

On the other hand, Panama continues to invest heavily in infrastructure and the prospects for its construction sector continue to show an interesting rate of growth. Also Haiti and the Dominican Republic continued to perform soundly with stable prices and an increase in volumes.

Breaking down the Division's results for its three major markets we have Panama scoring a 27% increase in its EBITDA compared to the same period last year, followed by Haiti and the Dominican Republic with increases of 23% and 2% respectively. The total EBITDA figure obtained by all three markets for the first half of this year came to USD 40 million, showing an annual growth of 22%.

We expect a growth for our Caribbean markets, and hence an increase in exports from Colombia, which come under this Division. In the specific case of Panama, for 2011 we are projecting a total market growth of around 10% compared to last year, which would give a year-end consumption of almost 1.8 million tons, including the 100.000 tons earmarked for the Panama Canal expansion project. As far as this project is concerned, our cement shipments have experienced certain delays, given the setbacks encountered by the construction consortium.

For the first half of this year, the Caribbean Division posted consolidated revenues of USD 207 million for a growth of 42% compared to the same period last year. EBITDA, on the other hand went from USD 30 million in 2010 to USD 52 million for this first half, representing a total growth of 75%. Its EBITDA margin rose by 25% compared to the 20% recorded for the same period last year. Here it is important to mention that Q2's EBITDA, which came to US 29 million is the highest it has been in whole of the

Division's history, which only goes to prove the interesting dynamics shown by our different Caribbean markets.

## **OTHER BUSINESSES**

For the first half of this year, we obtained COP 45 thousand million in revenue from our Other Businesses, which was lower than the COP 65 thousand million posted last year. EBITDA came to COP 2 thousand million compared to the COP 18 thousand reported last year.

As mentioned at the beginning of this report, this decline in both revenues as well as EBITDA from our other businesses, was mainly due to the lower figures posted by our real estate business so far this year, since due to its very nature its business cycles are irregular and rather unpredictable. Nevertheless, we expect sales of land to recover from here to the end of the year, which could well drive up EBITDA over and above last year's figure.

With regard to real estate assets outside our cement operations, as we informed the market back in May, the firm Colliers International has produced a formal appraisal of this property. This showed that Cementos Argos' real estate assets, outside its cement business, are worth an estimated COP 2,9 billion or USD 1.5 billion, which were posted in our financial statements as of May 2011. Prior to that, the value posted in books for these same assets came to COP 1.7 billion, which represents a total increase in our equity value of COP 1.2 billion.

For more information on this independent appraisal performed by Colliers International, a detailed report has been made available on the investor portal of our website: [www.argos.com.co/cemargos](http://www.argos.com.co/cemargos).

The following table contains a summary of the main indicators posted by all three Divisions for H1 2011:

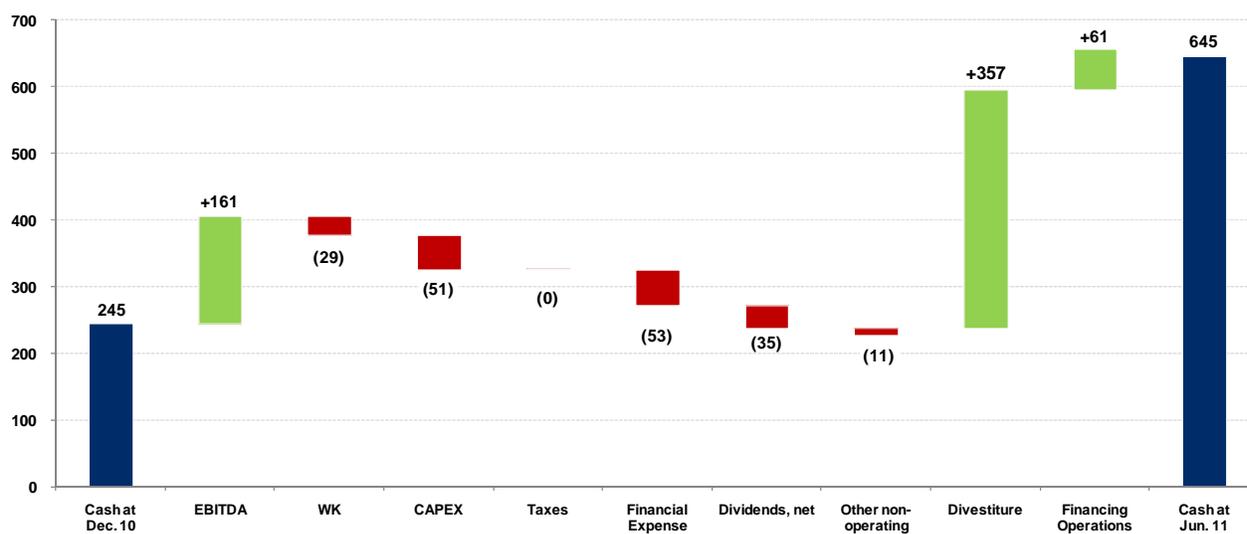
**YTD at June**

	Revenues			EBITDA				
	2011	2010	Var (%)	2011	Mgn (%)	2010	Mgn (%)	Var (%)
<b>COP\$ thousand million</b>								
Colombia	875	739	18	262	29.9	235	31.8	11
United States	337	386	-13	-15	-4.5	5	1.2	-432
The Caribbean	379	283	34	95	25.1	58	20.5	64
<b>Sub-total</b>	<b>1,591</b>	<b>1,409</b>	<b>13</b>	<b>342</b>	<b>21.5</b>	<b>298</b>	<b>21.1</b>	<b>15</b>
Overhead	0	0	N/A	-48	N/A	-41	N/A	18
Other Businesses	45	65	-30	2	4.3	18	27.7	-89
<b>Consolidated</b>	<b>1,636</b>	<b>1,474</b>	<b>11</b>	<b>295</b>	<b>18.0</b>	<b>275</b>	<b>18.7</b>	<b>7</b>

**US\$ million**

Colombia	476	380	25	142	29.9	121	31.8	18
United States	183	199	-8	-8	-4.5	2	1.2	-440
The Caribbean	207	145	42	52	25.2	30	20.5	75
Corp. & Other Business, Net	25	34	-26	-25	-101.5	-12	-34.4	-118
<b>Consolidated</b>	<b>891</b>	<b>757</b>	<b>18</b>	<b>161</b>	<b>18.0</b>	<b>141</b>	<b>18.7</b>	<b>14</b>

## CASH FLOW YTD AT JUNE 2011:



## INVESTMENT PORTFOLIO AT JUNE 2011:

Company	% Stake	Price per Share (COP)	Value (COP\$ million)*	Value (US\$ million)*
Grupo Suramericana	20.7%	37,800	3,673,542	2,064
Bancolombia	8.0%	29,200	1,192,922	670
Grupo Nutresa	5.7%	23,400	583,611	328
Cartón Colombia	2.1%	7,700	17,779	10
<b>Total</b>			<b>5,467,855</b>	<b>3,072</b>

\* Exchange rate at June 30<sup>th</sup>, 2011: COP\$ 1.780 / 1 USD

## **DEBT AND COVERAGE INDICATORS:**

At June 30, 2011, Cementos Argos' consolidated net debt came to COP 1.8 billion, 75% of which was denominated in pesos and the remaining 25% in dollars.

The average annual cost of debt in pesos came to 6.6% whereas that in dollars reached 2.0%.

On a consolidated basis, coverage continues at adequate levels as can be seen in the following ratios: Net Debt / EBITDA + Dividends: 2.8, EBITDA/Financial Expense: 3.1 and Net Debt / Equity: 15%. It is important to note that the decline in our Net Debt/EBITDA + Dividend ratio at the end of Q2 is due to accumulated cash reserves at the end of June 2011 as a result of having sold off the shares formerly held in Grupo de Inversiones Suramericana. These funds shall be used to pay the Lafarge acquisition over the coming months, and so we are expecting our debt ratio to return to higher levels at the end of the next quarter.

*A teleconference shall be broadcast over the Internet next Monday August 1 at 8 a.m. Colombia time, at which we shall be discussing our Q2 results.*

**Conference ID: 85.054.359**

*Tel – United States / Canada: (866) 837 - 3612*

*Tel - Colombia: 01800.518.01.65*

*Tel - International/Local: (706) 634 - 9385*

*This conference shall be rebroadcast on Tuesday August 2 Tels: (855) 859-2056 y (404) 537-3406.*

*A more detailed presentation of these results has been made available on Cementos Argos' Investor Webpage ([www.argos.com.co/cemargos](http://www.argos.com.co/cemargos)) in the section Communications / Presentations*

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**CEMENTOS ARGOS S.A.**  
**CONSOLIDATED P&L STATEMENT**  
**2Q2011**

In millions of Colombian pesos or US dollars

	2Q 2011	2Q 2010	Var. (%)
<b>Operating revenues</b>	<b>848,696</b>	<b>774,348</b>	<b>9.6</b>
<i>US\$ Dollars</i>	<i>472</i>	<i>397</i>	<i>18.8</i>
<b>Variable costs</b>	<b>663,359</b>	<b>596,251</b>	<b>11.3</b>
Cost of goods sold	608,133	537,592	13.1
Depreciation and amortization	55,226	58,659	-5.9
<b>Gross profit</b>	<b>185,337</b>	<b>178,097</b>	<b>4.1</b>
<b>Overheads</b>	<b>96,287</b>	<b>104,118</b>	<b>-7.5</b>
Administrative expense	57,703	58,420	-1.2
Selling expense	26,129	25,429	2.8
Depreciation and amortization	12,455	20,269	-38.6
<b>Operating Profit</b>	<b>89,050</b>	<b>73,979</b>	<b>20.4</b>
<i>US\$ Dollars</i>	<i>50</i>	<i>38</i>	<i>30.8</i>
<b>EBITDA</b>	<b>156,730</b>	<b>152,907</b>	<b>2.5</b>
<i>US\$ Dollars</i>	<i>87</i>	<i>78</i>	<i>11.4</i>
<b>Non-operating revenues</b>	<b>637,584</b>	<b>241,631</b>	<b>163.9</b>
Dividends and participations	425	4,934	-91.4
Profits from sales of investments	614,444	230,182	166.9
Other income	22,715	6,515	248.7
<b>Non-operating expense</b>	<b>345,603</b>	<b>73,337</b>	<b>371.3</b>
Net financial expense	39,248	41,257	-4.9
Losses (profits) on sales of fixed assets	8,017	-705	1237.2
Other expense	298,338	32,785	810.0
Exchange difference	2,597	127	1944.9
<b>Pre-tax earnings</b>	<b>383,628</b>	<b>242,400</b>	<b>58.3</b>
Provision for income tax and deferred tax	23,994	9,052	165.1
Minority interest	2,209	2,400	-8.0
<b>Net Income</b>	<b>357,425</b>	<b>230,948</b>	<b>54.8</b>
<i>US\$ Dollars</i>	<i>199</i>	<i>120</i>	<i>66.1</i>

**CEMENTOS ARGOS S.A.**  
**CONSOLIDATED P&L STATEMENT**  
**YTD at**  
**In millions of Colombian pesos or US dollars**

	Jun-11	Jun-10	Var. (%)
<b>Operating revenues</b>	<b>1,636,147</b>	<b>1,473,790</b>	<b>11.0</b>
<i>US\$ Dollars</i>	<b>891</b>	<b>757</b>	<b>17.7</b>
<b>Variable costs</b>	<b>1,313,648</b>	<b>1,160,195</b>	<b>13.2</b>
Cost of goods sold	1,181,146	1,042,136	13.3
Depreciation and amortization	132,502	118,059	12.2
<b>Gross profit</b>	<b>322,499</b>	<b>313,595</b>	<b>2.8</b>
<i>Gross Margin</i>	<i>19.7%</i>	<i>21.3%</i>	
<b>Overheads</b>	<b>185,637</b>	<b>196,290</b>	<b>-5.4</b>
Administrative expense	112,557	107,804	4.4
Selling expense	47,172	48,750	-3.2
Depreciation and amortization	25,908	39,736	-34.8
<b>Operating Profit</b>	<b>136,862</b>	<b>117,305</b>	<b>16.7</b>
<i>Operating Margin</i>	<i>8.4%</i>	<i>8.0%</i>	
<b>EBITDA</b>	<b>295,272</b>	<b>275,100</b>	<b>7.3</b>
<i>US\$ Dollars</i>	<b>161</b>	<b>141</b>	<b>13.7</b>
<i>EBITDA Margin</i>	<i>18.0%</i>	<i>18.7%</i>	
<b>Non-operating revenues</b>	<b>726,252</b>	<b>334,125</b>	<b>117.4</b>
Dividends and participations	70,721	75,648	-6.5
Profits from sales of investments	617,602	230,182	
Other income	37,929	28,295	34.0
<b>Non-operating expense</b>	<b>445,250</b>	<b>172,048</b>	<b>158.8</b>
Net financial expense	80,530	84,737	-5.0
Losses (profits) on sales of fixed assets	7,548	61	12,273.8
Other expense	357,172	87,250	309.4
Exchange difference	3,804	2,368	60.6
<b>Pre-tax earnings</b>	<b>421,668</b>	<b>281,750</b>	<b>49.7</b>
Provision for income tax and deferred tax	29,885	12,503	139.0
Minority interest	5,357	5,404	-0.9
<b>Net Income</b>	<b>386,426</b>	<b>263,843</b>	<b>46.5</b>
<i>US\$ Dollars</i>	<b>214</b>	<b>138</b>	<b>55.3</b>
<i>Net Margin</i>	<i>23.6%</i>	<i>17.9%</i>	

**CEMENTOS ARGOS S.A.**  
**CONSOLIDATED BALANCE SHEET**  
 In millions of Colombian pesos or US dollars

	Jun-11	Dic-10	Var. (%)
Cash, banks and negotiable investments	1,147,947	476,130	141.1
Trade receivables	421,839	381,922	10.5
Accounts receivable, net	352,115	305,951	15.1
Inventories	310,921	289,475	7.4
Prepaid expense	27,884	23,617	18.1
<b>CURRENT ASSETS</b>	<b>2,260,706</b>	<b>1,477,095</b>	<b>53.1</b>
Permanent investments	346,601	340,108	1.9
Accounts receivable	41,849	38,230	9.5
Inventories	38,237	39,412	-3.0
Deferred items and intangibles	1,383,935	1,634,481	-15.3
Property, plant and equipment, net	2,745,443	2,870,683	-4.4
Appraisals	9,711,597	9,036,539	7.5
Other assets	22,244	44,319	-49.8
<b>NON-CURRENT ASSETS</b>	<b>14,289,906</b>	<b>14,003,772</b>	<b>2.0</b>
<b>TOTAL ASSETS</b>	<b>16,550,612</b>	<b>15,480,867</b>	<b>6.9</b>
<i>US\$ Dollars</i>	<i>9,297</i>	<i>8,088</i>	<i>14.9</i>
Financial obligations	800,468	682,182	17.3
Bonds outstanding	144,002	0	N/A
Commercial paper	199,030	250,000	-20.4
Suppliers and accounts payable	384,572	398,389	-3.5
Dividends payable	127,857	47,778	167.6
Taxes and rates	169,865	46,445	265.7
Labor liabilities	91,226	36,419	150.5
Sundry creditors	49,972	54,582	-8.4
Other liabilities	329,472	249,145	32.2
<b>CURRENT LIABILITIES</b>	<b>2,296,464</b>	<b>1,764,940</b>	<b>30.1</b>
Financial obligations	706,233	700,167	0.9
Labor liabilities	257,387	224,990	14.4
Deferred items	75,609	160,869	-53.0
Bonds outstanding	1,095,998	1,240,000	-11.6
Bond placement premium	-10,673	-11,494	7.1
Sundry creditors	127,281	136,850	-7.0
<b>NON-CURRENT LIABILITIES</b>	<b>2,251,835</b>	<b>2,451,382</b>	<b>-8.1</b>
<b>TOTAL LIABILITIES</b>	<b>4,548,299</b>	<b>4,216,322</b>	<b>7.9</b>
<i>US\$ Dollars</i>	<i>2,555</i>	<i>2,203</i>	<i>16.0</i>
<b>MINORITY INTEREST</b>	<b>69,051</b>	<b>88,468</b>	<b>-21.9</b>
<i>US\$ Dollars</i>	<i>39</i>	<i>46</i>	<i>-16.1</i>
<b>SHAREHOLDERS' EQUITY</b>	<b>11,933,262</b>	<b>11,176,077</b>	<b>6.8</b>
<i>US\$ Dollars</i>	<i>6,703</i>	<i>5,839</i>	<i>14.8</i>
<b>TOTAL LIABILITIES + SHAREHOLDERS' EQUITY</b>	<b>16,550,612</b>	<b>15,480,867</b>	<b>6.9</b>