

MANAGEMENT COMMENTS

Second Quarter 2018

UNION ANDINA DE CEMENTOS S.A.A.

Management Comments Second Quarter, as of June 30, 2018

PRODUCTION

■ CLINKER

The production of clinker increased by 38.4% during the second quarter of 2018, compared with the previous quarter. Passing from 1,007,344 t to 1,394.956 t owing to the scheduled maintenance stoppage of Kiln I, in the first quarter. On the other hand, the production of clinker during the second quarter of 2018 increased by 11.8% compared to the same period of the previous year mainly caused by the stoppage of Kiln II in Atocongo plant that took place in order to reduce the high stock of clinker.

Production and Dispatches- Peru

(in thousand tons)

Period		Production		Dispatch	
Year	Qtr.	Clinker	Cement	UNACEM	Peru
2017	I	1,156	1,209	1,206	2,537
	II	992	1,217	1,208	2,531
	I-II	2,148	2,427	2,415	5,068
	III	844	1,288	1,290	2,811
	IV	1,618	1,295	1,288	2,909
	I-IV	4,610	5,010	4,993	10,788
2018	I	1,007	1,202	1,199	2,639
	II	1,394	1,214	1,214	2,613
	I-IV	2,401	2,417	2,413	5,252
Variation					
18-I-II/17-I-II		11.8%	-0.4%	-0.1%	3.6%
18-II/17-II		40.5%	-0.2%	0.5%	3.2%
18-II/18-I		38.4%	1.0%	1.3%	-1.0%

■ CEMENT

During the second quarter of 2018, the production of cement increased by 1.0% compared with the previous quarter. Also, the production of cement as of the second quarter of 2018 decreased by 0.4% compared to the same period of the previous year. In both cases, the production goes in accordance with the demand.

CEMENT DISPATCHES

■ DOMESTIC MARKET

UNACEM's cement dispatches increased by 1.3% during the second quarter of 2018, compared to the previous quarter: from 1,199,865 t to 1,214,399 t. During the first semester of 2018, the cement dispatch decreased by only 0.1% in relation to the first semester of 2017.

Domestic cement dispatches, according to the National Institute of Statistics and Informatics (INEI), decreased by 1.0% during the second quarter of 2018, compared to the previous quarter, from 2,638,974 t. to 2,612,672 t. In the first semester of 2018, the cement dispatch in Peru increased by 3.6% compared to the same period of the previous year.

The Company's domestic market share experienced an increased, from 45.4%, registered in the first quarter of 2018, to 46.5% in the second quarter of 2018.

■ PORT OPERATIONS

As of 2Q18, the tonnage of bulk solids operated by the Conchán pier was 830 thousand tons, much higher than the 297 thousand tons reached in the same period of 2017, explained mainly by the greater exports of clinker made, exports in the second quarter reached 297 thousand tons. At the end of the first semester, 581 thousand tons of clinker were exported.

FINANCIAL INFORMATION

■ LIQUIDITY

As of June 30, 2018, the Company's ability to meet short-term obligations is 1.62 per every sol owed.

■ CAPITAL AND FUNDING SOURCES

As of June 30, 2018, CAPEX totaled 39 million, mainly related to disbursements for the Atocongo Thermal Plant project.

The financial gross debt totaled 3,159 million soles, 6.0% lower than in December 31, of the previous year due to debt payments. It is worth mentioning that 74% of such debt is in foreign currency. Likewise, 10% of the total debt is kept in short term (14% as of December 31 of the previous year). Finally, 69% of the debt is on bonds, 25% on loans and 6% on promissory notes.

■ ECONOMIC RESULTS

Cement sales as of the second quarter 2018 amounted S/. 865.3 million soles being 2.0% higher than the invoiced sales of the same period of the previous year. This increase is mainly driven by a lower volume, sold net from a higher average price. It is worth mentioning that as of January 1, 2018, IFRS 15 came into force, as a result of the evaluation of the transaction price, under this rule, it was determined that the income from the sale of cement must present net of the commissions of sale. As of 2Q18, the sales commissions correspond to S/. 21.9 million and, for comparative purposes of the financial statements in 2Q17, the sales commissions presented in Operating Expenses were reclassified to cement sale for S/. 20.1 million.

Cost of goods sold was 490.79 million soles as of the second quarter of 2018; 2.4% higher than the same period in 2017, mostly due to the increase of fixed costs (mainly by maintenance due to programmed stoppage) net of a lower volume of cement sold.

Additionally, income from exports increased and income from blocks, paving and pavements increased as of the second quarter of 2018 compared to the same period in 2017. The combined gross margin was 40.0% (42.1% in the previous year).

Operating Expenses totaled 118.4 million soles in the second quarter of 2018 decreased by 10.5% compared to the same period of the previous year, mainly due to lower management fees. As of the second quarter of 2018, other operating incomes include earnings from the dividends paid by UNACEM ECUADOR, through Inversiones IMBABURA S.A., and other companies, equivalent to 96 million soles (247 million in the same period of the previous year for dividends from UNACEM ECUADOR, through Inversiones IMBABURA S.A .; Unión de Concreteras S.A. - UNICON, through Investments in Concrete and Related Industries S.A. - INVECO; of Compañía Eléctrica el Platano - CELEPSA and other related companies). The other expenses increased by 16.6% with respect to the same period of the year.

The operating profit totaled 366.4 million soles as of the second quarter of 2018, lower than 484.2 million soles reached in 2017, mainly explained by lower revenues from dividends from subsidiaries, as explained in the previous paragraph. EBITDA margin was 52.7% as of 2Q18 (70.2% as of 2Q17).

Financial Income increased by 24.9% in relation to the previous year, , while financial expenses decreased by 15.4% due to a lower capitalized interests.

In the second quarter of 2018, a FX loss was obtained for S /. 13.7 million soles (FX gain of 79.8 million soles as of the second quarter 2017) mainly explain by the financial debt kept in US dollars.

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

Net profit decreased by 47.8%, from 390.1 million soles in 2017 to 203.4 million soles in 2018, representing 21.1% of the net sales, lower than the 43.8% made during 2017.

The most important changes in the company's balance sheet as of June 30, 2018 compared to December 31, 2017 are presented in the following accounts:

- ▶ Decrease of cash and cash equivalent by 72.7 million soles, mainly due to the payment of financial obligations.
- ▶ Increase of Accounts Receivable to Related Parties of 107.7 million soles due to the dividends declared during the first quarter by Inversiones IMBABURA, which are pending of payment as of June 30, 2018.
- ▶ Decrease of the Financial Debt by 202.7 million soles due to debt payments of 223.0 million soles and the FX difference of 20.3 million soles.

- Increase of the Global Equity owing to the profits of the period, net of paid dividends.

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

In the last two years, no changes were made regarding those who are responsible for such information; as the representative of the General Management, through Sindicato de Inversiones y Administración or the General Accounting.

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 2018

COMMON SHARE

Year - Month	Opening	Closure	Highest	Lowest	Average Price
2018 - 01	3.00	3.05	3.05	2.90	2.98
2018 - 02	3.00	2.99	3.02	2.85	2.97
2018 - 03	2.95	2.95	3.04	2.83	2.92
2018 - 04	2.92	2.92	2.94	2.81	2.90
2018 - 05	2.93	2.92	2.99	2.85	2.93
2018 - 06	2.92	2.85	2.92	2.78	2.83

YEAR 2017

COMMON SHARE

Year - Month	Opening	Closure	Highest	Lowest	Average Price
2017 - 01	2.57	2.42	2.57	2.40	2.49
2017 - 02	2.42	2.31	2.51	2.31	2.46
2017 - 03	2.34	2.60	2.60	2.07	2.34
2017 - 04	2.59	2.35	2.62	2.35	2.46
2017 - 05	2.46	2.50	2.53	2.36	2.46
2017 - 06	2.46	2.36	2.46	2.35	2.41

The ADS prices were as follows:

American Depository Shares (ADS)*	Jun. 30 , 2018	Dec. 31 , 2017
Number	11,356	11,356
Closing price**	-	-

* 1 ADS = 1 common share

**Last price as of 09.30.2017. On September 2017, the Board approved to close the ADR program. Only at 11.30.2018 The Bank of New York will proceed to sell the underlying shares, and once the entire position is sold, the balance of the ADRs will be at zero.

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

As of fiscal year 2015, the policy consists of the distribution of quarterly dividends in cash, within a range between S / .0.01 and S / .0.02 per share issued by the Company.

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