

# MANAGEMENT COMMENTS

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Third Quarter 2019

# UNION ANDINA DE CEMENTOS S.A.A.

## **Management Comments** **Third quarter, as of September 30, 2019**

### **EVENTOS RELEVANTES**

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

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 came into force, the Merger was approved at the General Shareholders' Meeting held on May 28, 2019.

### **PRODUCTION**

#### ■ **CLINKER**

Clinker production increased during 3Q19 by 13.0% compared to the previous quarter, from 1,455,891 t to 1,644,528 t, mainly due to the requirement of a safety stock for a scheduled stoppage in 4Q19. On the other hand, clinker production as of September 30, 2019 increased by 26.4% over 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
	III	1,301	1,287	1,276	2,841
	<b>I - III</b>	<b>3,703</b>	<b>3,704</b>	<b>3,689</b>	<b>8,133</b>
	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	2,707
	II	1,456	1,322	1,302	2,753
	III	1,645	1,320	1,351	3,046
	<b>I - III</b>	<b>4,147</b>	<b>3,941</b>	<b>3,927</b>	<b>8,505</b>
<b>Variation</b>					
19-I-III/18-I-III		12.0%	6.4%	6.5%	4.6%
19-III/18-III		26.4%	2.5%	5.9%	7.2%
19-III/19-II		13.0%	-0.2%	3.8%	10.6%

### ■ CEMENT

Cement production during 3Q19 decreased slightly by 0.2% compared to 2Q19. Likewise, cement production as of September 30, 2019 increased by 2.5% 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 cement dispatches during 3Q19 increased by 3.8% compared to 2Q19, from 1,301,798 t to 1,351,193 t. As of September 30, 2019, cement dispatches increased by 5.9% compared to the same period of the previous year.

Peruvian domestic cement dispatches, according to the National Institute of Statistics and Informatics (INEI), increased by 10.6% during the third quarter of 2019, compared to the previous quarter, from 2,752,747 t. to 3,045,581 t. As of September 30, 2019, cement dispatches in Peru increased by 7.2% compared to the same period of the previous year.

The Company's domestic market share experienced an increased, from 47.3% in 2Q19 to 44.4% in 3Q19.

#### ■ PORT OPERATIONS

During 3Q19, clinker exports through our Conchán pier reached 141 thousand tons, a lower volume than that exported during 2Q19 (273 thousand tons). Additionally, the tonnage of bulk solids operated by Conchán pier during the quarter was 203 thousand tons, greater than 2Q19 (37 thousand tons) with coal, gypsum, slag and grain operations to third parties.

### FINANCIAL INFORMATION

#### ■ LIQUIDITY

As of September 30, 2019, the Company's ability to meet short-term obligations is 1.06 per every sol owed.

#### ■ CAPITAL AND FUNDING SOURCES

As of September 30, 2019, CAPEX amounted to S/113.0 million; the main investments were related to the assets coming from dust removal projects of kiln 2 and 3 coolers, change of cement mill press 6 and migration of the kiln's 2 control system at the Condorcocha plant; as well as the complete Cristina plan, fire

protection system, pavers and the Thermal Plant project at the Atocongo plant. Likewise, minor investment disbursements were made for maintenance of both plants.

Gross financial debt amounted to S/3,079.8 million, decreasing 5.5% in relation to December 31 of the previous year, mainly explained by net debt payments. It is worth mentioning that 44% of such debt is in foreign currency (42% as of December 31 of the previous year). Likewise, 17% of the total debt is kept in short term (7% as of December 31 of the previous year). Finally, 29% of financing is in bonds, 67% in loans and 5% in notes (27% of financing is in bonds, 70% in loans and 3% in promissory notes as of December 31 of the previous year). Additionally, as approved by the Board of Directors on August 23, to finance up to USD 230'000,000 for the refinancing of existing liabilities in US dollars; On October 16, The Bank of New York Mellon ("Trustee") was instructed to redeem the total balance of our USD225,000,000 of the called "5,875% Senior Unsecured Notes due 2021", which will take place on October 30 October.

### ■ ECONOMIC RESULTS

The invoiced cement dispatches as of September 30, 2019 amounted to S/1,336.9 million, 0.9% higher than the invoiced dispatches reached as of September 30, 2018. This increase is mainly due to a higher volume of cement sold and net of a lower average price.

The cost of sales of cement as of September 30, 2019 amounted to S/860.5 million, 12.3% higher than in the same period of 2018, mainly due to the higher physical volume of cement sold, the increase in the cost of fuels and higher fixed costs (maintenance costs for scheduled stops).

Additionally, income from Exports decreased and income from Blocks, Paving and Pavements increased as of September 30, 2019 compared to the same period in September 30, 2018. The combined gross margin was 33.5% (39.2% in the previous year).

Operating Expenses, up to S/158.5 million as of September 30, 2019, decreased by 13.6% 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 of SIA and IASA. As of September 30, 2019. Other Operating Income include earnings from the dividends paid by UNACEM ECUADOR, through Inversiones IMBABURA S.A., and other related companies, equivalent to 116.3 million soles (S/96.9 million registered in the previous year). Other Expenses

decreased by 64.9% with respect to the same period of the year, mainly due to lower depreciation and amortization.

Operating Income reached S/470.5 million as of September 30, 2019, less than the S/495.2 million reached as of September 30, 2018, mainly explained by a lower gross margin of cement. The EBITDA margin was 44.1% as of September 30, 2019 (47.4% as of September 30, 2018).

Financial Income increased 81.3% with respect 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 September 30, 2019, a FX gain of S/1.8 million was obtained versus a FX loss of S/27.8 million as of September 30, 2018, mainly explained by the financial debt in dollars.

The provision for Income Tax for the year was determined based on the accounting profits of the period.

Net Profit increased in 9.8%, from S/252.4 million as of September 30, 2018 to S/277.3 million as of September 30, 2019. This Net Profit represents 18.8% of the Net Sales, higher than the 17.3% made as of September 30, 2018.

The most important changes in the company's balance sheet as of September 30, 2019 compared to December 31, 2018 can be observed in the following accounts:

- ▶ Increase of Inventories in S/50.1 million, due to the greater stock of clinker.
- ▶ Increase in Subsidiary Investments by S/154.0 million, mainly due to the capitalization of SKANON's debt, net of the elimination of investment in CEMPOR, when this subsidiary is absorbed by UNACEM.
- ▶ Decrease of the Financial Debt in S/169.2 million, for net debt payments for S/171.0 million and FX gain for S/1.8 million.
- ▶ Decrease in Accounts Payable to Related Parties in S/64.5 million, due to the compensation of balances between merged companies.
- ▶ Increase in Global equity by S/314 million, due to the profit of the period net of dividends paid and the equity increase of the absorbed companies 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, 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.

***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:

<b>YEAR 2019</b>					
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

**YEAR 2018**  
COMMON SHARE

<b>Year - Month</b>	<b>Opening</b>	<b>Closure</b>	<b>Highest</b>	<b>Lowest</b>	<b>Average Price</b>
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
2018 - 07	2.85	2.85	2.90	2.80	2.86
2018 - 08	2.79	2.50	2.79	2.50	2.66
2018 - 09	2.50	2.30	2.51	2.30	2.43

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

As of fiscal year, 2015, the dividend policy consists of the quarterly distribution of 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>