

# MANAGEMENT COMMENTS

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Second Quarter 2019

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

### **Management Comments Second Quarter, as of June 30, 2019**

#### **EVENTOS RELEVANTES**

On January 1, 2019, the Merger of UNACEM S.A.A. as an absorbing company, and of the following three non-listed companies, Sindicato de Inversiones y Administración S.A. (SIA), Inversiones Andino S.A. (IASA) and Inmobiliaria Pronto S.A. (Soon) as absorbed companies, that was approved at the General Shareholders' Meeting of December 28, 2018 came into force.

Likewise, on June 1, 2019, the Merger of UNACEM S.A.A as an acquiring company, and of the following unlisted company, Cementos Portland S.A.C. (CEMPOR) as an absorbed company, that was approved at the General Shareholders' Meeting held on May 28, 2019, came into force.

#### **PRODUCTION**

##### **■ CLINKER**

Clinker production increased during 2Q19 by 39.1% compared to the previous quarter, from 1,046,503 t to 1,455,891 t, mainly due to the higher cement demand. On the other hand, clinker production in 1H19 increased by 4.2% compared to the same period of the previous year.

## Production and Dispatches - Peru

(In thousands of metric tons)

Period		Production		Dispatches	
Year	Qtr.	Clinker	Cement	UNACEM	Peru
2018	I	1,007	1,202	1,199	2,658
	II	1,394	1,214	1,214	2,634
	<b>I - II</b>	<b>2,401</b>	<b>2,417</b>	<b>2,413</b>	<b>5,291</b>
	III	1,301	1,287	1,276	2,841
	IV	1,586	1,369	1,369	2,990
	<b>I - IV</b>	<b>5,289</b>	<b>5,073</b>	<b>5,058</b>	<b>11,122</b>
2019	I	1,047	1,300	1,274	2,696
	II	1,456	1,322	1,302	2,737
	<b>I - II</b>	<b>2,502</b>	<b>2,622</b>	<b>2,576</b>	<b>5,433</b>
<b>Variation</b>					
19-I-II/18-I-II		4.2%	8.5%	6.7%	2.7%
19-II/18-II		4.4%	8.8%	7.2%	3.9%
19-II/19-I		39.1%	1.6%	2.2%	1.5%

### ■ CEMENT

During the 2Q19, the cement production increased by 1.6%. compared with the previous quarter. Likewise, cement production in 1H19 increased by 8.5% with respect 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 during 2Q19 increased by 2.2% with respect to the previous quarter: from 1,273,973 t to 1,301,798 t. During the 1H19, the cement dispatch increased by 6.7% in relation to the 1H18.

Domestic cement dispatches, according to the National Institute of Statistics and Informatics (INEI), increased by 1.5% during the second quarter of 2019, compared to the previous quarter: from 2,696,160 t. to 2,737,324 t. In the first semester of 2019, the cement dispatch in Peru increased by 2.7% compared to the same period of the previous year.

The Company's domestic market share experienced an increased, from 47.3% in 1Q19 to 47.6% in 2Q19.

### ■ PORT OPERATIONS

As of 1H19, clinker exports through our Conchán pier reached 451 thousand tons, a volume lower than the one exported during the 1H18 (581 thousand tons). Additionally, the tonnage of bulk solids operated by the Conchán pier during the 1H19 was 96 thousand tons, a decrease compared to the same period of the previous year (249 thousand tons), with pozzolana and coal operations.

## FINANCIAL INFORMATION

### ■ LIQUIDITY

As of June 30, 2019, the Company's ability to meet short-term obligations is 1.10 per every sol owed.

### ■ CAPITAL AND FUNDING SOURCES

As of June 30, 2019, CAPEX amounted to S / 165 million; the main investments were related to the assets coming from the merger with SIA, IASA, PRONTO and CEMPOR (S/ 92 million), as well as the de-dusting projects of the coolers of kilns 2 and 3, change of press in cement mill 6 and migration of the control system of kiln 2 of Condorcocha plant, pavers and the project of the Atocongo Thermal Plant. Likewise, minor investment disbursements were made for maintenance of both plants.

Gross financial debt amounted to S/ 3,110.6 million, decreasing 4.3% in relation to December 31 of the previous year, mainly explained by net debt payments. It is worth mentioning that 42.9% of such debt is in foreign currency (42.2% as of December 31 of the previous year). Likewise, 16% of the total debt is kept in short term (7% as of December 31 of the previous year). Finally, 27% of the financing

is in bonds, 67% in loans and 6% in promissory notes (the same percentages as of December 31 of the previous year).

### ■ ECONOMIC RESULTS

The invoiced dispatches for cement as of June 30, 2019 amounted to S / 878.2 million, 1.5% higher than the invoiced dispatches reached during the same period of the previous year. This increase is mainly due to a higher volume of physical cement sold net of a lower average price.

The cost of sales of cement as of June 30, 2019 amounted to S/ 563.9 million, 14.9% higher than in the same period of 2018, mainly due to the higher physical volume of cement sold, an increase in the cost of fuels and higher fixed costs (maintenance costs for scheduled stoppages).

Additionally, income from exports decreased and income from blocks, paving and pavements increased as of June 30, 2019 compared to the same period in 2018. The combined gross margin was 33.4% (40.0% in the previous year).

Operating expenses, reached up to S/. 95.5 million in the 1H19, a decrease by 19.4% with respect to the same period of the previous year, mainly due to the termination of the management service in 2019 as a result of the merger by absorption with SIA and IASA. In the 1H19, Other Operating Income account include earnings from the dividends paid by UNACEM ECUADOR, through Inversiones IMBABURA S.A., and other companies, equivalent to 114 million soles (96 million soles registered in the previous year). Other Expenses account decreased by 66.8% with respect to the same period of the year, mainly due to lower depreciation and amortization.

Operating Income reached S/ 355.8 million in 1H19, lower than the S/ 366.3 million reached in 1H18, mainly explained by lower gross margin of cement. EBITDA margin was 48.5% as of 1H19 (52.7% as of 1H18).

Financial Income increased 134.1% in relation to the same period of the previous year, mainly due to the interest related to income tax refunds and the Excise Tax from previous years by the Tax Administration. Financial expenses decreased due to lower interest on financial obligations.

As of 1H19, there was a foreign exchange rate gain of S/ 28.3 million (versus a foreign exchange rate loss of S / 13.7 million in 2Q18), mainly explained by the financial debt in US dollars.

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

Net Income increased by 20.6% from S/. 203.4 million in 1H18 to S/. 245.3 million in 1H19, representing 25.1% of net sales, higher than the 21.1% obtained in 2018.

The most important changes in the Company's Balance Sheet as of June 30, 2019 compared to December 31, 2018 can be observed in the following accounts:

- ▶ Increase of Accounts Receivable from Related Parties of 177.0 million soles due to the dividends declared during the first quarter by Inversiones IMBAMBURA that are pending of payment as of June 30, 2019; and related parties loans acquired due to the merger with SIA.
- ▶ Decrease in Investments in Subsidiaries of S/ 25.0 million, mainly due to the elimination of the investment in CEMPOR, when this subsidiary was absorbed by UNACEM, net of an increase in Investments in Subsidiaries of S/ 61.2 million due to the merger with SIA, IASA and Pronto, mostly by the subsidiary ARPL Tecnología Industrial SA
- ▶ Decrease in Accounts Payable to Related Parties in S/. 62.1 million, due to the compensation of balances between merged companies.
- ▶ Increase in Other Accounts Payable in S/. 28.9 million, mainly by S/. 19.0 million of dividends payable to the shareholders of the companies absorbed by the merger (IASA, SIA and Pronto).
- ▶ Decrease of the Financial Debt in S/. 138.4 million, S/. 102.3 million of net debt payments and foreign exchange rate gain of S/. 36.1 million.
- ▶ Increase in global Equity by S/ 307 million, due to the profit of the period net of dividends paid and the equity increase of the companies absorbed as a result of the mergers carried out by the company

### ***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 Sindicato de Inversiones y Administración S.A., was UNACEM's General Manager. As of January 1, 2019, Mr. Carlos Ugás was appointed as General Manager.

**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 2019**  
COMMON SHARE

Year-Month	Opening	Closing	Maximum	Minimum	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

**YEAR 2018**  
COMMON SHARE

Year-Month	Opening	Closing	Maximum	Minimum	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

**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](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>