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

## Fourth Quarter 2019

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Lima, January 29, 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 Peru and other countries in Latin America, announces consolidated results for the fourth quarter 2019.

The consolidated financial results have been prepared in accordance with International Financial Reporting Standards (IFRS) and are stated in nuevos soles

### MAIN HIGHLIGHTS

#### ACCUMULATED RESULTS AS OF DECEMBER 2019

- Consolidated sales for full year 2019 amounted to S/ 5,865 million and increased by 13% compared to the same period last year (S/ 5,211 million). This result is mainly explained by the greater dynamism in all the business lines offered by the corporation, led by major sales of Caterpillar equipment for large open pit mining customers and sales of spare parts and services that serve the machinery population all over the country. In dollars, sales reached to US\$ 1,757 million, 11% higher if compared to December 2018.
- Gross profit (S/ 1,376 million) increased by 10% compared to full year 2018 (S/ 1,254 million), led by major sales. Gross margin amounted to 23.5%, slightly lower compared to 24.1% reached during the same period of 2018.
- Operating profit amounted to S/ 459 million and decreased by 2% compared to operating profit as of December 2018 of S/ 466 million, led by the record of other income derived from the sale of Ferreycorps' share in an insurance company during 2018. Excluding this operation, the operating margin should have increased by 7.8%.

- Consolidated net profit for 2019 amounted to S/ 245 million and increased 9% compared to net profit reached in 2018 (S/ 225 million) as a result of i) higher sales, ii) with an improvement in gross profit derived from major sales and iii) a lower exchange loss that offset the higher financial expenses led by the debt increase and interest rates that rose in the first months of the year, all of this offset the reduction in other income, as explained before.
- As of December 2019, EBITDA amounted to S/ 680 million and increased by 10% compared to 2018 (S/ 621 million). EBITDA margin for the 12M 2019 reached 11.6% compared to 11.9% in the same period last year as a result of lower gross margin and slight increase in expenses. If we exclude the impact of IFRS16 (both, depreciation and financial expenses for S/ 62 million), EBITDA margin would be 10.5%.

#### **FOURTH QUARTER 2019 RESULTS**

- Consolidated sales for the fourth quarter accounted for S/ 1,552 million and rose by 8% if compared to the same period last year (S/ 1,439 million). This growth is mainly explained by higher sales of allied equipment and an increase of Caterpillar equipment for customers of sectors other than mining.
- Gross profit for the fourth quarter 2019 (S/ 335 million) posted a slightly reduction of 0.4% compared to the gross profit for the fourth quarter 2018 (S/ 334 million). Gross margin amounted to 21.6% and dropped from 23.2% reached during 4Q 2018 driven mainly by the sale of more components during the last quarter 2018 at higher margins.
- Operating margin reached to 4.6% in 4Q2019, compared to 10.6% during 4Q2018, impacted by other income recorded during 2018. This result is also affected by a lower gross margin, as explained above, and higher level of expenses derived from: i) expenses incurred in the fourth quarter to prepare our activities in an important mining project in 2020 and, ii) an extraordinary bonus given to employees of our main subsidiary.
- Consolidated net profit during 4Q 2019 amounted to S/ 40 million and decreased by 27% compared to net profit reached during 4Q 2018 (S/ 54 million), driven mainly by a reduction in operating profit.
- During the fourth quarter 2019, EBITDA amounted to S/ 128 million and shrunk by 34% compared to same period 2018 (S/ 193 million). EBITDA margin for the 4Q 2019 reached 8.3% compared to 13.4% in the same period last year, impacted by the lower operating profit.

(in million, except for per share ratios)	4Q 2019	3Q 2019	2Q 2019	1Q 2019	4Q 2018	3Q 2018	2Q 2018	1Q 2018	%Var. 4Q 2019/3Q 2019	%Var. 4Q 2019/4Q 2018	Acum Dic 2019	Acum S 2018	%Var.
Net sales (US\$)	\$461	\$479	\$413	\$403	\$429	\$385	\$390	\$380	-3.7%	7.6%	\$1,757	\$1,585	10.8%
Net sales	1,552	1,601	1,372	1,341	1,439	1,269	1,272	1,231	-3.1%	7.8%	5,865	5,211	12.5%
Gross profit	335	353	349	338	334	319	312	289	-5.0%	-0.4%	1,376	1,254	9.7%
SG&A expenses	-256	-225	-220	-216	-234	-215	-207	-199	13.9%	9.2%	-916	-856	7.0%
Operating profit	72	124	136	127	152	108	111	94	-41.8%	-52.7%	459	466	-1.5%
Financial expen	-23	-24	-25	-23	-22	-19	-18	-14	-3.8%	6.3%	-96	-73	31.4%
Gain (loss) to exchange rate	16	-50	9	24	-36	-13	-18	7			-1	-59	
Net profit	40	32	81	92	54	52	54	65	21.8%	-26.5%	245	225	9.0%
EBITDA	128	175	194	183	193	147	149	132	-26.7%	-33.8%	680	621	9.5%
Profit per share	0.041	0.033	0.083	0.095	0.055	0.053	0.055	0.067	21.8%	-26.4%	0.251	0.231	9.0%
EBITDA per share	0.131	0.179	0.199	0.188	0.198	0.150	0.153	0.135	-26.7%	-33.8%	0.697	0.636	9.5%
Free cash flow	102.7	-120	-113	235	-209	-63	57	-71			105.1	-286	
Gross margin	21.6%	22.1%	25.5%	25.2%	23.2%	25.2%	24.5%	23.5%			23.5%	24.1%	
SG&A / sales	16.5%	14.0%	16.0%	16.1%	16.3%	17.0%	16.3%	16.2%			15.6%	16.4%	
Operating margin	4.6%	7.7%	9.9%	9.5%	10.6%	8.5%	8.7%	7.7%			7.8%	8.9%	
Net margin	2.5%	2.0%	5.9%	6.9%	3.7%	4.1%	4.2%	5.3%			4.2%	4.3%	
EBITDA margin	8.3%	10.9%	14.1%	13.6%	13.4%	11.5%	11.7%	10.7%			11.6%	11.9%	
Leverage ratio											1.04	0.93	
Net debt/ EBITDA											3.31	3.20	

## **MAIN HIGHLIGHTS**

### **Ferreyros launches new facilities in Ica with an investment of more than S/ 5 million**

Ferreyros, leading company in heavy machinery, launched a new 3,500 m<sup>2</sup> location in Ica, with an investment of more than S/ 5 million, to replace its previous facility. With this modern facility located at the 297km of the Panamericana Sur highway, Ferreyros expands its capabilities to serve the region.

This location will also count with the presence of Unimaq, subsidiary leader in light machinery, integrating a complete portfolio of machines and services to attend the productive sectors in Ica.

This new facility has a modern workshop to repair CAT construction machines and it doubles the capacity to attend agricultural machinery compared to the previous location. It also has the capacity to rebuild agricultural and construction machines, as well as repair components.

The headquarters may be expanded in a modular way on a plot of over 13,000 m<sup>2</sup>, according to the subsidiary needs.

### **Unimaq launches in Trujillo its first retail store of light machinery in Perú**

Unimaq, leading company in light machinery, launched in Trujillo the first retail store of its category in the country. This new format will speed up the purchase of CAT light equipment and allied brands machinery for general or urban construction, through a self-service format.

The city of La Libertad was chosen to launch this store because of its growth potential for the business as well as its proximity with other important regions such as Ancash. In this line, Unimaq seeks to speed up the purchase processes for companies that operate in construction, mining and agro-export, among other sectors. This retail store has been built near the Unimaq headquarters in Trujillo.

### **Ministry of Labor recognizes Ferreycorp and subsidiaries good practices**

Ferreycorp and its subsidiaries Ferreyros, Fargoline and Orvisa were recognized in the contest “Buenas Prácticas Laborales 2019”, organized by the Ministry of Labor and Employment Promotion.

Ferreyros was awarded with the first place in the category of Promotion of Work-Family Balance, for its actions to achieve the reconciliation of work and family life of its employees. Likewise, Fargoline was awarded with the first place in the category of Promotion of the Work Ordered with Clients and Suppliers.

Ferreycorp was distinguished with the second place in the category of Prevention of Sexual Harassment and Labor Harassment, for the development of its policies in this field. Meanwhile, Orvisa hold a similar position in the category of Promotion of Equal Opportunities between women and men.

It is vital to mention that the practices of the last two categories are part of Ferreycorp Gender Equity Corporate Policy, with a scope of more than 6,500 employees in the corporation.

### **Dividend Distribution**

The board meeting held on Wednesday October 30th, approved the distribution of a complementary dividend of S/ 50 million soles which equals to 5.12 cents per share. The record date for this dividend is November 21st and the payment date would be December 16th. This dividend is complementary to the extraordinary one distributed earlier this year.

Thru 2019 Ferreycorp has paid to its shareholders total dividends for S/ 221 million soles equivalent to S/ 22.7 cents per share and a dividend yield of 9%.

### Share repurchase program

Also, the company announced on October a repurchase program for up to 50 million shares (5% of the capital) to be executed according to market conditions.

The share repurchase program has been executed during the year and will continue to be monitored and reported to the market.

As of December 2019, Ferreycorp has repurchased S/ 5.7 million shares at an average price of S/ 2.14

## I. COMMERCIAL MANAGEMENT

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

Ferreycorp divide 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 fourth quarter 2019, sales increased by 3.7% if compared to the same period 2018, as a result of a significant growth of 20.3% in CAT equipment sales for other sectors than mining, rental and used equipment sales that rose by 34% and spare parts and services that increased by 3.4%.

It is important to point out that Orvisa reported higher sales compared to fourth quarter 2018, despite the lower dynamism in the main markets served by this subsidiary.

The share of this first group of subsidiaries in total sales during this quarter is 75%.

#### **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, kept stable compared to the 4Q 2018, despite the complicated political-economic situation that the region is going through. The business lines that showed more dynamism were Caterpillar equipment and spare parts and services that rose by 13.9% and 8.7%, respectively.

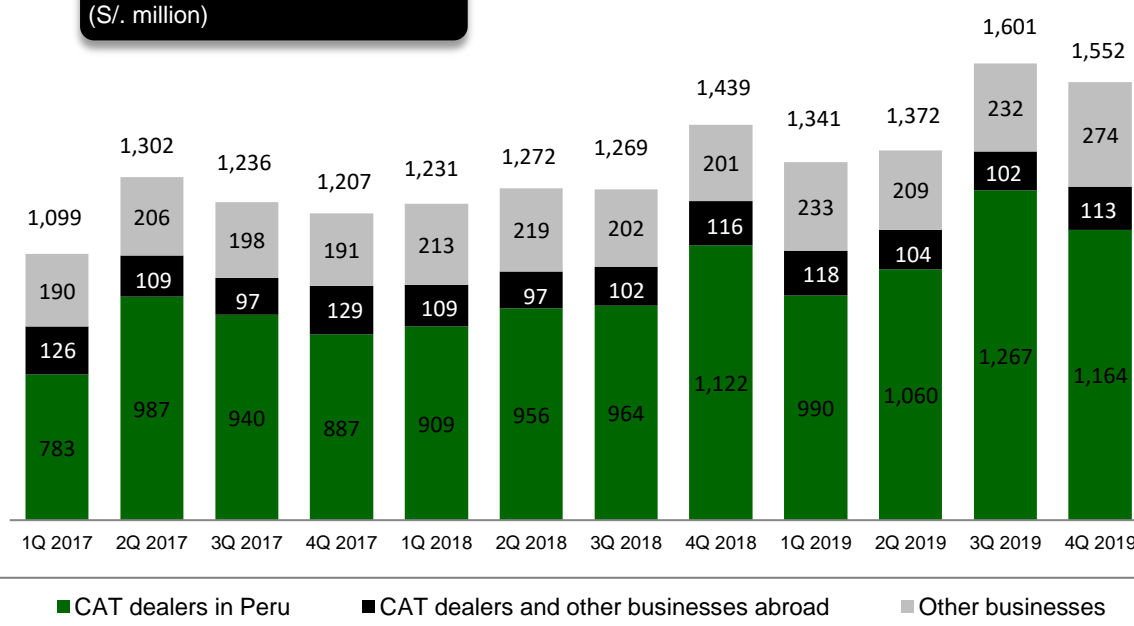
The share of this group of companies in total sales is 8%.

#### **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 complement the supply of goods and services through equipment and vehicles, consumables and logistic solutions, among other lines, boosted sales by 36.6%. This result turns out from Trex sales outside Perú and Motored sales that rose by 37% and 40.7%, respectively.

This group of companies currently represents 14.0% of total sales

## Sales by Group of Subsidiaries (S/. million)



The detail of sales by group of companies:

(S/ million)	4Q 2019	%	3Q 2019	%	2Q 2019	%	1Q 2019	%	4Q 2018	%	3Q 2018	%	2Q 2018	%	1Q 2018	%	% Var 2019/ 2019	% Var 4Q 2019/ 4Q 2018
Ferreyros	1,032	67	1,132	71	920	67	856	64	979	68	818	64	814	64	768	62	-8.8	5.4
Unimaq	85	6	103	6	113	8	103	8	117	8	106	8	105	8	102	8	-16.9	-26.9
Orvisa	47	3	33	2	26	2	31	2	27	2	40	3	37	3	39	3	43.1	75.9
Total CAT dealers in Peru	1,164	75	1,267	79	1,060	77	990	74	1,122	78	964	76	956	75	909	74	-8.1	3.7
Total CAT dealers and other businesses abroad	113	7	102	6	104	8	118	9	116	8	102	8	97	8	109	9	11.2	-2.1
Soltrak	51	3	57	4	53	4	53	4	53	4	54	4	50	4	65	5	-10.8	-3.4
Motored	47	3	48	3	55	4	47	4	33	2	41	3	60	5	54	4	-3.0	40.7
Trex (Chile)	93	6	77	5	50	4	74	6	68	5	59	5	68	5	47	4	21.8	37.0
Trex (Peru)	48	3	19	1	22	2	30	2	16	1	19	1	19	1	19	2	147.6	197.7
Fargo	21	1	20	1	19	1	21	2	21	1	19	1	18	1	15	1	4.1	3.5
Forbis	7	0	4	0	6	0	4	0	4	0	3	0	2	0	2	0	54.6	66.9
Others	8	1	6	0	5	0	5	0	7	0	8	1	1	0	12	1	32.3	18.0
Total Other businesses	274	18	232	14	209	15	234	17	201	14	202	16	218	17	213	17	18.4	36.3
<b>TOTAL</b>	<b>1,552</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>1,439</b>	<b>100</b>	<b>1,269</b>	<b>100</b>	<b>1,272</b>	<b>100</b>	<b>1,231</b>	<b>100</b>	<b>-3.1</b>	<b>7.8</b>

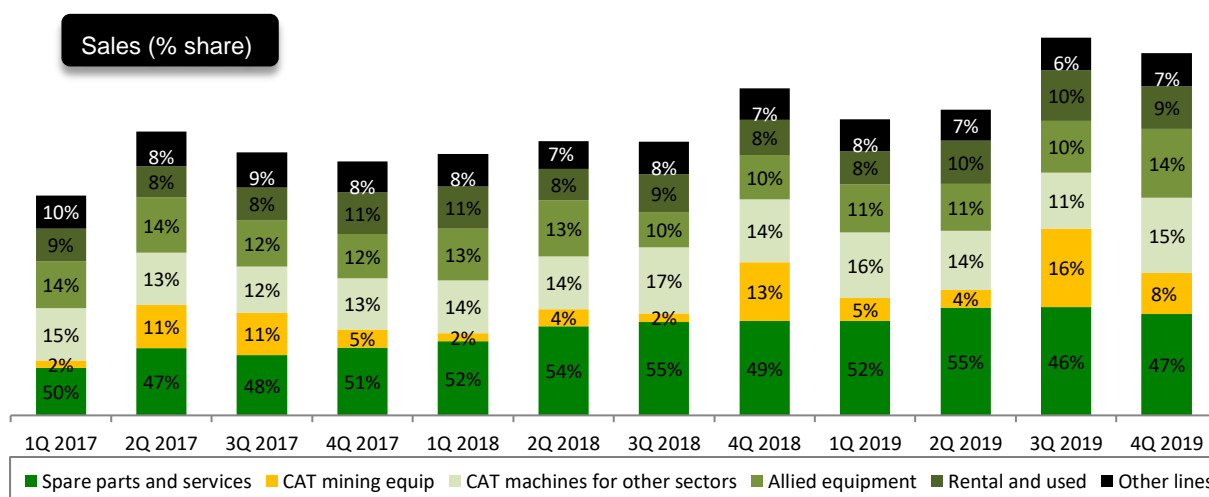
## 2. SALES BREAKDOWN BY BUSINESS LINE

(S/ million)

	4Q 2019	%	3Q 2019	%	2Q 2019	%	1Q 2019	%	4Q 2018	%	3Q 2018	%	2Q 2018	%	1Q 2018	%	% Var 4Q 2019/ 2018	% Var 4Q 2019/ 3Q 2019
CAT mining trucks and machines (GM)	130	8	250	16	56	4	72	5	186	13	27	2	54	4	26	2	-48.2	-30.2
CAT machines for other sectors (NGM)	239	15	178	11	189	14	208	16	200	14	210	17	168	13	168	14	34.3	19.8
Allied equipment	218	14	163	10	149	11	153	11	141	10	111	9	178	14	164	13	34.0	54.9
Rental and used	137	9	162	10	138	10	105	8	113	8	121	10	100	8	134	11	-15.6	21.3
Spare parts and services	723	47	743	46	742	54	701	52	700	49	697	55	684	54	636	52	-2.8	3.3
Other lines	104	7	104	6	98	7	102	8	100	7	102	8	88	7	104	8	0.9	4.9
<b>TOTAL</b>	<b>1,552</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>1,439</b>	<b>100</b>	<b>1,269</b>	<b>100</b>	<b>1,272</b>	<b>100</b>	<b>1,231</b>	<b>100</b>	<b>-3.1</b>	<b>7.8</b>

When analyzing the results by business lines during the fourth quarter, allied equipment boosted sales by 54.9% compared to the same quarter last year, led by Trex and Motored sales. Additionally, rental and used equipment business line increased by 21.3% driven mainly by used equipment sales.

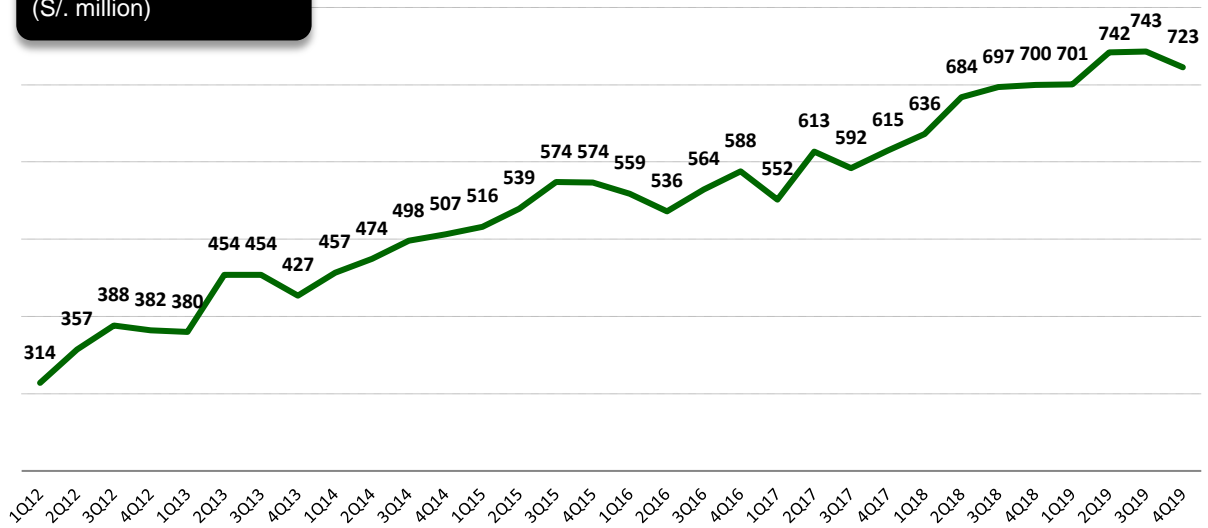
Finally, Caterpillar engines and machines for sectors other than mining rose by 19.8% compared to 4Q 2018 as a result of major sales to customers related to construction and government



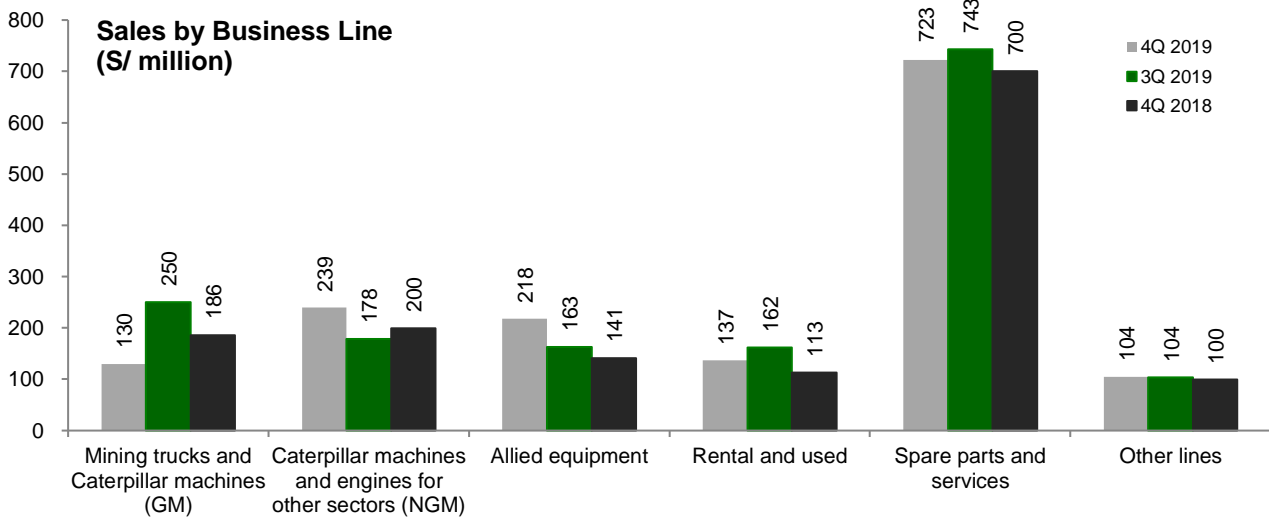
The strategy of the corporation is focused in serving the customers throughout the life of their equipment, for this reason, great efforts are deployed to deliver the best quality aftermarket support through locations near the customers. These capacities have allowed spare parts and services business line, both Caterpillar and allied brands, to keep the higher share in the composition of total sales (47%), reaching S/ 723 million thru the fourth quarter 2019, 3.3% higher compared to 4Q18. The population of Caterpillar machinery has grown and continues to grow, dynamic that allows the sustainability of the business model in the long term



**Spare parts and services  
(S/. million)**

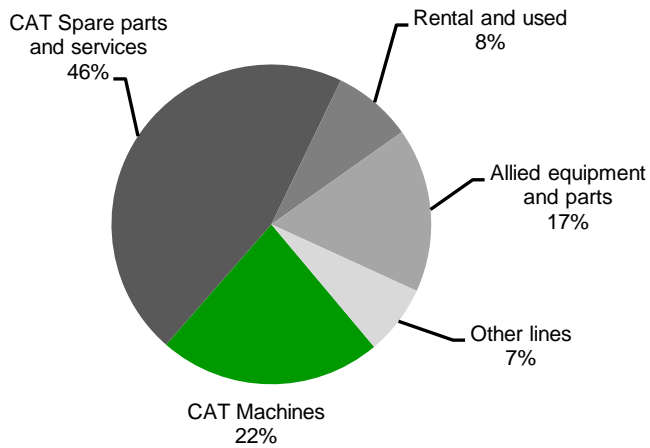


The after-market provided by Ferreycorp to its customers is recognized by high quality standards, a key difference from the competition. Nevertheless, this world class service impacts the operating expenses because it requires investments in inventories of spare parts and components as well as in construction and modernizing its workshops and selecting and training its technicians, as well as accounts receivables for 45 to 60 days

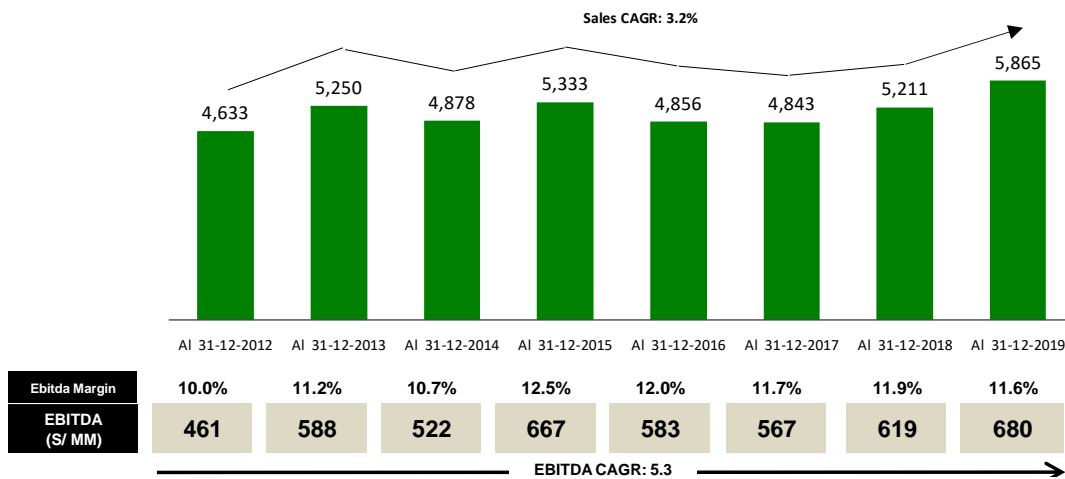


As of December 31, 2019, sales of the Caterpillar brand carried by Caterpillar dealers in Peru, Guatemala, El Salvador and Belize, accounted for 76% of total sales, including machinery and equipment (new, used and rental units) as well as spare parts and services.

### Sales (As of december 2019)



### Sales and EBITDA (S/. million)



### 3. SALES BREAKDOWN BY ECONOMIC SECTORS

Regarding sales distribution by economic sectors, sales to open pit mining represented, during the fourth quarter 2019, 43% of total sales compared to 47% during the fourth quarter 2018. Meanwhile, underground mining represented 9% of total sales, lower than fourth quarter 2018 share of 12%.

	4Q 2019	3Q 2019	2Q 2019	1Q 2019	4Q 2018	3Q 2018	2Q 2018	1Q 2018
Open pit mining	43.1%	43.8%	42.6%	43.6%	47.1%	39.6%	41.8%	34.9%
Construction	23.3%	18.7%	16.0%	21.9%	18.8%	23.1%	20.3%	20.0%
Underground mining	8.6%	12.9%	15.1%	12.1%	11.9%	11.9%	13.8%	20.7%
Government	5.1%	1.8%	1.1%	1.0%	1.7%	0.9%	0.6%	0.8%
Transportation	3.8%	3.6%	3.7%	4.0%	2.5%	2.7%	5.0%	4.8%
Industry, commerce and service	10.2%	9.7%	9.8%	9.2%	11.6%	11.8%	13.0%	12.7%
Agriculture and forestry	2.1%	2.4%	2.1%	2.0%	1.9%	3.5%	2.4%	2.8%
Fishing and marine	1.1%	1.9%	2.1%	2.2%	2.3%	3.4%	1.0%	1.1%
Hydrocarbons and energy	0.7%	0.8%	0.6%	0.6%	0.8%	1.5%	0.5%	0.7%
Others	2.0%	4.4%	6.9%	3.4%	1.4%	1.7%	1.4%	1.5%
<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>	<b>100.0%</b>

## II. ANALYSIS OF FINANCIAL INFORMATION

### 1. Sales

Million soles	4Q19	4Q18	%Var.	2019	2018	%Var.
Sales	1,551.8	1,439.4	7.8	5,865.2	5,211.5	12.5

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

### 2. Gross profit

Million soles	4Q19	4Q18	%Var.	2019	2018	%Var.
Gross profit	335.5	334.2	0.4	1,375.5	1,253.9	9.7
Gross margin	21.6%	23.2%		23.5%	24.1%	

In fourth quarter 2019, gross profit grew slightly compared to gross profit in fourth quarter 2018. In percentage terms, 4Q 2019 gross margin reached to 21.6%, below 4Q 2018, as a result of: i) important component sales with margins above the average and ii) some adjustments in import costs; both occur during the fourth quarter 2018 and did not repeated in fourth quarter 2019.

### 3. Selling and Administrative Expenses

Million soles	4Q19	4Q18	%Var.	2019	2018	%Var.
Selling and administrative expenses	255.9	234.5	9.2	916.3	856.3	7.0
As a % of total sales	-16.5%	-16.3%		-15.6%	-16.4%	

Selling and administrative expenses during the fourth quarter 2019 increased by 9.2% compared to the same quarter 2018, mainly explained by variable expenses related to higher sales (+8%) and by higher expenses: i) expenses related to prepare our activities in an important mining project in 2020 and, ii) an extraordinary bonus paid to the employees of our main subsidiary.

### 4. Financial Expenses

Million soles	4Q19	4Q18	%Var.	2019	2018	%Var.
Financial expenses	23.4	22.1	6.3	96.2	73.2	31.4
As a % of total sales	-1.5%	-1.5%		-1.6%	-1.4%	

Financial expenses for the fourth quarter 2019 rose by 6.3% compared to 4Q 2018 derived from an increase in the average financial liabilities from US\$ 577 million in 4Q 2018 to US\$ 693 million in 4Q 2019, related mainly to higher inventories. Additionally, interest rates showed a downward trend during the last months, reflecting an average interest rate of 3.19% during the fourth quarter 2019, below 3.76% obtained in the fourth quarter 2018.

Moreover, financial expenses were impacted in S/ 1.6 million derived from the adoption of IFRS16 (until December 2018 this was an expense related to rental payment).

### 5. Foreign Exchange Gain/ Loss

Million soles	4Q19	4Q18	%Var.	2019	2018	%Var.
Foreign Exchange Gain/ Loss	16.2	-36.0		-1.2	-59.4	

The foreign exchange gain recorded in 4Q 2019 was led by the appreciation of the currencies in Peru and in Chile. The nuevo sol appreciation against the dollar was 2.01% (the exchange rate varied from S/3.385 in September 2019 to S/3.317 in December 2019); compared to a 2.33% nuevo sol devaluation during similar quarter last year (the exchange rate varied from S/ 3.302 in September 2018 to 3.379 in December 2018). The devaluation of the Chilean peso against the dollar in the 4Q2019 was 7.77%, while in the same period in 2018 the devaluation amounted to 13.02%.

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).

## 6. Net profit

Million soles	4Q19	4Q18	%Var.	2019	2018	%Var.
Net profit	39.6	53.8	-26.5	245.3	225.0	9.0
Net margin	2.5%	3.7%		4.2%	4.3%	

Net profit for the fourth quarter 2019 amounted to S/ 39.6 million, showing a decrease from the net profit recorded during the fourth quarter 2018, impacted mainly by a lower gross margin, higher expenses and less other income.

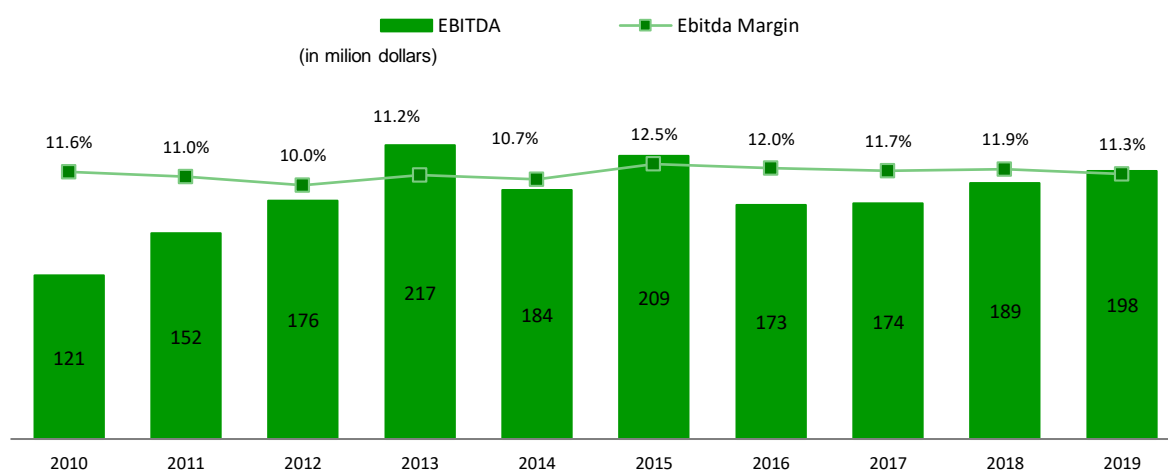
## 7. EBITDA

Million soles	4Q19	4Q18	%Var.	2019	2018	%Var.
EBITDA	128.0	193.3	-33.8	679.7	620.8	9.5
EBITDA margin	8.3%	13.4%		11.6%	11.9%	

During the fourth quarter 2019, EBITDA shrunk 33.8% compared to the same period 2018, driven by a decrease in operating income.

Excluding the impact of IFRS16, EBITDA amounted to S/ 112.1 million (42%) and resulted in a 7.2% EBITDA Margin. This figure shows from the exclusion of the depreciation (S/ 16 million) related to the assets by right of use and the interests for the leases that are now considered as liabilities, both treated before as expenses that reduced the operating profit.

During the 4Q 2019, 79% of the corporation's EBITDA is generated by Caterpillar dealers and allied brands in Peru (Ferreyros, Unimaq and Orvisa), which are the businesses contributing in a greater way to sales and profit in the corporation. On the other hand, 6.7% of EBITDA is generated by Caterpillar dealers and other businesses abroad, while 14.3% comes from local and foreign subsidiaries aimed to offer capital goods and services for the different economic sectors.



## ANALYSIS ACCORDING TO CORPORATE ORGANIZATION

(S/ thousand)	CAT dealers in Peru		CAT dealers and other businesses abroad		Other businesses	
	As of dec 2019	As of dec 2018	As of dec 2019	As of dec 2018	As of dec 2019	As of dec 2018
<b>Sales</b>	4,480,355	3,951,973	436,466	423,886	947,764	835,594
<b>Gross profit</b>	1,086,039	1,005,467	110,612	95,220	178,850	153,178
<b>Gross margin</b>	<b>24%</b>	<b>25%</b>	<b>25%</b>	<b>22%</b>	<b>19%</b>	<b>18%</b>
<b>SG&amp;A expenses</b>	680,481	609,369	81,484	88,843	146,255	149,410
<b>Operating margin</b>	<b>9%</b>	<b>10%</b>	<b>7%</b>	<b>2%</b>	<b>4%</b>	<b>1%</b>
<b>Depreciation and Amortization</b>	119,890	97,944	18,941	13,656	52,454	14,139
<b>EBITDA</b>	549,560	527,256	51,337	24,204	96,074	26,204
<b>EBITDA Margin</b>	<b>12%</b>	<b>13%</b>	<b>12%</b>	<b>6%</b>	<b>10%</b>	<b>3%</b>

Note: Results exclude Ferreycorp individual and Inti

### III. ANALYSIS OF CONSOLIDATED FINANCIAL INFORMATION

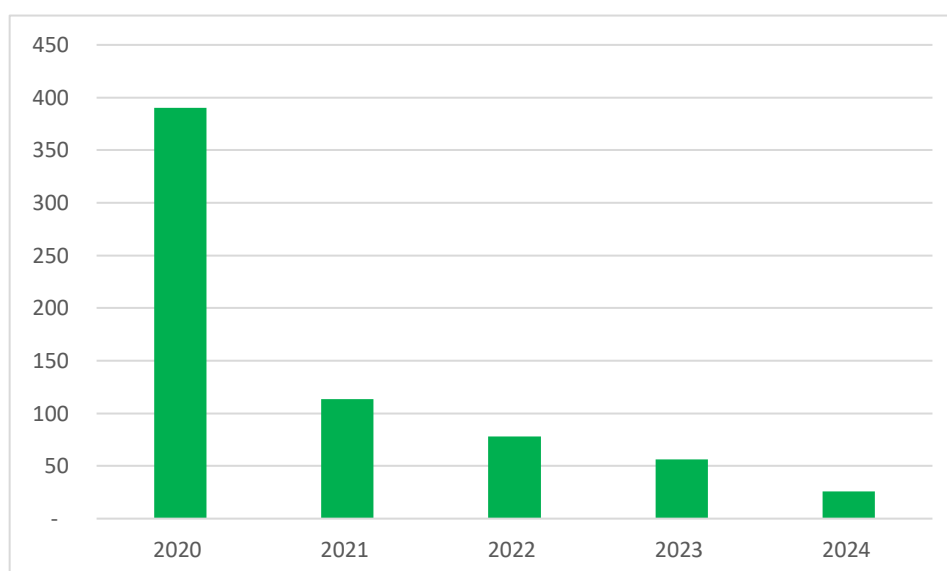
Total assets as of December 31, 2019 amounted to S/ 5,742.0 million, 6.2% higher if compared to S/ 5,408.8 million as of December 31, 2018. This variation is primarily due to i) higher inventory (S/ 161.0 million) and ii) fixed assets that rose led by the incorporation of the IFRS16 (rights of use for S/ 107 million). Inventory increase was driven mainly by higher demand of new machines that should be delivered during the first semester 2020.

Financial liabilities as of December 2019 amounted to S/ 2,334.8 millones (US\$ 704 million) and increased by 15.7% compared to US\$ 607 million recorded during the same period last year, led by higher assets, mainly inventories of mining equipment that will be invoice in the upcoming months. Current maturities account for 58% of total debt.

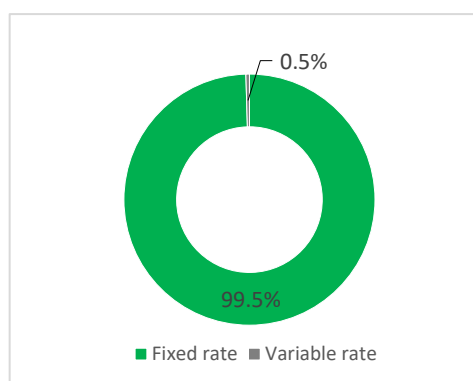
It is important to recall that financial liabilities include S/ 128.0 million (US\$ 38.5 million) related to IFRS16 application that points out that lease contracts must be turned into a liability with its related asset (right of use), recording also the financial expenses derived from bringing this obligation to present value using a discount rate (average cost of debt).

Below is the maturity structure of the consolidated liabilities, which is 95.1% in dollars according to the strategy of the corporation to keep a natural hedge between its sales and financing. The local currency financing belongs to subsidiaries that have a percentage of their income in local currency. Likewise, 99.5% of total debt has been contracted at fixed rate, which cover us from interest rate risks.

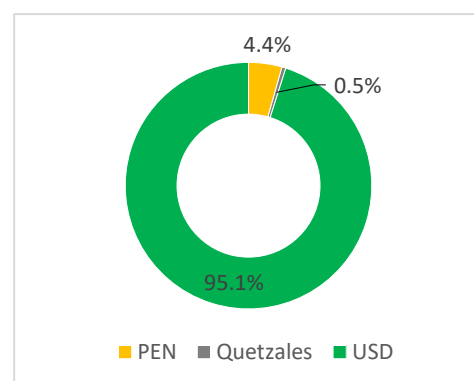
Debt Maturity (US\$ million)



Debt by rate



Debt by currency



### Investment in Fixed Assets (Capex) and Intangibles

As of December 31, 2019, the investment in fixed assets and intangibles amounted S/ 219 million:

#### **Rental Fleet**

Rental fleet units were replaced with a net investment of S/ 87.5 million (Ferreyros S/ 81.5 million and Unimaq S/ 3.0 million). Units from the rental fleet were transferred to inventory for sale (S/ 10.1 million).

#### **Machinery and equipment for workshops**

The net investment of - S/ 12 million was mainly led by Ferreyros (- S/ 15.1 million). Some equipment shifted to the inventory account for sale (S/ 38.3 million).

#### **Work in progress**

Ferreyros is doing additional works in CRC in la Joya and the construction of a new facility in Ica (S/ 26.6 million).

#### **Intangibles**

The investment in intangible assets reached S/ 78.5 million, mainly for the implementation of ERP SAP S/4 HANA platform that will "go 100% live" in 2020 in the main companies of the corporation to improve their process, information and reports. From that date, we will start to record the corresponding amortization according to the deadlines established by current regulations.

As of December 2019 the total amount invested in this implementation amounts to S/ 183.6 million soles (2016: S/ 7.4 million, 2017: S/ 38.2 million, 2018: S/ 69.2 million and 2019: S/ 68.6 million)

There is a difference between the fixed assets account recorded in the Statement of Financial Position 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/ 162 million.

In this way, the balance sheet shows a fixed asset increase of S/ 226.7 million (US\$ 68.4 million) from same period 2018.



## FINANCIAL RATIOS

Ratios	Dec-19	Sep-19	Jun-19	Mar-19	Dec-18	Sep-18	Jun-18	Mar-18
Current ratio	1.42	1.40	1.41	1.69	1.80	1.49	1.46	1.41
Financial debt ratio	1.04	1.03	0.98	0.87	0.93	0.85	0.82	0.80
Indebtness ratio	1.67	1.65	1.64	1.60	1.54	1.44	1.44	1.50
Net debt / EBITDA	3.31	3.03	2.92	2.73	3.20	3.20	3.00	2.79
Leverage financial adjusted ratio	2.19	1.87	1.84	2.31	2.66	2.39	1.62	1.94
Financial expenses coverage ratio	7.07	7.59	7.80	7.81	8.46	8.36	8.73	9.33
Asset turnover	1.04	1.05	1.01	1.01	1.02	0.99	1.00	1.02
Inventory turnover	2.40	2.42	2.32	2.41	2.49	2.53	2.65	2.81
Inventory days	150	149	155	149	145	143	136	128
Receivable days	62	64	63	67	68	71	71	71
Payable days	47	52	55	53	53	57	59	55
Cash cycle	164	161	163	163	160	156	148	144
ROE	11.4%	12.1%	13.3%	12.2%	10.7%	11.0%	12.4%	13.9%
ROA	5.8%	6.9%	6.9%	6.7%	6.4%	5.8%	6.0%	6.2%
ROIC (6)	10.4%	12.2%	12.4%	12.6%	11.3%	10.5%	11.1%	12.0%
Book value per share	2.21	2.23	2.20	2.17	2.18	2.17	2.12	2.06

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

The leverage ratios are within the covenants of the international bond and show higher levels due to higher debt.

The cash cycle shows similar levels as the last quarters (164 days on average) affected by inventory turnover.

Profitability ratios were impacted by a decline of operating profit compared to 2018 result.

## 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: Current Assets / 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: Total Liabilities / 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 : Total Assets / 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: (Total Financial Debt – Short Term debt related to inventories acquisition) / 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: EBITDA / 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: Sales / 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: Cost of Goods Sold / 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: Net Income / 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: (Operating profit x (1 -T)) / 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: EBIT (last twelve months) / 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: Days of inventory + Accounts receivable days - 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: Equity / Number of shares.

**FERREYCORP S.A.A. AND SUBSIDIARIES**
**APPENDIX 1**
**Income Statement**

(In thousand soles)

	<b>4Q2019</b>	<b>%</b>	<b>4Q2018</b>	<b>%</b>	<b>Var %</b>	<b>As of Dec 2019</b>	<b>%</b>	<b>As of Dec 2018</b>	<b>%</b>	<b>Var %</b>
Net sales	1,551,786	100.0	1,439,350	100.0	7.8	5,865,205	100.0	5,211,453	100.0	12.5
Cost of goods sold	-1,216,304	-78.4	-1,105,132	-76.8	10.1	-4,489,704	-76.5	-3,957,588	-75.9	13.4
<b>Gross profit</b>	<b>335,482</b>	<b>21.6</b>	<b>334,218</b>	<b>23.2</b>	<b>0.4</b>	<b>1,375,501</b>	<b>23.5</b>	<b>1,253,865</b>	<b>24.1</b>	<b>9.7</b>
Selling and admin expenses	-255,916	-16.5	-234,459	-16.3	9.2	-916,311	-15.6	-856,255	-16.4	7.0
Other income (expenses), net	-7,559	(0.5)	52,380	3.6	-114.4	-28	-0.0	68,407	1.3	-100.0
<b>Operating profit</b>	<b>72,007</b>	<b>4.6</b>	<b>152,139</b>	<b>10.6</b>	<b>-52.7</b>	<b>459,162</b>	<b>7.8</b>	<b>466,017</b>	<b>8.9</b>	<b>-1.5</b>
Financial income	5,822	0.4	5,683	0.4	2.4	21,767	0.4	21,600	0.4	0.8
Gain (loss) to exchange rate	16,242	1.0	-35,992	-2.5	-145.1	-1,192	-0.0	-59,365	-1.1	-98.0
Financial expenses	-23,449	-1.5	-22,050	-1.5	6.3	-96,169	-1.6	-73,205	-1.4	31.4
Share in the result of associated through the equity method	788	0.1	-4,362	-0.3	-118.1	3,336	0.1	1,068	0.0	212.4
<b>Profit before income tax</b>	<b>71,410</b>	<b>4.6</b>	<b>95,418</b>	<b>6.6</b>	<b>-25.2</b>	<b>386,904</b>	<b>6.6</b>	<b>356,115</b>	<b>6.8</b>	<b>8.6</b>
Income tax	-31,841	-2.1	-41,581	-2.9	-23.4	-141,627	-2.4	-131,087	-2.5	8.0
<b>Net profit</b>	<b>39,569</b>	<b>2.5</b>	<b>53,837</b>	<b>3.7</b>	<b>-26.5</b>	<b>245,277</b>	<b>4.2</b>	<b>225,028</b>	<b>4.3</b>	<b>9.0</b>
<b>EBITDA</b>	<b>128,048</b>	<b>8.3</b>	<b>193,347</b>	<b>13.4</b>	<b>-33.8</b>	<b>679,749</b>	<b>11.6</b>	<b>620,790</b>	<b>11.9</b>	<b>9.5</b>

## FERREYCORP S.A.A. AND SUBSIDIARIES

## APPENDIX 2

Statement of Financial Position

(In thousand soles)

	As of 12-31- 2019	As of 12-31- 2018	Var %		As of 12-31- 2019	As of 12-31- 2018	Var %
Cash and cash equivalents	87,664	73,698	19.0	Short term debt	469,580	347,995	34.9
Accounts receivables - trade	1,127,608	1,195,047	-5.6	Liabilities derived from leases (IFRS1€)	50,839	-	
Inventories	1,934,022	1,772,667	9.1	Other current liabilities	1,892,550	1,526,328	24.0
Accounts receivables - other	238,890	292,386	-18.3	<b>Current liabilities</b>	<b>2,412,969</b>	<b>1,874,323</b>	<b>28.7</b>
Investment in shares	13,863	10,465	32.5	Long term debt	909,584	1,210,437	-24.9
Investment in securities	5,000	2,500		Other payables	1,573	138	1,039.9
Prepaid expenses	29,310	31,581	-7.2	Liabilities derived from leases (IFRS1€)	76,876	-	
<b>Current assets</b>	<b>3,436,357</b>	<b>3,378,344</b>	<b>1.7</b>	Deferred income tax	188,258	189,951	-0.9
Long term account receivables - trade	26,501	25,501	3.9	<b>Total Liabilities</b>	<b>3,589,260</b>	<b>3,274,849</b>	<b>9.6</b>
Long term account receivables - other	32,148	272	11,719.1	<b>Equity</b>	<b>2,152,710</b>	<b>2,133,968</b>	<b>0.9</b>
Rental fleet	554,420	445,189	24.5	<b>Total Liabilities and Equity</b>	<b>5,741,970</b>	<b>5,408,817</b>	<b>6.2</b>
Other fixed assets	1,696,389	1,579,052	7.4	<b>Other financial information</b>			
	2,250,809	2,024,241	11.2	Depreciation	182,984	115,512	
Accrued depreciation	-621,305	-569,167	9.2	Amortization	15,836	17,660	
Property, plant and equipment	1,629,504	1,455,074	12.0				
Investments	16,648	13,336	24.8				
Intangible assets, net and goodwill	393,454	337,762	16.5				
Deferred income tax	207,358	198,528	4.4				
<b>Non current assets</b>	<b>2,305,613</b>	<b>2,030,473</b>	<b>13.6</b>				
<b>Total Assets</b>	<b>5,741,970</b>	<b>5,408,817</b>	<b>6.2</b>				

**FERREYCORP S.A.A. AND SUBSIDIARIES**
**APPENDIX 3**
**NET SALES**

(En thousand nuevos soles)

	4Q2019	%	3Q2019	%	4Q2018	%	% Var 4T 2019/ 3T 2019	% Var 4T 2019/ 4T 2018	As of Dec 2019	%	As of Dec 2018	%	Var %
CAT mining trucks and machines (GM)	129,869	8.4	250,473	15.6	186,139	12.9	-48.2	-30.2	508,187	8.7	293,400	5.6	73.2
CAT machines for other sectors (NGM)	239,326	15.4	178,202	11.1	199,790	13.9	34.3	19.8	814,539	13.9	754,874	14.5	7.9
Allied equipment	218,442	14.1	163,030	10.2	141,038	9.8	34.0	54.9	683,309	11.7	585,575	11.2	16.7
Rental and used	136,809	8.8	162,129	10.1	112,801	7.8	-15.6	21.3	542,489	9.2	467,545	9.0	16.0
Spare parts and services	722,904	46.6	743,408	46.4	700,063	48.6	-2.8	3.3	2,908,866	49.6	2,716,523	52.1	7.1
Other lines	104,437	6.7	103,522	6.5	99,518	6.9	0.9	4.9	407,815	7.0	393,536	7.6	3.6
<b>TOTAL</b>	<b>1,551,786</b>	<b>100.0</b>	<b>1,600,764</b>	<b>100.0</b>	<b>1,439,350</b>	<b>100.0</b>	<b>-3.1</b>	<b>7.8</b>	<b>5,865,205</b>	<b>100.0</b>	<b>5,211,453</b>	<b>100.0</b>	<b>12.5</b>

**FERREYCORP S.A.A. AND SUBSIDIARIES**
**APPENDIX 4**
**Total Liabilities as of December 2019**

(In thousand US\$)

	<b>Total Liabilities</b>	<b>Current Liabilities</b>	<b>Long term Liabilities</b>		(A) <b>Financial Liabilities</b>
			Current	Long term	
Local banks (short term)	197,539	197,539	-	-	197,539
Foreign banks (short term)	50,985	50,985	-	-	50,985
Local banks (long term)	291,687	-	83,859	207,828	291,687
Foreign banks (long term)	78,879	-	27,886	50,992	78,879
Local and foreign banks (Leasing Fin)	1,077	-	441	636	1,077
<b>Suppliers</b>					
Accounts payable to Caterpillar	51,470	51,470	-	-	-
Accounts payable to Caterpillar	16,251	16,251	-	-	16,251
Others	117,639	117,639	-	-	137
Corporate bonds	-	-	-	-	-
Caterpillar Financial	28,817	-	14,055	14,762	28,817
Liabilities derived from leases (IFRS16)	38,503	-	15,327	23,176	38,503
Other Liabilities	209,233	152,003	-	57,230	-
<b>Total (US\$)</b>	<b>1,082,080</b>	<b>585,888</b>	<b>141,568</b>	<b>354,625</b>	<b>703,875</b>
<b>Total (S/.)</b>	<b>3,616,308</b>	<b>1,943,389</b>	<b>469,580</b>	<b>1,176,291</b>	<b>2,334,753</b>

## FERREYCORP S.A.A. AND SUBSIDIARIES

## APPENDIX 5

**Cashflow Statement**

(In thousand nuevos soles)

	4Q 2019	As of 12-31-2019
<b>Cashflow from operating activities</b>		
Collection from customers and third parties	1,692,347	5,989,531
Payment to suppliers	-1,277,144	-4,887,273
Payment to employees and others	-128,745	-454,269
Payment of taxes and income tax	-45,119	-155,720
<b>Net cash provided by operating activities</b>	<b>241,339</b>	<b>492,269</b>
<b>Cashflow from investing activities</b>		
Acquisition of property, plant and equipment	-90,285	-189,141
Acquisition of assets by right in use (IFRS16)	-5,777	-34,304
Acquisition of financial instruments (mutual funds)	-4,398	-6,803
Intangible acquisitions	-19,272	-78,507
<b>Net cash used in investing activities</b>	<b>-119,732</b>	<b>-308,755</b>
<b>Cashflow from financing activities</b>		
Financial liabilities	1,137,243	3,843,208
Payment of financial liabilities	-1,148,881	-3,696,158
Interests paid	-23,296	-85,221
Dividends paid	-50,000	-221,515
Share repurchase	-12,237	-12,237
<b>Net cash provided by financial activities</b>	<b>-97,171</b>	<b>-171,923</b>
Cash increase, nte	24,436	11,592
Cash at the beginning of the year	-50,113	73,698
Result due transaction	-	979
Cash due to exchange rate variation	621	1,395
<b>Cash at the end of the year</b>	<b>-25,056</b>	<b>87,664</b>