**FOSSAL S.A.A.**

**2021 ANNUAL REPORT**

**Dear Shareholders,**

Pursuant to the provisions of the Company´s Bylaws, the Board of Directors submits to your consideration the Annual Report, which includes reports from FOSSAL S.A.A.´s businesses corresponding to the fiscal year 2021.

**Section I: RESPONSIBILITY STATEMENT**

This document contains truthful and sufficient information regarding the development of the business of FOSSAL S.A.A. during 2021. Notwithstanding the responsibility of the issuer, the signatories make themselves responsible for its content in accordance with the applicable legal provisions.



Humberto Nadal del Carpio[[1]](#footnote-1) Alfredo Tong Lam

Gerente General Contador

Lima, March 03, 2022

**Section II: BUSINESS**

**A. General Information**

1. Company Name: FOSSAL S.A.A.
2. Address: Calle La Colonia No. 150, Urbanización El Vivero, Santiago de Surco, Lima.
3. Telephone: 317-6000
4. Fax: 317-6099
5. Incorporation: Notarized document dated August, 8, 2016, issued by Notary Public Ricardo Fernandini Barreda
6. Registration: August, 10, 2016, filed in Electronic Card No. 13685858 of the Registry of Corporations of the Public Records Office in and for Lima.
7. Economic Group: FOSSAL S.A.A. belongs to the “Hochschild – Pacasmayo” economic group, mainly composed by the following companies:

|  |  |
| --- | --- |
| **Business Name** | **Business Purpose** |
| Inversiones Aspi S.A. | Investments |
| Cementos Pacasmayo S.A.A. | Cement manufacturing and marketing |
| Cementos Selva S.A. | Cement manufacturing and marketing |
| Distribuidora Norte Pacasmayo S.R.L. | Distribution and marketing |
| Dinoselva Iquitos S.A.C. | Distribution and marketing |
| Empresa de Transmisión Guadalupe S.A.C. | Energy transmission |
| Acuícola Los Paiches S.A.C. | Fishing and operation of fish farms |
| Fosfatos del Pacífico S.A. | Mining activities for manufacturing fertilizers and chemical products |
| Salmueras Sudamericanas S.A. | Mining activities for manufacturing salt, fertilizers and chemical products – Inactive since last quarter 2017. |
| Calizas del Norte S.A.C. En Liquidación | Mining activities – Inactive since May 2016. |
| Hochschild Mining PLC subsidiarias | Mining activities |
| Soluciones Takay S.A.C. | Advice and provision of information services, promotion, acquisition, and intermediation services for the management and development of real estate projects |
| 150 Krea Inc. | Lessors of intangible non-financial assets. |

* The issuer's registered capital stock as of December 31, 2021, is S/. 8,261,239.00, and the capital pending registration as of December 31, 2021, is S/. 26,982,255.00, both fully subscribed and paid.
* Classes of shares issued: 8,261,239 common shares and 785,033 investment shares.
* Class of shares created: 26,982,255 common and 2,564,017 investment shares - Pending registration as of December 31, 2021.
* Share Number and Nominal Value: 26,982,255 common shares of S/ 1.00 each and 2,564,017 investment shares of S/ 1.00 each.
* Shareholding structure: The percentages of participation of individuals or legal entities owning 5% or more of the capital are as follows:

Shareholders with equity stake exceeding 5% of the social capital stock (pending registration):

|  |  |  |  |
| --- | --- | --- | --- |
| **Name** | **Shareholding** | **Nationality** | **Economic Group** |
| Inversiones ASPI S.A. | 84.21% | Peruvian | Hochschild – Pacasmayo |

Shareholder structure: Percentage of shareholding for the 10 main common shareholders is as follows (pending registration):

|  |  |
| --- | --- |
| 1.  2.  3.  4.  5.  6.  7.  8.  9.  10. | 84.21 %  3.99 %  3.21 %  1.04 %  0.75 %  0.74 %  0.52 %  0.47 %  0.47 %  0.38 % |

Shares entitled to vote (pending registration):

|  |  |  |
| --- | --- | --- |
| **Holding** | **Number of Shareholders** | **Percentage of participation** |
| Less than 1% | 6,027 | 7.55% |
| Between 1% - 5% | 3 | 8.24% |
| Between 5% -10% | 0 | 0.00% |
| More than 10% | 1 | 84.21% |
| **Total** | **6,031** | **100.00%** |

Investment Shares (pending registration):

1. Share Number and Nominal Value: 2,564,017 shares at S/ 1.00 per share.

|  |  |  |
| --- | --- | --- |
| **Holding** | **Number of Shareholders** | **Percentage of participation** |
| Less than 1% | 337 | 3.22% |
| Between 1% - 5% | 0 | 0.00% |
| Between 5% -10% | 0 | 0.00% |
| More than 10% | 1 | 96.78% |
| **Total** | **338** | **100.00%** |

**B. Operations and Development Description**

1. Company purpose: Investment in securities, security titles or shares of other corporations, formation/promotion and development of manufacturing enterprises and other investments.
2. ISIC: 6420
3. Term: Indefinite

**History:**

FOSSAL S.A.A. (hereinafter, the “Company” or ‘’FOSSAL’’) was incorporated in August 8, 2016. In accordance with the Peruvian Corporate Act, it is considered a Stock Corporation, whose common shares are registered in the Stock Market Public Registry of the Superintendencia del Mercado de Valores (SMV) and in the Stock Registry of the Lima Stock Exchange. The Company is a subsidiary of Inversiones Aspi S.A. (hereinafter, “ASPI”), which owns 50.01% of the Company’s common shares as to December 31, 2020. As part of an application, loss offset, and capital increase process conducted between March and November 2021, the Principal owns 84.21% of the Company's common stock as of December 31, 2021. The Company’s main purpose is the investment in securities, security titles or shares of other corporations, formation, promotion and development of manufacturing enterprises and other investments.

In September 2016, the General Shareholders’ Meeting of Cementos Pacasmayo S.A.A. approved the spin-off of a portion of its net assets (composed by the assets and liabilities related to the Company’s interest in Fosfatos del Pacífico S.A.) to Fossal S.A.A. (“FOSSAL”), a newly formed entity created as a subsidiary of Inversiones ASPI S.A. The purpose of the spin-off was to allocate Cementos Pacasmayo’s assets and liabilities in accordance with the specialization of each business, cement and phosphate & diatomite. The spin-off took place in March 2017 and with it FOSSAL became the owner of 70% of the shares of Fosfatos del Pacífico S.A., being to date the only company in which it owns shares.

On December 30, 2020, the Board of Directors of the Subsidiary Fosfatos del Pacífico S.A. approved the constitution of an accounting provision for the total impairment of the assets related to the Phosphates Project since i) the Environmental Impact Study (EIA) of the Project for the exploitation of phosphate rock expires in September 2021, and its renewal would take a longer time than the remaining period of validity and ii) the current international prices of phosphate rock, of the characteristics of the deposit that the Subsidiary owns, are lower than the estimated sale prices that guarantee the initially expected profitability, so it would not be profitable to carry out said Project in the short or medium term.

On March 23, 2021, the Company's Annual Mandatory Meeting approved the application of losses corresponding to the fiscal year 2020 of S/222,917,000 and accumulated losses of S/39,158,000; which reduced the capital stock by approximately S/ 99,333,000 (and the number of shares by 99,332,791), the investment shares account by S/ 9,439,000 (and the number of investment shares by 9,439,197), the additional capital item by approximately S/ 116,346,000 and the legal reserve item by about S/ 36,957,000, leaving the last two with a zero balance.

On August 31, 2021, the Company acquired 30 percent of the common shares of the Subsidiary Fosfatos del Pacífico S.A. from Mitsubishi Corporation in exchange for approximately US$ 3,477,000, equivalent to S/ 14,247,000, which is devalued as of December 31, 2021. As a result of this transaction, the Company owns 100 percent of the common shares of the Subsidiary as of December 31, 2021.

On September 13, 2021, the General Shareholders' Meeting approved the increase of capital stock, and the investment shares account for up to approximately S/. 18,721,000 and S/ 1,779,000, and to create up to 18,721,016 common shares and 1,778,984 investment shares with a par value of S/ 1 each, to be subscribed and paid by the shareholders pro rata to their equity interest. As of December 31, 2021, these contributions were paid in full.

In November 2021, the Company contributed to the Subsidiary S/ 10.5MM soles for working capital, among other activities.

**Sector and Market Description**

FOSSAL’s only subsidiary is Fosfatos del Pacífico S.A., whose main object is to engage in all kind of non-metal and metal mining activities, and the industrialization and marketing of fertilizers and chemical products in general for the agricultural sector.

With the indefinite adjudication of the Diatomites concession Bayóvar N ° 9 by Proinversión and Activos Mineros S.A. in favor of Cementos Pacasmayo S.A.A. in 2007, and the constitution in 2009 of Fosfatos del Pacífico S.A., the latter will engage in the exploitation and marketing of the diatomite and phosphoric rock resources of the Bayovar N ° 9 concession. The concession is located in the district and province of Sechura, department of Piura, approximately 1,000 km. north of the capital, Lima, 110 km south of Piura and 30 km from the Pacific Ocean.

Historically, the Bayovar Phosphate Rock has been known worldwide for its good P2O5 content, its high solubility and low impurities level. This positions our product as an easily marketable rock in the international market. Golder Associates, who validated the program of exploration and the database necessary to estimate the mineral resources, developed a report in accordance with the Standards of Disclosure for Mineral Projects and in compliance with Canadian standard NI 43-101 and Australian regulation JORC (2004). In such report, the magnitude of resources was determined at 546.1 million tons (dry basis measurements) of phosphate rock with 18.2% of P2O5 under the category of resources. Regarding the Reserves, these are 108.1 million tons of ore of 17.8% of P2O5.

Phosphate rock is obtained through the mining of phosphate minerals, which are then put through a metallurgical process. Phosphate that is contained in phosphate rock serves as a vital macronutrient for transfer of energy, photosynthesis and cells division. Likewise, its contribution is essential for plants growth as it promotes both root development and resistance to droughts. Most natural and farm soils are phosphorous deficient and, as such, application of fertilizers containing such element is required at least once a year. Phosphate rock, among other applications, is used to produce phosphoric acid, and phosphate fertilizers, the latter making up approximately 90% of world phosphate rock. In the family of phosphate fertilizers, the more important are diammonium phosphate (DAP), monoammonium phosphate (MAP) and triple superphosphate (TSP)[[2]](#footnote-2).

As for the world food market, an industry that closely accompanies the fertilizer industry, according to BCRP figures, phosphate rock prices reached a 10-year high in 2021 as a result of the increase in oil prices, the rise in fertilizer prices, and bottlenecks in the supply chain. Corn prices increased 30% from December 2020 to November 2021; wheat increased by 49% in the same period, and soybean oil by 64%. In the short term, prices are expected to remain under upward pressure due to the possibility of a La Niña phenomenon and the impact this would have on the harvests of the major exporting countries (the United States and Canada).[[3]](#footnote-3)

The fertilizer industry, being a gas-demanding industry for the production of urea, has been struck by high prices, energy rationing, and shortages. CF Industries has closed two of its plants in the UK, while Yara announced a 40% reduction in its ammonia production capacity.

In addition, the series of export restrictions by China and Russia, and the problems in the supply chain, explain the increase in international fertilizer prices by more than 100% until November 2021. According to figures from the BCRP Inflation Report, this same report indicates that the energy crisis is expected to keep gas prices up and, therefore, the cost of production of fertilizers and imported foodstuffs. 3

As for phosphate rock, the international price reached its highest in 2021 since 2013. It shows a sustained positive trend since mid-2020. This trend is expected to continue in the short term due to geopolitical tensions and domestic policies to protect domestic supply, among other factors, which have caused global supply to fall short of demand.[[4]](#footnote-4)

Monthly Phosphate Rock Price - US$ per MT

Source: Indexmundi

**C. Human Resources**

FOSSAL does not have any staff on payroll since it is an investment company; neither has hired any temporary staff during 2021.

Senior Management is in charge of Cementos Pacasmayo S.A.A. by virtue of a General Management and Services Agreement.

**D. Judicial, Administrative or Arbitration Proceedings**

As of December 31, 2021, and as of the date hereof, there are no legal proceedings against the Company.

**E. Administration**

List of Directors:

|  |  |  |
| --- | --- | --- |
| Name | Position | Director since |
| Humberto Nadal Del Carpio | President | 09.26.2016 |
| Marco Antonio Zaldívar García | Board Member | 03.24.2017 |
| Manuel Bartolomé Martín Ferreyros Peña. | Board Member | 02.15.2021 |

**Humberto Nadal Del Carpio**

Mr. Nadal joined Cementos Pacasmayo as Corporate Development Manager in June 2007, has been Director since March 2008 and Chief Executive Officer of Cementos Pacasmayo since April 2011. He received an undergraduate degree in Economics from Universidad del Pacífico and a Master´s degree in Business Administration from Georgetown University. He is also CEO of ASPI S.A., Fosfatos del Pacifico S.A. and FOSSAL. Additionally, he is Vice-Chairman of the Board of Directors of Ferreycorp and a member on the Board of Directors of Ferreyros, has been Chairman of Patronato de la Universidad del Pacifico and Chairman of the Board of Directors of Fondo Mi Vivienda. In April 2006, he joined Compañía Minera Ares S.A.C. (subsidiary of Hochschild Mining plc) as Corporate Development Manager. Mr. Nadal was also Business, Administration and Finance Manager of the Instituto Libertad y Democracia and CEO of Socosani S.A. Distinguished among the three best CEOs of the construction industry in Latin America by the Institutional Investor magazine for the years 2014, 2015, 2016, 2017, 2018 and 2019.

**Marco Antonio Zaldívar García**

Mr. Zaldívar is a Certified Public Accountant, graduated from Universidad de Lima and the PAD Executive Development Program of the Universidad de Piura. He has an MBA at the Adolfo Ibáñez School of Management (USA). He has been Chairman of the Board of Directors of the Lima Stock Exchange. Previously, at Ernst & Young, he has been a Partner of Risk Management and Regulatory Matters, Senior Partner of the Audit and Business Advisory Division of the firm. He has also been Vice Dean of the Association of Public Accountants of Lima, President of the Board of Directors and Chairman of the Good Corporate Governance Committee of Procapitales. He is currently Independent Director of Banco Santander del Perú, Edpyme Santander Consumo and Compañía de Minas Buenaventura, among other positions, highlighting his extensive experience in Corporate Governance issues.

**Manuel Ferreyros Peña.**

Mr. Ferreyros is currently Vice President of Administration and Finance at Cementos Pacasmayo S.A.A. Mr. Ferreyros holds a degree in Business Administration from the Universidad de Lima, a multinational MBA from the Adolfo Ibañez School of Management, Miami, and an MBA from the College of Insurance in New York. Mr. Ferreyros has participated in the Senior Management Program at the Central American Institute of Business Administration (INCAE) and the CEO's Management Program at the Kellogg School of Management, among others. Prior to joining the Company, Mr. Ferreyros was General Manager of La Positiva Seguros y Reaseguros. Mr. Ferreyros has been distinguished among the top three CFOs in the construction industry in Latin America by Institutional Investor magazine for 2014, 2015, 2016, 2017, 2018, 2019, and 2020.

**F. General Administration**

The general administration service provided by Cementos Pacasmayo S.A.A. to the Company includes, in addition to its function as general manager, services according to the requirements and needs of the company, such as: (i) legal advice, (ii) internal audit, (iii) accounting, (iv) human resources, (v) logistics, (vi) budget, treasury and finance, (vii) information and communications systems, and (viii) general services (visits, correspondence, telephone exchange and archiving). Cementos Pacasmayo S.A.A. is providing these services since 2016.

* Management Staff:

General Manager: Cementos Pacasmayo S.A.A. Mr. Humberto Nadal del Carpio is the natural person that represents it.

The other management tasks of the company are carried out by Cementos Pacasmayo personnel, according to the General Management Agreement and Services Provision.

**G. Operation**

FOSSAL had no direct sales operating income in 2021 or 2020.

**H. Main Assets**

The main asset of FOSSAL S.A.A. (individual) is the investment in subsidiaries, joint ventures, and associates for S/ 3.83 million, which includes the investment in Fosfatos del Pacifico S.A. in which FOSSAL has a 100%, followed by cash and cash equivalents for S/ 1.58 million.

**Section III: Separate Financial Statemens as December 31, 2021 and 2020**

**a) Liquidity:**

The treasury management policy is based on the principle of prudence and is focused on complying with the current obligations of the Company, mainly: i) administrative services and ii) capital contribution plan to subsidiary Fosfatos del Pacífico S.A.

|  |  |  |
| --- | --- | --- |
| **Liquidity Ratios** | **2021** | **2020** |
| Current Ratio (Current Assets / Current Liabilities) | 58.37 | 86.49 |

As of December 31, 2021, liquidity indicators have decreased concerning the 2020 financial statements due to a reduction in current assets due to the use of cash to make the capital contribution to the subsidiary.

**b) Capital and Financing:**

The Company's future investment is directly related to the investment of its subsidiary Fosfatos del Pacífico S.A., in the Phosphate project, which will depend on the situation of the phosphate rock market and the obtaining of the corresponding financing in the appropriate terms for said project. Within the framework of a policy of prudence in the use of financial resources this year, Management is evaluating both critical factors for the Phosphates project.

|  |  |  |
| --- | --- | --- |
| **Debt to Assets Ratios** | **2021** | **2020** |
| Total Liabilities / Total Assets | 0.005 | 0.008 |
| Total Shareholder Net Equity / Total Assets | 0.995 | 0.992 |

The financing indicators remain stable as of December 31, 2021 regarding financial information as of December 31, 2020.

**c) Economic Results**

In 2021 and 2020, FOSSAL S.A.A. ("FOSSAL") obtained a net loss of S/ 23.90 million and S/ 222.92 million, respectively, and an operating loss of S/ 15.24 million and S/ 0.21 million, respectively.

Increased operating loss was due to the accounting provision associated with the impairment of the Subsidiary investment acquired during 2021.

The accumulated results as of December 31, 2021, and 2020 were negative by S/ 23.90 and S/ 262.08 million, respectively.

**Changes within the Responsible of Elaborating and Reviewing Financial Statements**

During 2021 there has been no change within the team responsible on the elaboration and review of the financial statements of the Company.

**Section IV: Consolidated Financial Statements as of December 31, 2021 and 2020.**

**a) Liquidity:**

|  |  |  |
| --- | --- | --- |
| **Liquidity Ratios** | **2021** | **2020** |
| Current Ratio (Current Assets / Current Liabilities) | 5.77 | 4.70 |

Liquidity indicators as of December 31, 2021 have increased concerning 2020 financial statements, mainly due to the reduction in current liabilities as a result of the decrease in commercial and other diverse accounts payable.

**b) Capital and Financing:**

|  |  |  |
| --- | --- | --- |
| **Debt Ratios** | **2021** | **2020** |
| Total Liabilities / Total Assets | 0.480 | 0.193 |
| Total Shareholder Net Equity / Total Assets | 0.520 | 0.807 |

Due to assets and equity reduction, the financing indicators as of December 31, 2021, vary concerning the financial information as of December 31, 2020.

This reduction is mainly explained by the losses generated in 2021 due to the devaluation of the subsidiary investment during 2021.

**c) Economic Results**

In 2021 and 2020, FOSSAL S.A.A. and its subsidiary obtained a net loss of S/ 25.75 million and S/ 318.47 million, respectively, and an operating loss of S/ 25.91 million and S/ 318.55 million, respectively.

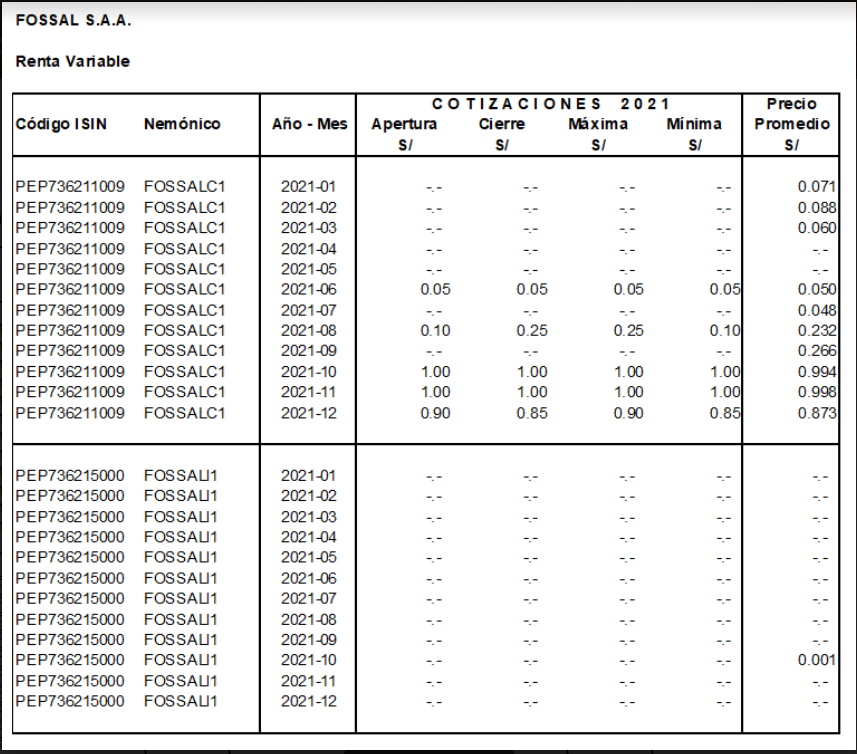
The accumulated results as of December 31, 2021, and 2020 were negative by S/ 23.90 million and S/ 262.01 million, respectively.

**SHAREHOLDER STRUCTURE BY TYPE OF INVESTOR**



**Section V: APPENDIX**

Monthly share prices of FOSSAL S.A.A in the fiscal year of 2021



1. Mr. Humberto Nadal Del Carpio represents Cementos Pacasmayo S.A.A. in the General Management of Fossal S.A.A. [↑](#footnote-ref-1)
2. CRU / Mining and Energy Planning Unit. Phosphate Rock, Characterization and analysis of the international mineral market in the short, medium and long term until year 2035 [↑](#footnote-ref-2)
3. BCRP: Inflation report, December, 2021. [↑](#footnote-ref-3)
4. IFA: “Why are Fertilizer Prices So High”, February, 2022. [↑](#footnote-ref-4)