

# MANAGEMENT COMMENTS

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Third Quarter 2020

# UNION ANDINA DE CEMENTOS S.A.A.

## **Management Comments** **Third quarter, as of September 30, 2020**

### RELEVANT EVENTS

#### **SANITARY CRISIS AND MEASURES TAKEN BY UNACEM IN THE COVID-19 EMERGENCY**

The COVID-19 coronavirus pandemic, identified for the first time at the end of 2019 in the Chinese city of Wuhan, since the beginning of 2020 has been increasingly and severely affecting health and life worldwide, causing the paralysis of economic and commercial activities in many countries including Peru and affecting the commercial operations of the Company.

The declaration of the State of Emergency forced the Company to immediately suspend the production of clinker and cement, as well as the dispatch at our Atocongo and Condorcocha production plants. The priority of the Company from the outset was focused on its sustainability and the protection of the health, integrity and well-being of its employees and their families, as well as the jobs and shareholders.

In mid-April 2020, the Company restarted in a very limited way the dispatch of bulk cement, exclusively to serve the mining subsector in the execution of its critical activities, under strict security measures and new protocols with complementary measures to protect the health of its employees, which are constantly reviewed. Subsequently, Supreme Decree No. 080-2020-PCM, of May 3, 2020, approved the gradual and progressive resumption of economic activities within the framework of the declaration of the State of National Emergency, which allowed the Company to resume clinker grinding activities and bagged and bulk cement dispatch as of the third week of May 2020, taking into account all the recommendations of the health authorities, in order to safeguard the well-being of its workers and the value chain.

The stoppage of the Company's economic activities in Peru between March 17 and May 19, 2020, generated a deterioration in the financial results of the second quarter of 2020, which led the Board of Directors to adopt a series of preventive measures and extraordinary, applicable throughout the year 2020, in order to take care of liquidity and working capital, which are allowing the Company to meet its commitments with its workers, suppliers and clients throughout the entire value chain. The main measures adopted are:

1. Consume existing inventories before restarting the operation of the kilns, to protect the Company's 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 the distribution of fees to the board.
6. Suspend advances for profit sharing to workers in general.
7. Accept and thank the solidarity proposal of UNACEM officials to voluntarily and temporarily reduce their salaries between 10% and 25%.
8. Suspend salary increases and bonuses during 2020 for all administrative staff.
9. Manage agreements with workers 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.
11. Obtain short-term financing with various institutions of the local financial system to guarantee the required liquidity in 2020.

Despite the aggressive package of measures launched in successive stages by the Government and the BCR to inject liquidity into the population and employers and prevent the payment and supply chain from being cut off, the suspension of many productive and commercial activities severely affected the economy, especially employment and the sustainability of hundreds of thousands of SMEs (Small and medium-sized enterprises), drastically reducing the capacity to consume essential goods of millions of entrepreneurs and underemployed and informal workers who represent 70% of the EAP (Economically Active Population) in the country. This serious health and economic crisis significantly reduced the activity of self-construction, the main support of the Company's bagged cement dispatches, from March to May 2020; however, we believe there are sufficient reasons to be cautiously optimistic in the medium term.

If we analyze the behavior of cement demand since operations were restarted, we can see that the self-construction segment has shown a recovery greater than expected, given the difficult employment situation mentioned in the previous paragraph; however, we have been pleasantly surprised by the recovery in sales in the period under review and, while our expectations for the rest of the year are quite encouraging, it is still too early to estimate longer trends.

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

### **RELEVANT ASPECTS ON THE PREPARATION OF FINANCIAL INFORMATION**

As mentioned above, the Company was forced to paralyze its economic activities between March 17 and May 19, 2020, as a result of the measures taken by the government due to the COVID-19 pandemic. Subsequently, the Company restarted operations at its Atocongo and Condorcocha plants, with the minimum necessary personnel and complying with strict safety protocols. In the case of administrative personnel, an important part of this has been carrying out their tasks under the modality of remote work.

Given this, the Company's Management proceeded to identify the risks associated with the preparation of financial information, concluding the following:

- a) The Company has ERP SAP system, which allows it to successfully manage and in an integrated environment its human, financial-accounting, productive, commercial, logistical resources and more, for which no greater impact has been generated in the performance of the remote work by the Company personnel.
- b) The Company's personnel have been making use of the computer equipment provided by the Company, with the necessary security controls and permanent computer support, for which no issues have been identified that could put at risk the integrity and reliability of the financial information.
- c) There are accounting registration procedures that allow to continue working as it had been done before the pandemic, so the timeliness in preparing the information has not been affected.
- d) The corresponding coordination and review meetings have been carried out smoothly through the virtual platforms that the Company has made available to its collaborators.

## CLINKER

### ■ PRODUCTION

Clinker production during 3Q20 was 684,878 t. During 2Q20 there was no clinker production due to the shutdown of the kilns as a result of the health crisis caused by the COVID-19 pandemic.

### ■ CEMENT

Cement production during 3Q20 increased 210.2% compared to 2Q20 due to a gradual recovery of cement dispatches.

### 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	1,645	1,320	1,351	3,087
	<b>I-III</b>	<b>4,147</b>	<b>3,941</b>	<b>3,927</b>	<b>8,617</b>
	IV	1,561	1,397	1,389	3,144
	<b>I-IV</b>	<b>5,708</b>	<b>5,339</b>	<b>5,316</b>	<b>11,762</b>
2020	I	1,150	1,068	1,064	2,307
	II	-	439	444	982
	III	685	1,362	1,364	3,002
	<b>I-III</b>	<b>1,835</b>	<b>2,870</b>	<b>2,871</b>	<b>6,291</b>
<b>Variation</b>					
20-I-III/19-I-III		-55.8%	-27.2%	-26.9%	-27.0%
20-III/19-III		-58.4%	3.2%	1.0%	-2.7%
20-III/20-II		---	210.2%	207.5%	205.8%

### CEMENT DISPATCHES

#### ■ DOMESTIC MARKET

UNACEM's cement dispatches during 3Q20 increased by 207.5% compared to the previous quarter: from 443,593 t to 1,364,048 t. Compared to the same period of 2019, cement dispatches were 1.0% higher.

Domestic cement dispatches, according to the National Institute of Statistics and Informatics (INEI), increased by 205.8% during the third quarter of 2020, compared to the previous quarter, from 981,657 t. to 3,002,369 t.

The Company's share in the domestic market increased slightly, from 45.2% in 2Q20 to 45.4% in 3Q20.

#### ■ PORT OPERATIONS

As of 3Q20, exports through the Conchán pier decreased by 80.0%, during the second quarter, no clinker exports were carried out due to the repair work on the ship loader, which was completed in July.

Additionally, the tonnage of bulk solids operated by the pier in Conchán as of 3Q20 was 516 thousand tons (892 thousand tons as of 3Q19), including gypsum, coal, pozzolana, slag and third-party grains operations.

### FINANCIAL INFORMATION

#### ■ LIQUIDITY

As of September 30, 2020, the Company's ability to meet short-term obligations is 0.93 per every sol owed.

### ■ CAPITAL AND FUNDING SOURCES

As of September 30 2020, CAPEX amounted to S/ 74.0 million; the main additions during the first nine months of 2020 correspond to disbursements made for the projects to coolers dedusting system of kiln 2, migration of the control system of kiln 2, the modernization of the Carpapata 1 and 2 hydroelectric power plant, and the clinker yard corresponding to the Condorcocha plant; as well as disbursements made for the structural reinforcement and internal modification of chamber 3 of the multisilo, the fire detection and alarm system and the Manchay ecological conveyor belt 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/ 3,302.2 million, increasing 7.6% in relation to December 31 of the previous year, mainly explained by obtaining short-term financing taken with various institutions of the local financial system to guarantee the liquidity of the Company, net of payments. The higher amount corresponds to the increase in debt net of payments for S/ 176.6 million and a greater exchange loss generated by debt in foreign currency for S/ 58.1 million. It is worth mentioning that 24.6% of such debt is in foreign currency (17.3% as of December 31 of the previous year). Likewise, 25.5% of the total debt is kept in short term (12.5% as of December 31 of the previous year). Finally, 84.8% of the financing is in bank loans, 13.4% in promissory notes and bank overdrafts and 1.8% in bonds (90.4% of the financing is in bank loans, 5.7% in bank promissory notes and overdrafts and 3.9% in bonds as of December 31, 2019).

### ■ ECONOMIC RESULTS

The invoiced dispatches for cement as of September 30, 2020 amounted to S/ 1,012.1 million, 24.3% 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 result of the stoppage of operations from March 17 to May 19, 2020 as a result of the declaration of the State of National Emergency.

The cost of sales of cement as of September 30, 2020 amounted to S/ 717.3 million, 16.8% lower than in the same period of 2019, mainly due to the lower volume of physical cement sold for the reasons previously mention.

Revenues from Exports and Blocks, Paving and Pavements decreased as of September 30, 2020 compared to the same period in 2019. The combined gross margin was 27.0% (33.3% in the previous year).

The operating expenses, amounting to S/ 125.2 million in the third quarter of 2020, have decreased by 21.0% compared to the same period of the previous year, mainly due to the austerity policy establish by the Companies to face the current health and economic crisis. Other Operating Income for the third quarter of 2020 has decreased by 69.0% compared to the third quarter of 2019, mainly because 2019 includes an income from declared dividends from UNACEM ECUADOR, through Inversiones IMBABURA S.A. and from other related companies for a total of S/ 113.8 million and in 2020 includes only income from declared dividends of the subsidiary ARPL for S/ 8.9 million. Other Expenses have increased significantly compared to the same period of the previous year, mainly due to the adjustment of assets related to the Atocongo thermal plant project and the integral plan of the Cristina mining concession project for S / 57.7 million.

As a consequence of the aforementioned, an operating profit of S/ 148.0 million was obtained as of 3Q20 versus the operating profit of S / 470.5 million reached in 3Q19, mainly explained by the lower combined gross margin, the lower income from dividends declared by subsidiaries and the highest asset adjustment expenses. The EBITDA margin was 29.1% as of 3Q20 (44.1% as of 3Q19), 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 also due to lower interest expenses from financial obligations that were refinanced in the last quarter of 2019 at lower interest rates.

As of 3Q20, there was a loss in foreign exchange of S/ 45.9 million (versus a loss in foreign exchange rate of S/ 1.8 million in 3Q19), mainly explained by the financial debt in dollars.

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

As of 3Q20, a net loss of S/ 13.2 million was obtained versus a net profit as of 3Q19 of S/ 277.3 million, for the reasons mentioned in the preceding paragraphs.

The most important changes in the Company's balance sheet as of September 30, 2020 compared to December 31, 2019 can be observed in the following items:

- ▶ An increase in Cash and cash equivalents in S/ 180.3 million, mainly due to higher collections from customers after the resumption of the Company's activities.
- ▶ Decrease in Inventory by S/ 96.1 million, mainly due to the decrease in the clinker stock.
- ▶ Decrease of S/ 97.1 million in Mining Concessions, Property, Plant and Equipment item, mainly due to the adjustment of assets related to the Atocongo thermal plant project and the integral plan of the Cristina mining concession for S/ 57.7 million.
- ▶ An increase in Financial Obligations in S/ 234.6 million, mainly due to the obtaining of short-term financing taken with various institutions of the local financial system to guarantee the liquidity of the Company, with the objective of complying with the workers, suppliers and clients as throughout the entire value chain.

### ***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 assumed 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					
<b>Year - Month</b>	<b>Opening</b>	<b>Closure</b>	<b>Highest</b>	<b>Lowest</b>	<b>Average Price</b>
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
2020 - 04	1.32	1.15	1.35	1.14	1.27
2020 - 05	1.18	1.40	1.40	1.18	1.32
2020 - 06	1.38	1.60	1.70	1.38	1.57
2020 - 07	1.60	1.55	1.60	1.46	1.52
2020 - 08	1.54	1.45	1.54	1.45	1.48
2020 - 09	1.46	1.43	1.48	1.40	1.43

## 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

### ***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>