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# Management Discussion and Analysis of the Consolidated Financial Statements of Ferreycorp S.A.A. and Subsidiaries

## Third Quarter 2020

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**Lima, October 28, 2020.-** Ferreycorp S.A.A. (BVL: FERREYC1), a leading corporation which aims to carry out investment activities in the capital goods sector and complementary services with presence in Latin America, announces consolidated results for the third quarter 2020. The consolidated financial results have been prepared in accordance with International Financial Reporting Standards (IFRS) and are stated in nuevos soles

### **Business conditions under current circumstances**

As we informed before, the return to operations since May, was executed gradually not only because of the challenges of returning all workers to their positions, especially those assigned to mining operations, but also because our clients had to organize their operations gradually. As of today, we have approximately 60% working in our facilities and all others mainly in back office, working from home, or in a combined scheme.

It is worth noting that revenues have been gradually increasing too. Sales for September represented 90% of pre - Covid levels. The main economic sectors that contributed to reach this result were mining and construction that represented 43% and 25% of total sales, respectively.

As stated before, Ferreycorp responded to this expected reduction in sales with a control of SG&A expenses and a plan for immediate cost control. As of September, SG&A have reduced by S/ 60 million soles as a result of a reduction in discretionary expenses including consulting, travel expenses, maintenance, training and events; an also, personnel expenses, employee pay reductions and provision for vacations. We expect a S/ 100 million soles reduction in S&A expenses throughout 2020, compared to figures as of December 2019 as we've stated in previous press releases.

During the critical months, financial liabilities rose from US\$625 million in March to US\$ 863 million dollars on May, which allowed us to keep on average US\$ 200 million in cash balance

for some weeks to face any reduction of income and cash flow. Once we started to generate positive cash flow, we prepaid debt for US\$ 223 million. As of September, debt reached to US\$ 538 million.

### **Impact derived from the Covid-19 pandemic and crisis in the financial statements**

In this context, the management is analyzing continuously the impact of Covid-19 pandemic and the main accounting effects on the financial statements estimates. Although the impact was significant during the second quarter, the recovery has been quick and sustainable, so we do not foresee any significant impact that could compromise the future of the company and its businesses, neither the value of its assets.

The pandemic affected the following accounting aspects and estimates:

The operations halt led by the State of Emergency derived in some delays in customer payments. However, collections are returning to normal levels after economic reactivation and we do not expect a significant impact in the estimated loss related to accounts receivables. Any deterioration in the accounts receivables portfolio has been covered in accordance with our collection provisions policy.

After analyzing the impact of the Covid-19 pandemic, the Management does not identify uncertainty about the ability of the corporation subsidiaries to continue with their operations. Likewise, the corporation expects that the year-end results will be sufficient to meet short term obligations, which means there is no liquidity risk.

## **EXECUTIVE SUMMARY**

### **THIRD QUARTER 2020 RESULTS**

- Consolidated sales for the third quarter 2020 amounted to S/ 1,220 million and declined by 24% if compared to the same period 2019 (S/ 1,601 million). As a result of the operational halt following the declaration of state of emergency in Perú and in the other countries where the corporation operates, affecting almost all the business lines. However, after the reopening of the different economic sectors, we've seen a recovery as sales from the third quarter rose by 52% compared to second quarter 2020. It is worth mentioning the sales recovery through the last three months: in July S/ 376 million, in August S/ 414 million and on September S/ 430 million.
- Gross margin during the third quarter amounted to 25.5%, compared to 22.1% reached during the same period of 2019. Gross profit (S/ 312 million) dropped by 12% compared to 3Q2019 (S/ 353 million), led by lower sales. Exchange rate affected the margin in S/ 23 million (represented 1.9% of total sales).
- Operating margin in this quarter reached to 9.2% higher than 7.7% in the 3Q2019, mainly due to higher gross profit and a 10% decrease in expenses (from S/ 225 million in 3Q2019 to S/ 202 million in 3Q2020) led by lower operating expenses in training, consulting, travel, representation and personnel expenses such as employee pay reductions and provision for vacations, as well as rentals, among others.
- EBITDA margin for the 3Q2020 reached 13.1% compared to 10.9% in the same period 2019. EBITDA amounted to S/ 159 million and dropped by 9% compared to same period 2019 (S/ 175 million), affected by lower sales.
- Consolidated net profit during 3Q2020 amounted to S/ 56 million and showed a 73% increase compared to net profit of S/ 32 million in 3Q2019, reflecting a lower exchange loss impact in 3Q2020. We estimate that without the exchange loss effect in both periods, net profit in 3Q2020 should have similar as the one in 3Q2019 (S/ 63 million in 3Q2020, S/ 68 million in 3Q2019).
- Free cash flow in 3Q2020 amounted to S/ 572 million, compared to negative free cash flow in 3Q2019 (S/ -120 million), and rose if compared to 2Q2020 free cash flow of S/ 210 million.

**ACCUMULATED RESULTS AS OF SEPTEMBER 2020**

- Consolidated sales in this first nine-month period amounted to S/ 3,204 million and decreased by 26% compared to the same period last year (S/ 4,313 million). This result is mainly explained by the operations halt after the sanitary state of emergency declaration since March 16<sup>th</sup>. Nevertheless, as mentioned before, we've seen a gradual recovery in the monthly sales that reflect the economic reactivation measures taken by the Government.
- Gross margin for 9M 2020 amounted to 25.2% compared to 24.1% reached during the same period of 2019. Gross profit (S/ 808 million) decreased by 22% compared to 9M 2019 (S/ 1,040 million), led by lower sales.
- Operating margin in this first nine-month period reached to 6.9% compared to 9% during 9M 2019, impacted by sales and gross profit reduction, even though expenses shrunk by 9% compared to 2019 (- S/ 60 million). SG&A expenses represented 18.7% as a percentage of total sales.
- AS of September 2020, EBITDA amounted to S/ 361 million and decreased by 35% compared to 9M 2019 (S/ 552 million). EBITDA margin for the 9M 2020 reached 11.3% as a result of lower operating margin.
- Consolidated net profit for the 9M 2020 amounted to S/ 31 million, meanwhile, net profit for the same period last year rose to S/ 206 million. The 9M 2020 net profit was impacted by a reduction in operating profit and the S/ 105 million exchange loss recorded as of September 2020. It should be noted that the exchange loss is accounting wise since the inventory is registered in nuevos soles but will be sold in dollars, which will allow the loss recovery in the upcoming months. The inventory reserve is S/ 60 million.
- The net debt / EBITDA ratio as of September 2020 was 3.19x, decreased compared to 4.05x as of June 2020 and reached similar level as of September 2019 of 2.97x.

(In million, except for per share ratios)	3Q 2020	2Q 2020	1Q 2020	4Q 2019	3Q 2019	2Q 2019	1Q 2019	%Var. 3Q 2020/2Q 2020	%Var. 3Q 2020/3Q 2019
Net sales (US\$)	\$344	\$235	\$346	\$459	\$479	\$413	\$403	46.7%	-28.1%
Net sales	S/. 1,220	S/. 805	S/. 1,179	S/. 1,545	S/. 1,601	S/. 1,372	S/. 1,341	51.6%	-23.8%
Gross profit	S/. 312	S/. 203	S/. 293	S/. 336	S/. 353	S/. 349	S/. 338	53.6%	-11.7%
SG&A expenses	S/. -202	S/. -179	S/. -219	S/. -255	S/. -225	S/. -220	S/. -216	13.0%	-9.9%
Operating profit	S/. 113	S/. 32	S/. 77	S/. 74	S/. 124	S/. 136	S/. 127	247.0%	-8.9%
Financial expenses	S/. -24	S/. -28	S/. -22	S/. -23	S/. -24	S/. -25	S/. -23	-16.4%	-2.8%
(Gain)Loss to exchange rate	S/. -10	S/. -16	S/. -80	S/. 16	S/. -50	S/. 9	S/. 24	-39.9%	-81.0%
Net profit	S/. 56	S/. -4	S/. -21	S/. 41	S/. 32	S/. 81	S/. 92		73.0%
EBITDA	S/. 159	S/. 74	S/. 128	S/. 133	S/. 175	S/. 194	S/. 183	115.4%	-8.8%
Profit per share	0.058	(0.004)	(0.021)	0.042	0.033	0.083	0.095		73.0%
EBITDA per share	0.163	0.076	0.131	0.136	0.179	0.199	0.188	115.4%	-8.8%
Free cash flow	S/. 572	S/. 210	S/. 160	S/. 103	S/. -120	S/. -113	S/. 235	172.6%	-576.7%
Gross margin	25.5%	25.2%	24.9%	21.7%	22.1%	25.5%	25.2%		
SG&A expenses/ sales	16.6%	22.3%	18.6%	16.5%	14.0%	16.0%	16.1%		
Operating margin	9.2%	4.0%	6.5%	4.8%	7.7%	9.9%	9.5%		
Net margin	4.6%	-0.5%	-1.8%	2.6%	2.0%	5.9%	6.9%		
EBITDA margin	13.1%	9.2%	10.8%	8.6%	10.9%	14.1%	13.6%		
Leverage ratio	0.77	0.95							
Net debt / EBITDA	3.19	4.05							

## **MAIN HIGHLIGHTS**

### **Ferreycorp Board of Directors**

As announced early this year, during the Annual Shareholders Meeting that took place on July 30, 2020 our Chairman Oscar Espinosa left his position after 40 years in the organization. His vision after 25 years as board member and CEO, followed by his position as Chairman were decisive for Ferreycorp which is now a leader corporation in capital goods and related services.

In this context, Andreas von Wedemeyer Knigge, was elected as Chairman of the Board for the period 2020-2023. At the same time the board members elected for this period are: Mariela García de Fabbri, Ferreycorp's CEO; Thiago de Orlando e Albuquerque; Raúl Ortiz de Zevallos Ferrand; and Alba San Martín Piaggio. Continue as board members Manuel Bustamante Olivares, Humberto Nadal del Carpio, Gustavo Noriega Bentín, Javier Otero Nosiglia and Andreas von Wedemeyer Knigge.

During the Shareholders Meeting, the shareholders thanked Mr. Oscar Espinosa, Mr. Carlos Ferreyros, Mr. Jorge Ganoza and Mr. Juan Manuel Peña Roca, who chose not to present to the election. You can find more information about board members on Ferreycorp website:  
<https://www.ferreycorp.com.pe/es/gobierno-corporativo/directorio>

### **Board agreement: Dividends**

The elected board, in accordance to the powers delegated by the Shareholders Annual Meeting, agreed to make a first cash dividends payment for S/ 73,456,408.08 on account of the total amount of dividends approved for S/ 146'912,816.15. This first payment equals to S/ 0.07664449422 per share.

The board agreed September 24<sup>th</sup>, as record date and October 15<sup>th</sup>, as payment date.

### **Ferreycorp: First place in ranking La Voz del Mercado 2020**

“La voz del Mercado” ranking organized by the Lima Stock Exchange and by EY, recognized Ferreycorp as the issuer with best corporate governance practices, gathering the opinion of nearly 400 local and foreign market agents such as investors, banks, rating agencies, brokerage firms, regulators and company directors.

The Lima Stock Exchange and EY announced this results during the XIII edition of the recognition of the Good Corporate Governance Index (S&P/BVL IBGC), which Ferreycorp is part since its launch.

Ferreycorp has received the “Lima Stock Exchange Key” on seven occasions, including the most recent edition in 2019.

### **Ferreycorp stands out among the most admired companies in Peru**

Ferreycorp was distinguished again among the ten Most Admired Companies in Peru. This recognition was granted by the magazine “G de Gestión” and PwC, after a rigorous survey to 6,000 business leaders of the main companies in the country.

Ferreycorp is part of this outstanding group for the seventh time. This distinction is based on ten key attributes of business performance: reputation, gender equality, strategic vision, management leadership, financial management, innovation capacity, talent management, business strategy, corporate governance and corporate social responsibility.

### **Merco ranking 2020: Ferreyros among the top ten companies with best reputation in Peru**

Ferreyros, the main subsidiary of the corporation Ferreycorp, was recognized among the ten Peruvian companies with the best reputation in the country according to Merco Empresas. Ferreyros took the 8<sup>th</sup> place in this prestigious ranking and is the best company in the Industry sector.

This edition accounted with more than 22,000 respondents that include opinion leaders, managers, collaborators, managers, financial analysts, professors from universities, NGOs representatives, trade unions and consumer associations, agents and digital users, human resources experts and public, among others.

Likewise, rating in Merco Consumption (general population), Digital Merco (online reputation analysis), Merco Talento (attraction and retention of talent), as well as “benchmarking” of management indicators were considered.

### **Five MINSA hospitals received modern equipment for personal protection**

Ferreycorp and its subsidiaries Ferreyros and Soltrak donated 9,000 units for personal protection to five hospitals from the Ministry of Health to help reduce the spread of Covid-19. The donation includes respirators (PAPR), safety suits, N95 masks and gloves, among others.

The following hospitals: Dos de Mayo, Arzobispo Loayza, Cayetano Heredia, Emergenica de Ate and the Instituto Nacional de Enfermedades Neoplásicas will use the donated equipment as part of the biosecurity management. The subsidiary Soltrak, our subsidiary expert in personal protective equipment, will train in the use and disinfection of the modern PAPR equipment, which fully covers the head to provide continuously filtered air.

## **COMMERCIAL MANAGEMENT**

### **1. SALES BREAKDOWN ACCORDING TO CORPORATE ORGANIZATION**

Ferreycorp organizes its companies in three main groups:

#### **Group I - Subsidiaries which are Caterpillar dealers and represent allied brands in Peru (Ferreyros, Unimaq and Orvisa)**

During the third quarter 2020, sales shrunk by 29.6% compared to 3Q2019, but boosted by 67.8% compared to 2Q2020. Among the most affected business lines during the 3Q2020 are Caterpillar mining equipment due to the delay in machines delivery of an important mining project for the fourth quarter (-75%), and sale of spare parts and services (-26%). It should be noted that in both cases the reduction turns out from the temporary measures taken by some mining companies to avoid the spread of the pandemic within their operations.

In turn, Unimaq and Orvisa sales rose by 18% and 54%, respectively, while Ferreyros sales fell by 36%.

The share of this first group of subsidiaries in total sales during the third quarter is 73.1%.

#### **Group II - Caterpillar dealers and other businesses in Central America (Gentrac, Cogesa, Motored and Soltrak).**

Sales of the second group of companies, with presence in Central America, went up 10.3% compared to 3Q2019 and rose by 41.9% compared to last quarter figures. The operational halt in almost all the countries where these subsidiaries are located was not at 100%: several activities continued to operate at a smaller scale due to new security protocols implemented by governments in each of these countries.

Gentrac has been the most affected subsidiary. Despite this, Caterpillar equipment sales grew 89%. On the other hand, Cogesa, achieved a 222% increase in the same business line.

This group of companies generated 9.2% of the total sales of the corporation.

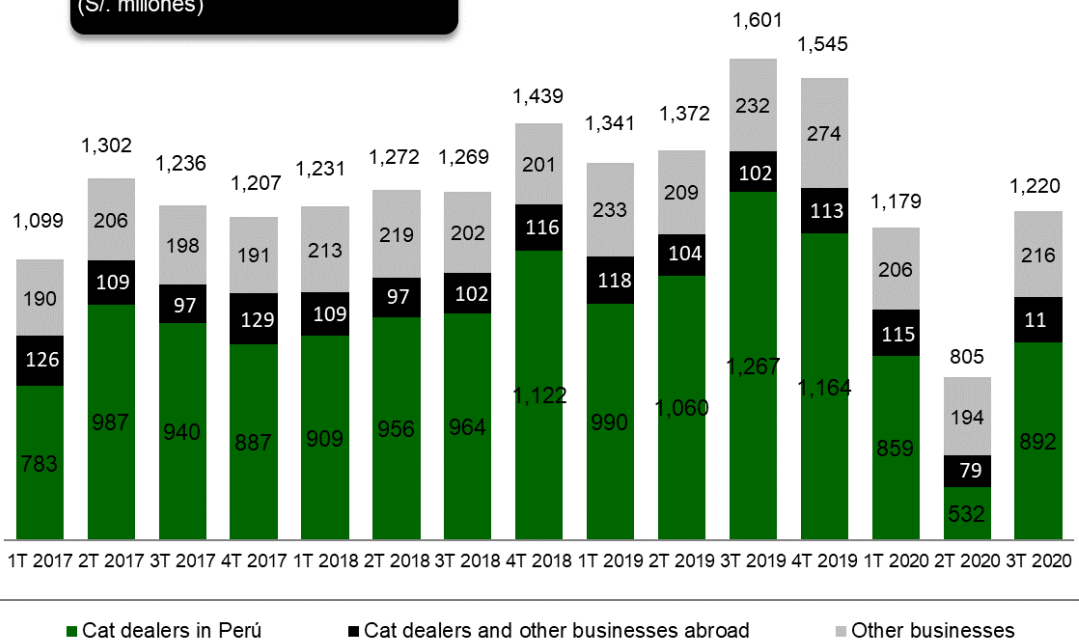
#### **Group III - Other subsidiaries aimed to offer capital goods and services other than Caterpillar to different economic sectors in Peru and South America (Motored, Soltrak, Trex, Motriza, Fargoline, Forbis Logistics and Sitech).**

This group of companies, which complements the supply of goods and services through equipment and vehicles, consumables and logistics solutions, among other lines, decreased sales by 7.0% compared to 3Q2019, but increase by 11% compared to 2Q2020. The third quarter 2020 lower sales were in part offset by Trex Peru sales (+39%).

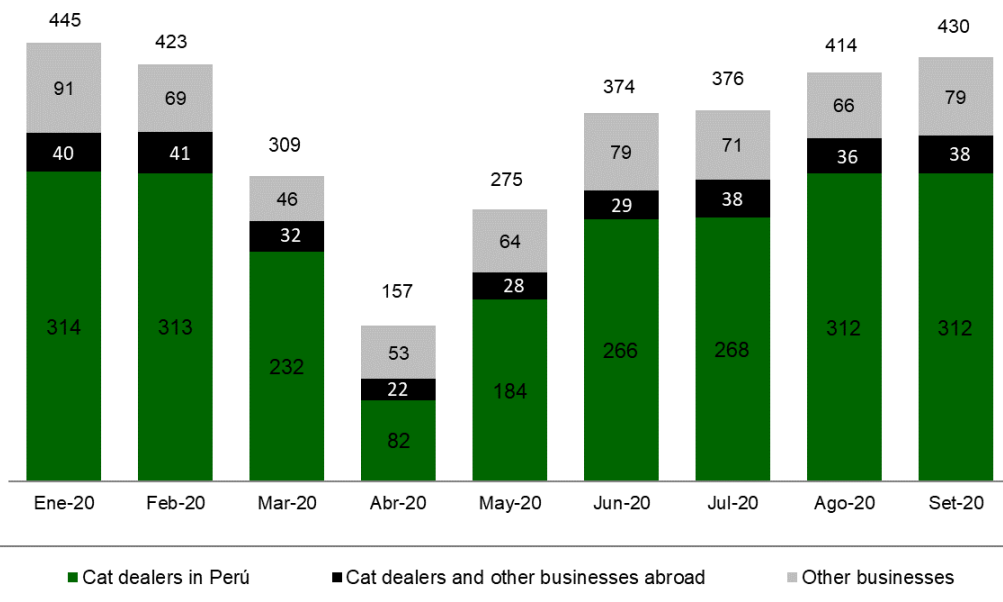
The subsidiaries in this group of companies that were most affected by the halt of operations in Peru are Motored and Soltrak, although both companies recovered during the third quarter.

This group of companies currently represents 17.7% of total sales.

Sales by Group of Subsidiaries  
(S/. millones)



Sales by Group of Subsidiaries  
(S/. million)



The detail of sales by group of companies:

(S/ million)	3Q 2020	%	2Q 2020	%	1Q 2020	%	4Q 2019	%	3Q 2019	%	2Q 2019	%	1Q 2019	% Var 3T 2020/ 2T 2020	% Var 3T 2020/ 3T 2019
CAT mining trucks and machines (GM)	63	5	70	9	110	9	130	8	250	16	56	4	72	-10.4	-75.0
CAT machines for other sectors (NGM)	244	20	99	12	162	14	239	15	178	11	189	14	208	147.2	37.1
Allied equipment	139	11	136	17	131	11	218	14	163	10	149	11	153	2.1	-14.9
Rental and used	96	8	45	6	91	8	137	9	162	10	138	10	105	113.5	-40.5
Spare parts and services	566	46	378	47	578	49	720	47	743	46	742	54	701	49.9	-23.9
Other lines	112	9	78	10	106	9	101	7	104	6	98	7	102	45.0	8.6
<b>TOTAL</b>	<b>1,220</b>	<b>100</b>	<b>805</b>	<b>100</b>	<b>1,179</b>	<b>100</b>	<b>1,545</b>	<b>100</b>	<b>1,601</b>	<b>100</b>	<b>1,372</b>	<b>100</b>	<b>1,341</b>	<b>51.6</b>	<b>-23.8</b>

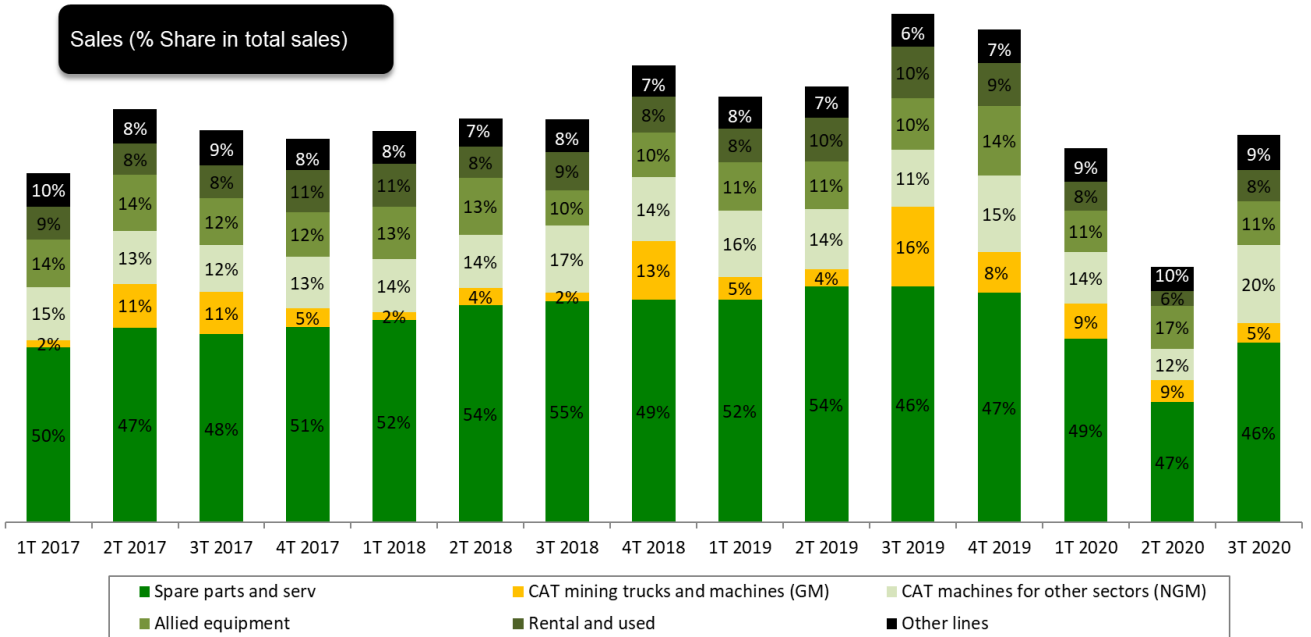
(S/ million)	3Q 2020	%	2Q 2020	%	1Q 2020	%	4Q 2019	%	3Q 2019	%	2Q 2019	%	1Q 2019	%	% Var 3Q 2020/ 2Q 2020	% Var 3Q 2020/ 3Q 2019
Ferreyros	721	59	464	58	733	62	1,032	67	1,132	71	920	67	856	64	55.4	-36.3
Unimaq	122	10	59	7	95	8	86	6	103	6	113	8	103	8	105.7	18.6
Orvisa	50	4	9	1	31	3	47	3	33	2	26	2	31	2	458.2	53.7
Total dealers CAT in Peru	892	73	532	66	859	73	1,164	75	1,267	79	1,060	77	990	74	67.8	-29.6
Total dealers CAT and other businesses abroad	112	9	79	10	115	10	113	7	102	6	104	8	118	9	41.9	10.3
Motored	47	4	18	2	43	4	47	3	48	3	55	4	47	4	165.4	-1.3
Soltrak	58	5	37	5	53	4	51	3	57	4	53	4	53	4	56.3	1.8
Trex (Chile)	55	4	88	11	56	5	93	6	77	5	50	4	74	6	-38.1	-28.7
Trex (Perú)	27	2	21	3	27	2	41	3	19	1	22	2	30	2	24.6	38.5
Fargo	20	2	19	2	20	2	21	1	20	1	19	1	21	2	8.4	-1.7
Forbis	7	1	6	1	4	0	7	0	4	0	6	0	4	0	20.8	70.3
Otras	1	0	4	1	2	0	8	1	6	0	5	0	4	0	-73.8	-81.3
Total other businesses	216	18	194	24	206	17	267	17	232	14	209	15	233	17	11.3	-7.0
<b>TOTAL</b>	<b>1,220</b>	<b>100</b>	<b>805</b>	<b>100</b>	<b>1,179</b>	<b>100</b>	<b>1,545</b>	<b>100</b>	<b>1,601</b>	<b>100</b>	<b>1,372</b>	<b>100</b>	<b>1,341</b>	<b>100</b>	<b>51.6</b>	<b>-23.8</b>

## 2. SALES BREAKDOWN BY BUSINESS LINE

When analyzing the results by business lines during the third quarter 2020, almost all were affected by measures taken by governments to prevent the spread of Covid-19. As mentioned before, in mid-May the activities of the Peruvian companies gradually restarted which reflected in sales recovery that went up by 52% from 2Q2020 to 3Q2020. This recovery reflected in almost all business lines, besides Caterpillar mining equipment as explained before. In the last months, sales rose by 10% from July to August (August: S/ 414 million, July: S/ 376 million) and increased by 14% from July to September (S/ 430 million).

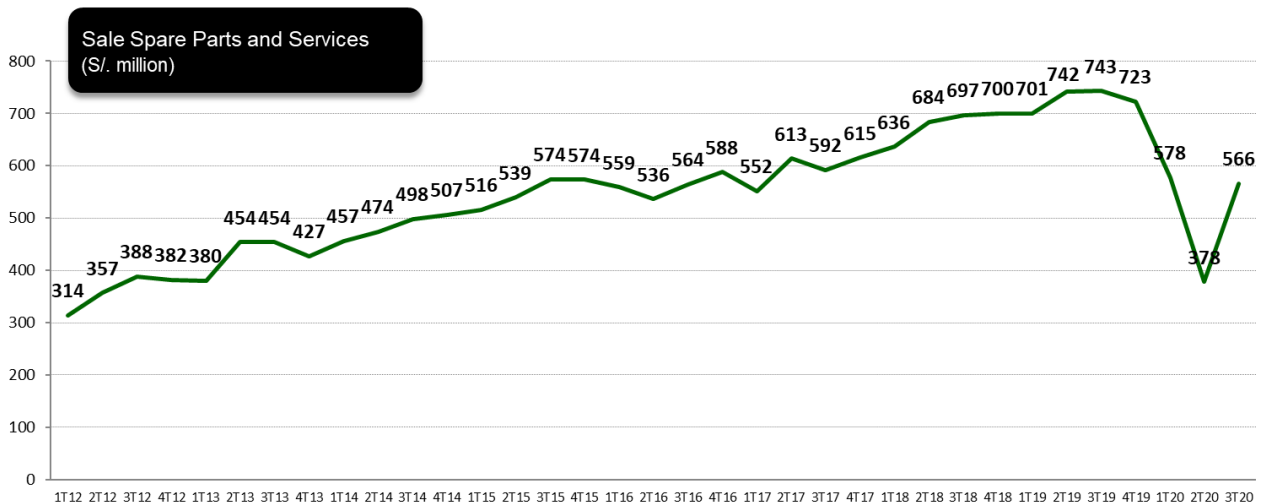
Among the business lines that have shown an increase in the last two months are spare parts and services, as well as Caterpillar machines for sectors other than mining.



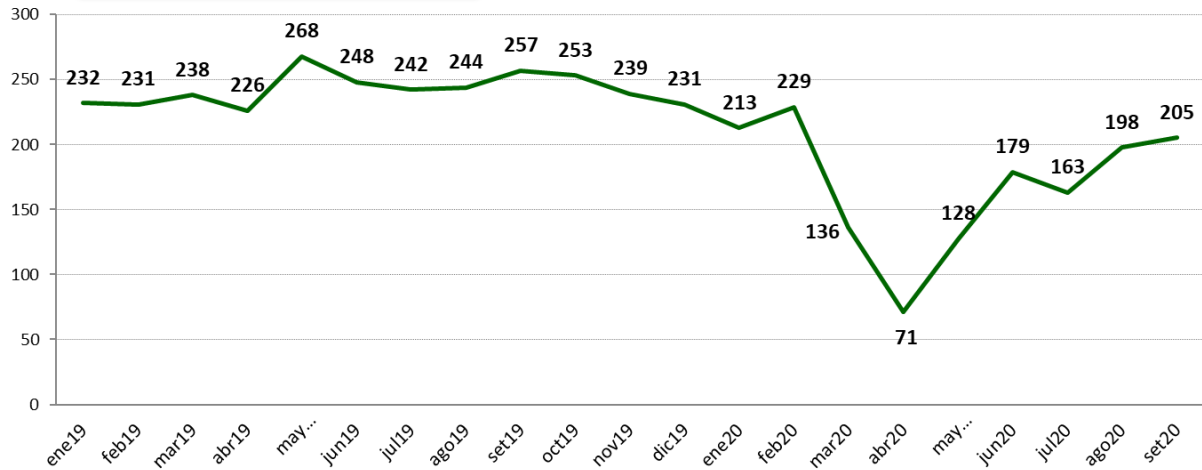


The strategy of the corporation is focused in serving the customers throughout the life of their equipment, for this reason, great efforts are deployed to deliver the best quality aftermarket support through locations near the customers.

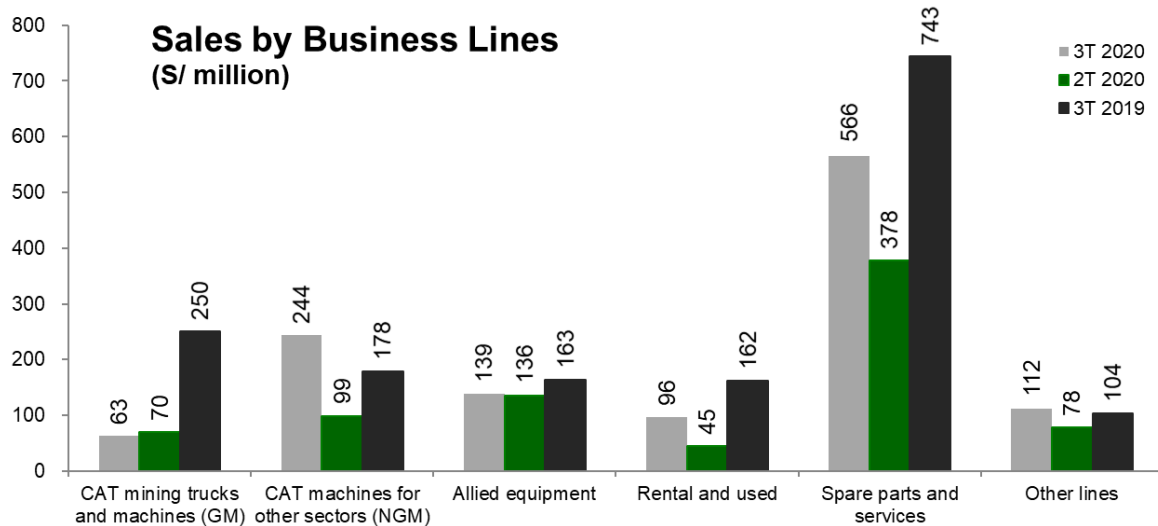
These capacities have allowed spare parts and services business line, both Caterpillar and allied brands, to keep the higher share in the composition of total sales (46%), reaching S/ 566 million thru the third quarter 2020 and dropped by 23.9% compared to 3Q'19 but increased by 49.9% compared to 2Q2020. It is important to highlight the recovery of this line during the last months.

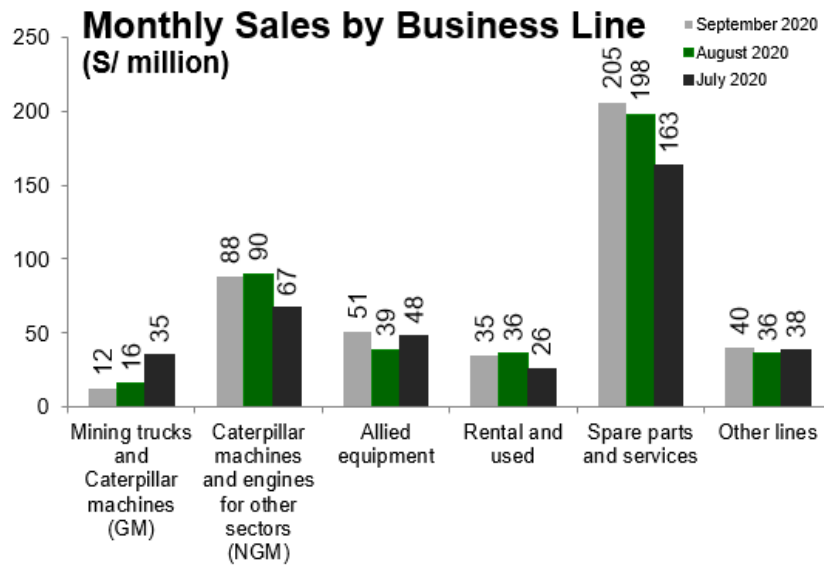


**Sale Spare Parts and Services**  
(S/. millones)



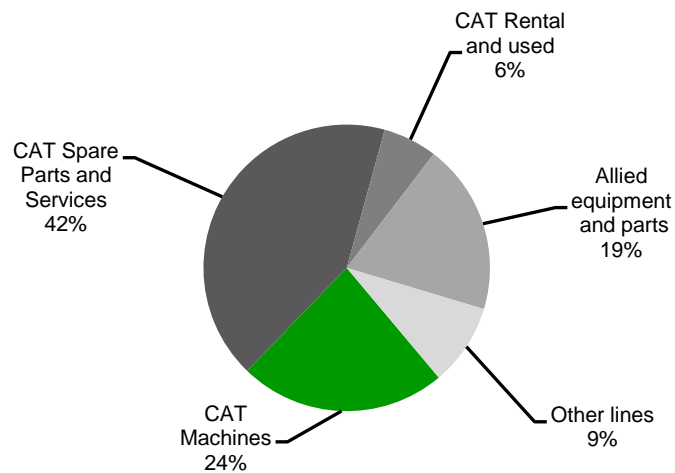
The after-market provided by Ferreycorp to its customers is recognized by high quality standards, a key difference from the competition. However, as mentioned before, all of the corporation's subsidiaries have gradually restarted their operations in service in shops, warehouses, branches and offices, within the mandatory security protocols and safeguarding in first instance the health of all employees and the other stakeholders with whom they interact. Employees in most subsidiaries are working in the following proportion: 54% presence in the office, 30% home office, 4% in a mix scheme, 9% under leave with payment and 3% under other schemes.

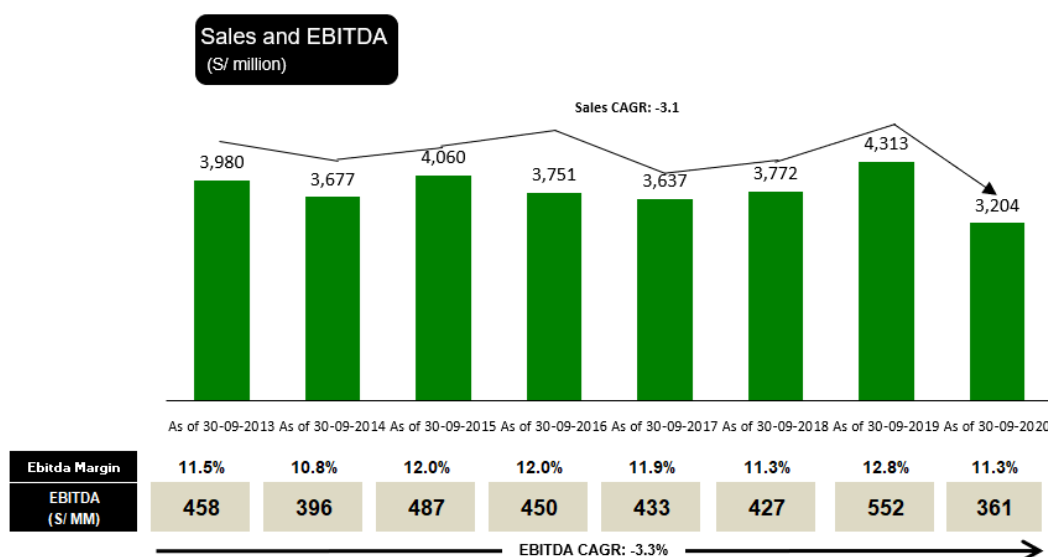




As of September 30, 2020, sales of the Caterpillar brand carried by Caterpillar dealers in Peru, Guatemala, El Salvador and Belize, accounted for 72% of total sales, including machinery and equipment (new, used and rental units) as well as spare parts and services.

Sales (As of Sept 2020)





### 3. SALES BREAKDOWN BY ECONOMIC SECTORS

Regarding sales distribution by economic sectors, sales to open pit mining represented, during the third quarter 2020, 36% of total sales compared to 44% during the third quarter last year. Sales to construction sector accounted to 25% of total sales, higher than 19% reached during the third quarter 2019.

Meanwhile, underground mining accounted to 8% of total sales, below third quarter 2019 share of 13%.

	3Q 2020	2Q 2020	1Q 2020	4Q 2019	3Q 2019	2Q 2019	1Q 2019
Open pit mining	35.5%	43.9%	44.7%	43.1%	43.8%	42.6%	43.6%
Construction	25.3%	16.9%	19.2%	23.3%	18.7%	16.0%	21.9%
Industry, commerce and serv	13.7%	19.1%	12.6%	10.2%	9.7%	9.8%	9.2%
Underground mining	7.6%	6.8%	8.8%	8.6%	12.9%	15.1%	12.1%
Agriculture and forestry	4.0%	3.8%	2.0%	2.1%	2.4%	2.1%	2.0%
Transportation	3.7%	2.5%	4.2%	3.8%	3.6%	3.7%	4.0%
Government	3.6%	1.5%	2.1%	5.1%	1.8%	1.1%	1.0%
Fishing and marine	1.8%	1.2%	2.0%	1.1%	1.9%	2.1%	2.2%
Hydrocarbons and energy	1.3%	1.3%	1.4%	0.7%	0.8%	0.6%	0.6%
Others	3.6%	2.9%	3.0%	2.0%	4.4%	6.9%	3.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## ANALYSIS OF FINANCIAL INFORMATION

### 1. Sales

Million soles	3Q 2020	3Q 2019	%Var.	As of Sep20	As of Sep19	%Var.
Sales	1,220.4	1,600.8	-23.8	3,204.0	4,313.4	-25.7

(See section "Commercial Management" for an explanation of this variation).

### 2. Gross profit

Million soles	3Q 2020	3Q 2019	%Var.	As of Sep20	As of Sep19	%Var.
Gross profit	311.7	353.0	-11.7	808.1	1,040.0	-22.3
Gross margin	25.5%	22.1%		25.2%	24.1%	

In the third quarter 2020, gross profit decreased if compared the one obtained in the same period of 2019 impacted by lower sales led by the reopening of the economic activities and the restrictions with which the corporation still operates. In percentage terms, gross margin reached to 25.5% higher if compared to 3Q 2019, mainly due to the effect of the exchange rate recovery in the margin which is equivalent to 1.9%.

### 3. Selling and Administrative Expenses

Million soles	3Q 2020	3Q 2019	%Var.	As of Sep20	As of Sep19	%Var.
Selling and administrative expenses	202.4	224.7	-9.9	600.5	660.4	-9.1
As a % of total sales	-16.6%	-14.0%		-18.7%	-15.3%	

Selling and administrative expenses during the third quarter 2020 decreased by 9.9% compared to the same quarter 2019, mainly explained: i) lower personnel expenses driven by temporary salary adjustments, shorter working hours, vacation compensation, among others, ii) less discretionary expenses such as consulting, advertising, travel and events, among the most important; and iii) lower provision for profit sharing and remuneration to the board. SG&A expenses related to total sales for the 3Q2020 are 16.6%, lower than figures for the 2Q2020 (22.3%).

### 4. Financial Expenses

Million soles	3Q 2020	3Q 2019	%Var.	As of Sep20	As of Sep19	%Var.
Financial Expenses	23.7	24.4	-2.8	74.5	72.7	2.4
As a % of total sales	-1.9%	-1.5%		-2.3%	-1.7%	

Financial expenses during the third quarter 2020 decreased by 2.8% compared to the same quarter 2019. During the third quarter, there was a debt reduction. Consequently, the average financial liabilities went from US\$674 million as of September 2019 to US\$ 625 million as of September 2020 and decreased by 7%, which was partly offset by higher average interest rate.

## 5. Foreign Exchange Gain/Loss

Million soles	3Q 2020	3Q 2019	%Var.	As of Sep20	As of Sep19	%Var.
Foreign Exchange Gain/Loss	-9.6	-50.5		-105.8	-17.4	

During the third quarter 2020, an exchange loss was recorded as a result of exchange rate devaluation in Perú. The nuevo sol devaluation against the dollar was 1.64% (went from S/ 3.541 in June 2020 to S/ 3.599 in September 2020). During similar period 2019, the nuevo sol appreciated in 2.89% (went from S/ 3.290 in June 2019 to S/ 3.385 in September 2019). In the third quarter 2020, the Chilean peso appreciated against the dollar in 4.03%, while in the third quarter 2019 a 7.22% devaluation was recorded.

As appointed before, it is important to mention that the company has a natural hedge considering that sales – as well as machinery import, invoicing to clients and financing – are made in foreign currency (US dollars). Therefore, exchange loss recorded during the year derived from higher exchange rates will be recovered in part through the sale of the inventory which is registered at a lower exchange rate.

## 6. Net profit

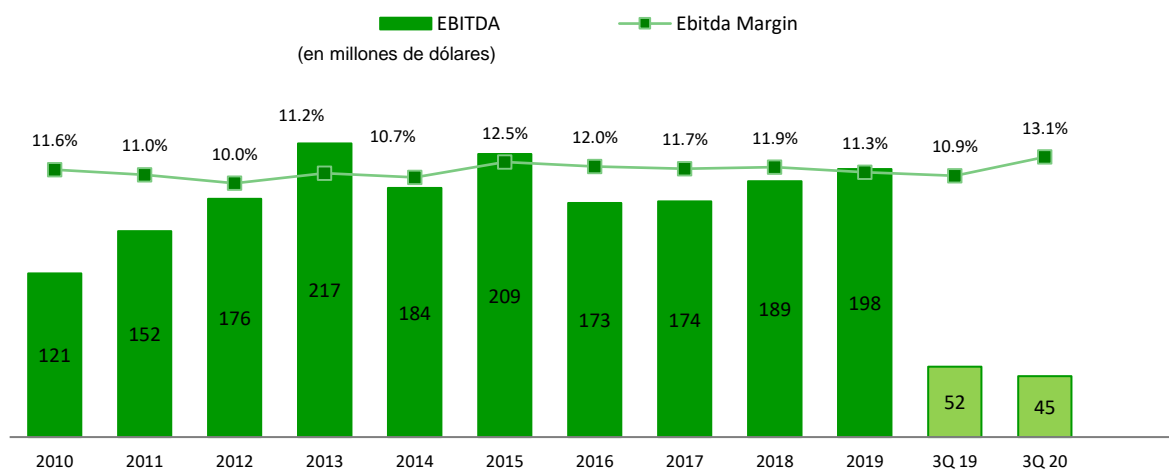
Million soles	3Q 2020	3Q 2019	%Var.	As of Sep20	As of Sep19	%Var.
Net profit	56.2	32.5	73.0	31.3	205.7	-84.8
Net margin	4.6%	2.0%		1.0%	4.8%	

Net profit for the third quarter 2020 amounted to S/ 56 million and boosted 73% compared to third quarter 2019. If we exclude the exchange rate effect in both periods, net profit would have slightly decreased by 7%. It is worth noting that part of the exchange loss is accounting wise and will be recover in the upcoming months when the reserve in the inventory that is registered in soles is sold (S/ 60 million).

## 7. EBITDA

Million soles	3Q 2020	3Q 2019	%Var.	As of Sep20	As of Sep19	%Var.
EBITDA	159.5	174.8	-8.8	361.4	551.7	-34.5
EBITDA margin	13.1%	10.9%		11.3%	12.8%	

Third quarter 2020 EBITDA dropped 8.8% compared to EBITDA reported in the third quarter 2019 due to a reduction in operating profit, which was also affected by lower sales. EBITDA for the third quarter 2020 booted 115% compared second quarter 2020.



## ANALYSIS ACCORDING TO CORPORATE ORGANIZATION

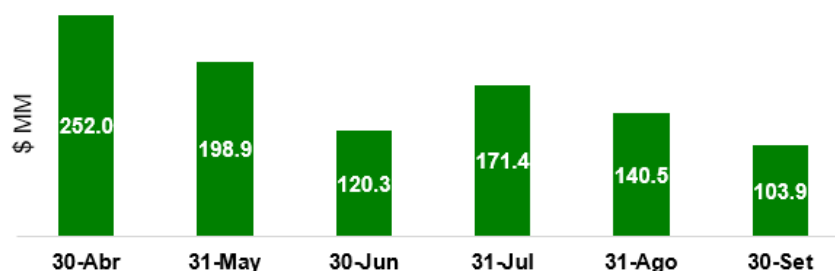
(S/ Thousand)

	CAT Dealers in Peru		CAT Dealers and Other Businesses		Other Businesses	
	2020	2019	2020	2019	2020	2019
Sales	2,283,126	3,316,731	306,083	323,275	614,836	673,413
Gross profit	601,172	822,746	70,856	82,020	136,062	135,253
Gross margin	26%	25%	23%	25%	22%	20%
SG&A expenses	448,711	488,083	51,484	59,011	95,811	107,252
Operating Margin	7%	10%	7%	7%	7%	5%
Dep and Amort	63,111	90,150	15,544	14,918	40,641	37,830
EBITDA	236,666	442,210	38,811	39,861	86,387	74,469
EBITDA Margin	10%	13%	13%	12%	14%	11%

Note: this results do not include Ferreycorp and Inti.

## ANALYSIS OF CONSOLIDATED FINANCIAL INFORMATION

As of September 30, 2020, total assets amounted to S/ 5,987.8 million, 3.4% higher if compared to S/ 5,788.3 million as of September 30, 2019. This variation is primarily explained by the increase in cash and cash equivalents in S/ 299 million, due to the strategy adopted by the corporation to assure liquidity to meet its operational and financial cash flow needs, foreseeing the extension of the operations halt. The cash account has been declining during the months:



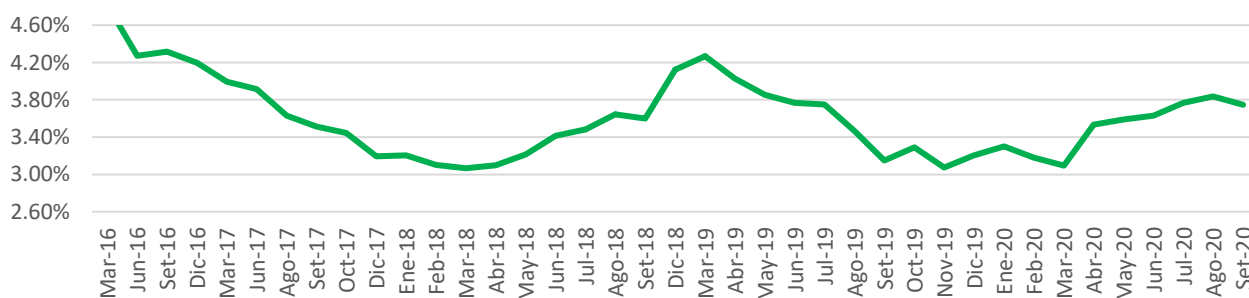
It is worth noting that the decrease in the cash balance is mainly due to the use of funds to prepay debt. These funds were not required due to the positive operating cash flow generated during the pandemic months, since we were able to collect on regular basis and due to the advance payment received from a mining customer that prepaid equipment that will be delivered in the fourth quarter 2020. We estimate a US\$ 35.4 million cash balance by the end of October as we have programmed payments to factory.

Financial liabilities as of September 2020 amounted to S/ 1,935.4 million (US \$ 538 million) and went down by 21.4% compared US \$ 685 million recorded during the same period last year. Current maturities account for 40% of total debt.

It is important to recall that financial liabilities include S/ 149.7 million (US \$ 41.6 million) related to IFRS16 application that points out that lease contracts must be turned into a liability with its related asset (right of use), recording also the financial expense derived from bringing this obligation to present value using a discount rate (average cost of debt).

The chart below shows the average cost of debt that increased by 55bps in the last months derived from higher interest rates recorded during the quarantine. Likewise, financial expenses related to total sales went from 1.7% as of September 2019 to 2.3% as of September 2020 explained by higher interest rates.

### Avg cost of debt





**INVESTMENT IN FIXED ASSETS (CAPEX) AND INTANGIBLES**

As of September 30, 2020, the investment in fixed assets and intangibles amounted S/ 54.2 million:

**Machinery and equipment for workshops**

The net investment was S/ 7.6 million (Ferreyros S/ 7.0 million).

**Work in progress**

Ferreyros is carrying out additional works in CRC La Joya and the ceiling construction of its main warehouse (CDR) (S/ 19.6 million).

**Intangibles**

The investment in intangible assets reached S/ 48.6 million, mainly for the implementation of ERP SAP S/4 HANA platform that will “go 100% live” in the first half of 2021. From that date, we will start to record the corresponding amortization according to the deadlines established by current regulations. As of September 2020, the total amount invested in this project is S/ 227million (2016: S/ 7.4 million; 2017: S/ 38.2 million; 2018: S/ 69.2 million; 2019: S/ 68.6 million and 2020: S/ 43.6 million).

There is a difference between the fixed assets account recorded in the Statement of Financial Position as of September 2020 and the capital expenditures (CAPEX) related to additions derived from the recognition of leased assets (locations, rental fleet, vehicles fleet, among the most important) as fixed assets according IFRS 16 for S/ 37.7 million.

**FINANCIAL RATIOS**

Ratios	Set-20	Jun-20	Mar-20	Dic-19	Set-19	Jun-19	Mar-19
Current ratio	1.40	1.40	1.37	1.42	1.40	1.41	1.69
Financial debt ratio	0.77	0.95	0.99	1.02	1.01	0.97	0.85
Indebtedness ratio	1.94	1.93	1.79	1.66	1.65	1.64	1.60
Net debt / EBITDA	3.19	4.05	3.35	3.21	2.97	2.88	2.69
Adjusted debt / EBITDA	3.07	3.22	2.50	2.36	2.04	2.05	2.30
Financial expenses coverage ratio	4.85	3.97	5.69	7.13	7.59	7.80	7.81
Asset turnover	0.80	0.86	0.99	1.04	1.05	1.01	1.01
Inventory turnover	1.87	1.93	2.26	2.39	2.42	2.32	2.41
Inventory days	193	187	159	150	149	155	149
Collection days	76	64	56	62	64	63	67
Payable days	58	52	47	48	52	55	53
Cash cycle	210	198	169	165	161	163	163
ROE	3.4%	2.3%	6.3%	11.5%	12.1%	13.3%	12.2%
ROA	3.5%	3.6%	5.1%	5.8%	6.9%	6.9%	6.7%
ROIC	5.8%	5.2%	6.8%	7.3%	8.5%	8.7%	8.8%
Book value per share	2.09	2.18	2.17	2.21	2.23	2.20	2.17

Note: See the description of each ratio in the section: "Glossary of terms".

It is important to mention that all ratios are impacted by the operations halt since March 15<sup>th</sup>. Since ratios are calculated with values from the last twelve months, they still do not show an important improvement. However, if we calculate ratios with annualized values from the last month, an improvement trend would already be shown.

The leverage ratios considered within the covenants of the Medium-term loans, in particular, the adjusted debt to ebitda ratio that show an important reduction derived from EBITDA generation and debt reduction.

The cash cycle rose during this quarter to 210 days, compared to the one obtained in the same period of 2019, affected by lower sales in spite inventory reduction.

## GLOSSARY OF TERMS

### 1) Current Ratio:

Evaluates the liquidity of the company to face its short-term liabilities with its short-term assets. It is calculated as follows:  $\text{Current Assets} / \text{Current Liabilities}$ .

### 2) Equity debt

Evaluates the company's level of debt. It shows the proportions of debt and capital that a company uses. It is calculated as follows:  $\text{Total Liabilities} / \text{Total Equity}$ .

### 3) Indebtedness Ratio:

Indicates which assets of the company have been financed with debt, either short or long term. It is calculated as follows:  $\text{Total Assets} / \text{Total Liabilities}$ .

### 4) Adjusted Financial Debt / EBITDA Ratio

This ratio shows how many years Ferreycorp would take in order to pay its debt excluding its short term debt related to inventories. It is calculated as follows:  $(\text{Total Financial Debt} - \text{Short Term debt related to inventories acquisition}) / \text{EBITDA}$ .

### 5) Financial expenses coverage

Indicates how many times the profit generated by the operations of the company are able to cover their financial expenses for the period. It is calculated as follows:  $\text{EBITDA} / \text{Financial expenses}$ .

### 6) Assets turnover

Ratio used as a performance indicator to measure how the company is using its assets to generate income. It is calculated as follows:  $\text{Sales} / \text{Average Assets}$ .

### 7) Inventory turnover

Shows the efficiency of the company to manage its inventory. It measures the number of times inventory is sold and replaced within a period of time. It is calculated as follows:  $\text{Cost of Goods Sold} / \text{Average Inventory}$ .

### 8) Return on Equity - ROE

This ratio measures the corporation's profitability in a period by revealing how much profit is generated with shareholders' investments. It is calculated as follows:  $\text{Net Income} / \text{Shareholder's Equity}$ .

### 9) Return on Assets - ROA

Measures the profitability of the company in a period based on the total assets of the corporation. It is calculated as follows:  $(\text{Operating profit} \times (1 - T)) / \text{Average Assets}$ .

### 10) Return on Invested Capital - ROIC

This ratio is used by the company in order to make investment decisions and allocate resources. It is calculated as follows:  $\text{EBIT (last twelve months)} / \text{Average Invested Capital}$ .

### 11) Receivable days

Establish the approximate time (in days) it takes for a company to carry out the collection of accounts receivables. It is calculated as follows:  $360 * \text{Sales} / \text{Average Accounts Receivable}$ .

### 12) Payable days

Establish the approximate time (in days) it takes the business to pay its payable accounts. The ratio is calculated as follows:  $360 * \text{Cost of Sales} / \text{Average Accounts Payable}$ .

### 13) Cash cycle

Is the difference between the operating cycle and payment cycle. It is a rough calculation that measures how long it takes the company to convert its cash resources. It is calculated as follows:  $\text{Days of inventory} + \text{Accounts receivable days} - \text{Accounts payable days}$ .

### 14) Book value per share

It is the net value of equity divided by the number of shares issued by the company. The calculation is:  $\text{Equity} / \text{Number of shares}$ .

## FERREYCORP S.A.A. AND SUBSIDIARIES

## APPENDIX 1

Income Statement

(In thousand soles)

	3Q 2020	%	3Q 2019	%	Var %	As of Sep20	%	As of Sep19	%	Var %
Net sales	1,220,409	100.0	1,600,764	100.0	-23.8	3,204,045	100.0	4,313,419	100.0	-25.7
Cost of goods sold	-908,703	-74.5	-1,247,762	-77.9	-27.2	-2,395,955	-74.8	-3,273,400	-75.9	-26.8
<b>Gross profit</b>	<b>311,706</b>	<b>25.5</b>	<b>353,002</b>	<b>22.1</b>	<b>-11.7</b>	<b>808,090</b>	<b>25.2</b>	<b>1,040,019</b>	<b>24.1</b>	<b>-22.3</b>
Selling and admin expenses	-202,392	-16.6	-224,746	-14.0	-9.9	-600,497	-18.7	-660,395	-15.3	-9.1
Other income (expenses), net	3,462	0.3	-4,492	(0.3)	-177.1	14,638	0.5	7,531	0.2	94.4
<b>Operating profit</b>	<b>112,776</b>	<b>9.2</b>	<b>123,764</b>	<b>7.7</b>	<b>-8.9</b>	<b>222,231</b>	<b>6.9</b>	<b>387,155</b>	<b>9.0</b>	<b>-42.6</b>
Financial income	6,324	0.5	5,407	0.3	17.0	14,405	0.4	15,945	0.4	-9.7
Gain (loss) to exchange rate	-9,579	-0.8	-50,461	-3.2	-81.0	-105,759	-3.3	-17,434	-0.4	506.6
Financial expenses	-23,685	-1.9	-24,370	-1.5	-2.8	-74,494	-2.3	-72,720	-1.7	2.4
Participation in the results of associates	-171	-0.0	950	0.1	-118.0	1,125	0.0	2,548	0.1	-55.8
<b>Profit before income tax</b>	<b>85,665</b>	<b>7.0</b>	<b>55,290</b>	<b>3.5</b>	<b>54.9</b>	<b>57,508</b>	<b>1.8</b>	<b>315,494</b>	<b>7.3</b>	<b>-81.8</b>
Income tax	-29,492	-2.4	-22,811	-1.4	29.3	-26,236	-0.8	-109,786	-2.5	-76.1
<b>Net profit</b>	<b>56,173</b>	<b>4.6</b>	<b>32,479</b>	<b>2.0</b>	<b>73.0</b>	<b>31,272</b>	<b>1.0</b>	<b>205,708</b>	<b>4.8</b>	<b>-84.8</b>
<b>EBITDA</b>	<b>159,477</b>	<b>13.1</b>	<b>174,792</b>	<b>10.9</b>	<b>-8.8</b>	<b>361,368</b>	<b>11.3</b>	<b>551,701</b>	<b>12.8</b>	<b>-34.5</b>

## FERREYCORP S.A.A. AND SUBSIDIARIES

## APPENDIX 2

Statement of Financial Position

(In thousand soles)

	As of 30-09-2020	As of 30-09-2019	Var %
Cash and cash equivalents	361,154	62,607	476.9
Accounts receivables - trade	1,007,791	1,281,498	-21.4
Inventories	1,918,673	1,900,219	1.0
Accounts receivables - other	234,338	229,258	2.2
Assets available for sale	13,863	13,863	
Investment in shares	53,925	3,382	
Prepaid expenses	39,211	45,648	-14.1
<b>Current assets</b>	<b>3,628,955</b>	<b>3,536,475</b>	<b>2.6</b>
Long term account receivables - trade	29,628	26,457	12.0
Long term account receivables - other	34,376	43,435	-20.9
Rental fleet	575,317	481,548	19.5
Property	1,138,205	1,112,974	2.3
Machinery and equipment	464,325	385,279	20.5
Other fixed assets	163,329	199,623	-18.2
	2,341,176	2,179,424	7.4
Accrued depreciation	-714,114	-601,832	18.7
Property, plant and equipment	1,627,062	1,577,592	3.1
Investments	17,494	16,078	8.8
Intangibles assets, net and goodwill	440,282	380,671	15.7
Deferred income tax	210,040	207,630	1.2
<b>Non current assets</b>	<b>2,358,882</b>	<b>2,251,863</b>	<b>4.8</b>
<b>Total Assets</b>	<b>5,987,837</b>	<b>5,788,338</b>	<b>3.4</b>

	As of 30-09-2020	As of 30-09-2019	Var %
Short term debt	337,162	466,845	-27.8
Liabilities derived from leases (IFRS16)	52,464	39,676	32.2
Other current liabilities	2,198,716	2,027,451	8.4
<b>Current liabilities</b>	<b>2,588,342</b>	<b>2,533,972</b>	<b>2.1</b>
Long term debt	1,074,479	789,196	36.1
Other payables	755	472	60.0
Liabilities derived from leases (IFRS16)	97,225	90,165	7.8
Deferred income tax	187,464	193,958	-3.3
<b>Total Liabilities</b>	<b>3,948,265</b>	<b>3,607,763</b>	<b>9.4</b>
<b>Equity</b>	<b>2,039,572</b>	<b>2,180,575</b>	<b>-6.5</b>
<b>Total Liabilities and Equity</b>	<b>5,987,837</b>	<b>5,788,338</b>	<b>3.4</b>
<b>Other financial information</b>			
Depreciation	118,075	136,390	
Amortization	6,657	12,211	

## FERREYCORP S.A.A. AND SUBSIDIARIES

## APPENDIX 3

**NET SALES**

(In thousand nuevos soles)

	3T 2020	%	2T 2020		3T 2019	%	% Var 3T 2020/ 2T 2020	% Var 3T 2020/ 3T 2019	As of Sep20	%	As of Sep19	%	Var %
CAT mining trucks and machines (GM)	62,512	5.1	69,747	8.7	250,473	15.6	-10.4	-75.0	242,502	7.6	378,318	8.8	-35.9
CAT machines for other sectors (NGM)	244,400	20.0	98,880	12.3	178,202	11.1	147.2	37.1	505,712	15.8	575,213	13.3	-12.1
Allied equipment	138,669	11.4	135,838	16.9	163,030	10.2	2.1	-14.9	405,865	12.7	464,867	10.8	-12.7
Rental and used	96,411	7.9	45,149	5.6	162,129	10.1	113.5	-40.5	232,692	7.3	405,681	9.4	-42.6
Spare parts and services	565,998	46.4	377,665	46.9	743,408	46.4	49.9	-23.9	1,521,208	47.5	2,185,962	50.7	-30.4
Other lines	112,419	9.2	77,545	9.6	103,522	6.5	45.0	8.6	296,066	9.2	303,378	7.0	-2.4
<b>TOTAL</b>	<b>1,220,409</b>	<b>100.0</b>	<b>804,824</b>	<b>100.0</b>	<b>1,600,764</b>	<b>100.0</b>	<b>51.6</b>	<b>-23.8</b>	<b>3,204,045</b>	<b>100.0</b>	<b>4,313,419</b>	<b>100.0</b>	<b>-25.7</b>

## FERREYCORP S.A.A. AND SUBSIDIARIES

## APPENDIX 4

Total Liabilities as of September 30th, 2020

(In thousand US\$)

	Total Liabilities	Current Liabilities	Long term Liabilities		(A)
			Current	Long term	Financial Liabilities
Local banks (short term)	56,499	56,499	-	-	56,499
Foreign banks (short term)	62,025	62,025	-	-	62,025
Local banks (long term)	148,259	-	39,549	108,710	148,259
Foreign banks (long term)	72,273	-	21,961	50,312	72,273
Local and foreign banks (Leasing Fin)	694	-	345	349	694
Suppliers:					
Accounts payable to Caterpillar	77,804	77,804	-	-	-
Accounts payable to Caterpillar	-	-	-	-	-
Others	73,061	73,061	-	-	3
Corporate bonds	88,907	-	-	88,907	88,907
Caterpillar Financial	67,522	-	17,250	50,271	67,522
Liabilities derived from leases (IFRS16)	41,592	-	14,577	27,015	41,592
Other Liabilities	408,410	356,113	-	52,298	-
<b>Total (US\$)</b>	<b>1,097,045</b>	<b>625,502</b>	<b>93,682</b>	<b>377,861</b>	<b>537,772</b>
<b>Total (S/)</b>	<b>3,948,265</b>	<b>2,251,180</b>	<b>337,162</b>	<b>1,359,923</b>	<b>1,935,442</b>

(A) Subject to interest payment

## FERREYCORP S.A.A. AND SUBSIDIARIES

## APPENDIX 5

**Cash Flow Statement**

(In Thousand of Nuevos Soles)

	3Q2020	AS OF SEPT 2020
<b>Cashflow from operating activities</b>		
Collection from customers and third parties	1,812,612	3,974,283
Payment to suppliers	-1,032,027	-2,420,744
Payment to employees and others	-205,614	-408,792
Payment of taxes and income tax	15,587	-23,564
<b>Net cash provided by operating activities</b>	<b>590,558</b>	<b>1,121,183</b>
<b>Cashflow from investing activities</b>		
Acquisition of property, plant and equipment	26,622	-13,464
Acquisition of assets by right of use (IFRS16)	-12,170	-48,794
Sale of financial instruments (mutual funds)	-53,925	-44,622
Intangible acquisitions	-20,127	-48,610
<b>Net cash used in investing activities</b>	<b>-59,600</b>	<b>-155,490</b>
<b>Cashflow from financing activities</b>		
Financial liabilities	286,676	2,067,097
Payment of financial liabilities	-883,274	-2,620,884
Payment of lease liabilities	-11,858	-24,979
Interests paid	-19,223	-74,494
Dividends paid	-	-
Share repurchase	-	-22,627
<b>Cash from financing activities</b>	<b>-627,679</b>	<b>-675,887</b>
Cash increase, net	-96,720	289,806
Cash at the beginning of the year	-	84,433
Result due traslation	-979	-
Cash due to exchange rate variation	-11,820	-13,085
<b>Cash at the end of the year</b>	<b>-109,519</b>	<b>361,154</b>