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CREDIT OPINION
26 December 2017

Update

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RATINGS

Union Andina de Cementos S.A.A.

Domicile	Lima, Peru
Long Term Rating	Ba2
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the [*ratings section*] *at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*

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Union Andina de Cementos S.A.A.

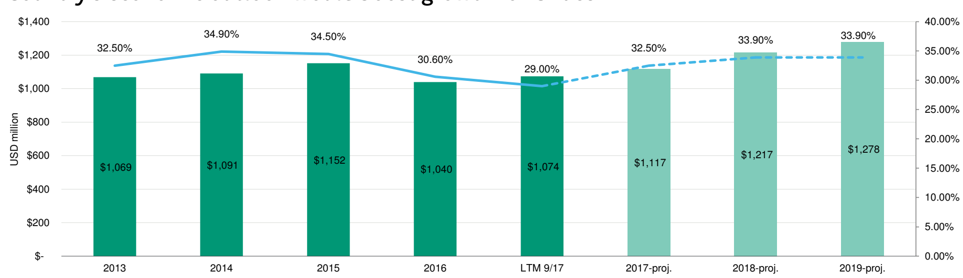
Update to discussion of key credit factors

Unacem's Ba2 corporate family rating is supported by the company's leading market position in its core cement market in Peru (A3 stable), with a concentration in the central region containing Lima, by far the most relevant market in the country. The rating also entails Unacem's cost-competitive operations based on vertical integration and high barriers to entry in the cement market. Additionally, we believe that the Peruvian construction sector continues to present positive business prospects.

Balancing these positives is Unacem's tight, although improving, liquidity and its low geographic diversity when compared to industrial rated peers. The cyclical nature of the construction industry and end-markets also constrains the rating. Additionally, Unacem has a relevant exposure to high sovereign risk related to its operation in Ecuador (B3 stable).

Exhibit 1

Country's economic outlook would boost growth for Unacem



All figures & ratios calculated using Moody's estimates & standard adjustments.
Sources: Unacem's financial statements, Moody's estimates

Credit Strengths

» Leading cement player in Peru

» Vertical integration and high barriers to entry support profitability

» Established distribution network with strong brand recognition

» Stable margins and positive business prospects in Peru, its main market

Credit Challenges

- Exposure to the cyclical nature of housing construction
- Modest scale and limited geographic diversification compared to rated industry peers
- Tight liquidity and deterioration in metrics as a result of challenging economic conditions in Peru and Ecuador in the last couple of years

Rating Outlook

The stable outlook reflects our expectation that Unacem will remain focused on reducing leverage towards its 3.0x target. The outlook considers that Unacem will remain focused in reducing leverage towards its target leverage, a period during which we do not anticipate any relevant acquisition or investment. During this period, we also expect capital investments needs to remain low, supporting cash generation and deleveraging.

Factors that Could Lead to an Upgrade

Upward rating pressure could result from liquidity improvements, coupled with higher geographic and product diversification while maintaining current profitability levels. In addition, an increased scale with prudent financial management would be important for an upgrade. Quantitively, an upgrade would require Unacem to exhibit an EBIT/interest expense ratio above 4.0x and a debt/EBITDA ratio below 2.5x.

Factors that Could Lead to a Downgrade

On the other hand, downward rating pressure could be triggered if as a result of weaker than anticipated operating environment, Unacem is not able to delever in 2018. Quantitatively, a downgrade could result if debt/EBITDA ratio remains above 4.0x as of the end of next year. Further deterioration in Unacem's liquidity position could also lead to a rating downgrade.

Key Indicators

Exhibit 2

Union Andina de Cementos S.A.A.

US Millions	Dec-14	Dec-15	Dec-16	LTM (Sep-17)	2017-proj.	2018-proj.	2019-proj.
Revenue	1,091.2	1,151.6	1,039.9	1,073.9	1,117.0	1,217.0	1,281.0
Operating Margin %	22.9%	22.8%	18.5%	15.8%	20.6%	23.0%	23.2%
Debt / Book Capitalization	51.9%	52.5%	51.1%	48.5%	46.9%	42.1%	41.3%
Debt / EBITDA	4.5x	4.1x	4.6x	4.5x	3.7x	3.4x	3.2x
EBIT / Interest Expense	3.6x	2.8x	2.3x	2.1x	3.0x	3.7x	4.0x
RCF / Net Debt	14.4%	15.5%	10.1%	9.9%	13.1%	16.6%	20.5%
EBIT / Avg. Assets	7.8%	8.0%	6.0%	5.3%	7.4%	8.2%	8.5%
Operating Margin Volatility	4.2%	4.1%	8.4%	8.4%	8.6%	8.7%	7.5%

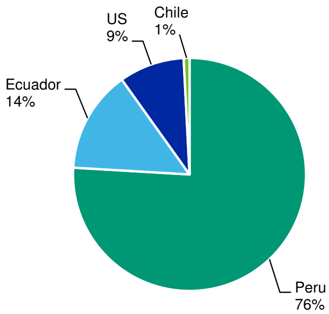
Source: *Moody's Financial Metrics™. All figures and ratios are calculated using Moody's estimates and standard adjustments.* Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.

Profile

Headquartered in Lima, Peru, Unacem is the oldest and largest cement producer in the country, with around 50% of market share and revenue and EBITDA of USD 1.0 billion and USD 312 million, respectively as of twelve months ended September 2017. The company is involved in the production and distribution of cement, concrete, industrialized concrete structures, aggregates and electricity generation. Cement is the largest business division generating around 62% of consolidated EBITDA and 77% if considering Ecuador.

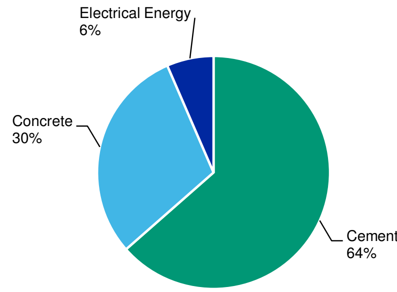
In Peru, Unacem has two cement plants, Atocongo and Condorcocha, which operate in the central region, whereas in Ecuador it operates a plant in the north part of Quito. Unacem is a public company with around 30% of its shares listed in the Peruvian Stock Exchange.

Exhibit 3
Revenue Breakdown by Country



Data as of September 2017
Unacem's financial statements

Exhibit 4
Revenue Breakdown by Business Segment



Data as of September 2017
Unacem's financial statements

Detailed Credit Considerations

Peruvian Government's Reconstruction Strategy Offers Opportunities for Unacem To Improve Its Performance

The economic activity in Peru has been pressured since the end of 2016 mainly due to the decline of domestic demand from the contraction of private and public investment affected by the fiscal consolidation measures, Brazil's Lava Jato corruption case and coastal El Niño between February-April 2017. Since May 2017, the domestic demand has been recovering in line with business confidence improvement and a smaller contraction of public spending.

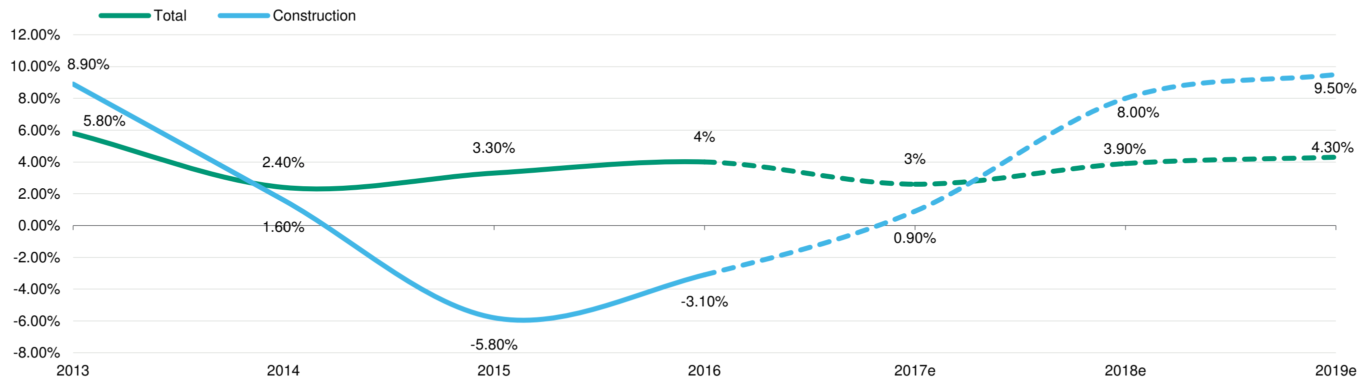
The construction sector is one of the largest economic sectors in Peru in terms of total GDP, accounting for almost 6%. Accordingly, the country's construction industry contracted 3.1% in 2016 in real terms and during the first half of 2017, by 5.3% and 3% as of March and June 2017. According to Central Reserve Bank, Peru's domestic cement consumption decreased by 3% and 4% in March and June 2017, the activity slowed markedly due to the delay in the execution of some infrastructure projects and lower activity of the construction sector, as well as the impact from El Niño, however is beginning to recover and will translate into a stronger recovery in public and private investment, cement consumption grew by 6% during the third quarter of 2017.

Longer term, existing shortages in the Peruvian housing and infrastructure sectors will continue to provide business opportunities for Unacem. In 2015 the government launched the TransPeru Nama plan for a total investment of about USD 6.2 billion to develop new roads, schools and an airport upgrade by 2020. It has also been focused on reducing the country's infrastructure gap, increasing investments in transport, education, healthcare, potable water and infrastructure.

During 2017, Peru´s GDP growth slowed to around 2.7% as a result of the El Niño weather phenomenon and the Odebrecht (Caa2 negative) scandal, that resulted in public investment projects cancellations and delays due to investigations into major projects. Our long-standing growth forecast for 2018 has remained at 3.9% based on the expected restart of public infrastructure investment projects that had slowed or halted as a result of investigations, as well as the reconstruction of infrastructure that was damaged by El Niño floods. Our base case also incorporated expectations of a recovery in private investment.

However, on December 13, 2017 Peru´s opposition party that holds a majority in congress, called for President Kuczynski's resignation, in the context of the Odebrecht scandal. The political crisis will weigh on business confidence and overall economic sentiment, likely affecting private investment. Although it is too early to determine what the precise effect will be on economic activity, GDP growth will be lower than our 3.9% forecast as private investment is unlikely to recover as forcefully as we had envisioned. Public investment will still go ahead regardless of the outcome of the political impasse, because if the population perceives that reconstruction efforts are halted, all the political actors, including congress, would pay a price. As such, economic growth in 2018 is likely to be higher than 3.0%, but not much more than that if private investment is affected.

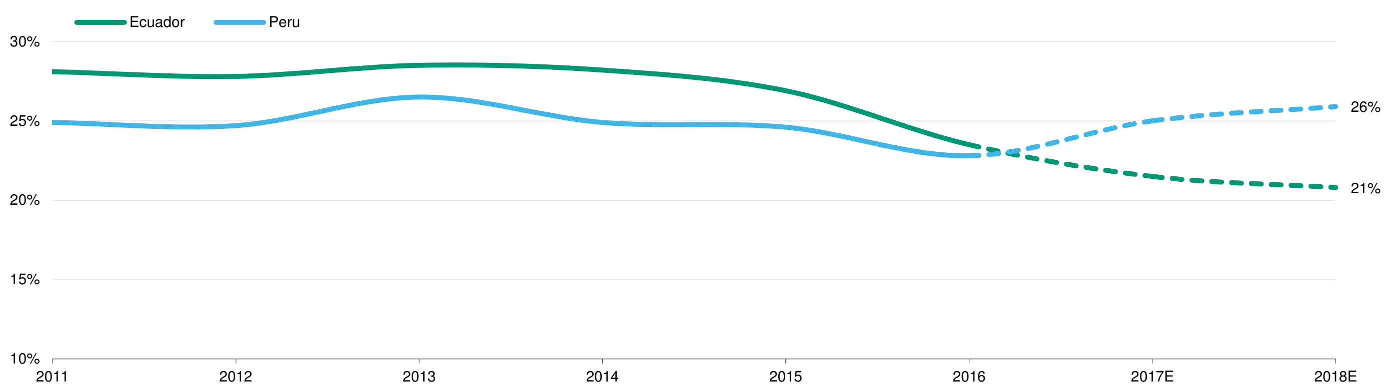
Exhibit 5
Public spending through infrastructure projects would boost construction sector in Peru
Total GDP and Construction GDP in Peru



Sources: Moody's Investors Services, Central Reserve Bank of Peru

Likewise, the economy in Ecuador expanded 2.8% in the first half of 2017, a stronger performance than we had anticipated. The composition of growth in 2017 has been unbalanced. The key drivers have been an increase in private and public consumption, resulting in a 9.4% increase in imported goods and services in H1 2017 compared with 2016. Private consumption has also been supported by higher personal credit, while credit to firms to support investment is still lagging. Higher public consumption and investment coincided with the electoral cycle. Total investment continues to decline and was negatively affected by uncertainty related to the elections, and we expect Unacem's volumes to remain flat during the next 12-18 months.

Exhibit 6
Improving economic trends would raise and attract private and public investments in Peru
Gross Investment to GDP in Peru and Ecuador

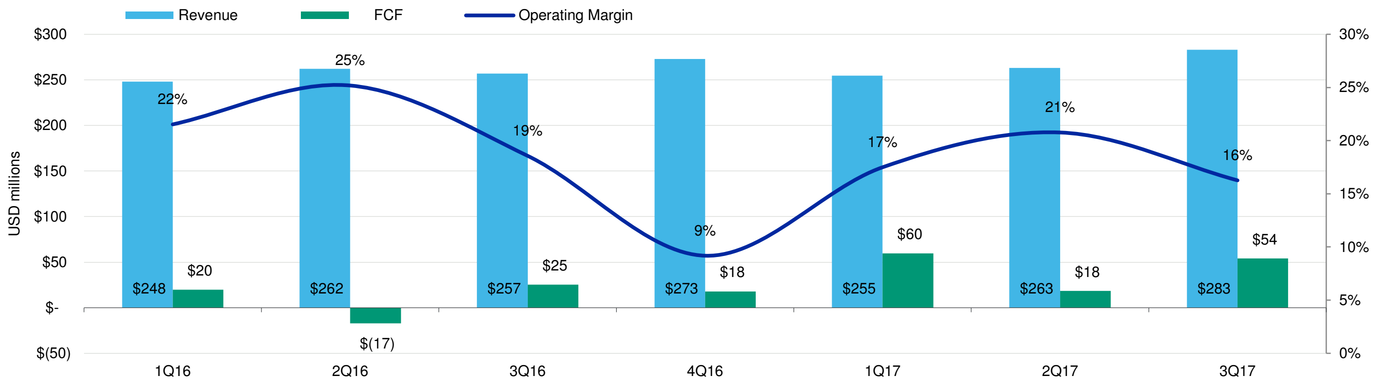


Source: Moody's Investors Service (MIS)

Unacem's Operating Performance Showed Resiliency During Challenging Business Environment

The resiliency of Unacem's operations is mainly a consequence of its solid business model. Although closely linked with the construction activity, Peru's cement producers are less cyclical, given their higher reliance on self-construction, as well as cement marketed as a consumer product and not as a construction material. Peru's main cement companies, Unacem and Pacasmayo (unrated), sell more than half of their cement to individual consumers, so as long as internal demand remains stable, they should largely withstand a weaker heavy construction sector. That is reflected by the fact that although infrastructure was severely affected in the past years, Unacem's revenues and profitability have remained relatively stable. Moreover, we note that even under such scenario, the company was generally able to remain free cash flow positive.

Exhibit 7
Unacem's quarterly operating performance has improved during the third quarter of 2017
Revenues, Operating Margin and Free Cash Flow



Figures including Moody's Standard Adjustments, where applicable.
Source: Moody's Financial Metrics™ based on Unacem quarterly financial statements

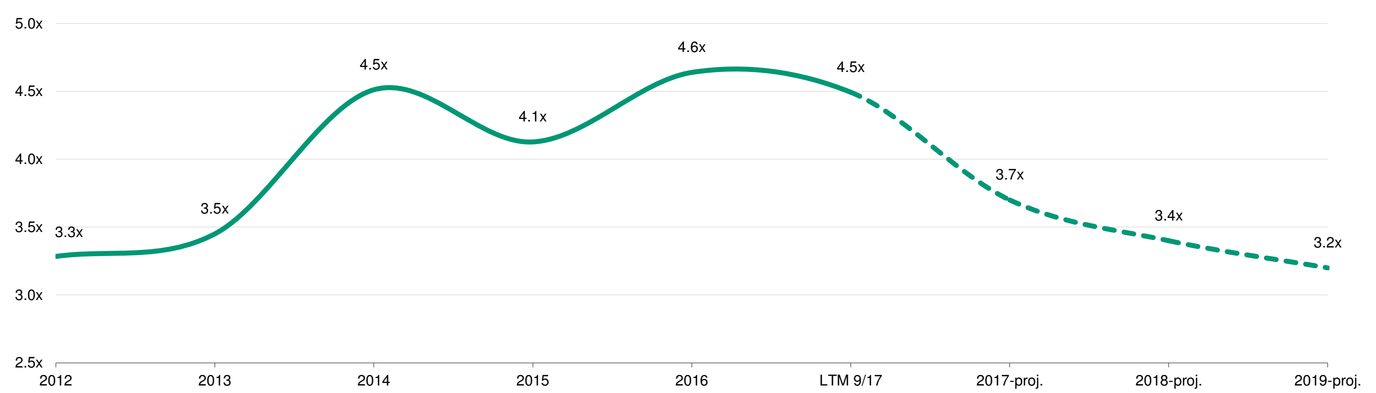
Longer term fundamentals continue strong for the cement industry, particularly given high housing deficit in Peru. As of 2012, the Inter-American Cement Federation (FICEM) estimated that around 72% of Peruvian families were living in substandard housing. Likewise, housing deficit was estimated at around 50%. Back then, FICEM anticipated that, towards 2015, economic growth could have reduced in 36% housing deficit in Latin America. However, economic growth has been decelerating for the entire region over the last few years and, therefore, housing deficit reduction has likely been smaller, supporting demand for companies like Unacem in the long run.

Metrics Weaker Than Anticipated Partly Due To Peruvian Sol Depreciation

We assigned first time ratings to Unacem on October 2014, when the company issued its USD 625 million global notes due 2021. A portion of the proceeds was used to finance the acquisition of Lafarge's operation in Ecuador. However, the bulk was incremental debt, raising leverage to 4.5 times as of the end of 2014, from 3.5 times in 2013.

Back then, we anticipated that incremental EBITDA from Ecuador and the execution of Peru´s infrastructure pipeline would allow the company to delever towards 3.0 times before the end of 2017. As of September 2017, Unacem's Debt to EBITDA ratio as adjusted by Moody's was 4.5 times. Still, we expect leverage to reduce to close to 3 times by the end of 2019.

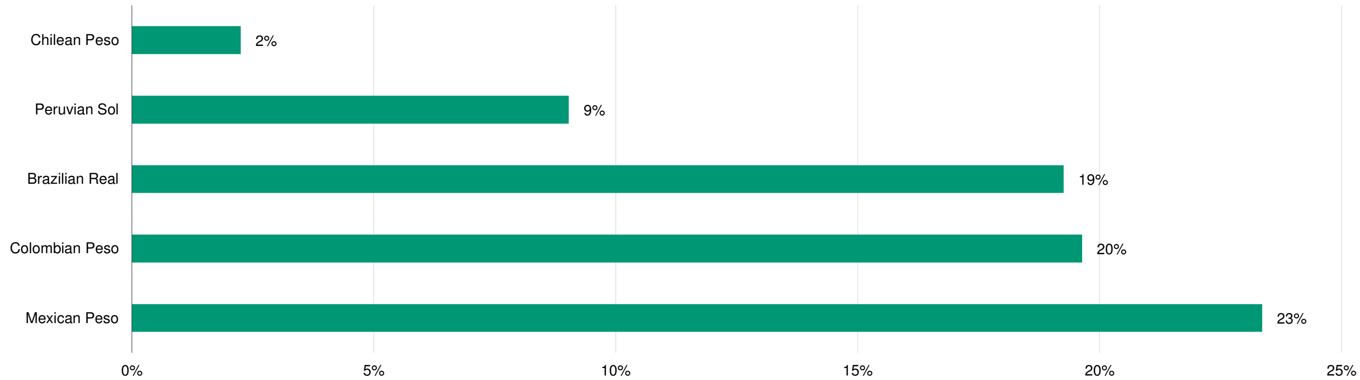
Exhibit 8
Unacem's rating is constrained by its high leverage... we expect a delever path towards 2019 close to 3 times



Data includes Standard Adjustments for Non-Financial Corporations
Source: Moody's Financial Metrics™

Further affecting Unacem's credit profile has been the recent depreciation of the Peruvian Sol. Since the end of 2014, the Peruvian Sol depreciated around 10% against the USD. More than 70% of Unacem's consolidated debt outstanding is USD denominated, with the bulk being the USD 625 million global bond. Although the company has a natural hedge as Ecuador is a dollarized economy, there is still a mismatch between US dollar debt exposure and cash generation. Despite the recent depreciation, we note that the Peruvian Sol remains among the strongest currencies in the region.

Exhibit 9
The Peruvian economy is more resilent to transitory shocks than other Latin American countries



Depreciation measured from December 31, 2014 to December 20, 2017.
Source: FactSet

Somewhat offsetting the risk related with a higher than anticipated leverage is our view that drivers behind it are rather temporary and that Unacem has been speeding up its delever path during 2017 and will continue to do so during next 12-18 months. Our expectations consider that Unacem would benefit from the Megaprojects that will be executed in its area of influence since 84% of total infrastructure projects are already auctioned and about USD 30 million in investments will be auctioned in 2017-18, further supporting demand for Unacem's products.

Strong Pipeline Of Projects In Peru Supports Medium-Term Positive Prospects For Unacem

The business-friendly approach of the new government in Peru has helped prompt a strong improvement in economic sentiment since the administration took office at the end of July. Additionally, the government of President Kuczynski, made reforms aiming to increase potential growth and addressing various structural issues. Infrastructure spending was reinforced beginning in the second half of 2017 and is expected to be financed with savings generated by cuts in current expenditure.

Although we believe that the recent political crisis will likely have a toll on business sentiment and investment, stronger metal prices and some ongoing projects will continue to benefit private investments. For example, repairs to damaged infrastructure ongoing following El Niño Costero in early 2017 and the new infrastructure for 2019 Pan American Games in Lima, will likely continue, supporting cement demand.

The Peruvian reconstruction Plan foresees an investment of about USD 79 billion through 2021 which include three lines of action. The first one is related to the restoration and reconstruction of El Niño which hit the country during the first quarter by heavy rains, landslides and floods destroying infrastructure and crops. This investment amounts about USD 6.4 billion represent around 77% of the total budget. The other two phases are related to prevention measures, amounting to around USD 1.6 billion, and the infrastructure Megaprojects, for the transport sector, education, sanitation, housing sector and capacity building. Among these projects are the construction of the Pan American games facilities, the airport expansion plan to start at the end of 2018, about USD 3.2 billion in mining projects, among others.

Profitability Continues To Be Strong When Compared To Rated Peers

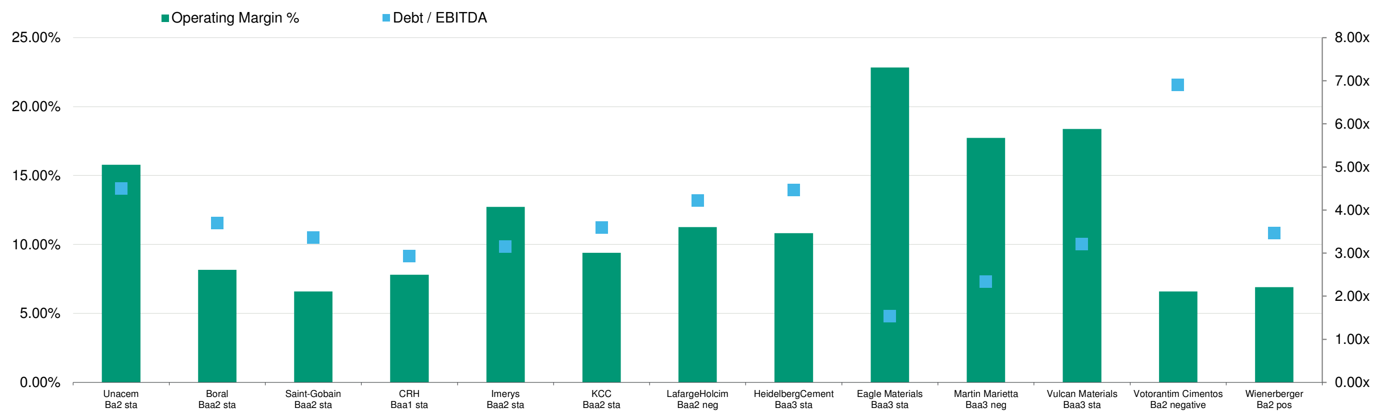
For the last twelve months ended in September 2017, Unacem's operating margin was 15.8%, strong when compared to other building material companies rated in the Baa - Ba range. This strong profitability is supported by the company's vertical integration including the ownership of an electric utility with which it indirectly covers the bulk of its energy requirements and that provides a natural hedge for electricity prices. Additionally, Unacem has enough limestone reserves to supply its own demand for the next 157 years in Condorocha, 37 years in Atocongo, both in Peru, and for 60 years in Ecuador. Moreover, Peruvian plants are located beside the facilities which considerably reduce transportation costs. Further enhancing integration is the company's pipe conveyor belt that connects its open sea pier in Lima with Atocongo's facilities, allowing it to efficiently transport materials and export its products.

Profitability also benefits from Unacem's leading market position in the cement and concrete industries in Peru, where it estimates its current market share at around 47%. In Ecuador, the company is the second largest player, with around 23% of the market, following Holcim. Moreover, barriers to entry represent a protection to its position going forward. Unacem's vertically integrated operations result in low raw material, fuel, energy and transportation costs. Also a strength of the company's business model is its distribution network. Unacem controls the largest cement distribution network (Progre-Sol) in the Peruvian market, comprised of 350 points of sale, through which more than 7,200 independent hardware stores are supplied. Given the high initial costs of entering the cement business, the difficulty in establishing efficient distribution channels and the low cement prices in Peru, international players could find such operation unattractive.

Exhibit 10

Unacem has adequate credit metrics compared to rated industry peers

Operating Margin and Leverage (Debt to EBITDA)



Figures including Moody's Standard Adjustments where applicable, based on last available figures for each company.
Source: Moody's Financial Metrics™

Credit Profile Limited By Scale And Geographic Diversification

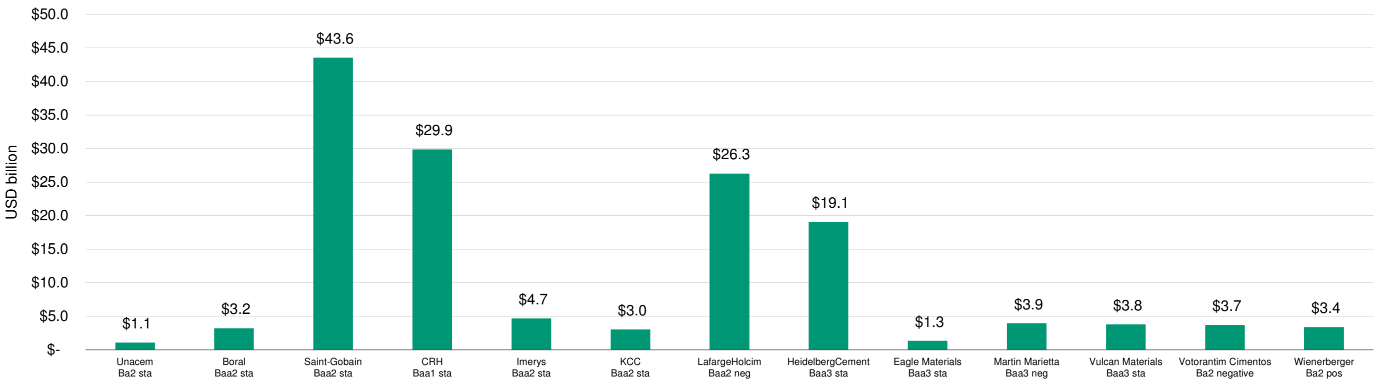
Unacem's credit profile is constrained by a relatively low scale when compared to global rated peers. Moreover, the company has a high geographic concentration. Cement is the most relevant business segment of Unacem, accounting for more than 75% of consolidated EBITDA. In this segment, the company's productive infrastructure is comprised of 3 facilities with regional presence in the Peruvian and Ecuadorean markets.

Unacem has also presence in the US through a cement operation in Arizona, as well as in Chile and Colombia through its pre-stressed industrialized concrete structures business. Currently, none of these segments are material contributors to Unacem's cash generation. Over time, though, these operations could become more relevant contributors to Unacem's consolidated cash generation, specially considering expected recovery in the US construction and given positive prospects in Colombia's infrastructure sector.

However, Unacem's rated peers tend to have broader geographic footprints. Votorantim Cimentos (Ba2 negative) is the 7th largest company in the global cement market in terms of installed cement production capacity of around 55 million tons, excluding Chinese companies capacity. The company benefits from extensive geographic diversification in the Americas, Europe and Africa, although the majority of its revenues and EBITDA - approximately 60% is generated in Brazil. Likewise, Martin Marietta (Baa3 negative) operates in the Southeast, Mid-America and Western regions of the U.S., with a presence in 32 states as well as in Canada, the Bahamas, and the Caribbean Islands.

In our view, geographic diversification is a relevant rating factor as it could help offset weakness in a specific market or region. Moreover, diversification is expected to be associated with greater stability for cash flow and margins under most cyclical patterns, such as in the construction industry. Somewhat offsetting these risks at Unacem is its focus on emerging markets, in which the consumption of cement and other building materials is expected to gradually increase as a percentage of GDP.

Exhibit 11
Unacem has low scale when compared to rated industry peers



Figures reflecting Moody's Standard Adjustments where applicable, based on last available figures for each company.
Source: Moody's Financial Metrics™

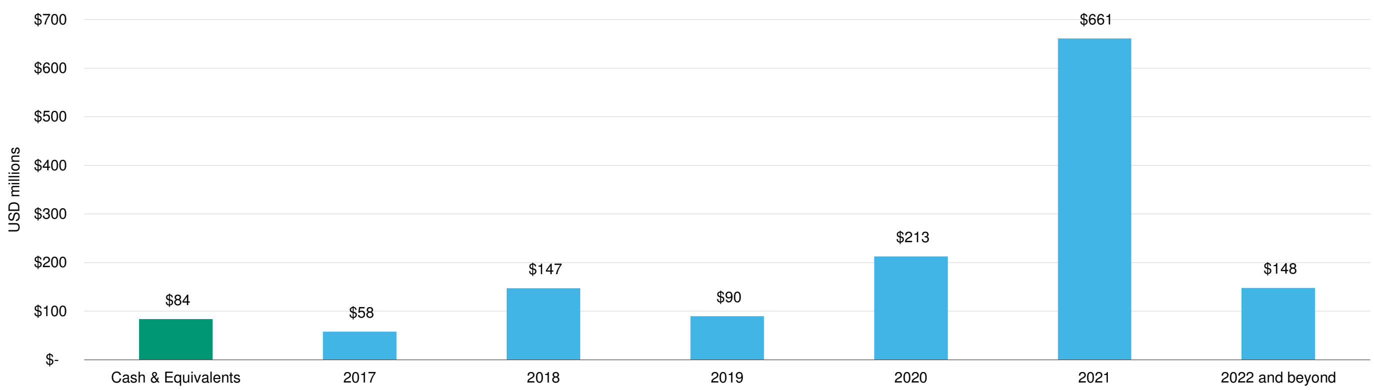
Liquidity Analysis

Unacem's liquidity is currently weak, but it has been improving during 2017. In September 30, 2017, Unacem's cash position of USD 84 million and cash flow from operations of USD 258 million positively compared to USD 58 million and USD 147 million of maturing debt in the 4Q17 and 2018, respectively. Unacem does not have committed credit facilities. Its cash generation will be stronger in 2018, with an estimated operating cash flow of USD 247 million comfortably covering about USD 65 million in capital spending.

The company spent around USD 25 million in 2017 in capital investments related to final disbursements of Celepsa's work in progress on the development of the Hidro Marañon Hydroelectric Power Plant which started operations in June 2017 and improvements of infrastructure in thermal plant and other small maintenance projects in Atocongo and Condorcocha plants. We expect the company will spend about USD 60 million for 2018-19.

Around 30% of short term maturities are related to bank loans to fund working capital needs, and the balance reflects the current portion of long term debt contracted with banks and the maturity of some local bonds.

Exhibit 12
Unacem's Cash and Maturity Profile



Source: Unacem

Structural Considerations

The USD 625 million rated notes are not guaranteed by any of Unacem's subsidiaries, but ratings are not adjusted for structural reasons given our consideration that structural subordination is currently low. As of September 30, 2017, subsidiaries held PEN 5.3 billion or 49% of net consolidated assets and were responsible for PEN 1.2 million or 46% of consolidated net sales. On the other hand, we estimate that less than 24% of consolidated debt are at subsidiaries level. To the extent that indebtedness at subsidiaries level increases in the future, the rating of the notes could be negatively impacted.

Rating Methodology and Scorecard Factors

Exhibit 13

Union Andina de Cementos S.A.A.

Building Materials Industry Grid [1][2]	Current LTM 9/30/2017		Moody's 12-18 Month Forward View As of 12/18/2017 [3]	
Factor 1 : Scale (5%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$1.1	B	$1.2	B
Factor 2 : Business Profile (15%)				
a) Business Profile	B	B	B	B
Factor 3 : Profitability and Efficiency (30%)				
a) Operating Margin	15.8%	Baa	23.0%	A
b) Operating Margin Volatility	8.4%	A	9.3%	A
c) EBIT / Avg. Assets	5.3%	Ba	9.1%	Baa
Factor 4 : Leverage and Coverage (40%)				
a) Debt / Book Capitalization	48.5%	Ba	42.9%	Baa
b) Debt / EBITDA	4.5x	Ba	3.4x	Baa
c) EBIT / Interest Expense	2.1x	Ba	3.7x	Ba
d) RCF / Net Debt	9.9%	B	16.6%	Ba
Factor 5 : Financial Policy (10%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Indicated Rating from Grid		Ba2		Ba1
b) Actual Rating Assigned				Ba2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 9/30/2017(L).
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

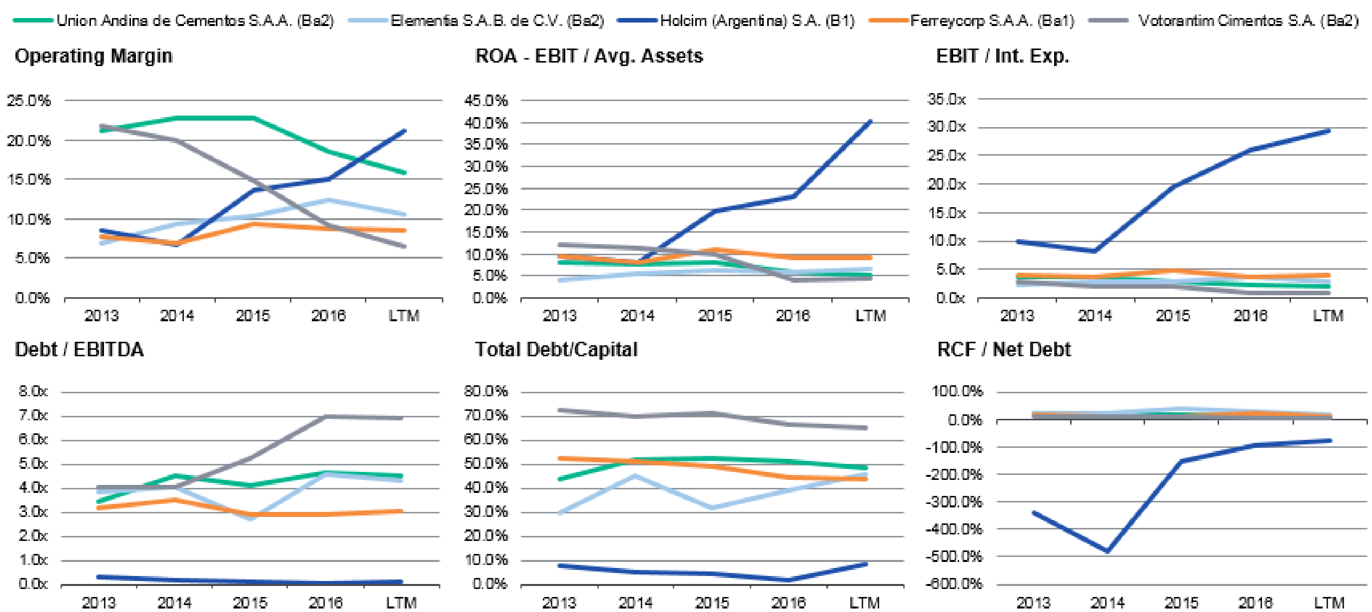
Appendix

Exhibit 14

Peer Comparison Table

	Union Andina de Cementos S.A Ba2 Stable			Elementia S.A.B. de C.V. Ba2 Stable			Holcim (Argentina) S.A. B1 Stable			Ferreycorp S.A.A. Ba1 Stable			Votorantim Cimentos S.A. Ba2 Negative		
(in US millions)	FYE Dec-15	FYE Dec-16	LTM Sep-17	FYE Dec-15	FYE Dec-16	LTM Sep-17	FYE Dec-15	FYE Dec-16	LTM Sep-17	FYE Dec-15	FYE Dec-16	LTM Jun-17	FYE Dec-15	FYE Dec-16	LTM Sep-17
Revenue	$1,152	$1,040	$1,074	$1,072	$1,024	$1,315	$466	$355	$422	$1,636	$1,436	$1,429	$4,287	$3,660	$3,699
EBITDA	$397	$318	$312	$197	$201	$240	$86	$67	$101	$210	$173	$167	$1,206	$679	$726
Operating Margin	22.8%	18.5%	15.8%	10.5%	12.3%	10.6%	13.7%	15.1%	21.2%	9.4%	8.8%	8.5%	14.8%	9.2%	6.6%
Oper. Margin Volatility	4.1%	8.4%	8.4%	15.8%	19.8%	20.2%	44.9%	50.1%	55.9%	15.0%	15.6%	13.7%	20.5%	33.9%	42.2%
ROA - EBIT / Avg. Assets	8.0%	6.0%	5.3%	6.4%	5.7%	6.5%	19.7%	23.1%	40.4%	10.8%	9.3%	9.0%	9.8%	4.0%	4.4%
EBIT / Int. Exp.	2.8x	2.3x	2.1x	2.7x	3.7x	2.8x	19.3x	25.9x	29.4x	4.8x	3.6x	4.0x	1.9x	0.9x	0.9x
Debt / EBITDA	4.1x	4.6x	4.5x	2.7x	4.6x	4.3x	0.1x	0.0x	0.1x	2.9x	2.9x	3.0x	5.2x	7.0x	6.9x
Total Debt/Capital	52.5%	51.1%	48.5%	32.1%	39.1%	45.9%	4.7%	1.4%	8.6%	48.9%	44.2%	44.0%	70.8%	66.3%	64.8%
RCF / Net Debt	15.5%	10.1%	9.9%	39.7%	25.1%	17.0%	-155.0%	-95.0%	-79.4%	11.3%	20.6%	11.0%	11.9%	6.3%	3.0%

Source: Moody's Financial Metrics™. All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.*



Source: Moody's financial Metrics™

Ratings

Exhibit 15

Category	Moody's Rating
UNION ANDINA DE CEMENTOS S.A.A.	
Outlook	Stable
Corporate Family Rating	Ba2
Senior Unsecured	Ba2

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

REPORT NUMBER 1104254

MOODY'S INVESTORS SERVICE