

COMMENTS MANAGEMENT

Second Quarter 2020

UNION ANDINA DE CEMENTOS S.A.A.

Management Comments Second Quarter, as of June 30, 2020

RELEVANT EVENTS

SANITARY CRISIS AND MEASURES TAKEN BY UNACEM IN THE COVID-19 EMERGENCY

The COVID-19 coronavirus pandemic, identified for the first time at the end of 2019 in the Chinese city of Wuhan, since the beginning of 2020 has been increasingly and severely affected the health and lives of people all over the world, causing the paralysis of economic and commercial activities in many countries including Peru and affecting the commercial operations of the Company.

As a result of the declared State of Emergency, the Company immediately suspended the production of clinker and cement, as well as the dispatch at our Atocongo and Condorcocha production plants. The priority of the Company from the outset was focused on its sustainability and the protection of the health, integrity and well-being of its employees and their families, as well as the jobs and all of its shareholders.

In mid-April 2020, the Company restarted in a very limited way the dispatch of bulk cement, exclusively to serve the mining subsector in the execution of its critical activities, under strict security measures and new protocols with complementary measures to protect the health of its employees, which are constantly reviewed. Subsequently, Supreme Decree No. 080-2020-PCM, of May 3, 2020, approved the gradual and progressive resumption of economic activities within the framework of the declaration of the State of National Emergency, which allowed the Company to resume clinker grinding activities and bagged and bulk cement dispatch as of the third week of May 2020, taking into account all the recommendations of the health authorities, in order to safeguard the well-being of its workers and the value chain.

The stoppage of the Company's economic activities in Peru between March 17 and May 19, 2020, generated a deterioration in the financial results of the second quarter of 2020, which led the Board of Directors to adopt a series of preventive and extraordinary measures, applicable throughout the year 2020, to take care of liquidity and working capital, which are allowing the Company to meet its commitments with

its workers, suppliers and clients throughout the entire value chain. The main measures adopted are:

1. Consume existing inventories before restarting the operation of the kilns, to protect the Company's liquidity.
2. Suspend all investments (CAPEX), with the exception of projects in execution to be completed this year.
3. Suspend all expenses on goods and services, including maintenance expenses, that are not critical for this emergency stage, within a policy of strict austerity.
4. Suspend the quarterly dividends distribution to shareholders.
5. Suspend the distribution of fees to the board.
6. Suspend advances of workers profit sharing.
7. Accept and thank the solidarity proposal of UNACEM officials to voluntarily and temporarily reduce their salaries between 10% and 25%.
8. Suspend salary increases and bonuses during 2020 for all administrative staff.
9. Manage agreements with workers to collective agreements to suspend salary increases and bonuses in 2020.
10. Continue through Asociación UNACEM the policy of supporting the basic needs of the most vulnerable population in the areas surrounding the Atocongo and Condorcocha production plants.
11. Obtain short-term financing with various institutions of the local financial system to guarantee the required liquidity in 2020.

Despite the aggressive package of measures launched in successive stages by the Government and Central Bank of Peru to inject liquidity into the population and employers and prevent interrupting the payment and supply chain, the suspension of many productive and commercial activities severely affected the economy, especially employment and the sustainability of hundreds of thousands of SMEs (Small and medium-sized enterprises), drastically reducing the demand of essential goods by millions of entrepreneurs and underemployed and informal workers who accounted 70% of the EAP (Economically Active Population) in the country. This serious health and economic crisis significantly slow-down self-construction, the main support of the Company's bagged cement dispatches, from March to May 2020; however, we believe there are sufficient reasons to be cautiously optimistic in the medium term.

If we analyze the Cement demand behavior since operations restarted, it showed a recovery on the self-construction segment, which was greater than expected given the difficult employment situation mentioned in the previous paragraph; therefore, we have been pleasantly surprised by the recovery in sales in the period under review and, while our expectations for the remainder of the year are quite encouraging, it is still too early to estimate longer trends.

UNACEM's Board of Directors and Management will continue to analyze the scenarios and may adjust the emergency measures based on the evolution of the serious situation caused by the COVID-19 pandemic and the provisions adopted by the Government.

RELEVANT ASPECTS ON THE PREPARATION OF FINANCIAL INFORMATION

As mentioned above, the Company was forced to paralyze its economic activities between March 17 and May 19, 2020, as a result of the measures taken by the government due to the COVID-19 pandemic. Subsequently, the Company restarted operations at its Atocongo and Condorcocha plants, with the minimum necessary personnel and complying with strict safety protocols. In the case of administrative personnel, an important part of this has been carrying out their tasks under the modality of remote work.

Given this, the Company's Management proceeded to identify the risks associated with the preparation of financial information, concluding the following:

- a) The Company uses SAP ERP, which allows it to successfully manage in an integrated environment its human resources, financial-accounting, productive, commercial, supply chain and other process, for which no greater impact has been generated in the performance of the remote work by the Company personnel.
- b) The Company's personnel have been making use of the computer equipment provided by the Company, with the necessary security controls and permanent computer support, for which no issues have been identified that could put at risk the integrity and reliability of the financial information.
- c) The accounting record procedures are been carried out as it had been done before the pandemic, so the timeliness of preparing the information has not been affected, except for what is mentioned in the next paragraph.
- d) A financial-accounting team was appointed to evaluate the significant impacts of the pandemic and crisis caused by COVID-19, in the Company's financial statements, taking into account compliance with IFRS and the recommendations included in the Circular. No. 140-2020-SMV / 11.1.
- e) The corresponding coordination meetings and reviews have been carried out smoothly through the virtual platforms that the Company has made available to its collaborators.

PRODUCTION

■ CLÍNKER

During 2Q20 there was no clinker production due to the shutdown of the kilns as a result of the health crisis caused by the COVID 19 pandemic.

■ CEMENT

Cement production during 2Q20 decreased by 58.9% compared to 1Q20 due to the stoppage of operations as of March 17, 2020 as a result of the declaration of the State of National Emergency, which gradually restarted as of May 20 2020.

Production and Dispatches- Peru

(in thousand tons)

Period		Production		Dispatch	
Year	Qtr.	Clinker	Cement	UNACEM	Peru
2019	I	1,047	1,300	1,274	2,748
	II	1,456	1,322	1,302	2,782
	I-II	2,503	2,622	2,576	5,530
	III	1,645	1,320	1,351	3,087
	IV	1,561	1,397	1,389	3,144
	I-IV	5,709	5,339	5,316	11,761
2020	I	1,150	1,068	1,064	2,320
	II	-	439	444	1,012
	I	1,150	1,507	1,508	3,332
Variation					
20-I-II/19-I-II		-54.1%	-42.5%	-41.5%	-39.7%
20-II/19-II		---	-66.8%	-65.9%	-63.6%
20-II/20-I		---	-58.9%	-58.3%	-56.4%

CEMENT DISPATCHES

■ DOMESTIC MARKET

UNACEM's cement dispatches decreased by 58.3% during the second quarter of 2020, compared to the 1Q20, from 1,063,699 t to 443,593 t.

Cement dispatches in Peru, according to information from the National Institute of Statistics and Informatics - INEI, during the second quarter of 2020 decreased by 56.4% compared to the previous quarter, from 2,320,267 t to 1,011,543 t.

The Company's share in the domestic market decreased, from 45.8% in 1Q20 to 43.9% in 2Q20.

■ PORT OPERATIONS

As of 2Q20, exports through the Conchán pier decreased by 77.2% due to the accident in the ship loader in 1Q20; during the second quarter, no clinker exports were carried out due to the repair work on this equipment, which was completed in July.

Additionally, the tonnage of bulk solids operated by the Conchán pier as of 2Q20 was 414 thousand tons (548 thousand tons as of 2Q19), including gypsum, coal, pozzolana, slag and third parties grains operations.

FINANCIAL INFORMATION

■ LIQUIDITY

As of June 30, 2020, the Company's ability to meet short-term obligations is 1.04 per every sol owed.

■ CAPITAL AND FUNDING SOURCES

As of June 30, 2020, CAPEX amounted to S/ 49.2 million; the main additions during the first semester of 2020 correspond to disbursements made for the project to dedust the coolers of kiln 2, migration of the control system of kiln 2 and roofing of the clinker yard, corresponding to the Condorcocha plant; as well as

disbursements made for the purchase of land, the structural reinforcement and internal modification of chamber 3 of the multisilo, the fire detection and alarm system and the Manchay ecological strip project corresponding to the Atocongo plant. Likewise, minor investment disbursements were made for maintenance of both plants.

Gross financial debt amounted to S/ 3,390.9 million, increasing by 10.5% in relation to December 31 of the previous year, mainly explained by short-term financing taken with various institutions of the local financial system to guarantee the liquidity of the Company. The higher amount corresponds to the increase in debt net of payments for S/ 278.0 million and a greater exchange loss generated by debt in foreign currency for S/ 45.3 million. It is worth mentioning that 25.1% of such debt is in foreign currency (17.3% as of December 31 of the previous year). Likewise, 22.2% of the total debt is kept in short term (12.5% as of December 31 of the previous year). Finally, 1.8% of the financing is in bonds, 83.5% in loans and 14.7% in promissory notes and bank overdrafts (3.9% of the financing is in bonds, 90.4% in loans and 5.7% in bank promissory notes and overdrafts as of December 31, 2019).

■ ECONOMIC RESULTS

The invoiced dispatches for cement as of June 30, 2020 amounted to S/ 527.6 million, 39.9% lower than the invoiced dispatches reached during the same period of the previous year. This decrease is mainly due to a lower physical volume of cement sold as a result of the stoppage of operations from March 17 to May 19, 2020 as a result of the declaration of the State of National Emergency.

The cost of sales of cement as of June 30, 2020 amounted to S/ 359.8 million, 36.4% lower than in the same period of 2019, mainly due to the lower volume of physical cement sold for the reasons previously mention.

Revenues from Exports and Blocks, Paving and Pavements decreased as of June 30, 2020 compared to the same period in 2019. The combined gross margin was 28.4% (33.2% in the previous year).

The operating expenses, amounted to S/ 77.1 million in the second quarter of 2020, decreased by 19.2% compared to the same period of the previous year, mainly due to the austerity policy of the Company to face the current health and economic crisis. Other Operating Income for the second quarter of 2020 has decreased by 74.8% compared to the second quarter of 2019, mainly because

2019 includes an income from declared dividends from UNACEM ECUADOR, through Inversiones IMBABURA S.A. and from other related companies for a total of S/ 113.8 million and in 2020 only includes income from declared dividends from the subsidiary ARPL for S/ 8.9 million. Other Expenses increased significantly compared to the same period of the year, mainly due to the adjustment of assets related to the Atocongo thermal plant and the integral plan of the Cristina mining concession projects for S / 57.7 million

As a consequence of the aforementioned, operating profit for the period was S/ 60.0 million versus the operating profit of S/ 355.9 million reached in 2Q19, mainly explained by the lower combined gross margin, lower income from declared dividends by subsidiaries and higher expenses due to the asset adjustment. EBITDA margin was 29.6% as of 2Q20 (48.5% as of 2Q19), including dividends declared from subsidiaries.

Financial Income and Financial Expenses decreased in relation to the same period of the previous year mainly due to lower interest related to the income tax refund for the years 1998, 2015 and 2016; and due to lower interest expenses for financial obligations, respectively.

As of 2Q20, there was a loss in exchange of S/ 36.8 million (versus an exchange rate gain of S / 28.4 million as of 2Q19), mainly explained by the financial debt in dollars.

The provision for income tax of the year was determined based on the accounting income for the period.

As of 2Q20, a net loss of S/ 39.0 million was obtained versus a net profit as of 2Q19 of S/ 245.3 million, for the reasons mentioned in the preceding paragraphs.

The most important changes in the Company's statement of financial position as of June 30, 2020 compared to December 31, 2019 can be observed in the following items:

- ▶ Increase in Cash and cash equivalents in S/ 110.2 million, mainly due to higher collections from customers after the resumption of the Company's activities.
- ▶ Decreased of the Mine, Property, Plant and Equipment by S/ 71.3 million, mainly due to the adjustment of assets related to the Atocongo thermal plant and the Cristina mining concession integral plant by S/ 57.5 million.
- ▶ Increase in Financial Obligations in S/ 323.3 million, due to the short-term financing obtained with various institutions of the local financial system to

guarantee the liquidity of the Company, in order to comply with the workers, suppliers and clients as throughout the entire value chain.

- ▶ Decrease in Commercial Accounts Payable in S / 81.2 million, mainly due to lower purchases due to the stoppage of the Company's operations.

Change of those responsible for the preparation and review of the financial information (8300)

No changes have been made in the General Accounting for the last two years.

Until December 31, 2018, the General Management was in charge of Sindicato de Inversiones y Administracion S.A. As of January 1, 2019, Mr. Carlos Ugás Delgado was appointed as General Manager.

On January 31, 2020, the UNACEM Board of Directors, with the prior agreement of the Audit and Risk Committee, unanimously approved the appointment of Mr. Pedro Lerner Rizo Patron, as its new General Manager, a position he assumed from July 1 of this year.

Information related to the market of the securities registered in the Stock Market Public Registry. (10100)

The following is a summary of stock information, all figures are in current soles per share, except the number of shares:

YEAR 2020					
COMMON SHARE					
Year - Month	Opening	Closure	Highest	Lowest	Average Price
2020 - 01	2.00	1.90	2.00	1.90	1.95
2020 - 02	1.89	1.97	1.99	1.89	1.96
2020 - 03	1.96	1.35	1.96	1.31	1.67
2020 - 04	1.32	1.15	1.35	1.14	1.27
2020 - 05	1.18	1.40	1.40	1.18	1.32
2020 - 06	1.38	1.60	1.70	1.38	1.57

YEAR 2019 COMMON SHARE

Year - Month	Opening	Closure	Highest	Lowest	Average Price
2019 - 01	2.58	2.60	2.60	2.45	2.58
2019 - 02	2.70	2.65	2.73	2.60	2.68
2019 - 03	2.70	2.73	2.86	2.68	2.76
2019 - 04	2.72	2.50	2.73	2.45	2.62
2019 - 05	2.50	2.45	2.60	2.40	2.53
2019 - 06	2.48	2.44	2.50	2.40	2.45

DIVIDEND POLICY APPROVED IN THE GENERAL MEETING OF SHAREHOLDERS DATED 31 MARCH 2015

Starting in 2015, the policy is to distribute quarterly cash dividends, within a range between S/ 0.01 and S/ 0.02 per share issued by the Company, provided that the Company's liquidity situation allows it, that is, subject to the Company having complied with its financial covenants (contractual financial obligations) and has sufficient liquid resources to cover its operating and administrative costs and expenses, the scheduled disbursements for its investments in fixed assets and other assets, as well as to pay the maturities of the period for capital and interest of financial obligations.

This policy is permanently reported through the website of the SMV: http://www.smv.gob.pe/Frm_SupDividendos.aspx?data=EAE3284A58D5428CADE638E8D08A3F292BC409917D

And on the UNACEM website: <http://www.unacem.com.pe/wp-content/uploads/2012/03/politicadedividendos-esp.pdf>