

NEWSLETTER AS OF THE SECOND QUARTER 2014



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EXECUTIVE SUMMARY

In its meeting on May 26, the Board of Directors ratified the approval of the share purchase agreement entered into on that same day, for the acquisition of a 98.57% stake in Lafarge Cementos S.A., a company located in Quito, Ecuador, subsidiary of Lafarge S.A. (France). The Board also approved the firm financing proposal with BBVA Banco Continental SA / BBVA Securities Inc., Deutsche Bank AG (London Branch), and the Bank of Nova Scotia / Scotiabank Perú S.A, who will grant UNACEM S.A.A. a bridge loan for an amount of US\$560 million, which will be destined to cover the adjusted acquisition price and the related transactional expenses.

During the first half of 2014, the Company's cement dispatches rose slightly by 0.1% and net sales in nuevos soles increased by 1.2% over the same period in 2013. Additionally, the EBITDA fell by 6.8% over the first half of 2013.

Table 1 shows the most important figures for the first half of 2014 vs. the first half of 2013.

Table N°1

KEY FIGURES

UNION ANDINA DE CEMENTOS S.A.A. (in constant values)

		June 30, 2013	June 30, 2013	Variation %
Cement production	tons	2,757,582	2,743,725	0.5%
Cement dispatches	tons	2,729,947	2,727,123	0.1%
Net sales	thousands of nuevos soles	874,402	864,107	1.2%
Operating Income	thousands of nuevos soles	235,075	278,664	-15.6%
EBITDA	thousands of nuevos soles	325,886	349,730	-6.8%
Net Income	thousands of nuevos soles	123,220	79,643	54.7%
Financial debt *	thousands of nuevos soles	2,370,013	2,321,360	2.1%
ROE	%	7.0%	4.8%	47.7%
Common share value as at 06.30.14	current soles per share	3.3	3.8	-13.4%

(*) Values as of December 31st, 2013

MACROECONOMIC ENVIRONMENT

The Gross Domestic Product (GDP) increased by 5.0% in the first half of 2014 over the same period for the previous year. The construction sector shrank by 0.6%, while domestic demand for cement rose by 3.9%.

As far as inflation indices were concerned, during the first half of 2014, the CPI (Consumer Price Index) rose by 2.4%, higher than the 1.54% increase registered during the same period in 2013. Additionally, the WPI (Wholesale Price Index) grew by 0.7% - 2013 Base, compared to the first half of 2013.

During the first half of the year, the local currency had the same closing rate against the dollar as December 31, 2013, considering the selling price at the close of the period. The selling and purchase exchange rates at the close of June 2014 were S/. 2.796 and S/. 2.795, respectively.

UNACEM IN FIGURES

OPERATIONS AND PRODUCTION

The Company's cement production during the first half of 2014 rose by 0.5% over 1H13, from 2,743,726 t to 2,757,582 t, including the production of both plants, Atocongo and Condorcocha.

Clinker production during the first half of 2014, on the other hand, rose by 58.7%, from 1,733,269 t to 2,750,565 t. This considerable jump is due to the fact that Kiln I of the Atocongo plant was stopped during 2013 as part of the expansion project. This kiln began operations in June.

Variations in the production of cement and clinker by product type are shown in the table below.

Table N°2

Production by type of product (in thousands of metric tons)

PRODUCT	Period	First half 2014		First half 2013		Variation %
	Type					
Cement	I	2,327	84%	2,337	85%	-0.4
	IPM	135	5%	164	6%	-17.5
	IP	166	6%	158	6%	5.2
	V	75	3%	85	3%	-12.2
	GU	55	2%	0	0%	---
	Total		2,758	100%	2,744	100%
Clinker	I	2,601	95%	1,641	95%	58.5
	V	150	5%	92	5%	62
	Total	2,751	100%	1,733	100%	58.7

MARKET

DOMESTIC

The Company's domestic dispatches during the first half of the year amounted to 2,729,947 t, a figure similar (0.1% higher) to that registered during the same period of 2013, when dispatches totaled 2,727,123 t. In 2Q14, dispatches exhibited a slight drop of 0.5% over 2Q13.

Total cement dispatches in the domestic market (which include an estimate for dispatches coming from imports) increased as of 1H14 by 3.9%, compared to 1H13, from 5,265,060 t to 5,472,097 t. Compared to 2H13, domestic dispatches in 1H14 increased by 2.0%.

Consequently, the Company's market share in the domestic market, based on the dispatched volume, remained at 49.9%.

The Company did not make any price adjustments during the first half of the year.

Cement dispatches versus clinker and cement production are shown in Table 3 below.

Table N°3

Production and dispatches 2014-2013 (in thousands of metric tons)

YEAR	QTR	Production		Cement Dispatches *	
		Clinker	Cement	UNACEM	Peru
2013	I	874	1,360	1,344	2,613
	II	860	1,384	1,384	2,652
	I-II	1,733	2,744	2,727	5,265
	III	1,406	1,453	1,443	2,900
	IV	1,244	1,435	1,441	2,928
	I-IV	4,384	5,631	5,611	11,093
2014	I	1,541	1,357	1,354	2,768
	II	1,376	1,401	1,376	2,704
	I-II	2,751	2,758	2,730	5,472
Variation					
14-I-II/13-I-II		58.7%	0.5%	0.1%	3.9%
14-II/13-II		40.8%	1.2%	-0.5%	2.0%
14-II/14-I		-21.5%	3.2%	1.7%	-2.3%

*Only domestic dispatches are included (dispatches from imports are estimated, exports are not included)

PORT OPERATIONS

As of June 30, 2014, port operations had fallen by 55.6% compared to the same period for 2013, explained primarily by the fact that no clinker imports have been made this year. As of the close of the first half of the year, 14 vessels had used the facility, handling a total volume of 432,462 tons.

FINANCIAL STATEMENTS

The Income Statement, Statement of Financial Position, and Cash Flow Statement are shown in Tables 4-6 below.

Table N°4

Income statement

(in thousands of nuevo soles)

	Three month period:						Six month period:					
	Second Quarter 2014		Second Quarter 2013		Percent Change	To June 30, 2014		To June 30, 2013		Percent Change		
		%		%	%		%		%	%		
Incomes from ordinary activities												
Net Sales of Goods	445,950	100	440,488	100	1	874,402	100	864,107	100	1		
Sale of Services	-	-	-	-		-	-	-	-			
Total Revenue from ordinary activities	445,950	100	440,488	100	1	874,402	100	864,107	100	1		
Cost of Sales	(265,364)	(60)	(248,728)	(56)	7	(509,300)	(58)	(489,798)	(57)	4		
Gross Revenue	180,586	40	191,760	44	(6)	365,102	42	374,309	43	(2)		
Selling Expenses	(26,104)	(6)	(20,884)	(5)	25	(49,052)	(6)	(41,964)	(5)	17		
Administrative Expenses	(52,561)	(12)	(30,748)	(7)	71	(89,525)	(10)	(63,221)	(7)	42		
Other Operating Income	6,892	2	11,691	3	(41)	14,766	2	24,629	3	(40)		
Other Operating Expenses	3,021	1	(1,689)	(0)	(279)	(6,216)	(1)	(15,089)	(2)	(59)		
Operating Income	111,834	25	150,130	34	(26)	235,075	27	278,664	32	(16)		
EBITDA	158,102	35	188,963	43	(16)	325,886	37	349,730	40	(7)		
Financial Income	645	0	2,143	0	(70)	1,911	0	3,806	0	(50)		
Financial Expenses	(28,373)	(6)	(27,146)	(6)	5	(55,788)	(6)	(44,068)	(5)	27		
Exchange difference gain, net	5,406	1	(102,562)	(23)	(105)	889	0	(129,271)	(15)	(101)		
Share in net earnings of related parties by Equity Method	-	-	-	-		-	-	-	-			
Income before income tax	89,512	20	22,565	5	297	182,087	21	109,131	13	67		
Expense Income Taxes	(29,716)	(7)	(1,523)	(0)	1,851	(58,867)	(7)	(29,488)	(3)	100		
Net Income	59,796	13	21,042	5	184	123,220	14.1	79,643	9	55		

Table N°5

Statement of Financial Position

(in thousands of nuevos soles)

	June 30, 2014	December 31, 2013		June 30, 2014	December 31, 2013
Assets			Liabilities and Shareholders' Equity		
Current Assets			Current Liabilities		
Cash and cash equivalents	111,850	196,750	Financial liabilities	728,117	693,406
Financial Investments	-	-	Trade Accounts Payable	59,597	122,716
Trade Accounts Receivable, net	82,875	63,850	Other Accounts Payables	61,244	43,052
Accounts Receivable from Related Parties	51,546	51,535	Accounts Payable to Related Parties	36,803	43,380
Other Accounts Receivable, net	174,646	143,618	Liabilities for Income Taxes	-	-
Inventories	515,451	497,835	Provisions	11,305	15,814
Taxes and expenses contracted Advance	28,880	41,462	Deferred income	12,298	9,932
Other Assets	-	-	Total Current Liabilities	909,364	928,300
			Non-Current Liabilities		
Total Current Assets	965,248	995,050	Bank loan	713,104	450,154
			Accounts Payable to Related Parties	10,485	11,883
			Financial liabilities	928,792	1,177,800
Non-Current Assets			Deferred liability from income tax	547,943	537,303
Investments in subsidiaries and others	1,715,647	1,645,786	Derivate Financial Instruments	3,923	5,557
Other Accounts Receivable	3,797	5,024	Provisions	13,663	13,663
Inventories	-	-	Total Non-Current Liabilities	2,217,910	2,196,360
Property, Plant and Equipment, net	3,739,720	3,706,550	Total Liabilities	3,127,274	3,124,660
Intangible Assets, net	66,902	68,072	Shareholders' Equity		
Goodwill	9,745	9,745	Capital Stock	1,646,503	1,646,503
Other Assets	125,249	112,557	Legal reserve	282,525	270,203
Total Non-Current Assets	5,661,060	5,547,734	Unearned results	(1,178)	(1,678)
			Retained Earnings	1,571,184	1,503,096
			Total Shareholders' Equity	3,499,034	3,418,124
TOTAL ASSETS	6,626,308	6,542,784	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6,626,308	6,542,784

Table N°6

Statements of cash flow

(in thousands of nuevos soles)

	June 30, 2014		June 30, 2013	
1.- CASH FLOW FROM OPERATING ACTIVITIES				
Sale of Goods and Service	1,014,237		1,020,639	
Suppliers Goods and Services	(731,118)		(787,553)	
Payments to employees	(77,449)		(59,432)	
Income Tax	(50,071)		(31,082)	
Interest (not included in financing activity)	(56,428)		(44,068)	
Other Cash (Payments) Entries Relating to Operating Activity	-		3,742	
		99,171	-	102,246
		99,171		102,246
2.- CASH FLOW IN INVESTING ACTIVITIES				
Dividends Received	-		-	
Reimbursement Received by Related Entities Loans	-		-	
Purchase of subsidiaries, net of cash acquired	(67,446)		(38,292)	
Purchase of Property, Plant and Equipment	(121,897)		(108,741)	
Purchase of Intangible Assets	(748)		(4,267)	
Other Cash (Payments) Entries Relating to Investment Activity	-	(190,091)	-	(151,300)
		(90,920)		(49,054)
3.- CASH FLOW FROM FINANCING ACTIVITIES				
Obtention of Loans	424,751		1,023,551	
Loans of entities related	-			
Amortization or payment of Loans	(375,972)		(764,519)	
Dividends	(42,759)		(49,371)	
Other	-		-	
		6,020		209,661
Net increase in cash and cash equivalents in the year		(84,900)		160,607
INITIAL CASH BALANCE		196,750		74,189
FINAL CASH BALANCE		111,850		234,796

ANALYSIS OF FINANCIAL RESULTS

During the first half of 2014, net cement sales came to S/. 847.7 million, or 0.5% less than the dispatches billed during the same period in 2013. This decrease is based only on the lower physical volume sold—a difference of 0.4%—since the average price of the product mix remained the same.

The cost of sales for cement came to S/. 484.7 million for the same period, 1.7% higher than in the first half of 2013 due to the greater depreciation caused by the commissioning of Kiln IV in the Condorcocha Plant and the expansion of Kiln I in the Atocongo Plant; and, to a lesser extent, the physical volume dispatched. The higher cost is shown net of savings on the variable costs for power and a considerable reduction in clinker imports.

Due to other income from exports, and the item for blocks, net of the higher costs incurred, the gross margin was 41.7% (43.3% during the previous year).

Operating expenses, which totaled S/. 130.0 million, were 35.9% higher than the previous period, and include higher expenses due to an increase in management fees and employee profit sharing as a result of higher earnings.

Operating profit amounted to S/. 235.1 million in 1H14, a figure 15.6% lower than the S/. 278.7 million during the same period the previous year.

Total financial income remained at the same level as the first half of 2013.

Financial expenses exhibited an increase over 2013, explained primarily by the fact that part of the interest was booked as an asset while the expansions were being performed, and then later, after the commissioning, the same interest was booked as an expense for the period.

The exchange rate remained the same as at the beginning of the year, making for a minimal effect on the results for such reason. The net foreign exchange difference with regard to the previous year is the result of liabilities held in foreign currency.

10 The provision for income tax for the fiscal year was calculated based on accounting profits for the period.

Net profit rose by 54.7%, from S/. 79.6 million as of June 30, 2013 to S/. 123.2 million as of June 30, 2014, equal to 14.1% of net sales, greater than the figure of 9.2% registered in 2013.

The most important changes in the Company's Statement of Financial Position as of June 30, 2014 compared to December 31, 2013, occurred in the following accounts:

- The current assets and current liabilities have remained very stable since the close of the previous year
- The non-current assets increased due to investments in CAPEX, net of depreciation, and in subsidiaries.
- Financial debt maintained a similar ratio as at the start of the year.

The Company's financial position as of June 30, 2014 may be observed in Table 7, which shows the main financial indicators:

Table N°7

UNIÓN ANDINA DE CEMENTOS S.A.A
Financial Ratios: 2014-2013

	Jun 30, 2014	December 31, 2013
Current Ratio	1.06	1.07
Acid Test	0.46	0.49
Cost of Sales / Net Sales*	0.58	0.57
Total liabilities/Total Shareholders' Equity	0.89	0.91

* Base on figures as of September 30.

	June 30, 2014	December 31, 2013	Variation %
Inflation Index (CPI)	108.08	105.58	2.4
Inflation Index (WPI)	100.70	100.00	0.7
Exchange rate (S./US\$)	2.80	2.80	0.0

CPI = Consumer Price Index (Base : December 2011)

WPI = Wholesale Price Index (Base 1994)

* List prices, VAT is not included.

STOCK MARKET INFORMATION

The following is a summary of stock market information (all figures are in current soles per share, except for the number of shares):

	Ordinary
Number as at 06-30-14	1,646,503,408
Nominal Value as at 06-30-14	1.00
Quotation at close of 06-30-14	3.30
Maximum closing price	3.60
Minimum closing price	3.01
Average closing price	3.29

ADS prices were as follows:

AMERICAN DEPOSITARY SHARES (ADS)*	June 30, 2014	December 31, 2013
Number	26,367	29,367
Closing price	11.82	13.48

* 1 ADS = 10 ordinary share

UNACEM AND CORPORATE SOCIAL RESPONSIBILITY

ASOCIACIÓN UNACEM

For the sixth consecutive year, the Mexican Center for Philanthropy (CEMEFI, for its abbreviation in Spanish) gave UNACEM the Outstanding Socially Responsible Company Award for its commitment to responsible management in Peru. This acknowledgment was handed out during the Seventh Latin American Meeting of Socially Responsible Companies 2014, where the award is given out to all companies that have made public commitments to exercising corporate social responsibility.

The main theme of the Meeting, held in Mexico, was “Responsible, Socially Sustainable Solutions.” The experts present at the event talked about cases, models, and trends in corporate social responsibility in Latin America. Nearly 2,000 representatives from chambers of commerce, companies, government foundations, non-profit organizations, and the media took part.

ENVIRONMENT

Different activities aimed at preserving and caring for the environment were undertaken during the period, most notably the following:

- UNACEM Condorcocha submitted the following reports to the Ministry of Production:
 - Hazardous Solid Waste Collection and Transport, in April 2014
 - Submission of Hazardous Solid Waste Manifests, in April and May
 - Monitoring of Effluents, Air Quality and Emissions, Environmental and Occupational Noise, and Solid Waste, for May and June
- UNACEM Condorcocha provided the Ministry of Energy and Mines with water quality monitoring reports for Carpapata from April through June 2014.
- UNACEM Atocongo sent the National Water Authority (ANA) the monitoring report for wastewater from the wastewater treatment plant for 2014.

- UNACEM Atocongo provided the Environmental Assessment and Supervision Board (OEFA) with the quarterly emissions report on the thermal power plant, the progress on the commitments established in the DIA for the treated water system, and the environmental documentation requirements requested for Regular Direct Supervision.

INTEGRATED MANAGEMENT SYSTEM

IMS Atocongo Plant and Conchan pier

As scheduled, the second internal management audit and the first legal compliance evaluation of the year were performed. This activity included the evaluation of compliance with legal obligations on occupational health and safety and/or the environment, in order to ensure said compliance as established by Company policy, with satisfactory results.

In May, BASC-Peru (Business Alliance for Secure Commerce) performed the BASC recertification audit on the plant and the port for the “Exporter” and “Maritime Terminal” activities, respectively. Through this audit, BASC-Peru once again verified the management system’s capacity to prevent the Company’s operations or facilities from being used for illicit means, such as drug trafficking or smuggling, for example. BASC recommended the company’s recertification for both operating units.

IMS Condorcocha plant

In May, the course-workshop “Hazard Identification, Risk Assessment, and Determination of Controls” was held for all of the Company’s personnel: workers, employees, and engineers, as well as the safety and environmental heads of all contractors. The objective of this course was to ensure that the personnel from UNACEM Condorcocha and the contractors can correctly identify the hazards in their work areas, assess the risks they pose, and implement controls in order to minimize the risk and protect workers’ integrity and health.

UNACEM AND SUBSIDIARIES CONSOLIDATED

The consolidated financial statements are shown in Tables 8 and 9 below.

Table N°8

UNACEM S.A.A. AND SUBSIDIARIES CONSOLIDATED**Statement of Financial Position**

(in thousands of nuevos soles)

	June 30, 2014	December 31, 2013		June 30, 2014	December 31, 2013
ASSETS			LIABILITIES AND STOCKHOLDERS' EQUITY		
Current assets			CURRENT LIABILITIES		
Cash and Cash Equivalents	251,148	322,348	Bank Overdrafts	925,650	892,908
Financial investments	0	0	Trade Accounts Payable	222,318	258,640
Trade accounts receivable and others	483,961	430,734	Accounts payable to related companies	51,779	61,849
Inventories	600,513	559,244	Other Accounts Payable	125,773	128,343
Accounts receivable from related companies	1,914	6,417	Deferred income	56,192	9,932
Prepaid Expenses	44,306	56,553	Provisions	25,659	24,766
Current portion of the deferred cost of preparation of quarries	0	0	Income taxes payable	106	661
TOTAL CURRENT ASSETS	1,381,842	1,375,296	TOTAL CURRENT LIABILITIES	1,407,477	1,377,099
			Other Accounts Payable	23,016	23,016
			Financial instruments derivatives	43,431	52,307
			Deferred Taxes	618,589	598,295
			Long Term Debt	2,315,226	2,339,277
Accounts Receivable - Long Term	21,987	30,965	Provisions	13,837	13,663
Investment in Securities	11,227	12,951		3,014,099	3,026,558
Fixed Assets	6,217,362	6,131,641	TOTAL LIABILITIES	4,421,576	4,403,657
Intangible Assets	103,954	100,790	STOCKHOLDERS' EQUITY		
Goodwill	115,952	114,745	Capital Stock	1,646,503	1,646,503
Deferred cost of preparation of quarries	0	0	Unrealized earnings	224,450	195,435
Deferred Taxes	148,838	127,811	Retained earnings	1,667,287	1,606,202
Other assets	163,208	145,665	Majority Stock holder's Equity	3,538,240	3,448,140
			Minority Interest	204,554	188,067
			TOTAL STOCKHOLDERS' EQUITY	3,742,794	3,636,207
TOTAL ASSETS	8,164,370	8,039,864	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	8,164,370	8,039,864

Table N°9

UNACEM S.A.A. AND SUBSIDIARIES CONSOLIDATED**Income statement**


(in thousands of nuevos soles)

	June 30, 2014		June 30, 2013		Percent Change
		%		%	%
Net Sales	1,433,199	100.0	1,425,458	100.0	0.5
Cost of Sales	(958,525)	(66.9)	(902,537)	(63.3)	6.2
Gross Margin	474,674	33.1	522,921	36.7	(9.2)
Operating Expenses					
Administrative	(133,435)	(9.3)	(138,209)	(9.7)	(3.5)
Selling	(57,147)	(4.0)	(47,202)	(3.3)	21.1
Other (Expenses) Income	(1,415)	(0.1)	4,220	0.3	(133.5)
Total Operating Expenses	(191,997)	(13.4)	(181,191)	(12.7)	6.0
Operating Income	282,677	19.7	341,730	24.0	(17.3)
Comprehensive Financial Income (expense)					
Financial expense, net	(88,521)	(6.2)	(66,499)	(4.7)	33.1
Gain from monetary position	1	0.0	(172,073)	(12.1)	(100.0)
Total Comprehensive Financial Expense	(88,520)	(6.2)	(238,572)	(16.7)	(62.9)
Income Before Tax and Employees	194,157	13.5	103,158	7.2	88.2
Income Tax	(61,006)	(4.3)	(38,511)	(2.7)	58.4
Net Income before minority interest	133,151	9.3	64,647	4.5	106.0
Minority interest	(1,027)	(0.1)	620	0.0	(265.6)
Net Income	132,124	9.2	65,267	4.6	102.4

SIGNIFICANT EVENTS

In the Board of Directors' Meeting held on April 28, 2014, it was resolved to pay a cash dividend of S/. 0.013 per ordinary share, payable on May 29, 2014. This dividend totals S/. 21,404,544, and corresponds to the earnings for fiscal year 2014.





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