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

## Third Quarter 2019

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**Lima, October 30, 2019.-** 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 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 SEPTEMBER 2019**

- Consolidated sales in this first nine-month period amounted to S/ 4,313 million and increased by 14% compared to the same period last year (S/ 3,772 million). This result is mainly explained by a greater activity in the Caterpillar machinery business due to mining equipment deliveries, and the dynamism of spare parts and services business that serves the machinery population all over the country. In dollars, sales reached to US\$ 1,295 million, 12% higher if compared as of September 2018.
- Gross profit (S/ 1,040 million) increased by 13% compared to 9M 2018 (S/ 920 million), led by major sales. Gross margin amounted to 24.1%, compared to 24.4% reached during the same period of 2018.
- Operating profit amounted to S/ 387 million and rose by 23% compared to operating profit as of September 2018 of S/ 314 million led by higher sales (+14%) with expenses growing at a slower pace (+6.2%). Operating margin in this first nine-month period reached to 9.0% compared to 8.3% during 9M 2018.
- Consolidated net profit during for the 9M 2019 amounted to S/ 206 million and rose by 20% compared to net profit reached during 9M 2018 (S/ 171 million). This result is mainly attributed to higher sales with an improvement in gross profit, controlled

operating expenses and 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.

- As of September 2019, EBITDA amounted to S/ 552 million and boosted by 29% compared to 9M 2018 (S/ 427 million). EBITDA margin for the 9M 2019 reached 12.8% compared to 11.3% in the same period last year due to operating profit increase. If we exclude the impact of IFRS16 (both, depreciation and financial expenses for S/ 46 million), EBITDA margin would be 11.7%, still higher than EBITDA margin as of September last year.

### THIRD QUARTER 2019 RESULTS

- Consolidated sales for the third quarter accounted for record levels and amounted to S/ 1,601 million and boosted by 26% if compared to the same period last year (S/ 1,269 million). This growth is mainly explained by higher sales of Caterpillar mining equipment, spare parts and services business line, increase in used equipment sales and improvement in allied equipment sales.
- Gross profit for the third quarter 2019 (S/ 353 million) posted a 11% growth compared to the gross profit for the third quarter last year (S/ 319 million) and increased compared to 1Q19 and 2Q19 gross profit of S/ 338 million and S/ 349 million, respectively. Gross margin amounted to 22.1% and dropped from 25.2% reached during 3Q 2018 as a result of higher share of machinery and equipment in total sales (47% in 3Q 2019; 37% in 3Q 2018), while spare parts and services dropped from 55% in 3Q2018 to 46% in 3Q 2019.
- Operating margin reached to 7.7% in 3Q2019, compared to 8.5% during 3Q2018, impacted by lower gross margin.
- Consolidated net profit during 3Q 2019 amounted to S/ 32 million and decreased by 38% compared to net profit reached during 3Q 2018 (S/ 52 million). This result is mainly attributed to the exchange loss recorded during the 3Q19 as a result of nuevo sol devaluation in 2.89% and chilean peso devaluation in 7.22% during the quarter. We estimate that this loss will be recovered in the following months with a revaluation of the nuevo sol.
- During the third quarter 2019, EBITDA amounted to S/ 175 million and rose by 19% compared to same period 2018 (S/ 147 million). EBITDA margin for the 3Q 2019 reached 10.9% compared to 11.5% in the same period last year.

(In million, except for per share ratios)	3Q 2019	2Q 2019	1Q 2019	4Q 2018	3Q 2018	2Q 2018	1Q 2018	%Var. 3Q 19/2Q19	%Var. 3Q 19/3Q18	As of Sept 2019	As of Sept 2018	%Var.
Net sales (US\$)	\$479	\$413	\$403	\$429	\$385	\$390	\$380	15.9%	24.3%	\$1,295	\$1,156	12.1%
Net sales	1,601	1,372	1,341	1,439	1,269	1,272	1,231	16.7%	26.1%	4,313	3,772	14.4%
Gross profit	353	349	338	334	319	312	289	1.1%	10.5%	1,040	920	13.1%
SG&A expenses	-225	-220	-216	-234	-215	-207	-199	2.3%	4.4%	-660	-622	6.2%
Operating profit	124	136	127	150	108	111	94	-9.1%	14.3%	387	314	23.3%
Financial expenses	-24	-25	-23	-22	-19	-18	-14	-2.2%	28.3%	-73	-51	42.2%
(Gain) Loss to exchange rate	-50	9	24	-35	-13	-18	7	-674.3%	295.2%	-17	-23	-25.4%
Net profit	32	81	92	54	52	54	65	-59.8%	-37.6%	206	171	20.2%
EBITDA	175	194	183	192	147	149	132	-9.9%	19.3%	552	427	29.1%
Profit per share	0.033	0.083	0.095	0.055	0.053	0.055	0.067	-59.8%	-37.6%	0.211	0.175	20.2%
EBITDA per share	0.179	0.199	0.188	0.196	0.150	0.153	0.135	-9.9%	19.3%	0.565	0.438	29.1%
Free cash flow	-120	-113	235	-209	-63	57	-71			2	-77	
Gross margin	22.1%	25.5%	25.2%	23.2%	25.2%	24.5%	23.5%			24.1%	24.4%	
SG&A/ sales	14.0%	16.0%	16.1%	16.3%	17.0%	16.3%	16.2%			15.3%	16.5%	
Operating margin	7.7%	9.9%	9.5%	10.4%	8.5%	8.7%	7.7%			9.0%	8.3%	
Net margin	2.0%	5.9%	6.9%	3.7%	4.1%	4.2%	5.3%			4.8%	4.5%	
EBITDA margin	10.9%	14.1%	13.6%	13.3%	11.5%	11.7%	10.7%			12.8%	11.3%	
Leverage ratio										1.03	0.85	
Net debt/ EBITDA										3.03	3.20	

## **MAIN HIGHLIGHTS**

### **Ferreycorp is part of the Dow Jones Sustainability Index for the third consecutive year**

Ferreycorp is included in the Dow Jones Sustainability Index (DJSI) for the MILA-Pacific Alliance region since 2017.

DJSI is comprised of 58 companies that stand out in sustainability matters and that are registered in the Pacific Alliance Stock Exchanges (Mexico, Chile, Colombia and Peru). In this way, it provides investors a benchmark to manage a sustainable investment portfolio within the region.

The index assessment methodology includes an analysis of good corporate governance practices, enforcement of a code of conduct, human capital development, transparency, respect and care for the environment and corporate citizenship, among others

### **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 business leaders of the main 1,500 companies in the country.

This distinction recognizes local and global companies that have operations in our country 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: Ferreyros among the top five companies with best reputation in Peru**

Ferreyros, the main subsidiary of the corporation Ferreycorp, was recognized among the five Peruvian companies with the best reputation in the country according to Merco Empresas. Ferreyros takes the fifth place in this prestigious ranking and is the best company in the Industry sector.

This edition accounted with more than 34,000 respondents, 66% more than last years. The respondents 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.

## 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 third quarter 2019, sales increased by 31.4% if compared to the same period 2018, as a result of a significant growth of 816.6% in mining equipment sales, used equipment sales that rose by 59% and spare parts and services that increased by 6.3%.

It is important to point out that Unimaq reported stable sales compared to third quarter 2018, even though demand of light equipment is still impacted due to the lower dynamism of the construction sector which is the main market served by this subsidiary.

The share of this first group of subsidiaries in total sales during this quarter is 79.2%.

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

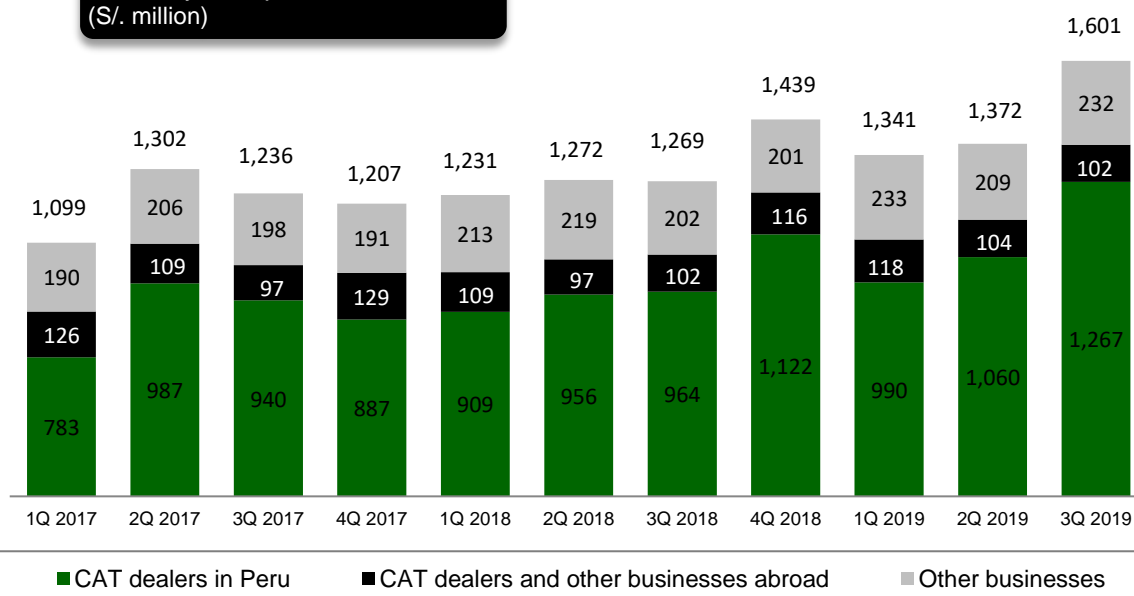
Sales of the second group of companies, with presence in Central America, kept stable compared to the 3Q 2018, despite the complicated political-economic situation that the region is going through. The business lines that showed more dynamism were allied equipment and spare parts and services that rose by 71.9% and 9.9%, respectively.

The share of this group of companies in total sales is 6.4%.

#### **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, increased sales by 14.6%. This result turns out from Trex and Motored sales that rose by 30.6% and 16.4%, respectively.

This group of companies currently represents 14.5% of total sales

**Sales by Group of Subsidiaries**  
 (\$ million)


The detail of sales by group of companies:

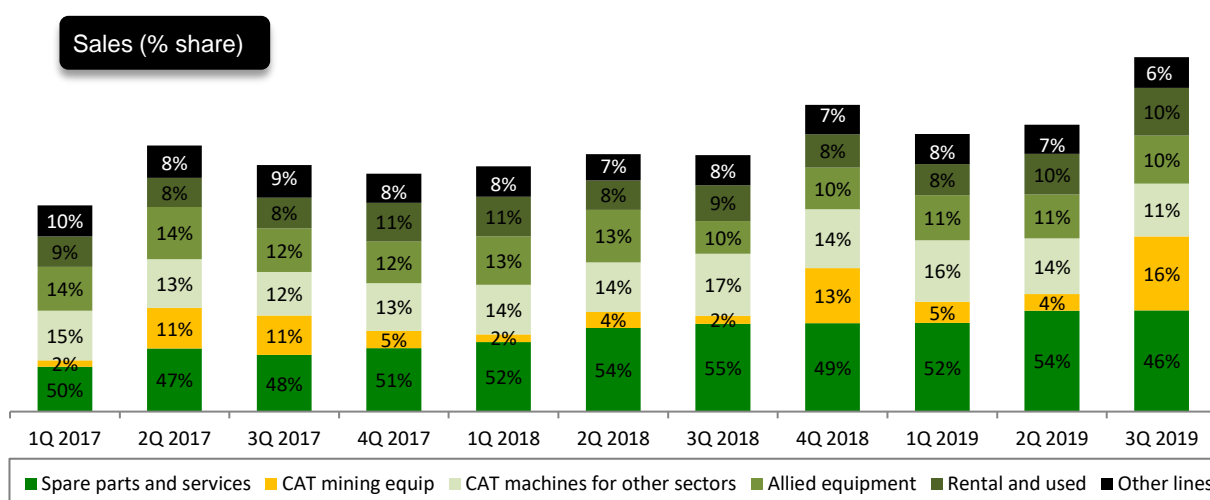
(\$ million)	3Q 2019	%	2Q 2019	%	1Q 2019	%	4Q 2018	%	3Q 2018	%	2Q 2018	%	1Q 2018	%	% Var 3Q 2019/ 2Q 2019	% Var 3Q 2019/ 3Q 2018
Ferreyros	1,132	71	920	67	856	64	979	68	818	64	814	64	768	62	23.0	38.3
Unimaq	103	6	113	8	103	8	117	8	106	8	105	8	102	8	-9.1	-3.5
Orvisa	33	2	26	2	31	2	27	2	40	3	37	3	39	3	23.3	-17.5
Total distrib. CAT en el Perú	1,267	79	1,060	77	990	74	1,122	78	964	76	956	75	909	74	19.6	31.4
Total distrib. CAT y otros neg. en el Exterior	102	6	104	8	118	9	116	8	102	8	97	8	109	9	-1.6	-0.4
Soltrak	57	4	53	4	53	4	53	4	54	4	50	4	65	5	7.9	5.4
Motored	48	3	55	4	47	4	33	2	41	3	60	5	54	4	-12.8	16.4
Trex	77	5	50	4	74	6	68	5	59	5	68	5	47	4	54.5	30.6
Otras (Fargoline, Motriza, Forbis, etc)	50	3	51	4	59	4	47	3	48	4	40	3	47	4	-1.8	4.1
Total otros negocios	232	14	209	15	233	17	201	14	202	16	219	17	213	17	11.1	14.6
<b>TOTAL</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>16.7</b>	<b>26.1</b>

## 2. SALES BREAKDOWN BY BUSINESS LINE

(S/ million)	3Q 2019	%	2Q 2019	%	1Q 2019	%	4Q 2018	%	3Q 2018	%	2Q 2018	%	1Q 2018	%	%Var 3Q 2019/	%Var 3Q 2019/
CAT mining trucks and machines (GM)	250	16	56	4	72	5	186	13	27	2	54	4	26	2	349.0	816.6
CAT machines for other sectors (NGM)	178	11	189	14	208	16	200	14	210	17	168	13	168	14	-5.6	-15.3
Allied equipment	163	10	149	11	153	11	141	10	111	9	178	14	164	13	9.6	46.3
Rental and used	162	10	138	10	105	8	113	8	121	10	100	8	134	11	17.4	34.5
Spare parts and services	743	46	742	54	701	52	700	49	697	55	684	54	636	52	0.2	6.7
Other lines	104	6	98	7	102	8	100	7	102	8	88	7	104	8	5.3	1.2
<b>TOTAL</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>16.7</b>	<b>26.1</b>

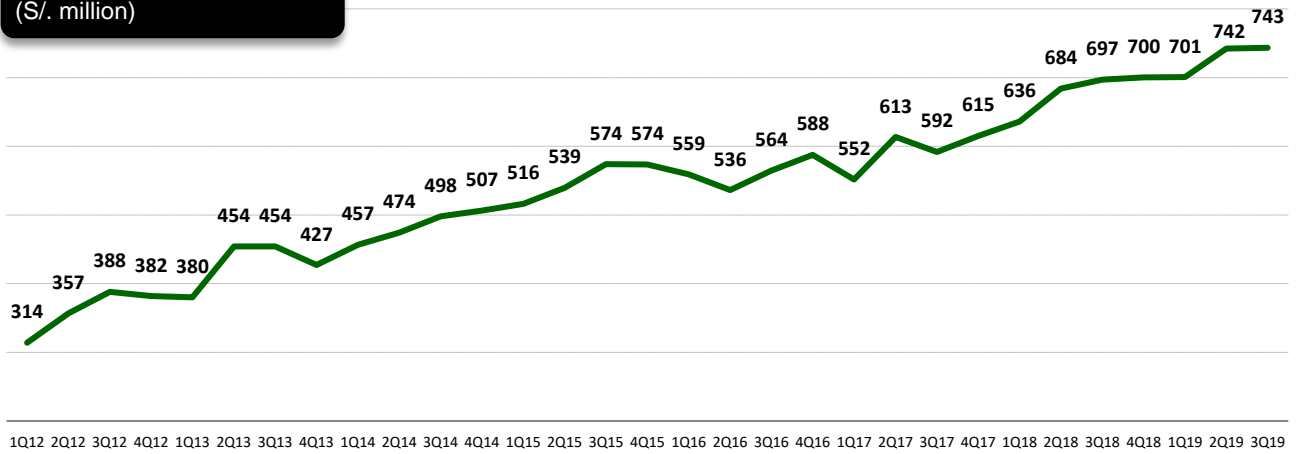
When analyzing the results by business lines during the third quarter 2019, Caterpillar mining equipment boosted sales by 816.6% compared to the same quarter last year, led by mining equipment fleets delivered to our customers. Additionally, allied equipment sales rose by 46.3% compared to 3Q 2019 led by Trex and Motored sales.

Finally, rental and used equipment business line increased by 34.5% driven mainly by used equipment sales.

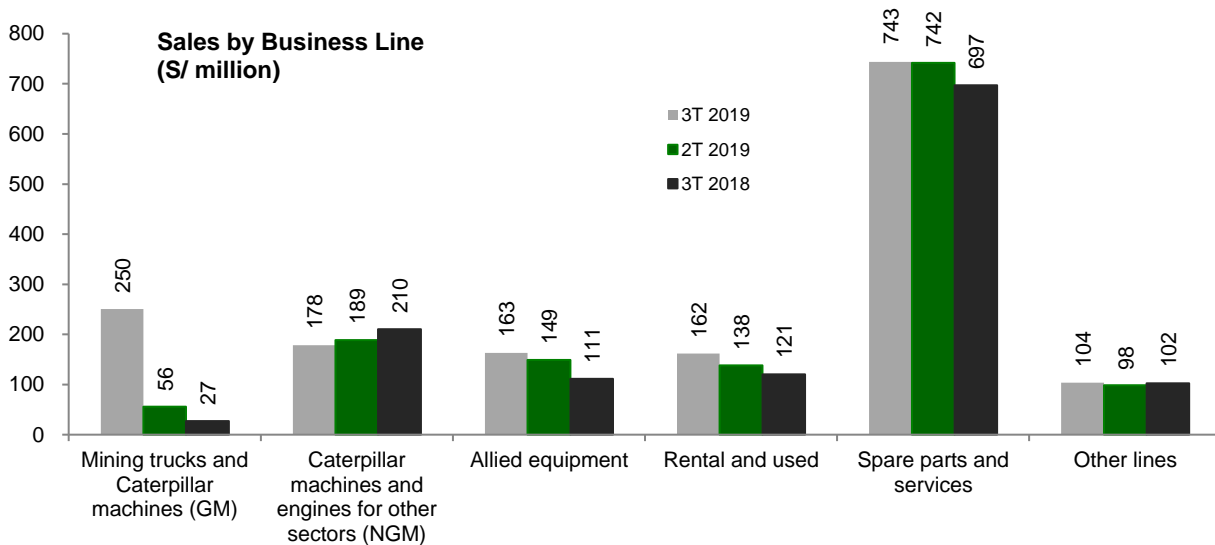


The strategy of the corporation is focused in serving the customers throughout the life of their equipment, for this reason, great efforts are deployed to deliver the best quality aftermarket support through locations near the customers. These capacities have allowed spare parts and services business line, both Caterpillar and allied brands, to keep the higher share in the composition of total sales (46%), reaching S/ 743 million thru the third quarter 2019, 6.7% higher compared to 3Q18. 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)



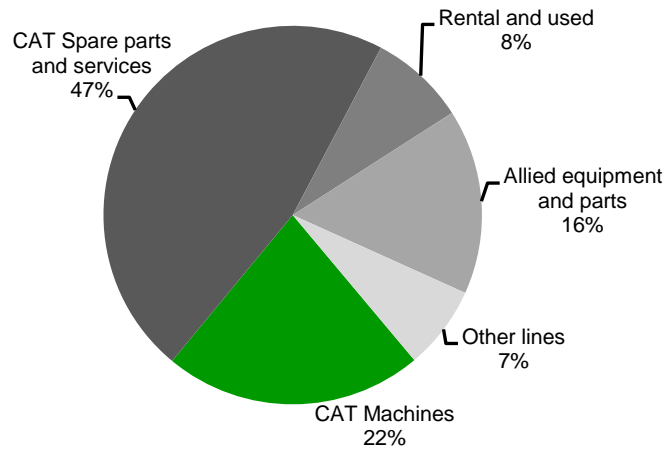
The after-market provided by Ferreycorp to its customers is recognized by high quality standards, a key difference from the competition. Nevertheless, this world class service impacts the operating expenses because it requires investments in inventories of spare parts and components as well as in construction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



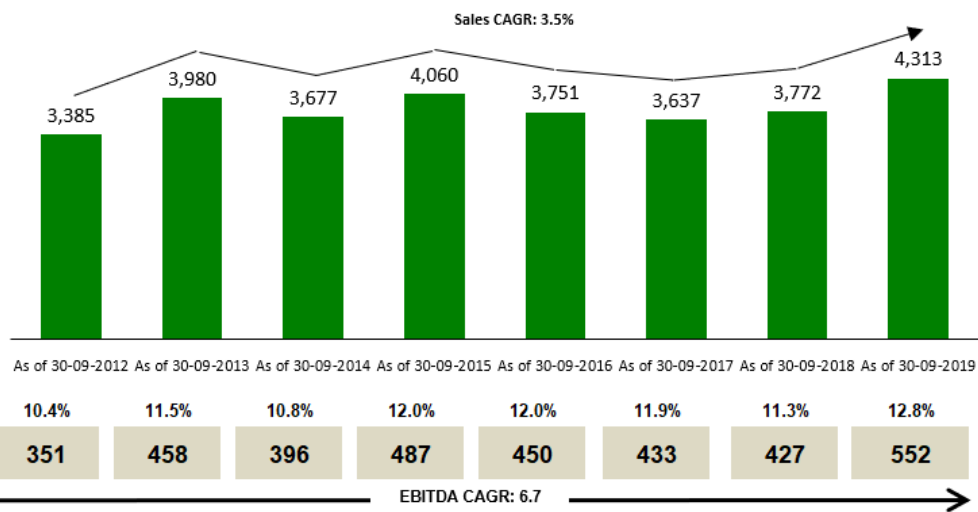
As of September 30, 2019, sales of the Caterpillar brand carried by Caterpillar dealers in Peru, Guatemala, El Salvador and Belize, accounted for 77% of total sales, including machinery and equipment (new, used and rental units) as well as spare parts and services.



### Sales (As of september 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 third quarter 2019, 44% of total sales compared to 40% during the third quarter last year. Meanwhile, underground mining represented 13% of total sales, higher than third quarter 2018 share of 12%.

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

## II. ANALYSIS OF FINANCIAL INFORMATION

### 1. Sales

Million soles	3Q 2019	3Q 2018	%Var.	As of Sep19	As of Sep18	%Var.
Sales	1,600.8	1,269.0	26.1	4,313.4	3,772.1	14.4

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

### 2. Gross profit

Million soles	3Q 2019	3Q 2018	%Var.	As of Sep19	As of Sep18	%Var.
Gross profit	353.0	319.3	10.5	1,040.0	919.6	13.1
Gross margin	22.1%	25.2%		24.1%	24.4%	

In the third quarter 2019, gross profit increased by 10.5% compared to gross profit in the same period last year led by higher sales.

In percentage terms, 3Q 2019 gross margin reached to 22.1% below 3Q 2018 mainly due to an increase in machinery and equipment share in total sales, led by deliveries of mining equipment, compared to spare parts and services. In this way, machinery share in total sales went from 38% to 47% this quarter and spare parts and services share in total sales went from 55% to 46% in 3Q 2019.

### 3. Selling and Administrative Expenses

Million soles	3Q 2019	3Q 2018	%Var.	As of Sep19	As of Sep18	%Var.
SG&A	224.7	215.4	4.4	660.4	621.8	6.2
As a % of total sales	-14.0%	-17.0%		-15.3%	-16.5%	

Selling and administrative expenses during the third quarter 2019 increased by 4.4% compared to the same quarter last year, mainly due to variable expenses related to higher sales (+26%).

### 4. Financial Expenses

Million soles	3Q 2019	3Q 2018	%Var.	As of Sep19	As of Sep18	%Var.
Financial expenses	24.4	19.0	28.3	72.7	51.2	42.2
As a % of total sales	-1.5%	-1.5%		-1.7%	-1.4%	

Financial expenses for the third quarter 2019 rose by 28.3% compared to 3Q 2018 derived from an increase in the average financial liabilities from US\$ 549 million in 3Q18 to US\$ 674 million in 3Q19 related to higher inventories. Additionally, interest rates showed a downward trend during the last months, reflecting an average interest rate of 3.45% during the third quarter 2019, below 3.58% obtained in the third quarter 2018. Moreover, financial expenses were impacted in S/ 1.7 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	3Q 2019	3Q 2018	%Var.	As of Sep19	As of Sep18	%Var.
Foreign exchange Gain / Loss	-50.5	-12.8	295.2	-17.4	-23.4	-25.4

The foreign exchange loss recorded in 3Q 2019 was led by the devaluation of the currencies in Peru and in Chile. The nuevo sol devaluation against the dollar was 2.89% (the exchange rate varied from S/3.290 in June 2019 to S/ 3.385 in September 2019), compared to a 0.86% nuevo sol devaluation during similar quarter last year (the exchange rate varied from S/ 3.274 in June 2018 to S/ 3.302 in September 2018). The devaluation of the Chilean peso against the dollar was 7.22%; while in the same period 2018 the devaluation amounted to 1.41%.

This devaluation has allowed the debt in dollars to be expressed at a higher exchange rate, while the inventories related to this debt were registered at a lower exchange rate. The inventory reserve as of September 2019 amounts to S/ 35 million.

As appointed before, it is important to recall 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	3Q 2019	3Q 2018	%Var.	As of Sep19	As of Sep18	%Var.
Net profit	32.5	52.0	-37.6	205.7	171.2	20.2
Net margin	2.0%	4.1%		4.8%	4.5%	

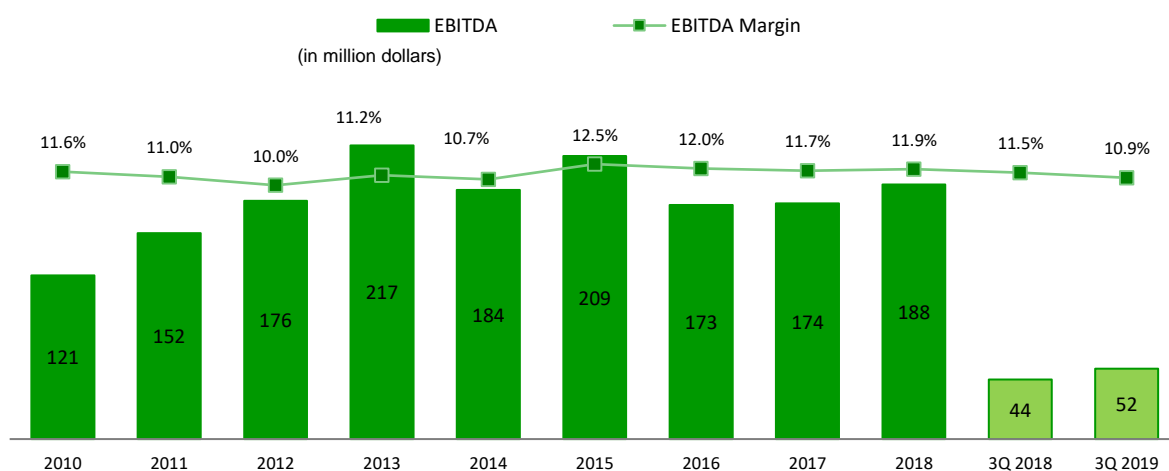
Net profit for the third quarter 2019 amounted to S/ 32.5 million, showing a decrease from the net profit recorded during the third quarter 2018, as a result of S/ 50 million exchange loss during the quarter led by the 2.89% nuevo sol devaluation and 7.22% chilean peso devaluation.

## 7. EBITDA

Million soles	3Q 2019	3Q 2018	%Var.	As of Sep19	As of Sep18	%Var.
EBITDA	174.8	146.5	19.3	551.7	427.4	29.1
EBITDA Margin	10.9%	11.5%		12.8%	11.3%	

During the third quarter 2019, EBITDA rose by 19.3% compared to 3Q 2018 led by an increase in operating profit. Excluding IFRS16, EBITDA amounted to S/ 158.6 million (+8.3%) and resulted in a 9.9% EBITDA margin. This figure shows from the exclusion of the depreciation 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 in S/16.2 million.

During the 3Q 2019, 84.9% of the corporation's EBITDA is generated by Caterpillar dealers and allied brands in Peru (Ferreyros, Unimaq and Orvisa), which are the businesses contributing more to sales and profit in the corporation. On the other hand, 5.7% of EBITDA is generated by Caterpillar dealers and other businesses abroad, while 14.2% comes from local and foreign subsidiaries aimed to offer capital goods and services for the different economic sectors.



### ANALYSIS ACCORDING TO CORPORATE ORGANIZATION

(\$/ thousand)

	CAT dealers in Peru		CAT dealers and other businesses abroad		Other businesses	
	As of sep 2019	As of sep 2018	As of sep 2019	As of sep 2018	As of sep 2019	As of sep 2018
<b>Sales</b>	3,316,731	2,829,482	323,275	308,294	673,413	634,327
<b>Gross profit</b>	822,746	730,657	82,020	72,533	135,253	116,457
<b>Gross margin</b>	<b>25%</b>	<b>26%</b>	<b>25%</b>	<b>24%</b>	<b>20%</b>	<b>18%</b>
<b>SG&amp;A expenses</b>	488,083	449,445	59,011	60,685	107,252	106,336
<b>Operating margin</b>	<b>10%</b>	<b>10%</b>	<b>7%</b>	<b>4%</b>	<b>5%</b>	<b>2%</b>
<b>Depreciation and Amortization</b>	90,150	71,530	14,918	9,928	37,830	10,330
<b>EBITDA</b>	442,210	377,126	39,860	23,827	74,550	27,644
<b>EBITDA Margin</b>	<b>13%</b>	<b>13%</b>	<b>12%</b>	<b>8%</b>	<b>11%</b>	<b>4%</b>

Note: Results exclude Ferreycorp individual and Inti

### III. ANALYSIS OF CONSOLIDATED FINANCIAL INFORMATION

Total assets as of September 30, 2019 amounted to S/ 5,788.3 million, 11.9% higher if compared to S/ 5,171.4 million as of September 30, 2018. This variation is primarily due to i) increase in accounts receivables (S/ 196.0 million), ii) higher inventory (S/ 191.0 million) and iii) fixed assets that rose led by the incorporation of the IFRS16 (rights of use for S/ 118 million).

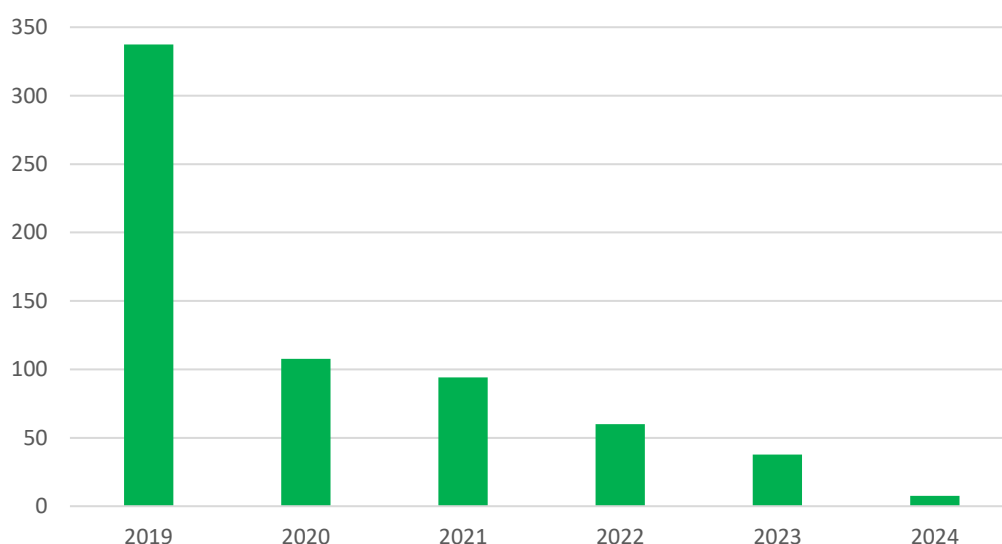
Accounts receivables were impacted by the invoicing of an important fleet of used equipment and by sales of Caterpillar mining equipment that will be collected between October and November this year. Inventory increase was led by components acquired for mining fleets and parts.

Financial liabilities as of September 2019 amounted to S/ 2,317.3 million (US\$ 685 million) and increased by 22.4% compared to US\$ 559 million recorded during the same period last year, led by higher assets, mainly inventories of mining equipment that will be invoice and collected in the upcoming months. Current maturities account for 62% of total debt, while S/ 879.4 million is long-term debt.

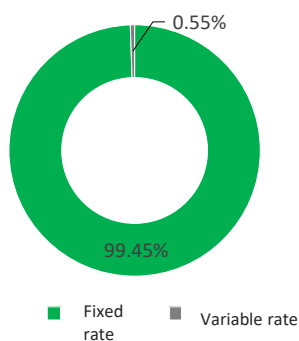
It is important to recall that financial liabilities include S/ 129.8 million (US\$ 38.3 million) related to IFRS16 application that points out that lease contracts must be turned into a liability with its related asset (right of use), recording also the financial expenses derived from bringing this obligation to present value using a discount rate (average cost of debt).

Below is the maturity structure of the consolidated liabilities, which is 95.2% 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.

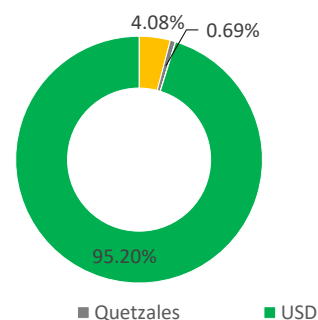
Debt Maturity (US\$ million)



Debt by rate



Debt by currency



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

As of September 30, 2019 the investment in fixed assets and intangibles amounted S/ 187 million:

#### **Rental Fleet**

Rental fleet units were replaced with an investment of S/ 32.8 million (Ferreyros S/ 22.6 million and Unimaq S/ 7.7 million). However, units from the rental fleet were transferred to inventory for sale (S/ 9.9 million).

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

The investment for S/ 18.2 million was mainly led by Ferreyros (S/ 16.1 million). However, some equipment shifted to the inventory account for sale (S/ 34.0 million).

#### **Work in progress**

Ferreyros is doing additional works in CRC in la Joya and the construction of a new facility in Ica (S/ 23.5 million).

#### **Intangibles**

The investment in intangible assets reached S/ 59.2 million 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.

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/ 158 million.

In this way, the balance sheet shows a fixed asset increase of S/ 166.0 million (US\$ 49 million) from same period 2018.

## FINANCIAL RATIOS

Ratios	Sep-19	Jun-19	Mar-19	Dec-18	Sep-18	Jun-18	Mar-18
Current ratio	1.40	1.41	1.69	1.80	1.49	1.46	1.41
Financial debt ratio	1.03	0.98	0.87	0.93	0.85	0.82	0.80
Indebtedness ratio	1.65	1.64	1.60	1.54	1.44	1.44	1.50
Net debt / EBITDA	3.03	2.92	2.73	3.20	3.20	3.00	2.79
Leverage financial adjusted ratio	1.87	1.84	2.30	2.66	2.39	1.62	1.94
Financial expenses coverage ratio	7.59	7.80	7.81	8.46	8.36	8.73	9.33
Asset turnover	1.05	1.01	1.01	1.02	0.99	1.00	1.02
Inventory turnover	2.42	2.32	2.41	2.49	2.53	2.65	2.81
Inventory days	149	155	149	145	143	136	128
Receivable days	64	63	67	68	71	71	71
Payable days	52	55	53	53	57	59	55
Cash cycle	161	163	163	160	156	148	144
ROE	12.1%	13.3%	12.2%	10.7%	11.0%	12.4%	13.9%
ROA	6.9%	6.9%	6.7%	6.4%	5.8%	6.0%	6.2%
ROIC (6)	12.2%	12.4%	12.6%	11.3%	10.5%	11.1%	12.0%
Book value per share	2.23	2.20	2.17	2.18	2.17	2.12	2.06

As shown in the chart above, the current ratio dropped due to higher current liabilities derived from higher short-term debt.

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 last quarters (162 days on average) affected by inventory turnover.

Profitability ratios show positive figures, impacted by an increase of the net profit during the quarter compared to last year's 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.

**APPENDIX 1**
**Income Statement**

(In thousand soles)

	3Q 2019	%	3Q 2018	%	Var %	As of Sep19	%	As of Sep 18	%	Var %
Net sales	1,600,764	100.0	1,268,954	100.0	26.1	4,313,419	100.0	3,772,103	100.0	14.4
Cost of goods sold	-1,247,762	-77.9	-949,635	-74.8	31.4	-3,273,400	-75.9	-2,852,456	-75.6	14.8
<b>Gross profit</b>	<b>353,002</b>	<b>22.1</b>	<b>319,319</b>	<b>25.2</b>	<b>10.5</b>	<b>1,040,019</b>	<b>24.1</b>	<b>919,647</b>	<b>24.4</b>	<b>13.1</b>
Selling and admin expenses	-224,746	-14.0	-215,363	-17.0	4.4	-660,395	-15.3	-621,796	-16.5	6.2
Other income (expenses), net	-4,492	(0.3)	4,289	0.3	-204.7	7,531	0.2	16,027	0.4	-53.0
<b>Operating profit</b>	<b>123,764</b>	<b>7.7</b>	<b>108,245</b>	<b>8.5</b>	<b>14.3</b>	<b>387,155</b>	<b>9.0</b>	<b>313,878</b>	<b>8.3</b>	<b>23.3</b>
Financial income	5,407	0.3	4,695	0.4	15.2	15,945	0.4	15,917	0.4	0.2
Gain (loss) to exchange rate	-50,461	-3.2	-12,767	-1.0	295.2	-17,434	-0.4	-23,373	-0.6	-25.4
Financial expenses	-24,370	-1.5	-18,991	-1.5	28.3	-72,720	-1.7	-51,155	-1.4	42.2
Share in the result of associated through the equity method	950	0.1	-338	-0.0	-381.1	2,548	0.1	5,430	0.1	-53.1
<b>Profit before income tax</b>	<b>55,290</b>	<b>3.5</b>	<b>80,844</b>	<b>6.4</b>	<b>-31.6</b>	<b>315,494</b>	<b>7.3</b>	<b>260,697</b>	<b>6.9</b>	<b>21.0</b>
Income tax	-22,811	-1.4	-28,796	-2.3	-20.8	-109,786	-2.5	-89,506	-2.4	22.7
<b>Net profit</b>	<b>32,479</b>	<b>2.0</b>	<b>52,048</b>	<b>4.1</b>	<b>-37.6</b>	<b>205,708</b>	<b>4.8</b>	<b>171,191</b>	<b>4.5</b>	<b>20.2</b>
Profit per share	0.033		0.053			0.211		0.175		
<b>EBITDA</b>	<b>174,792</b>	<b>10.9</b>	<b>146,506</b>	<b>11.5</b>	<b>19.3</b>	<b>551,701</b>	<b>12.8</b>	<b>427,443</b>	<b>11.3</b>	<b>29.1</b>

## FERREYCORP S.A.A. AND SUBSIDIARIES

## APPENDIX 2

**State of Financial Position**

(In thousand soles)

	As of Sept 2019	As of Sept 2018	Var %
Cash and cash equivalents	62,607	52,289	19.7
Accounts receivables - trade	1,281,498	1,079,856	18.7
Inventories	1,900,219	1,709,205	11.2
Accounts receivables - other	229,258	195,472	17.3
Investment in shares	13,863	82,292	-83.2
Investment in securities	3,382	16,041	
Prepaid expenses	45,648	36,821	24.0
<b>Current assets</b>	<b>3,536,475</b>	<b>3,171,976</b>	<b>11.5</b>
Long term account receivables - trade	26,457	32,095	-17.6
Long term account receivables - other	43,435	305	14,141.0
Rental fleet	481,586	360,711	33.5
Other fixed assets	1,697,838	1,652,759	2.7
	2,179,424	2,013,470	8.2
Accrued depreciation	-601,832	-559,501	7.6
Property, plant and equipment	1,577,592	1,453,969	8.5
Investments	16,078	20,927	-23.2
Intangible assets, net and goodwill	380,671	319,911	19.0
Deferred income tax	207,630	172,172	20.6
<b>Non current assets</b>	<b>2,251,863</b>	<b>1,999,379</b>	<b>12.6</b>
<b>Total Assets</b>	<b>5,788,338</b>	<b>5,171,355</b>	<b>11.9</b>

	As of Sept 2019	As of Sept 2018	Var %
Short term debt	466,845	227,849	104.9
Liabilities derived from leases (IFRS16)	39,679	-	
Other current liabilities	2,027,451	1,841,155	10.1
<b>Current liabilities</b>	<b>2,533,975</b>	<b>2,069,004</b>	<b>22.5</b>
Long term debt	789,196	784,197	0.6
Other payables	472	230	105.2
Liabilities derived from leases (IFRS16)	90,165	-	
Deferred income tax	193,958	196,085	-1.1
<b>Total Liabilities</b>	<b>3,607,766</b>	<b>3,049,516</b>	<b>18.3</b>
<b>Equity</b>	<b>2,180,575</b>	<b>2,121,839</b>	<b>2.8</b>
<b>Total Liabilities and Equity</b>	<b>5,788,341</b>	<b>5,171,355</b>	<b>11.9</b>

**Other financial information:**

Depreciation	136,390	84,636
Amortization	12,211	13,012

## FERREYCORP S.A.A. AND SUBSIDIARIES

## APPENDIX 3

**NET SALES**

(In thousand soles)

	3Q 2019	%	3Q 2018	%	Var %	As of Sep19	%	As of Sep18	%	Var %
Mining trucks and Caterpillar machines (GM)	250,473	15.6	27,327	2.2	816.6	378,318	8.8	107,261	2.8	252.7
Caterpillar machines and engines from other sectors (NGM)	178,202	11.1	210,324	16.6	-15.3	575,213	13.3	555,084	14.7	3.6
Allied equipment	163,030	10.2	111,441	8.8	46.3	464,867	10.8	444,537	11.8	4.6
Rental and used	162,129	10.1	120,575	9.5	34.5	405,681	9.4	354,743	9.4	14.4
Spare parts and services	743,408	46.4	696,968	54.9	6.7	2,185,962	50.7	2,016,459	53.5	8.4
Other lines	103,522	6.5	102,319	8.1	1.2	303,378	7.0	294,019	7.8	3.2
<b>TOTAL</b>	<b>1,600,764</b>	<b>100.0</b>	<b>1,268,954</b>	<b>100.0</b>	<b>26.1</b>	<b>4,313,419</b>	<b>100.0</b>	<b>3,772,103</b>	<b>100.0</b>	<b>14.4</b>

## FERREYCORP S.A.A. AND SUBSIDIARIES

## APPENDIX 4

**Total Liabilities as of September 2019**

(In thousand US\$)

	Total Liabilities	Current Liabilities	Long term Liabilities		(A) Financial Liabilities
			Current	Long term	
Local banks (short term)	249,090	249,090	-	-	249,090
Foreign banks (short term)	24,586	24,586	-	-	24,586
Local banks (long term)	215,984	-	64,509	151,474	215,984
Foreign banks (long term)	107,074	-	45,322	61,752	107,074
Local and foreign banks (Leasing Fin)	1,298	-	556	742	1,298
<b>Suppliers</b>					
Accounts payable to Caterpillar	43,316	43,316	-	-	-
Accounts payable to Caterpillar	13,148	13,148	-	-	13,148
Others	125,398	125,398	-	-	52
Corporate bonds	-	-	-	-	-
Caterpillar Financial	34,984	-	15,808	19,176	34,984
Liabilities derived from leases (IFRS16)	38,358	-	11,721	26,637	38,358
Other Liabilities	212,573	155,135	-	57,439	-
<b>Total (US\$)</b>	<b>1,065,809</b>	<b>610,673</b>	<b>137,916</b>	<b>317,220</b>	<b>684,573</b>
<b>Total (S/.)</b>	<b>3,636,792</b>	<b>2,067,127</b>	<b>466,845</b>	<b>1,073,791</b>	<b>2,317,281</b>

(A) Subject to interest payment

## CASHFLOW STATEMENT

(In thousand soles)

	3Q 2018	As of Sep19
<b>Cashflow from operating activities</b>		
Collection to customers and third parties	1,346,962	4,297,184
Payment to suppliers	-1,264,847	-3,610,129
Payment to employees and others	-108,013	-325,524
Payment of taxes and income tax	-29,837	-110,601
<b>Net cash provided by operating activities</b>	<b>-55,735</b>	<b>250,930</b>
<b>Cashflow from investing activities</b>		
Acquisition of property, plant and equipment	-36,556	-98,856
Acquisition of assets by right in use (IFRS16)	-1,454	-28,527
Acquisition of financial instruments (mutual funds)	29,823	-2,405
Acquisition of intangibles	-22,504	-59,235
<b>Net cash used in investing activities</b>	<b>-30,691</b>	<b>-189,023</b>
<b>Cashflow from financing activities</b>		
Financial liabilities	835,857	2,705,965
Payment of financial activities	-772,281	-2,547,276
Interests paid	-3,789	-61,925
Dividends paid	-	-171,515
<b>Net cash provided by financing activities</b>	<b>59,787</b>	<b>-74,751</b>
Cash increase, net	-26,639	-12,844
Cash at the beginning of the year	-	73,698
Result due translation	-	979
Cash due to exchange variation	-863	774
<b>Cash at the end of the year</b>	<b>-27,502</b>	<b>62,607</b>