

# 3Q 2019 EARNINGS REPORT

Lima, Peru, October 24, 2019. Corporación Aceros Arequipa S.A. (“the Company” or “Aceros Arequipa”) (BVL: CORAREC1 and CORAREI1) announced its unaudited consolidated financial results corresponding to the Third Quarter (“3Q 2019”) and first nine-months (“9M 2019”) period ended September 30, 2019. 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 **Revenue** reached S/ 818.5 million (+18.8% YoY) during 3Q 2019, mainly due to the inclusion of revenues from *Comercial del Acero* (“Comasa”) in the consolidated financial statements, following its acquisition in September 2018, as well as higher sales of core products.
- 2 **Gross Profit** totaled S/ 129.2 million (+22.2% YoY) during the quarter. **Gross Margin** was 15.8% (+0.4 p.p. YoY) for the same period.
- 3 **EBITDA** jumped to S/ 104.4 million (+28.6% YoY); **EBITDA Margin** was 12.8% (+1.0 p.p. YoY).
- 4 **Capex for the quarter** was S/ 202.2 million, which includes S/ 93.9 million of the new melt shop project.
- 5 **Operating Working Capital requirements** were significantly lower, compared to December 2018, and reached S/ 930.0 million; mainly due to a reduction of Inventories.
- 6 As of September 30, 2019, **Gross Financial Debt** amounted to S/ 1,233.1 million, which reflected a Net Debt / EBITDA ratio of 2.11x; a decrease from 2.32x as of December 2018, primarily due to an increase in LTM EBITDA and a higher cash balance.



Revenues increased by S/ 130 million (+18.8% YoY)

EBITDA of S/ 104 million, with a 12.8% margin

Net Profit reached S/ 49 million and Net Margin was 6.0%

Net Debt / EBITDA ratio reached 2.1x as of September 2019

## CONTACT INVESTOR RELATIONS

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## Financial Summary

(\$/ million)	3Q 2018	3Q 2019	YoY	9M 2018	9M 2019	YoY
<b>Financial Figures</b>						
Revenue	688.8	818.5	18.8%	2,006.3	2,361.8	17.7%
Gross Profit	105.7	129.2	22.2%	325.1	357.9	10.1%
Operating Profit	52.0	75.4	44.9%	178.9	202.3	13.1%
EBITDA	81.2	104.4	28.6%	263.1	284.8	8.3%
Net Profit	32.8	49.1	49.8%	120.8	131.1	8.5%
CAPEX <sup>1</sup>	102.4	202.2	97.4%	150.6	365.5	142.7%
<b>Financial Margins</b>						
Gross Margin	15.3%	15.8%	0.4 p.p.	16.2%	15.2%	-1.1 p.p.
Operating Margin	7.6%	9.2%	1.7 p.p.	8.9%	8.6%	-0.4 p.p.
EBITDA Margin	11.9%	12.8%	0.8 p.p.	13.1%	12.1%	-1.0 p.p.
Net Margin	4.8%	6.0%	1.2 p.p.	6.0%	5.6%	-0.5 p.p.
Earnings per share <sup>2</sup>	0.17	0.21	23.8%			
<b>Other Figures, as of</b>				<b>Dec, 2018</b>	<b>Sep, 2019</b>	<b>YTD</b>
Net Debt <sup>3</sup>				840.7	810.5	-3.6%
Net Debt <sup>3</sup> / LTM <sup>4</sup> EBITDA				2.32x	2.11x	-0.21x

1. 3Q 2019 includes CAPEX of \$/ 93.9 million, related to 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 \$/ per share
3. Total Financial Debt (includes leases with suppliers)
4. LTM: last twelve months

## II. Income Statement

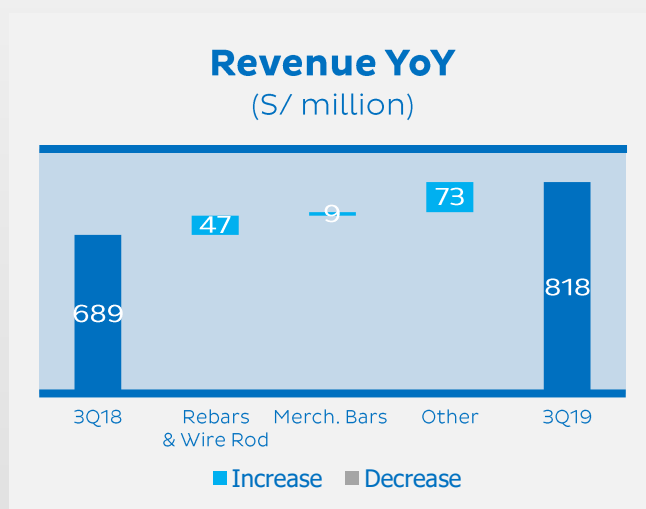
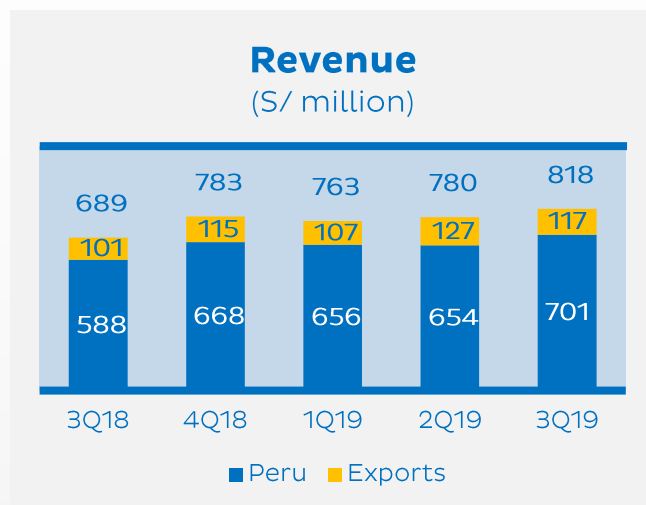
### Revenue

During 3Q 2019, Revenue reached S/ 818.5 million (+18.8% YoY).

This increase was mainly explained by the inclusion of the revenues from Comasa in the consolidated financial statements, following its acquisition in September 2018 and higher sales of core products. Domestic revenues increased by S/ 113.1 million (+19.2% YoY) and Exports increased by S/ 16.6 million (+16.5% YoY).

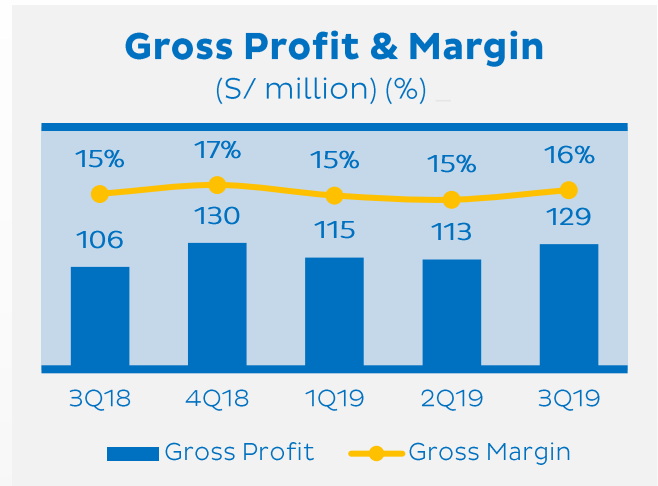
During the quarter, Export Revenue represented 14.3% of Total Revenue, a slight reduction when compared to 14.6% in 3Q 2018. Bolivia remains the main destination for the Company's exports during the quarter. The increase in Exports was mainly due to higher sales in the Bolivian market.

On a per-category basis, all category groups experienced higher revenue increases. The highest increases came mainly from: i) the "Other" category, which increased by S/ 73 million (+66% YoY), mainly due to revenue from Comasa and ii) the "Rebars and Wire Rod" category, which increased by S/ 47 million (+9.4% YoY).



## Gross Profit

Gross Profit reached S/ 129.2 million (22.2% YoY) during 3Q 2019, mainly driven by Comasa's Gross Profit, which was included in the consolidated financial statements for September 2018, higher Revenue, lower raw material prices and lower energy costs. Moreover, Gross Margin was 15.8% (+0.4 p.p. YoY).



## Operating Profit & EBITDA

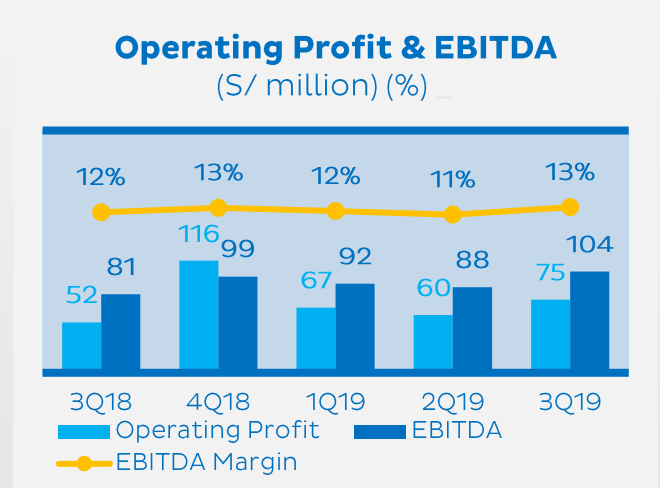
Operating Profit reached S/ 75.4 million (+44.9% YoY) during 3Q 2019, a S/ 23.4 million increase compared to S/ 52.0 million in 3Q 2018. Operating Margin was 9.2%, increasing 1.7 p.p versus 3Q 2018.

Consequently, during 3Q 2019, earnings before interest, taxes, depreciation and amortization (EBITDA) jumped to S/ 104.4 million (+28.6% YoY). This

represented an EBITDA Margin of 12.8%; which was 1.0 p.p. higher compared to 3Q 2018.

Operating Profit and EBITDA rose, mainly due to higher Gross Profit and a reduction in Other Net Operating Expenses of S/ 6.1 million. This effect was partially offset by higher SG&A of S/ 6.2 million.

SG&A was affected by the inclusion of Comasa's expenses during 3Q 2019, which were not fully reflected in the consolidated statements of 3Q 2018 (prior to its acquisition in September of that year). Nonetheless, SG&A as a percentage of Revenue declined to 5.9%, compared to 6.1% during 3Q 2018.



Other Net Operating Expenses decreased due to a reduction in legal advisory expenses and provisions regarding the Comasa acquisition.

## Net Financial Expenses

During 3Q 2019, Net Financial Expenses was S/ 7.2 million, similar to 3Q 2018.

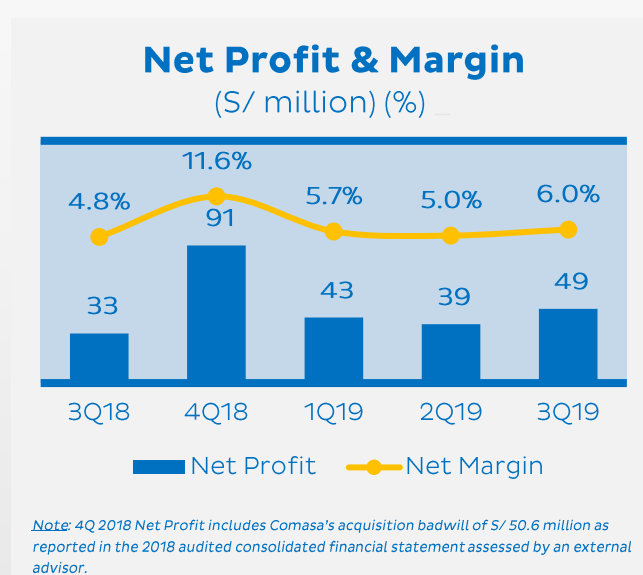
On the other hand, the Exchange Rate Difference was negative by S/ 2.3 million; S/ 3.1 million lower YoY.

## Net Profit

Net Profit reached S/ 49.1 million during 3Q 2019 (+49.8% YoY).

This increase was mainly due to a higher Operating Profit.

Earnings per Share, considering Net Profit for the last twelve months (LTM), reached S/ 0.21 in 3Q 2019, higher than the S/ 0.17 reported in 3Q 2018. EPS for 3Q 2019 includes badwill as of 4Q 2018 that was a result of the Comasa acquisition, mentioned previously.



### III. Balance Sheet

## Assets

As of September 30, 2019, Total Assets reached S/ 4,092.9 million, representing an increase of S/ 251.8 million versus December 31, 2018. Non-Current Assets increased by S/ 269.8 million, partially offset by a reduction of Current Assets of S/ 18.0 million.

Current Assets decreased as of September 30, 2019, mainly due to a lower balance of:

- i Inventories (-S/ 242.2 million, or -20.0% YTD), driven by a lower stock of imported and produced billets, scrap metal and finished products.
- ii Other Accounts Receivable (-S/ 32.6 million, or -65.1% YTD), mainly due to a higher use of the tax credit balance generated by Value-Added Tax of S/ 4.9 million as of September 30, 2019 versus S/ 33.7 million as of December 31, 2018.

These decreases were partially offset by a higher balance of Cash and Equivalents, which increased by S/ 177.9 million, or +72.7% YTD, mainly as a result of the EBITDA generation and a reduction in inventories; as well as higher Accounts Receivable of S/ 77.0 million, mainly due to a higher Revenue.

Days of Sales Outstanding increased to 61.1 days as of September 30, 2019, from 58.9 days as of December 31, 2018. Days of Inventory on Hand dropped to 131.3 days as of September 30, 2019 compared to 186.9 days as of December 31, 2018.

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 has increased by S/ 265.1 million (+17.3% YTD), during the year.

## Liabilities

At the close of September 2019, Total Liabilities reached S/ 1,996.5 million, an increase of S/ 163.1 million, driven by higher Non-Current Liabilities by S/ 212.9 million, which were partly offset by lower Current Liabilities by S/ 49.8 million.

Current Liabilities decreased mainly due to a lower balance of Current Financial Debt (-S/83.0 million, or -11.3%YTD).

Days of Payables Outstanding decreased to 65.4 days as of September 2019 from 70.1 days as of December 2018.

As of September 2019, Total Financial Debt reached S/ 1,233.1 million (including supplier leases), S/ 147.7 million higher than as of December 2018.

Current Financial Debt as of September 30, 2019 was S/ 654.1 million, which is S/ 83.0 million lower than the figure reported as of December 2018, and of which S/ 553.3 million was explained by Working Capital Financing.

Non-Current Financial Debt was S/ 579.1 million, S/ 230.7 million higher than the figure reported at December 2018, mainly explained by the financial lease for the new melt shop.

As of September 2019, 48% of Total Debt was denominated in Soles, while the remainder was denominated in U.S. Dollars.

Net Debt to EBITDA ratio lowered to 2.11x as of September 2019, a reduction of 0.21x compared to September 2018.

## Shareholders' Equity

At the close of September 2019, Shareholders' Equity was S/ 2,096.4 million, S/ 88.7 million higher compared to S/ 2,007.7 million as of December 2018. This variation was mainly explained by the 9M 2019 Net Profit after deducting the dividend payment of S/ 43.2 million. It is important to mention that, as of September 30, 2019, LTM dividends reached S/ 65.8 million.

#### IV. Cash Flow Statement

### Cash Flow from Operations

As of September 30, 2019, Cash Flow from Operations was S/ 396.5 million, explained by EBITDA generation and lower Working Capital requirements due to a reduction of Inventories.

### Cash Flow from Investing

As of September 30, 2019, Cash Flow from Investing was -S/ 115.4 million, mainly due to investments in fixed assets of S/ 122.7 million and intangibles of S/ 6.6 million. These were partly offset by S/ 8.6 million of interests received and S/ 5.3 million of asset sales.

These figures don't include S/ 236 million related to the new melt shop plant, which is financed through a capital lease agreement.

### Cash Flow from Financing

As of September 30, 2019, Cash Flow from Financing was -S/ 103.2 million, mainly as a result of dividend payments of S/ 43.2 million and interest payments of S/ 32.8 million.

These figures don't include the capital leasing agreement of S/ 236 million for the new melt shop plant.



## V. Relevant Events during 3Q 2019

- 1 During the quarter the Company invested S/ 94 million as part of the construction of its upcoming new melt shop facility, which will reach over 1.25 million tons of liquid steel capacity. Works are on schedule and due mid-2020.
- 2 In September 2019, the Company launched its revamped Investor Relations web portal. The new site; which includes our quarterly reports, financial statements, corporate presentations, IR events calendar, among other useful information; aims to further increase transparency to the market and our stakeholders. The portal is accessible through <https://investors.acerosarequipa.com/en> in both English and Spanish.

### Conference Call Information

Corporación Aceros Arequipa S.A. cordially invites you to participate in its Third Quarter 2019 Earnings Conference Call

Date: Friday, October 25, 2019

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

Dial in numbers:

From the U.S.: +1-877-830-2576

International: +1-785-424-1726

Passcode: AASA

To access the live webcast presentation, visit:

<https://services.choruscall.com/links/corarec1191025WYN7e82Y.html>

## 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:	99.99%
• 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.

## VI. Unaudited Financial Statements

Corporación Aceros Arequipa S.A.	Consolidated Financial Statement of Financial Position (In thousands Peruvian Soles)		
	Notes	September 30, 2019	December 31, 2018
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	5	422,647	244,765
Accounts Receivable	6	504,777	432,417
Accounts Receivable from related parties	7	28,703	24,041
Other Accounts Receivable	8 & 10	25,384	56,101
Inventories	9	969,330	1,211,560
Other non-financial assets		0	0
Assets classified as held for sale	1	63,161	63,161
<b>Total Current Assets</b>		<b>2,014,002</b>	<b>2,032,045</b>
<b>Non-Current Assets</b>			
Other financial assets	13	33,027	27,651
Investments in subsidiaries, affiliates or joint ventures	11	111,466	107,822
Accounts Receivable from related parties	7	4,536	4,535
Other Accounts Receivable	8	13,592	9,129
Property, Plant and Equipment, Net	12	1,796,371	1,531,291
Intangible Assets, Net	14	83,744	91,188
Deferred Income tax Assets	19	0	0
Other non-financial assets	15	36,162	37,465
<b>Total Non-Current Assets</b>		<b>2,078,898</b>	<b>1,809,081</b>
<b>TOTAL ASSETS</b>		<b>4,092,900</b>	<b>3,841,126</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Other Financial Liabilities	16	654,063	737,062
Accounts Payable	17	468,173	437,177
Accounts Payable to related parties	7	14,476	17,523
Other Accounts Payable	18	104,937	99,650
Current Income Tax	19	10,615	10,692
<b>Total Current Liabilities</b>		<b>1,252,264</b>	<b>1,302,104</b>
<b>Non-Current Liabilities</b>			
Other Financial Liabilities	16	579,081	348,403
Accounts Payable	17	0	656
Other Accounts Payable		6,699	7,761
Deferred Income Tax Liabilities	19	158,440	174,470
<b>Total Non-Current Liabilities</b>		<b>744,220</b>	<b>531,290</b>
<b>Total Liabilities</b>		<b>1,996,484</b>	<b>1,833,394</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	178,172	165,074
Retained Earnings	20	625,524	548,910
Other Shareholders' Equity Reserves	20	219,454	220,482
<b>Total Shareholders' Equity</b>		<b>2,096,416</b>	<b>2,007,732</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>4,092,900</b>	<b>3,841,126</b>

# Corporación Aceros Arequipa S.A.

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

	Notes	3Q 2019	3Q 2018	9M 2019	9M 2018
Revenue	21	818,473	688,800	2,361,788	2,006,298
Cost of Goods Sold	22	-689,276	-583,108	-2,003,882	-1,681,195
Gross Profit (Loss)		129,197	105,692	357,906	325,103
Selling and Distribution Expenses	23	-28,574	-22,482	-83,255	-61,886
Administrative Expenses	24	-20,013	-19,872	-61,745	-59,128
Other Operating Income	26	405	2,385	8,117	7,727
Other Operating Expenses	26	-5,652	-13,715	-18,710	-32,873
Operating Profit (Loss)		75,363	52,008	202,313	178,943
Financial Income	27	2,693	2,267	8,595	6,119
Financial Expenses	27	-9,930	-9,574	-32,776	-24,641
Other income (Expenses) from subsidiaries, affiliated and joint ventures	11	1,109	1,805	3,615	8,835
Exchange Rate Differences, Net	31	-2297	763	2,316	307
Profit (Loss) before taxes		66,938	47,269	184,063	169,563
Income Tax Expense	19	-17,819	-14,476	-52,940	-48,741
Profit (Loss) from Discontinued Operations		0	0	0	0
Net Profit (Loss)		49,119	32,793	131,123	120,822
Earnings Per Share					
Basic in Continued Operations of Common Stock		0.045	0.030	0.121	0.111
Basic in Discontinued Operations of Common Stock		0.000	0.000	0.000	0.000
Total Earnings Per Share of Common Stock		0.045	0.030	0.121	0.111
Basic in Continued Operations of Investment Stock (Non-voting)		0.045	0.030	0.121	0.111
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)		0.045	0.030	0.121	0.111

# Corporación Aceros Arequipa S.A.

## Consolidated Financial Statement of Cash Flow - Direct Method (In thousands Peruvian Soles)

	Notes	Jan 01 - Sep 30 2019	Jan 01 - Sep 30 2018
<b>Cash Flow from Operating Activities</b>			
<b>Collections due to Operating Activities</b>			
Sales of Goods and Services Offered		2,362,406	2,270,330
Other Operating Collections		24,126	-19,145
<b>Payments due to Operating Activities</b>			
Suppliers of Goods and Services		-1,802,041	-2,083,984
Payments and payments on account to employees		-114,885	-156,494
Income Tax		-73,148	-73,012
<b>Net Cash Generated by Operating Activities</b>		<b>396,458</b>	<b>-62,305</b>
<b>Cash Flow from Investing Activities</b>			
<b>Collections due to Investing Activities</b>			
Sale of Property, Plant and Equipment	26	5,264	3,514
Interests Received	27	8,595	6,146
Dividends Received		0	3,028
<b>Payments due to Investing Activities</b>			
Purchase of Subsidiaries, Net of Cash Acquired		0	-84,584
Purchase of Property, Plant and Equipment	12	-122,687	-63,916
Purchase of Intangible Assets	14	-6,585	-2135
Purchase of Other Long Term Assets		0	0
<b>Net Cash Generated by Investing Activities</b>		<b>-115,413</b>	<b>-137,947</b>
<b>Cash Flow from Financing Activities</b>			
<b>Collections due to Financing Activities</b>			
Short term and long-term loans	16	1,530,602	1,095,323
<b>Payments due to Financing Activities</b>			
Short term and long-term loans amortization	16	-1,557,779	-921,951
Interests paid	27	-32,776	-24,005
Dividends paid		-43,210	-42,782
<b>Net Cash Generated by Financing Activities</b>		<b>-103,163</b>	<b>106,585</b>
Net Increase (Reduction) of Cash and Equivalents before Exchange Rate Changes		177,882	-93,667
Effects of Exchange Rate Changes on the balance of Cash Held in Foreign Currencies		0	0
Net Increase (Reduction) of Cash and Equivalents		177,882	-93,667
Cash and Cash Equivalents at the beginning of the year		244,765	336,337
<b>Cash and Cash Equivalents at the end of the period</b>	<b>5</b>	<b>422,647</b>	<b>242,670</b>