

# MANAGEMENT COMMENTS

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First Quarter 2020

# UNION ANDINA DE CEMENTOS S.A.A.

## **Management Comments First Quarter, March 31, 2020**

### **RELEVANT EVENTS**

#### **SANITARY CRISIS AND MEASURES TAKEN BY UNACEM DUE TO THE EMERGENCY COVID-19, IN FORCE FOR THE ENTIRE YEAR 2020**

Given the serious health crisis that we have been going through in Peru and the world, which led the Government to declare a State of National Emergency, with mandatory social isolation due to the COVID-19 pandemic, from March 16 to April 26 of this year, with the consequent total stoppage of our operating activities, the Board of Directors and Management of UNACEM are permanently analyzing the situation and have been approving actions and plans that will allow the Company to overcome the crisis and continue, as it has been up to now, accompanying the country's development.

In first instance, strict measures have been taken focused on maintaining the health of the workers, observing quarantine, as well as necessary measures to carry out operations safely, attending the risks of the virus.

In second instance, extraordinary measures have been taken in the event of a possible aggravation of the situation, to protect liquidity and working capital, which will allow the Company to comply with its workers, suppliers and clients. As it was done in the past, and according to its culture and way of doing things, UNACEM will exhaust all options to preserve the jobs of its workers.

The preventive and extraordinary measures applicable throughout the year 2020 include the following:

1. Consume existing inventories before restarting kilns operations, to protect liquidity.
2. Suspend all investments (CAPEX), with the exception of projects in execution to be completed this year.
3. Suspend all expenses on goods and services, including maintenance expenses, that are not critical for this emergency stage, within a policy of strict austerity.
4. Suspend the quarterly dividends distribution to shareholders.
5. Suspend of distribution to the Board.

6. Suspend advances of workers profit sharing to managers, bosses and payroll in general.
7. Accept and thank the solidarity proposal of UNACEM officials to voluntarily and temporarily reduce their salaries by 25%, 15% and 10%.
8. Suspend salary increases and bonuses during 2020 for all administrative staff.
9. Manage agreements with workers adhere to collective agreements to suspend salary increases and bonuses in 2020.
10. Continue through UNACEM Association, with the policy of supporting the basic needs of the most vulnerable population in the areas surrounding the Atocongo and Condorcocha production plants.

The UNACEM Board of Directors and Management will continue to analyze the scenarios and may adjust these emergency measures based on the evolution of the serious situation caused by the COVID-19 pandemic and the provisions adopted by the Government.

### PRODUCTION

#### ■ CLINKER

Clinker production increased 9.9% in 1Q20 compared to 1Q19, going from 1,046,503 t to 1,149,703 t, mainly due to production planning based on higher expected cement demand for the period.

#### Production and Dispatches- Peru

(in thousand tons)

Period		Production		Dispatch	
Year	Qtr.	Clinker	Cement	UNACEM	Peru
2019	I	1,047	1,300	1,274	2,748
	II	1,456	1,322	1,302	2,782
	III	1,646	1,320	1,351	3,087
	IV	1,561	1,397	1,389	3,144
	<b>I-IV</b>	<b>5,709</b>	<b>5,339</b>	<b>5,316</b>	<b>11,762</b>
2020	I	1,150	1,068	1,064	2,320
	<b>I</b>	<b>1,150</b>	<b>1,068</b>	<b>1,064</b>	<b>2,320</b>
<b>Variation</b>					
20-I/19-I		9.9%	-17.8%	-16.5%	-15.6%
20-I/19-IV		-26.4%	-23.5%	-23.4%	-26.2%

### ■ CEMENT

During the first quarter of 2020, the cement production decreased by 17.8% compared with 1Q19. Production goes in accordance with the demand during the quarter, which has been significantly reduced by the stoppage of operations as of March 17, 2020 as a result of the declaration of the State of National Emergency.

## CEMENT DISPATCHES

### ■ DOMESTIC MARKET

UNACEM's cement dispatches decreased by 16.5% during the first quarter of 2020, compared to the 1Q19 from 1,273,973 t to 1,063,699 t.

Domestic cement dispatches, according to the National Institute of Statistics and Informatics (INEI), decreased by 26.2% during the first quarter of 2020, compared to the previous quarter, from 3,144,147 t to 2,320,267 t.

The Company's domestic market share experienced an increase and passed from 44.2% in 4Q19 to 45.8% in 1Q20.

### ■ PORT OPERATIONS

During 1Q20, there was an accident in the ship loader, reducing our export capacity, this equipment should be operating at the end of the second quarter, therefore clinker exports through our Conchan pier reached 103 thousand tons, less volume than exported during 1Q19 (178 thousand tons); however, in fulfillment of our sales contracts, through brokerage an additional 86 thousand tons were sold; by means of export earnings correspond to a total volume of 189 thousand tons.

Additionally, the tonnage of bulk solids operated by the Conchan pier during the quarter was 277 thousand tons, higher amount compared to the same period of the previous year (59 thousand tons), with pozzolana, gypsum, coal, slag and grain operations for third parties.

### FINANCIAL INFORMATION

#### ■ LIQUIDITY

As of March 31, 2020, the Company's ability to meet short-term obligations is 1.19 per every sol owed.

#### ■ CAPITAL AND FUNDING SOURCES

As of March 31, 2020, CAPEX amounted to S/ 29 million; the main investments were related to the assets from the kiln 2 cooler and exchange filter projects, also the general maintenance of kiln 2 and the roofing of the clinker yard corresponding to Condorcocha plant; as well as the structural reinforcement of chamber 3 of the multisilo and the project of the thermal plant corresponding to 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.

The gross financial debt amounted to S / 3,107.6 million, increasing by 1.3% in relation to December 31 of the previous year, mainly explained by bank overdrafts net of debt payments. It is worth mentioning that 17.7% of such debt is in foreign currency (17.3% as of December 31 of the previous year). Likewise, 16% of the total debt is kept in short term (13% as of December 31 of the previous year). Finally, 2% of the financing is in bonds, 88% in loans and 10% in promissory notes and bank overdrafts (4% of the financing was in bonds, 90% in loans and 6% in bank promissory notes and overdrafts as of December 31, 2019).

#### ■ ECONOMIC RESULTS

The invoiced dispatches for cement as of March 31, 2020 amounted to S / 368.1 million, 15.2% lower than the invoiced dispatches reached during the same period of the previous year. This decrease is mainly due to a lower physical volume of cement sold as a consequence of the stoppage of operations as of March 17, 2020 by the declaration of the State of National Emergency.

The cost of sales of cement as of March 31, 2020 amounted to S / 233.1 million, 13.4% lower than in the same period of 2019, mainly due to the lower volume of physical cement sold for the reasons previously mention.

Additionally, income from exports increased and income from blocks, paving and pavements decreased as of March 31, 2020 compared to the same period in 2019. The combined gross margin was 33.2% (35.4% in the previous year).

Operating expenses, amounting to S/ 42.4 million as of the first quarter of 2020, have remained at similar levels compared to the same period of the previous year. Other Operating Income in the first quarter of 2020 decreased by 84.8% compared to the first quarter of 2019, mainly because in 2019 an income from declared dividends from UNACEM ECUADOR through Inversiones IMBABURA S.A. and from other related companies for a total of S/ 112.5 million was included, and in 2020 our subsidiaries did not declare dividends. Other Expenses decreased by 24.2% with respect to the same period of the year.

Operating income reached S/. 106.6 million as of 1Q20, a lower amount than the S/. 243.9 million reached in 1Q19, mainly explained by the lower combined gross margin since there was no income in 2020 from dividends declared by subsidiaries, as detailed in the previous paragraph. EBITDA margin was 39.3% as of 1Q19 (63.4% as of 1Q19 including dividends declared by subsidiaries).

Financial Income and Financial Expenses decreased in relation to the same period of the previous year mainly due to lower interest related to the return of income tax for the years 1998, 2015 and 2016; and due to lower interest expenses for financial obligations, respectively.

As of 1Q20, there was a FX loss of S/ 18.9 million (versus a FX loss of S / 19.0 million in 1Q19), mainly explained by the financial debt denominated in dollars.

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

Net income decreased by 83.0% with respect to the same period of the previous year, from S/. 190.4 million in 2019 to S/. 32.4 million in 2020, representing 7.9% of net sales, lower than the 39.7% obtained in 2018.

The most important changes in the company's balance sheet as of March 31, 2020 compared to December 31, 2019 can be observed in the following items:

- ▶ Decrease of Related Accounts Receivable in S/ 34.3 million, mainly due to the operational payments of Unicon and Concremax in the first quarter 2020.
- ▶ Inventories increase by S / 60.7 million, due to a greater stock of clinker and imported coal.

- ▶ Decrease in Fixed Assets by S/ 24.5 million, due to net depreciation of additions.
- ▶ S/ 67.3 million increase in Accounts Payable to Related Parties, mainly due to a loan of USD 23.6 million from the Skanon subsidiary.
- ▶ Financial Debt increase of S/ 40.0 million, due to higher overdrafts.

### ***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.

On January 31, 2020, the UNACEM Board of Directors, with the prior agreement of the Audit and Risk Committee, unanimously approved the appointment of Mr. Pedro Lerner Rizo Patron, as its new General Manager, a position he will assume from July 1 of this year.

### ***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 2020</b>					
COMMON SHARE					
Year - Month	Opening	Closure	Highest	Lowest	Average Price
2020 - 01	2.00	1.90	2.00	1.90	1.95
2020 - 02	1.89	1.97	1.99	1.89	1.96
2020 - 03	1.96	1.35	1.96	1.31	1.67

**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

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

Starting in 2015, the policy is to distribute quarterly cash dividends, within a range between S/ 0.01 and S/ 0.02 per share issued by the Company, provided that the Company's liquidity situation allows it, that is, subject to the Company having complied with its financial covenants (contractual financial obligations) and has sufficient liquid resources to cover its operating and administrative costs and expenses, the scheduled disbursements for its investments in fixed assets and other assets, as well as to pay the maturities of the period for capital and interest of financial obligations.

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>