

# MANAGEMENT COMMENTS

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Fourth Quarter 2018

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

### Management Comments Fourth Quarter, as of December 31, 2018

#### PRODUCTION

##### ■ CLINKER

The production of clinker increased by 21.9% during the fourth quarter of 2018, compared with the previous quarter passing from 1,301,376 t to 1,586.376 t owing to the scheduled maintenance stoppage of Kiln I, in Atocongo plant and Kiln IV, in Condorcocha plant. On the other hand, the production of clinker during the fourth quarter of 2018 increased by 14.7% 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	2,598
	II	992	1,217	1,208	2,565
	III	844	1,288	1,290	2,770
	IV	1,618	1,295	1,288	2,958
	<b>I-IV</b>	<b>4,610</b>	<b>5,010</b>	<b>4,993</b>	<b>10,891</b>
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	2,831
	IV	1,586	1,369	1,369	2,978
	<b>I-IV</b>	<b>5,289</b>	<b>5,073</b>	<b>5,058</b>	<b>11,101</b>
<b>Variation</b>					
	18-I-IV/17-I-IV	14.7%	1.3%	1.3%	1.9%
	18-IV/17-IV	-1.9%	5.7%	6.3%	0.7%
	18-IV/18-III	21.9%	6.4%	7.3%	5.2%

### ■ CEMENT

During 4Q18, the cement production increased by 6.4% compared with 3Q18. Also, the production of cement as of 4Q18 increased by 1.3% 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 7.3% during the 4Q18, compared to the 3Q18: from 1,276,678 t to 1,369,199 t. Also, cement dispatches as of the 4Q18 decreased by 1.3% compared to the same period of the previous year.

Domestic cement dispatches, according to the National Institute of Statistics and Informatics (INEI), increased by 5.2% during the 4Q18, compared to the previous quarter, from 2,831,548 t to 2,978,405 t. In the 4Q18, the cement dispatches in Peru increased by 1.9% compared to the same period of the previous year.

The Company's domestic market share experienced an increase, from 45.1%, recorded in the 3Q18, to 46.0% in the 4Q18.

### ■ PORT OPERATIONS

During 4Q18, the tonnage of bulk solids operated by Conchan pier was 247 thousand tons compared to 454 thousand tons operated in 3Q18. Clinker exports during 4Q18 reached 103 thousand tons, lower than those recorded in the 3Q18 (244 thousand tons). In the accumulated of the year, Conchan pier operated a total of 1.5 million tons of bulk solids, 62% higher than the 943 thousand tons in 2017, clinker exports reached 928 thousand tons, 69% higher than exports of 2017 (549 thousand tons).

## FINANCIAL INFORMATION

### ■ LIQUIDITY

As of December 31, 2018, the Company's ability to meet short-term obligations is 1.79 per every sol owed.

### ■ CAPITAL AND FUNDING SOURCES

As of December 31, 2018, CAPEX totaled 125 million, mainly related to the projects of the Atocongo Thermal Plant and the **dusting system for the coolers of Kiln's 2 and 3** at Condorcocha plant, as well as minor investment disbursements for the maintenance of both plants.

The financial gross debt totaled 3,249.1 million soles, 4.2% lower than in December 31, of the previous year due to debt payments. It is worth mentioning that 42% of such debt is in foreign currency (73% as of December 31 of the previous year). Likewise, 7% of the total debt is kept in short term (14% as of December 31 of the previous year). Finally, 27% of financing is in bonds, 70% in loans and 3% in notes (64% of financing is in bonds, 25% in loans, 10% in promissory notes and 1% in leasing as of December 31 of the previous year).

The reduction in financing from bonds and the increase in loans is mainly due to the fact that on October 30, 2018 the Company made a partial redemption of said bonds for a total of US \$ 400,000,000 pursuant to section 3.01 of the Indenture of the issuance. made on October 30, 2014. The partial redemption of the Bonds took place on the date of the first Call Option ("Option to purchase") of the bonds at, a price equal to 102.93750% of the principal. This transaction is in line with the Board of Directors approval on September 21, 2018, to finance up to USD 490,000,000, for the refinancing of existing liabilities in US dollars and other corporation uses.

### ■ ECONOMIC RESULTS

Cement sales as of December 31, 2018 amounted S/. 1,793.1 million soles being 3.1% higher than the invoiced sales of the same period of the previous year. This increase is mostly supported by a higher volume of physical sales of cement and, net of 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 4Q18, the sales commissions correspond to S/. 57.4 million and, for comparative purposes of the financial statements in 4Q17, the sales commissions presented in Operating Expenses were reclassified to cement sale for S/. 49.6 million.

Cost of goods sold was 1,055.6 million soles as of December 31, 2018; 3.2% higher than the same period in 2017, cement sold. mainly due to the greater physical volume of cement sold and an increase in the cost of fuels.

Additionally, income from exports increased and income from blocks, paving and pavements increased as of December 31, 2018 compared to the same period in 2017. The combined gross margin was 37.9% (38.8% in the previous year).

Operating Expenses totaled 256.3 million in the fourth quarter of 2018 decreased by 2.8% compared to the same period of the previous year, mainly due to lower management fees. In the fourth 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 98 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 Platanal - CELEPSA and other related companies). The other expenses decreased by 21.8% with respect to the same period of the year.

The operating profit totaled 616.8 million soles as of the 4Q18, lower than 709.3 million reached 4Q17, mainly explained by lower revenues from dividends from subsidiaries, as explained in the previous paragraph. EBITDA margin was 44.2% as of 4Q18 (52.5% as of 4Q17).

Financial income increased in relation to the same period of the previous year mainly due to a net gain in derivative financial instruments and higher financial expenses due to the partial redemption of the international bonds.

As of December 31,2018; a FX loss recorded was S /. 60.4 million soles (FX gain of 88.0 million soles as of the fourth 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 48.0%, from 466.2 million soles in 2017 to 242.2 million soles in 2018, representing 12.3% of the net sales, lower than the 25.0% made during 2017.

The most important changes in the company's balance sheet as of December 31, 2018 compared to December 31, 2017 can be observed in the following accounts:

- ▶ Decrease of cash and cash equivalent by 67.7 million soles, mainly due to the payment of financial obligations and acquisition of the subsidiary Cementos Portland S.A..
- ▶ Increase in Investments in Subsidiaries by 100.9 million soles for the acquisition of Cementos Portland S.A..
- ▶ Decrease in fixed assets by 72.1 million soles due to the depreciation of the year for S / 220.9 million, net of additions, mainly due to the projects of the Atocongo Thermal Plant and the **dusting system for the coolers of Kilns 2 and 3 at Condorcocha Plant**
- ▶ Decrease of the Financial Debt by 143.9 million soles due to debt payments of 229.5 million soles and the FX difference of 85.6 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:

<b>YEAR 2018</b>					
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
2018 - 10	2.18	2.11	2.32	2.11	2.18
2018 - 11	2.10	2.40	2.40	2.10	2.18
2018 - 12	2.65	2.60	2.76	2.60	2.65

## 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
2017 - 07	2.36	2.55	2.55	2.36	2.42
2017 - 08	2.50	2.51	2.54	2.42	2.49
2017 - 09	2.55	2.85	2.85	2.55	2.68
2017 - 10	2.95	2.96	3.00	2.82	2.93
2017 - 11	3.00	3.00	3.02	2.93	2.99
2017 - 12	3.00	3.00	3.00	2.80	2.93

### ***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)