

# 2Q 2020 EARNINGS REPORT

Lima, Peru, July 24, 2020. Corporación Aceros Arequipa S.A. ("the Company" or "Aceros Arequipa") (BVL: CORAREC1 and CORAREI1) announced its unaudited consolidated financial results corresponding to the Second Quarter ("2Q 2020") period ended June 30, 2020. Financial figures are reported on a consolidated and individual basis in nominal Peruvian Soles (S/) and are in accordance with International Financial Reporting Standards ("IFRS"). The following consolidated statements should be read in conjunction with the Financial Statements and Notes, published at the Peruvian Securities and Exchange Commission (*Superintendencia del Mercado de Valores - SMV*).

## I. Highlights

- 1 The Company suspended its productive activities and limited its sales during the quarter, complying with the State of Emergency measures decreed by the Peruvian government, to contain the COVID-19 pandemic outbreak. The full impact on our industry and business is still uncertain.
- 2 **Revenue** reached S/ 230.3 million (-70.5% YoY), mainly due to lower demand following the government lockdown since mid-March related to the COVID-19 pandemic.
- 3 **Gross Profit** totaled S/ -3.8 million (-103.4% YoY) and **Gross Margin** was -1.7%
- 4 **EBITDA** was S/ -14.4 million (-116.3% YoY); while **EBITDA Margin** reached -6.3%
- 5 **CAPEX** was S/ 65.1 million, 40 million allocated towards the new melt shop project. As a result of the COVID-19 pandemic, further investments will be prioritized and postponed for the time being
- 6 **Net Profit** reached S/ -38.6 million (-199.4% YoY).
- 7 **Operating Working Capital requirements** reached S/ 1,130.9 million, mainly due to a higher level of inventories.
- 8 As of June 30, 2020, **Net Debt / EBITDA** ratio rose to 4.21x, compared to December 2019, primarily due to a lower EBITDA and additional debt disbursements for the new melt shop project and working capital financing.



Revenue  
reached S/ 230  
million  
(-70.5% YoY)

EBITDA was  
S/ -14 million, with  
a -6.3% margin

Net Profit was  
S/ -39 million, and  
Net Margin was  
-16.7%

Net Debt / EBITDA  
ratio reached 4.2x  
as of June 2020

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## Financial Summary

(S/ million)	2Q 2019	2Q 2020	YoY	YTD 2019	YTD 2020	YoY
<b>Financial Figures</b>						
Revenue	780.4	230.3	-70.5%	1,543.3	867.5	-43.8%
Gross Profit	113.4	-3.8	-103.4%	228.7	111.4	-51.3%
Operating Profit	59.7	-42.6	-171.4%	126.9	14.3	-88.8%
EBITDA	88.3	-14.4	-116.3%	180.4	77.0	-57.3%
Net Profit	38.8	-38.6	-199.4%	82.0	0.7	-99.1%
CAPEX <sup>1</sup>	65	94	-30.8%	183	198	8.2%
<b>Financial Margins</b>						
Gross Margin	14.5%	-1.7%	-16.2 p.p.	14.8%	12.8%	2.0 p.p.
Operating Margin	7.6%	-18.5%	-26.1 p.p.	8.2%	1.6%	6.6 p.p.
EBITDA Margin	11.3%	-6.3%	-17.6 p.p.	11.7%	8.9%	2.8 p.p.
Net Margin	5.0%	-16.7%	-21.7 p.p.	5.3%	0.1%	5.2 p.p.
Earnings per share <sup>2</sup>	0.15	0.11	-25.1%			
<b>Other Figures, as of</b>						
	Dec, 2019	Jun, 2020	YTD			
Net Debt <sup>3</sup>	773.9	1,222.5	58.0%			
Net Debt <sup>3</sup> / LTM <sup>4</sup> EBITDA	1.97x	4.21x	2.25x			

1. 2Q 2020 includes CAPEX of S/ 65 million, mainly explained by the new melt shop plant (financed through a capital lease agreement).
2. Earnings per share (EPS) defined as Net Profit LTM / Total Stock at the end of quarter, excluding treasury stock. Expressed in S/ per share. 2Q 2019 does not consider the badwill effect, generated after the acquisition of Comasa in September 2018.
3. Total Financial Debt (includes leases with suppliers)
4. LTM: last twelve months

## II. COVID-19 Impact & Response

On March 15, the Peruvian government decreed a State of Emergency and implemented a series of initiatives to contain the COVID-19 pandemic outbreak, including the closure of international borders and mandatory quarantine. The economic and financial impact is still uncertain, nonetheless, we are prepared for a period of lower domestic demand, increased competition, and lower collection levels. Our focus is to keep our employees safe and healthy, support vulnerable families, and safeguard cash.

Aceros Arequipa implemented some initiatives to address the current situation, which include:

### Health and Safety

- Melt shop, rolling mills and tube plants shut down during lockdown, in compliance with government regulations. The plant started operations on July.
- Home-office for administrative personnel
- Purchase of 2,400 rapid tests, digital thermometers and personal protective equipment for employees
- Implementation of Safety Protocols

### Social Responsibility

- Support vulnerable families in the plant's influence area through the purchase of food boxes and cleaning appliances
- Donation of personal 3,200 protective equipment (PPE) to local low-income local public hospital.
- Donation of respirators to the Peruvian authorities
- Purchase fumigation tractor to spray disinfectant in the streets of low-income communities near the plant

### Jobs protection

- Compensate quarantine hours with vacation time
- Consensual salary reduction
- Temporary labor suspension

### Business continuity

- Inventory management to reduce volume by December 2020
- Prioritize (New Melt shop and Rolling Mill upgrade) and postponement of other Investments. New melt shop completion now expected on second quarter 2021.
- Overall budget reductions
- State of the art web order system

### III. Income Statement

## Revenue

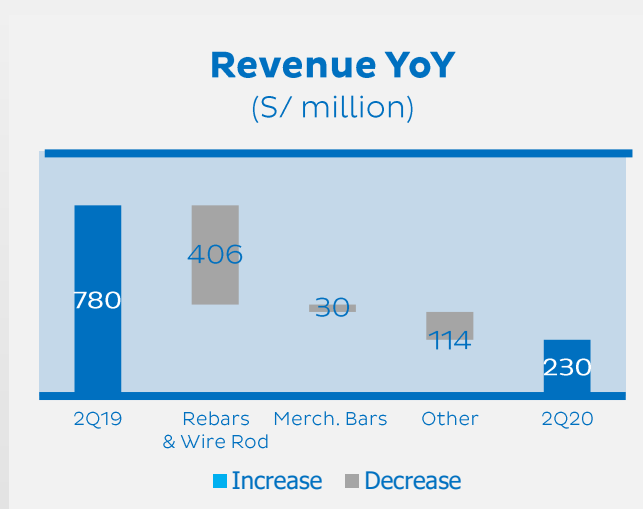
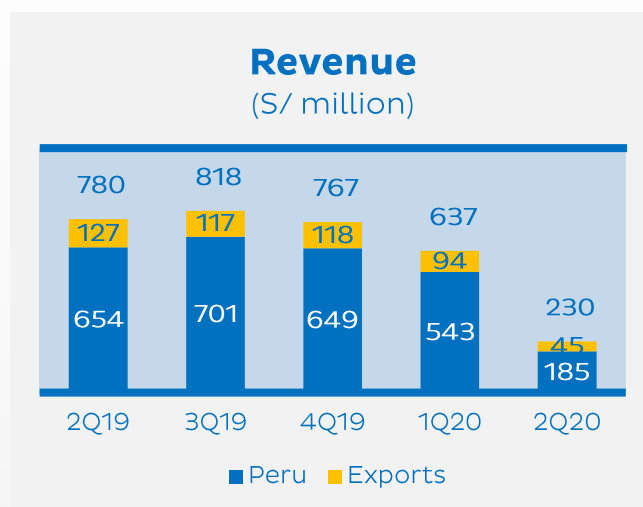
During 2Q 2020, Revenue reached S/ 230.3 million (-70.5% YoY).

Revenue declined due to lower sales volume mainly as a result of the national lockdown imposed by the government due to COVID-19 pandemic. Domestic revenues decreased by S/ 468.1 million (-71.6%) YoY, while Exports decreased by S/ 82.0 million (-64.6%) YoY.

During the quarter, Export Revenue represented 19.5% of Total Revenue, a 3.2 p.p. increase when compared to 16.3% in 2Q 2019. The decrease in Exports was mainly due to lockdown measures in the Bolivian market, which remained the main export market for the Company during the quarter.

On a per-category basis, the “Rebars & Wire Rod” products category declined S/ 406.1 million (-75.7%) YoY. This was followed by the “Others” category, with a decrease of S/ 114.2 million (-60.8%). Moreover, the “Merchant bars” category registered a contraction of S/ 29.8 million (-53.0%).

Revenue for 6M2020 reached S/ 867.5 million, a S/ 675.8 million, or 43.8% YoY reduction versus the same period of 2019.



## Gross Profit

Gross Profit was negative and reached S/ -3.8 million during 2Q 2020, as revenues declined. Gross Margin also deteriorated and reached -1.7% after a complete production shutdown during the quarter, in compliance to COVID-19 restrictions. Lower sales prevented fixed costs from being entirely covered and due to production shutdown fixed production costs were registered directly within cost of goods sold.

Gross Profit for 6M2020 reached S/ 111.4 million, a S/ 117.3 million, or 51.3% YoY reduction versus the same period of 2019.

## Operating Profit & EBITDA

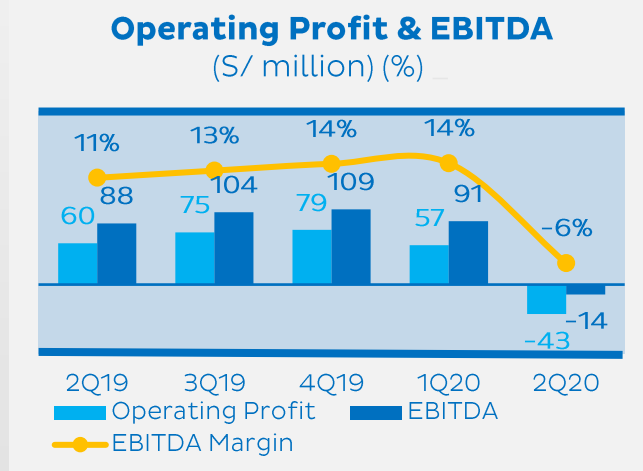
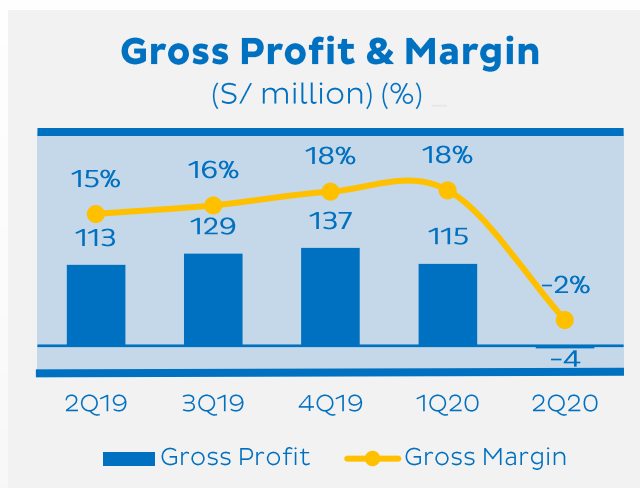
Operating Profit reached S/ -42.6 million during 2Q 2020, a S/ 102.2 million (-171.4%) reduction compared to S/ 59.7 million in 2Q 2019. Operating Margin was -18.5%, 26.1 p.p lower versus 2Q 2019.

The S/ 102.2 million reduction was mainly due to a lower Gross Profit which was offset by a S/ 21.0 million reduction in SG&A.

SG&A reduction was mainly due to overall budgets cuts mainly in Personnel Expenses and third-party services. SG&A as a percentage of Revenue reached 13.0%, a higher figure compared to 2Q2019.

Other Net Operating Expenses rose S/ 6.0 million as a result of higher asset write-offs and employee severance payments.

Consequently, during 2Q 2020, earnings before interest, taxes, depreciation and amortization (EBITDA) was negative and reached S/ -14.4 million (-116.3% YoY),



which represented an EBITDA Margin of -6.3%; 17.6 p.p. lower compared to 2Q 2019.

EBITDA for 6M2020 reached S/ 77.0 million, a S/ 103.4 million, or 57.3% YoY reduction versus the same period of 2019.

## Net Financial Expenses

During 2Q 2020, Net Financial Expenses reached S/ 8.8 million, S/ 1.5 million higher versus 2Q 2019, driven by lower Financial Income by S/ 1.4 million. Nonetheless, Net Financial Expenses for 6M 2020 reached S/ 13.7 million, S/ 3.2 million lower, or -18.9% YoY versus the same period of 2019.

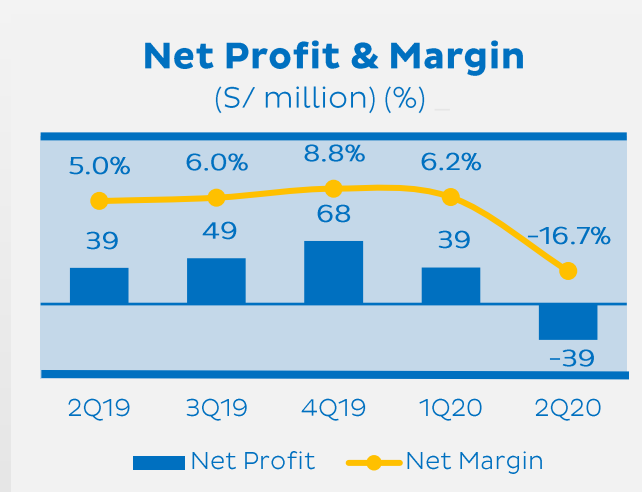
Additionally, the Net Exchange Rate Difference was a negative S/ 2.2 million, which represented a higher expense of S/ 2.9 million YoY.

## Net Profit

Net Loss was S/ -38.6 million during 2Q 2020, S/ 77.3 million lower (-199.4%) YoY. Net Margin was -16.7%.

This decrease was a result of a lower Operating Profit, higher Net Financial Expenses, negative Exchange Rate Differences and lower Income from Related Companies. These was partially offset by lower Income Taxes by S/ 30.8 million.

Earnings per Share, based on the Net Profit for the last twelve months (LTM), reached S/ 0.11 in 2Q 2020, lower than the normalized ratio of S/ 0.15 reported in 2Q 2019 (-25.1%) which does not consider the goodwill effect, generated after the acquisition of Comasa in September 2018.



## IV. Balance Sheet

### Assets

As of June 30, 2020, Total Assets reached S/ 4,510.4 million, representing an increase of S/ 346.6 million versus December 31, 2019. Asset increase was driven by both Current and Non-Current Assets, which increased by S/ 212.3 million and S/ 134.0 million, respectively.

Current Assets were higher as of June 30, 2020, mainly due to a higher balance of:

- i Inventories (+S/ 206.5 million, or +22.2% YTD), driven by the production suspension when raw materials, billets and other inputs were already in transit.
- ii Cash (+ S/53.5 million)
- iii Other Accounts receivable (+ S/ 43.8 million, or 83.2%) YTD), due to an increase in Value Added Tax credit related to higher inventories that were acquired before the Covid-19 pandemic.

These increases were partially offset by a lower Accounts Receivable (including to related parties) by S/ 105.7 or -20.7% YTD.

Days of Sales Outstanding slightly rose to 59.3 days as of June 30, 2020, from 58.6 days as of December 31, 2019. Days of Inventory on Hand increased to 197.5 days as of June 30, 2020 compared to 127.4 days as of December 31, 2019.

Non-Current Assets increase was driven by CAPEX, mainly due to investments in the new melt shop plant, which is currently under construction. Consequently, Net, Property, Plant and Equipment increased by S/ 143.8 million (+7.4%) YTD.

## Liabilities

At the close of June 2020, Total Liabilities reached S/ 2,375.2 million, a S/ 348.2 million increase YoY, driven by higher Non-Current Liabilities by S/ 250.6 million, as well as an increase in Current Liabilities of S/ 97.6 million.

Current Liabilities increased mainly due to a higher balance of Current Financial Debt by S/ 235.9 million or 42.8% YTD, as Working Capital financing requirements were higher. This was partly offset by lower Accounts Payable. Nonetheless, Days of Payables Outstanding increased to 78.7 days as of June 2020 from 75.2 days as of December 2019.

As of June 2020, Total Financial Debt (including supplier leases) reached S/ 1,721.5 million, S/ 502.1 million higher than as of December 2019.

Current Financial Debt as of June 30, 2020 was S/ 786.5 million, S/ 235.9 million higher than the figure reported as of December 2019, and of which S/ 691.9 million represented Working Capital Financing.

Non-Current Financial Debt was S/ 935.0 million, S/ 266.2 million higher than the figure reported at December 2019, mainly explained by the financial lease for the new melt shop.

As of June 2020, 63% of Total Debt was denominated in Soles, while 36% was denominated in U.S. Dollars and the remaining 1% in Bolivianos.

Net Debt to EBITDA ratio was 4.21x as of June 2020, an increase of 2.25x compared to December 2019, as Net Financial Debt increased by S/ 448.6 million and EBITDA for the Last-Twelve-Months was S/ 103.4 million lower.

## Shareholders' Equity

At the close of June 2020, Shareholders' Equity reached S/ 2,135.2 million, similar to the figure of December 2019.



## V. Cash Flow Statement

### Cash Flow from Operations

As of June 30, 2020, Cash Flow from Operations was -S/ 254 million, mainly explained by the EBITDA reduction during the year due to the effects of the national lockdown and the increase in inventory.

### Cash Flow from Investing

As of June 30, 2020, Cash Flow from Investing was -S/ 33 million, mainly due to investments in fixed assets of S/ 69.6 million and intangibles of S/ 1.4 million. These were partly offset by S/ 33.7 million in asset sales and S/ 4.6 million in interests received.

These figures do not consider S/ 127 million related to the new melt shop plant, which is financed through a capital lease agreement.

### Cash Flow from Financing

As of June 30, 2020, Cash Flow from Financing was S/ 340 million, which included new debt of S/ 1,574.3, debt repayment of S/ 1,215.7 million and interest payments of S/ 18.3 million.

These figures do not consider the capital leasing agreement for the new melt shop plant.

## VI. Relevant Events during 2Q 2020

During the quarter, the Company invested S/ 40 million as part of the construction of its upcoming new melt shop facility, which will have capacity of over 1.25 million tons of liquid steel. In January 2020, the Board of Directors approved an increase of total investment from US\$ 180 million to US\$ 208 million. Works are expected to be completed during 2Q2021.

### Conference Call Information

Corporacion Aceros Arequipa S.A. cordially invites you to participate in its Second Quarter 2020 Earnings Conference Call

Date: Monday, July 27, 2020

Time: 12:00 pm ET / 11:00 am Lima Time

To access the live presentation via Zoom, visit the following URL:

<https://tinyurl.com/y9e5o39g>

## About CORPORACIÓN ACEROS AREQUIPA S.A.

**CORPORACIÓN ACEROS AREQUIPA S.A.**, founded in 1964, is the leading Peruvian Company in production and commercialization of steel products, with exports to Bolivia and other countries in the region. Its core products are rebars and wire rod and other products for the construction industry as well as merchant bars & profiles and flat steel products. The Company has an industrial facility located in Pisco, Peru with an average per-year capacity of 850 thousand tons for its melt shop and 1,250 thousand tons in steel rolling mill. Aceros Arequipa employs over 1,100 people across its operations in Peru and subsidiaries. The Company's common and investment (non-voting) shares are listed on the Lima Stock Exchange under the ticker symbols CORAREC1 and CORAREI1, respectively. Currently, Aceros Arequipa has a stake in the following companies:

• Transportes Barcino:	99.92%
• Comercial del Acero:	99.99%
• Inmobiliaria Comercial del Acero Cajamarquilla:	33.65%
• Inmobiliaria Comercial del Acero Argentina:	33.65%
• Aceros del Altiplano:	99.00%
• Aceros Arequipa Iquitos:	99.90%
• Tecnología y Soluciones Constructivas:	99.90%
• Acero Instalado:	99.90%
• Aceros America	100.00%
• Celepsa:	10.00%

## Disclaimer

This Earnings Report may contain forward-looking statements concerning management's current expectations for future operating and financial performance, based on assumptions currently believed to be valid and recent acquisitions, its financial and business impact, management's beliefs and objectives with respect thereto. Forward-looking statements are all statements other than statements of historical facts. The words "anticipates," "may," "can," "plans," "believes," "estimates," "expects," "projects," "intends," "likely," "will," "should," "to be," and any similar expressions or other words of similar meaning are intended to identify those assertions as forward-looking statements. It is uncertain whether the events anticipated will transpire, or if they do occur what impact they will have on the results of operations and financial condition of Aceros Arequipa whether individually or as a consolidated Company. Aceros Arequipa does not undertake any obligation to update the forward-looking statements included in this Earnings Report to reflect subsequent events or circumstances.

### III. Unaudited Financial Statements

Corporación Aceros Arequipa S.A.	Consolidated Financial Statement of Financial Position (in thousands of Peruvian Soles)		
	Notes	June 30, 2020	December 31, 2019
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	5	498,960	445,501
Accounts Receivable	6	390,987	481,260
Accounts Receivable from related parties	7	12,964	28,364
Other Accounts Receivable	8 & 10	106,217	59,941
Inventories	9	1,138,437	931,970
Other non-financial assets		11,779	0
Assets classified as held for sale	1	10,597	10,597
<b>Total Current Assets</b>		<b>2,169,941</b>	<b>1,957,633</b>
<b>Non-Current Assets</b>			
Other financial assets	13	26,436	30,869
Investments in subsidiaries, affiliates or joint ventures	11	114,013	112,796
Accounts Receivable from related parties	7	4,197	4,197
Other Accounts Receivable	8	13,590	13,591
Property, Plant and Equipment, Net	12	2,075,163	1,929,401
Intangible Assets, Net	14	71,178	79,557
Deferred Income tax Assets	19	0	0
Other non-financial assets	15	35,847	36,024
<b>Total Non-Current Assets</b>		<b>2,340,424</b>	<b>2,206,435</b>
<b>TOTAL ASSETS</b>		<b>4,150,365</b>	<b>4,164,068</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Other Financial Liabilities	16	786,484	550,591
Accounts Payable	17	449,754	531,581
Accounts Payable to related parties	7	3,748	18,578
Other Accounts Payable	18	76,002	98,958
Current Income Tax	19	0	18,587
<b>Total Current Liabilities</b>		<b>1,315,988</b>	<b>1,218,295</b>
<b>Non-Current Liabilities</b>			
Other Financial Liabilities	16	935,014	668,811
Accounts Payable	17	0	0
Other Accounts Payable	17	6,814	6,754
Deferred Income Tax Liabilities	19	117,372	133,139
<b>Total Non-Current Liabilities</b>		<b>1,059,200</b>	<b>808,704</b>
<b>Total Liabilities</b>		<b>2,375,188</b>	<b>2,026,999</b>
<b>Shareholders' Equity</b>			
Share Capital	20	890,858	890,858
Investment Shares	20	190,052	190,052
Treasury Shares	20	-7,644	-7,644
Other Capital Reserves	20	178,261	178,261
Retained Earnings	20	665,638	667,530
Other Shareholders' Equity Reserves	20	218,012	218,012
<b>Total Shareholders' Equity</b>		<b>2,135,177</b>	<b>2,137,069</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>4,510,365</b>	<b>4,164,068</b>

# Corporación Aceros Arequipa S.A.

## Consolidated Financial Statement of Comprehensive Income (in thousands of Peruvian Soles)

	Notes	2Q 2020	2Q 2019	6M2020	6M2019
Revenue	21	230,322	780,404	867,525	1,543,315
Cost of Goods Sold	22	-234,141	-666,970	-756,157	-1,314,606
Gross Profit (Loss)		-3,819	113,434	111,368	228,709
Selling and Distribution Expenses	23	-20,469	-28,860	-49,203	-54,681
Administrative Expenses	24	-9,465	-22,110	-29,972	-41,732
Other Operating Income	26	973	1,287	3,345	7,712
Other Operating Expenses	26	-9,806	-4,090	-21,274	-13,058
Other Income (Expenses)		0	0	0	0
Operating Profit (Loss)		-42,586	59,661	14,264	126,950
Financial Income	27	1,603	3,010	4,573	5,902
Financial Expenses	27	-10,380	-10,246	-18,318	-22,846
Other income (Expenses) from subsidiaries, affiliated and joint ventures	11	-16	1,439	1,181	2,506
Exchange Rate Differences, Net	31	-2,215	674	-2,982	4,613
Profit (Loss) before taxes		-53,594	54,538	-1,282	117,125
Income Tax Expense	19	15,034	-15,761	2,023	-35,121
Profit (Loss) from Discontinued Operations		0	0	0	0
Net Profit (Loss)		-38,560	38,777	741	82,004
Earnings Per Share					
Basic in Continued Operations of Common Stock		0.110	0.150	0.110	0.150
Basic in Discontinued Operations of Common Stock		0.000	0.000	0.000	0.000
Total Earnings Per Share of Common Stock		0.110	0.150	0.110	0.150
Basic in Continued Operations of Investment Stock (Non-voting)		0.110	0.150	0.110	0.150
Basic in Discontinued Operations of Investment Stock (Non-voting)		0.000	0.000	0.000	0.000
Total Earnings Per Share of Investment Stock (Non-Voting)		0.110	0.150	0.110	0.150

# Corporación Aceros Arequipa S.A.

## Consolidated Financial Statement of Cash Flow – Direct Method (in thousands of Peruvian Soles)

	Notes	Jan 01 – Jun 30 2020	Jan 01 – Jun 30 2019
<b>Cash Flow from Operating Activities</b>			
<b>Collections due to Operating Activities</b>			
Sales of Goods and Services Offered		1,035,972	1,514,915
Other Operating Collections		-36,123	62,853
<b>Payments due to Operating Activities</b>			
Suppliers of Goods and Services		-1,094,483	-1,283,567
Payments and payments on account to employees		-108,558	-73,232
Income Tax		-50,945	-54,053
<b>Net Cash Generated by Operating Activities</b>		<b>-254,137</b>	<b>166,916</b>
<b>Cash Flow from Investing Activities</b>			
<b>Collections due to Investing Activities</b>			
Sale of Property, Plant and Equipment	26	33,730	6,939
Interests Received	27	4,572	5,902
Dividends Received		0	0
<b>Payments due to Investing Activities</b>			
Gain of Control of Subsidiaries or Other Businesses		0	0
Purchase of Subsidiaries, Net of Cash Acquired		0	0
Purchase of Property, Plant and Equipment	12	-69,634	-36,084
Purchase of Intangible Assets	14	-1,374	-4,418
Purchase of Other Long-Term Assets		0	0
<b>Net Cash Generated by Investing Activities</b>		<b>-32,706</b>	<b>-27,661</b>
<b>Cash Flow from Financing Activities</b>			
<b>Collections due to Financing Activities</b>			
Short term and long-term loans	16	1,574,312	1,170,946
<b>Payments due to Financing Activities</b>			
Short term and long-term loans amortization	16	-1,215,692	-1,199,489
Interests paid	27	-18,318	-22,047
Dividends paid	20	0	-26,805
<b>Net Cash Generated by Financing Activities</b>		<b>340,302</b>	<b>-77,395</b>
Net Increase (Reduction) of Cash and Equivalents before Exchange Rate Changes		53,459	61,860
Effects of Exchange Rate Changes on the balance of Cash Held in Foreign Currencies		0	0
Net Increase (Reduction) of Cash and Equivalents		53,459	61,860
Cash and Cash Equivalents at the beginning of the year		445,501	244,765
<b>Cash and Cash Equivalents at the end of the period</b>	<b>5</b>	<b>498,960</b>	<b>306,625</b>