

MANAGEMENT COMMENTS

Fourth Quarter 2019

UNION ANDINA DE CEMENTOS S.A.A.

Management Comments Fourth Quarter, as of December 31, 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. (Pronto), as absorbed companies, came into force as approved at the General Shareholders' Meeting of December 28, 2018.

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

PRODUCTION

■ CLINKER

Clinker production decreased during 4Q19 by 5.1% compared to 3Q19, from 1,644,528 t to 1,561,330, mainly due to the scheduled plant stoppage in 4Q19. On the other hand, clinker production as of December 31, 2019 increased by 7.9% compared to the previous year.

Production and Dispatches- Peru (in thousand tons)

Period		Production		Dispatch	
Year	Qtr.	Clinker	Cement	UNACEM	Peru
2018	I	1,007	1,202	1,199	2,661
	II	1,394	1,214	1,214	2,636
	III	1,301	1,287	1,276	2,849
	IV	1,586	1,369	1,369	3,038
	I-IV	5,289	5,073	5,058	11,183
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
	I-IV	5,708	5,339	5,316	11,762
Variation					
	19-I-IV/18-I-IV	7.9%	5.2%	5.1%	5.2%
	19-IV/18-IV	-1.6%	2.0%	1.5%	3.5%
	19-IV/19-III	-5.1%	5.9%	2.8%	1.8%

■ CEMENT

During 4Q19, the cement production increased by 5.9% compared with the previous quarter. Likewise, cement production as of December 31, 2019 increased by 5.2% with respect to the previous year. In both cases, the production goes in accordance with the demand.

CEMENT DISPATCHES

■ DOMESTIC MARKET

UNACEM's cement dispatches increased by 2.8% during 4Q19, compared to the previous quarter: from 1,351,193 t to 1,389,462 t. As of December 31, 2019, cement dispatches increased by 5.1% compared to full year 2018.

Domestic cement dispatches, according to the National Institute of Statistics and Informatics (INEI), increased by 3.5% during the fourth quarter of 2019, compared to the previous quarter, from 3,087,092 t. to 3,144,147 t. As of December 31, 2019, the cement dispatch in Peru increased by 4.5% compared the previous year.

The Company's domestic market share experienced a increased, from 43.8% in 3Q19 to 44.2% in 4Q19.

■ PORT OPERATIONS

During 4Q19, the tonnage of bulk solids operated by the Conchan pier was 224 thousand tons compared to 344 thousand tons operated in 3Q19. Clinker exports during 4Q19 reached 116 thousand tons, lower than those made in 4Q18 (141 thousand tons). In the accumulated of the year, the Conchan pier operated a total of 1.1 million tons of bulk solids, 27% lower than the 1.5 million tons in 2018, clinker exports reached 709 thousand tons, 23% lower than exports of 2018 (928 thousand tons).

FINANCIAL INFORMATION

■ LIQUIDITY

As of December 31, 2019, the Company's ability to meet short-term obligations is 1.42 per every sol owed.

■ CAPITAL AND FUNDING SOURCES

As of December 31, 2019, CAPEX amounted to S/ 164.5 million; the main investments were related to the assets coming from dust removal projects of the cooler in kiln 2 and 3, change of rollers and bearings of cement mill press 5 and migration of kiln 2 control system from version 4.1 to version 9 of the Cemmat system corresponding to the Condorcocha plant; as well as the complete Cristina plan, fire protection system, pavers and the Thermal Plant project corresponding to the Atocongo plant. Likewise, minor investment disbursements were made for maintenance of both plants.

In addition, minor disbursements were made for the maintenance of both plants.

Gross financial debt amounted to S/ 3,067.5 million, decreasing 5.6% in relation to December 31 of 2018, mainly explained by net debt payments. It is worth mentioning that 19% of such debt is in foreign currency (42% as of December 31 of the previous year). Likewise, 13% of the total debt is kept in short term (7% as of December 31 of the previous year). Finally, 4% of financing is in bonds, 90% in loans and 6% in notes (27% of financing is in bonds, 67% in loans in promissory notes and 6% in leasing as of December 31 of the previous year). Additionally, as approved by the Board on August 23, 2019 to finance up to USD230 million for the refinancing of existing liabilities in US dollars, the total balance of USD 225 million of the so-called "5.875% Senior Unsecured Notes due 2021" was redeemed on October 30.

■ ECONOMIC RESULTS

The invoiced dispatches for cement as of December 31, 2019 amounted to S/ 1,810.1 million, 0.9% higher than the invoiced dispatches reached as of December 31, 2018. This increase is mainly due to a higher volume of cement sold and a net of a lower average price.

The cost of sales of cement as of December 31, 2019 amounted to S/ 1,157.1 million, 8.9% higher than in the same period of 2018, mainly due to the higher physical volume of cement sold, an increase in the cost of high-grade fuels, energy and limestone.

Additionally, income from Exports decreased and income from Blocks, Paving and Pavements increased as of December 31, 2019 compared to the same period in December 31, 2018. The combined gross margin was 33.9% (37.9% in the previous year).

Operating expenses, up to S/. 235.5 million as of December 31, 2019, decreased by 8.1% 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. Other Operating Income as of December 31, 2019 includes dividends income from UNACEM ECUADOR (through Inversiones IMBABURA SA), UNICON (through INVECO) and other related companies totaling S/ 159.2 million (S /98.2 million in 2018). The other expenses decreased by 46.3% with respect to the same period of the year, mainly due to lower depreciation and amortization.

Operating income reached S/ 624.2 million as of December 31, 2019, higher than the S/ 620.6 million reached as of December 31, 2018, mainly explained by higher net dividends received and a lower gross margin of cement. EBITDA margin was 43.5% as of December 31, 2019 (44.2% as of December 31, 2018).

Financial income increased 43.8% 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 December 31, 2019, there was a gain in exchange of S/ 18.9 million versus a loss in exchange rate of S / 60.4 million as of December 31, 2018, mainly explained by the financial debt in dollars.

The provision of income tax for the year was determined based on the accounting profits for the period, and includes estimates as a result of the application of IFRIC 23.

Net profit increased in 44.1%, from 242.2 million soles as of December 31, 2018 to 348.9 million soles as of December 31, 2019. This net profit represents 17.6% of the net sales, higher than the 12.3% made as of December 31, 2018.

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

- ▶ Increase of Inventories in S/ 107.3 million, mainly due to the greater stock of clinker.
- ▶ Increase in Subsidiary Investments by S/ 154.2 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/. 181.5 million, for net debt payments for S/. 164.0 million and gain for exchange rate difference for S/. 17.5 million.
- ▶ Decrease in Accounts Payable to Related in S/. 45.2 million, due to the compensation of balances between merged companies.
- ▶ Increase in Global equity by S/ 388.8 million, due to the profit of the net period 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, 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:

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

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
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

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

And on UNACEM website: <http://www.unacem.com.pe/wp-content/uploads/2012/03/politicadedividendos-esp.pdf>