

# MANAGEMENT COMMENTS

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Fourth Quarter 2020

## UNION ANDINA DE CEMENTOS S.A.A.

### **Management Comments Fourth Quarter, as of December 31, 2020**

#### RELEVANT EVENTS

##### ■ HEALTH CRISIS COVID-19

The COVID-19, 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 affecting health and life worldwide, causing the paralysis of economic and commercial activities in many countries including Peru and affecting the commercial operations of the Company.

In March 2020, the declaration of the State of Emergency forced the Company to immediately suspend the production of clinker and cement, as well as the dispatch at its Atocongo and Condorcocha production plants. The priority of the Company from the outset was focused on the protection of the health, integrity and well-being of its employees and their families and its sustainability, as well as the jobs and all of its shareholders.

In mid-April 2020, the Company restarted the dispatch of bulk cement to a very limited extent, exclusively to serve the mining sub-sector in the execution of its critical activities. 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, and clinker production from July 2020, taking into account all the recommendations of the health authorities.

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 measures and extraordinary, applicable throughout the year 2020, to take care of liquidity and working capital, allowing the Company to meet its workers, suppliers and clients throughout the entire value chain.

Despite the aggressive package of measures launched in successive stages by the Government and the BCR to inject liquidity into the population and employers and prevent the payment and supply chain from being cut off, 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 capacity to consume essential goods of millions of entrepreneurs and underemployed and informal workers who represent 70% of the EAP (Economically Active Population) in the country. However, if the behavior of cement demand is analyzed since operations were restarted, it can be seen that the self-construction segment has shown a recovery greater than expected, despite the difficult employment situation mentioned above, pleasantly surprising us with the recovery of sales in the period under analysis.

UNACEM's Board of Directors and Management have been permanently analyzing the possible scenarios in the face of the potential implications of a "second wave". While it is true the impact of the possible outbreak of COVID-19 is uncertain and we cannot predict the consequences in the world, the economy and the markets; to date, the Company has been executing its business plan in accordance with the provisions and adjusting the necessary measures in light of the evolution of the pandemic.

### ■ ACQUISITION PROCESS OF CEMENT OPERATIONS IN CHILE

The 2020 has been a year of great challenges for the world and our country, as a result of the continuous ravages of the COVID-19 pandemic. In this context, the Company executed a plan of measures that allowed it to overcome one of the greatest health and economic crises that humanity has experienced in recent decades; and that it is reviewed on an ongoing basis; having as a fundamental pillar ensuring the safety and health of its employees, and the sustainability of the Company and all its stakeholders.

This has allowed it to maintain a solid position and, as activity levels have recovered, to take advantage of opportunities that the situation has brought.

Thus, in December, UNACEM closed an agreement to acquire Cementos La Unión S.A. (CLU) in Chile, a country that is the Company's main clinker export destination, and where it also already has concrete (Unicon Chile) and precast (Preansa Chile) operations. The purchase consists of a cement grinding plant with a capacity of 300,000 mt / year and a ready-mix concrete unit with concrete plants and trucks with a capacity of 336,000 m<sup>3</sup> / year. The total amount of the operation is approximately US \$ 23 million, which includes the purchase price and the CLU debt to be guaranteed

by UNACEM. The closing of the purchase is still subject to the final approval of the Chilean authorities.

### ■ RELEVANT ASPECTS ON THE PREPARATION OF FINANCIAL INFORMATION

As mentioned above, the main thing for the Company is the safety, health and well-being of its employees, as well as the sustainability of its operations. In this sense, the Company has been operating with the minimum necessary personnel and complying with strict security 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 has the ERP SAP computer system, which allows it to successfully manage and in an integrated environment its human, financial-accounting, productive, commercial, logistical resources and more, 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) There are accounting registration procedures that allow work to continue as it had been done before the pandemic, so the timeliness in preparing the information has not been affected.
- d) The corresponding coordination and review meetings have been carried out smoothly through the virtual platforms that the Company has made available to its collaborators.

## CLINKER

### ■ PRODUCTION

Clinker production increased during 4Q20 by 72.7% compared to 3Q20, going from 684,878 t to 1,182,824 t, mainly due to the fact that operations affected by the COVID-19 pandemic have gradually normalized during the second half of

2020. On the other hand, annual clinker production as of December 31, 2020 decreased by 47.1% compared to the same period of the previous year, mainly due to the stoppage of the kilns as a result of the health crisis caused by the COVID-19 pandemic.

## ■ CEMENT

Cement production during 4Q20 increased 17.9% compared to 3Q20 due to a significant recovery of cement dispatches.

### 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
	III	1,645	1,320	1,351	3,087
	IV	1,561	1,397	1,389	3,144
	<b>I-IV</b>	<b>5,708</b>	<b>5,339</b>	<b>5,316</b>	<b>11,762</b>
2020	I	1,150	1,068	1,064	2,307
	II	-	439	444	1,024
	III	685	1,362	1,364	3,086
	IV	1,183	1,606	1,591	3,617
	<b>I-IV</b>	<b>3,017</b>	<b>4,476</b>	<b>4,462</b>	<b>10,034</b>
<b>Variation</b>					
20-I-IV/19-I-IV		-47.1%	-16.2%	-16.1%	-14.7%
20-IV/19-IV		-24.2%	14.9%	14.5%	15.0%
20-IV/20-III		72.7%	17.9%	16.6%	17.2%

### CEMENT DISPATCHES

#### ■ DOMESTIC MARKET

UNACEM's cement dispatches increased by 16.6% during 4T20, compared to the previous quarter: from 1,364,048 t to 1,590,502 t. Compared with the same quarter of 2019, dispatches were 14.5% higher.

Cement dispatches in Peru, according to the information from the National Institute of Statistics and Informatics - INEI, during the fourth quarter of 2020 increased by 17.2% compared to the previous quarter, going from 3,086,213 t to 3,617,314 t.

The Company's participation in the domestic market decreased slightly, from 44.2% in 3Q20 to 44.0% in 4Q20.

#### ■ PORT OPERATIONS

As of 4Q20, exports through the Conchán pier were reduced by 56.3% compared to the same period of the previous year, as a result of the fact that during 2Q20 there were no clinker exports due to repair work at the ship loader, which ended in July. Compared to 3Q20, exports were 11.2% higher during 4Q20.

The tonnage of bulk solids operated by the Conchán pier at the end of 4Q20 was 773 thousand tons (1.1 million tons at the end of 4Q19), including operations of gypsum, coal, pozzolana, slag, third party grains and an import of clinker. Compared to 3Q20, the volume of bulk solids operated was 151.5% higher during 4Q20.

### FINANCIAL INFORMATION

#### ■ LIQUIDITY

As of December 31, 2020, the Company's ability to meet short-term obligations is 1.01 per every sol owed.

### ■ CAPITAL AND FUNDING SOURCES

As of December 31, 2020, CAPEX amounted to S/ 126.9 million; the main additions during 2020 correspond to disbursements made for the projects to dedust the coolers of kiln 2, migration of the control system of kiln 2, modernization in the Carpapata 1 and 2 Hydroelectric Plant, major maintenance of kiln 2 and roofing of the clinker field, corresponding to the Condorcocha plant; as well as disbursements made for the project of structural reinforcement and internal modification of chamber 3 and 1 of the multisilo, change of variators in the oil press substation 3 and clinker 1, fire water installations, fire detection and alarm system, the Manchay ecological belt project, major maintenance of kiln 1, change of reducers, second stage of the migration of the kiln control system and the repair of the clinker tower 1, corresponding to the Atocongo plant. Likewise, minor investment disbursements were made for maintenance of both plants.

The gross financial debt amounted to S/ 3,170.9 million, increasing by 3.4% in relation to December 31 of the previous year, mainly explained by obtaining short-term financing taken with various institutions of the local financial system to guarantee the liquidity of the Company, net of debt amortization. The higher amount corresponds to the increase in debt net of payments for S/ 97.7 million and a greater exchange loss generated by debt in foreign currency for S/ 63.7 million. It is worth mentioning that 23.3% of such debt is in foreign currency (19.0% as of December 31 of the previous year). Likewise, 25.0% of the total debt is kept in short term (12.5% as of December 31 of the previous year). Finally, 86.5% of the financing corresponds to bank loans, 11.6% to bank promissory notes and 1.9% to bonds (90.4% of the financing corresponded to bank loans, 5.7% to bank notes and overdrafts and 3.9% in bonds as of December 31, 2019).

### ■ ECONOMIC RESULTS

The invoiced dispatches for cement as of December 31, 2020 amounted to S/ 1,576.6 million, 12.9% 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 consequence of the stoppage of operations between March 17 and May 19, 2020 as a result of the declaration of the State of National Emergency.

The cost of sales of cement as of December 31, 2020 amounted to S/ 1,116.0 million, 3.6% lower than in the same period of 2019, mainly due to the lower volume of physical cement sold counter act by higher fixed cost due to the stoppage of operations, for the reasons previously mention.



Revenues from Exports and Blocks, Paving and Pavements decreased as December 31, 2020 compared to the same period in 2019, due to the suspension of operations.

The combined gross margin was 27.3% (33.9% in the previous year).

Operating expenses, amounting to S/ 187.2 million as of December 31, 2020, decreased by 20.5% compared to the previous year, mainly due to the austerity policy established by the Company to face the current health and economic crisis. Other Operating Income in 2020 decreased by 70.9% compared to 2019, mainly because 2019 includes income from declared dividends from UNACEM ECUADOR, through Inversiones IMBABURA S.A. and from other related companies for a total of S/ 159.2 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 previous year, mainly due to the adjustment of assets related to the Atocongo thermal plant and the Cristina mining concession integral plan projects for S/ 57.7 million.

As a consequence of the aforementioned, an operating profit of S/ 261.0 million was obtained in 2020 versus the operating profit of S/ 624.2 million reached in 2019, mainly explained by the lower combined gross margin, the lower income from dividends declared by subsidiaries and the highest asset adjustment expenses. The EBITDA margin was 29.5% in 2020 (43.5% in 2019), including dividends declared by subsidiaries.

Financial Income and Financial Expenses decreased in relation to the same period of the previous year, mainly due to lower interest income related to the refund of income tax for the years 1998, 2015 and 2016, and lower interest expenses for financial obligations that were refinanced in the last quarter of 2019 at lower interest rates and for the redemption of bonds.

As of the end of 2020, there was a FX loss of S/ 49.7 million (versus a FX loss of S/ 18.9 million in 4Q19), 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 the end of 2020, a net profit of S/ 30.3 million was obtained versus a net profit of S/ 348.9 million as of the end of 2019, for the reasons mentioned in the preceding paragraphs.

The most important changes in the Company's Balance Sheet as of December 31, 2020 compared to December 31, 2019 can be observed in the following items:



- ▶ Increase in Cash and cash equivalents in S/ 284.0 million, mainly due to dividends received from the subsidiary Unacem Ecuador S.A. (through Inversiones Imbabura S.A.) for S/ 143.9 and lower payments to suppliers' net of collections from customers.
- ▶ A decrease of S/ 69.4 million in Accounts receivable from related parties, mainly due to the collection of dividends from the subsidiary Unacem Ecuador.
- ▶ A decrease in Inventories of S/ 196.4 million, mainly due to the decrease in the clinker stock.
- ▶ A decrease of S/ 102.9 million in the Mining Concessions, Property, Plant and Equipment item, 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 and higher net depreciation of additions.
- ▶ An increase in Financial Obligations in S/ 103.4 million, explained by a greater FX loss of S/ 63.7 million and by obtaining short-term financing taken with various institutions of the local financial system to guarantee the liquidity of the Company, with the objective of fulfilling the Company's obligations with workers, suppliers and clients throughout the entire value chain for S/ 39.6 million.

### ***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
2020 - 07	1.60	1.55	1.60	1.46	1.52
2020 - 08	1.54	1.45	1.54	1.45	1.48
2020 - 09	1.46	1.43	1.48	1.40	1.43
2020 - 10	1.44	1.30	1.44	1.30	1.37
2020 - 11	1.30	1.48	1.50	1.30	1.40
2020 - 12	1.50	1.55	1.56	1.49	1.53

**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
2019 - 07	2.44	2.36	2.44	2.36	2.41
2019 - 08	2.36	2.32	2.35	2.24	2.31
2019 - 09	2.32	2.13	2.33	2.13	2.22
2019 - 10	2.00	2.13	2.20	2.00	2.08
2019 - 11	2.13	2.00	2.13	1.97	2.03
2019 - 12	2.00	2.00	2.00	1.93	1.97

### ***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.

The Board of Directors, in a session held on April 4, 2020, as part of the preventive and extraordinary measures implemented due to the exceptional situation of the pandemic, agreed to suspend the quarterly distribution of dividends until conditions allow their resumption.

The dividend policy is permanently reported through the website of the SMV: [http://www.smv.gob.pe/Frm\\_SupDividendos.aspx?data=EAE3284A58D5428CADE638E8D08A3F292BC409917D](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>