Unión Andina de Cementos S.A.A.

Separate financial statements as of December 31, 2018 and 2017
together with the Independent Auditor's report

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Content

Independent Auditors' Report

To the Shareholders of Unión Andina de Cementos S.A.A.

We have audited the accompanying separate financial statements of Unión Andina de Cementos S.A.A. (a Peruvian entity), which comprise the separate statements of financial position as of December 31, 2018 and 2017, and the related separate statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards issue by the International Accounting Standards Board, and for the internal control that Management determines is appropriate to the preparation of separate financial statements that are free from material misstatement, whether due fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audits. We conducted our audit in accordance with International Auditing Standards approved in Peru by the Board of Deans of the Peruvian Charter of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the separate financial statements.

Independent Auditors' Report (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying separated financial statements present fairly, in all material aspects, the separate financial position of Unión Andina de Cementos S.A.A. as of December 31, 2018 and 2017, and its separate financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards issue by the International Accounting Standards Board.

Emphasis over the separate information

The separate financial statements of Unión Andina de Cementos S.A.A. have been prepared in compliance with the legal requirements in force in Peru for the filing of financial information. These financial statements reflect the value of the investments in subsidiaries at cost and not on a consolidated basis; as a result, they should be read together with the consolidated financial statements of Unión Andina de Cementos S.A.A. and Subsidiaries.

Lima, Peru,
February 22, 2019

Countersigned by:

Paredes, Burga & Asociados

Mayerling Zambrano R.

Mayerling Zambrano R.
Peruvian Certified Public Accountant
Register Nº 23765

Unión Andina de Cementos S.A.A.

Separate statement of financial position

For the years ended December 31, 2018 and 2017

	Note	2018 S/(000)	2017 S/(000)
Asset			
Current assets			
Cash and cash equivalents	6	29,956	97,704
Trade and other receivables, net	7	378,300	461,294
Inventories, net	8	572,839	533,321
Prepaid taxes and expenses		10,939	8,145
Total current assets		992,034	1,100,464
Non-current assets			
Trade and other receivables, net	7	186,014	104,372
Investments in subsidiaries and other	9	3,390,222	3,289,323
Mining concessions and property, plant and equipment, net	10	3,838,524	3,894,622
Deferred stripping cost	11	118,100	122,977
Intangible assets, net	12	41,260	54,098
Total non-current assets		7,574,120	7,465,392
Total asset		8,566,154	8,565,856
Liability and net equity			
Current liabilities			
Trade and other payables	13	314,507	261,827
Other financial liabilities	14	224,163	486,064
Deferred income	15	11,410	15,349
Income tax payable	29.3	-	43,075
Provisions	16	21,100	25,719
Total current liabilities		571,180	832,034
Non-current liabilities			
Other financial liabilities	14	3,024,898	2,906,854
Derivative financial instruments	30.1(a),(i),(b),(ii)	22,720	9,845
Deferred income tax liability, net	17	495,928	524,734
Provisions	16	35,124	15,778
Total non-current liabilities		3,578,670	3,457,211
Total liabilities		4,149,850	4,289,245
Net equity	18		
Issued capital		1,646,503	1,646,503
Legal reserve		329,301	329,301
Unrealized net profit		(16,707)	198
Retained earnings		2,457,207	2,300,609
Total net equity		4,416,304	4,276,611
Total liabilities and net equity		8,566,154	8,565,856

The accompanying notes are an integral part of this statement.

Unión Andina de Cementos S.A.A.

Separate statement of income

For the years ended December 31, 2018 and 2017

	Note	2018 S/(000)	2017 S/(000)
Net sales	19	1,968,994	1,862,651
Cost of sales	20	(1,222,177)	(1,140,441)
Gross profit		746,817	722,210
Operating income (expenses)			
Administrative expenses	21	(189,492)	(206,343)
Selling expenses	22	(66,852)	(57,472)
Other operating income	24	163,746	303,538
Other operating expenses	24	(37,455)	(52,620)
Total operating expenses, net		(130,053)	(12,897)
Operating profit		616,764	709,313
Other income (expenses)			
Finance income	25	14,285	3,953
Finance cost	26	(246,900)	(225,595)
Exchange difference, net	30.1(ii)	(60,449)	88,042
Total other income (expenses), net		(293,064)	(133,600)
Profit before income tax		323,700	575,713
Income tax	17(b)	(81,484)	(109,555)
Net profit		242,216	466,158
Basic and diluted earnings per share (stated in thousands of Soles)	28	0.147	0.283

The accompanying notes are an integral part of this statement.

Unión Andina de Cementos S.A.A.

Separate statement of comprehensive income

For the years ended December 31, 2018 and 2017

	Note	2018 S/(000)	2017 S/(000)
Net profit		242,216	466,158
Other comprehensive income			
Changes in the fair value of hedging derivative financial instruments	30.1(i)(a)	(18,690)	(115)
Reserve on assets measured at fair value with changes in other comprehensive income	27(e)	(5,289)	-
Income tax effect	17(a)	7,074	34
Other comprehensive income, net of income tax		(16,905)	(81)
Total comprehensive income, net of income tax		225,311	466,077

The accompanying notes are an integral part of this statement.

Unión Andina de Cementos S.A.A.

Separate statement of changes in equity

For the years ended December 31, 2018 and 2017

	Issued capital S/(000)	Legal reserve S/(000)	Unrealized profit S/(000)	Retained earnings S/(000)	Total S/(000)
Balance as of January 1, 2017	1,646,503	329,301	279	1,920,070	3,896,153
Net profit	-	-	-	466,158	466,158
Changes in the fair value of hedging derivative financial instruments, net, note 30.1(i)(a)	-	-	(81)	-	(81)
Total comprehensive income	-	-	(81)	466,158	466,077
Dividends distribution, note 18(d)	-	-	-	(85,619)	(85,619)
Balance as of December 31, 2017	1,646,503	329,301	198	2,300,609	4,276,611
Net profit	-	-	-	242,216	242,216
Changes in the fair value of hedging derivative financial instruments, net, note 30.1(i)(a)	-	-	(13,175)	-	(13,175)
Reserve on assets measured at fair value with changes in other comprehensive income, note 27(e)	-	-	(3,730)	-	(3,730)
Total comprehensive income	-	-	(16,905)	242,216	225,311
Dividends distribution, note 18(d)	-	-	.	(85,618)	(85,618)
Balance as of December 31, 2018	1,646,503	329,301	(16,707)	2,457,207	4,416,304

The accompanying notes are an integral part of this statement.

Unión Andina de Cementos S.A.A.

Separate statement of cash flows

For the years ended December 31, 2018 and 2017

	Note	2018 S/(000)	2017 S/(000)
Operating activities			
Collections from customers		2,323,455	2,228,555
Payments to suppliers		(1,243,739)	(1,130,182)
Payments to employees		(210,943)	(184,461)
Income tax paid		(152,586)	(67,396)
Taxes paid		(131,390)	(153,302)
Interest paid		(256,317)	(231,110)
Dividends received	24(b)	122,930	124,143
Other collections (payments), net		54,247	70,457
Net cash flows provided by operating activities		505,657	656,704
Investing activities			
Acquisition of subsidiary	9(a)	(99,496)	(25,992)
Capital contribution to subsidiaries		(1,403)	(354)
Disbursements for works in progress	10(a)	(148,969)	(117,421)
Purchase of property, plant and equipment	10(a)	(4,620)	(1,067)
Purchase of intangible assets	12(a)	(2,824)	(3,364)
Net cash flows used in investing activities		(257,312)	(148,198)
Financing activities			
Obtaining short-term bank loans		198,800	104,880
Obtaining bonds and debt to banks long-term	14(l) and (m)	1,717,220	260,000
Payment of short-term bank loans		(451,553)	(339,772)
Payment of bonds and debt to banks long-term		(1,693,604)	(404,761)
Dividends paid	18(d)	(85,701)	(85,603)
Net cash flows used in financing activities		(314,838)	(465,256)
(Net decrease) Net increase in cash and cash equivalents of the year		(66,493)	43,250
Net exchange difference		(1,255)	(27)
Cash and cash equivalents at the beginning of the year		97,704	54,481
Cash and cash equivalents at the end of year		29,956	97,704
Transactions that do not represent cash flows -			
Quarry closure provision	10(a)	20,135	3,572
Capitalized interest	10(a) and (f)	2,510	-
Transfer to replacement units		-	11,403

The accompanying notes are an integral part of this statement.

1. **Identification and economic activity**

Unión Andina de Cementos S.A.A. (hereinafter "the Company") was incorporated in December 1967. The Company is a subsidiary of Sindicato de Inversiones y Administración S.A. (hereinafter "the Principal") which holds 43.38 percent of the Company's issued capital, which in turn is a subsidiary of Inversiones JRPR S.A., ultimate parent of the consolidated economic group. On July 24, 2012, the General Shareholders' Meeting approved to change the Company's name from Cementos Lima S.A.A. to Unión Andina de Cementos S.A.A. From January 1, 2019, the Principal, Inversiones Andino S.A, and Inmobiliaria Pronto S.A. merged with the Company, see note 33.

The registered office of the Company is located at Av. Atocongo 2440, Villa María del Triunfo, Lima, Peru.

The Company's main activity is the production and sale, for local and foreign market of cement and clinker. For this purpose, the Company owns two plants located at Lima and Junín, whose capacity is 6.7 million tons of clinker and 8.3 million tons of cement.

The separate financial statements as of December 31, 2017 were approved by General Shareholders' Meeting held on March 23, 2018. The separate financial statements for the year ended December 31, 2018 were approved by Management on January 31, 2019 and will be presented for the approval of the Board of Directors and the Shareholders within the terms established by law. In Management's opinion, the accompanying separate financial statements will be approved without changes.

2. **Summary of significant accounting policies**

2.1 Basis of preparation -

The separate financial statements have been prepared in accordance to International Financial Reporting Standards (hereinafter "IFRS"), issued by the International Accounting Standards Board (the "IASB"), prevailing as of December 31, 2018 and 2017, respectively. In accordance with IFRS prevailing as of December 31, 2018, it is not necessary to prepare separate financial statements; but in Peru, companies are required to prepare them in compliance with the prevailing Law. For that purpose, the Company has prepared separate financial statements according to IAS 27, Consolidated and Separate Financial Statements. The financial statements are made public within the term established by the Superintendence of Securities Market (SMV for its acronym in Spanish).

The separate financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The separate financial statements are presented in Soles and all values are rounded to the nearest thousand (S/000), except when otherwise indicated.

New standards effective up to the date of the financial statements -

The Company applied IFRS 15 "Revenue from Contracts with costumers" and IFRS 9 "Financial Instruments" for the first time. The nature and effect of the changes as result of adoption of these new accounting standards are described below:

- IFRS 15 "Revenue from contracts with costumers" –

  IFRS 15 supersedes IAS 11 "Constructions Contracts", IAS 18 "Income" and related interpretations and applies, with limited exceptions, to all income arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires revenue to be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

  The Company applied IFRS 15 dated January 1, 2018, consequently modified the comparative information on its separate financial statements for the presentation of the cement sale, net of sales commissions, shown as follow:

		As of December 31, 2017 (Audited) S/(000)	**Reclassification** S/(000)	**As of December 31, 2017 (Modified)** S/(000)
Net sales	(a)	1,912,284	(49,633)	1,862,651
Selling expenses	(b)	(107,105)	49,633	(57,472)

  (a) Sale of goods –

  Contracts with customers are for the cement sale, blocks, pavements and paving stones and exportation clincker, which are a single performance obligation. The Company recognize revenues at the moment when the goods are transferred at a point in time, generally at the time of delivery of the goods.

  In the case of the cement sale to the large surfaces and mining and construction projects, the sale of the goods and the transport are two consideration that are considered as a solely performance obligations that the Company maintains with the client, therefore the consideration is not assigned, given that not different performance obligations have been identified.

(b) Variable consideration –
Some contracts with costumers for the cement sale provide trade discounts or volume discounts and sales commissions. Such provisions give rise to variable considerations according to IFRS 15, and will have to be estimated at the beginning of the contract and subsequently be updated.

Before at January 1, 2018 the Company presented the sale commissions in the Selling expenses of the separate statement of income. After the adoption of the IFRS 15, the Company recognize the cement sales, net of the sales commissions and volume discounts. The effect of IFRS 15 generated a reclassification of the sales commissions in the Company's separate statement of income.

(c) Advances received from customers –
Generally, the Company receives only short-term advances from its customers, the same that are presented as part of the other accounts payable. The Company decided to use the practical expedient provided in the IFRS 15, and will not adjust the amount of the consideration for the effects of a significant financing component in the contracts, when the Company expects, at contract inception, that the period between the transfer of the good or service to a customer and the corresponding collection date is one year or less. Therefore, for short-term advances, the Company will not account a financing component even if it is significant.

There has not been impact on cash flows or earnings per share as a result of the adoption of IFRS 15.

- IFRS 9 "Financial instruments" –

IFRS 9 "Financial Instruments" replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after January 1, 2018, which brings together the three aspects of accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company has applied IFRS 9 prospectively, with the date of initial application date of January 1, 2018. There was no impact on cash flows or earning per share as a result of the adoption of IFRS 9.

(a) Classification and measurement –
Under IFRS 9, financial debt instruments are subsequently measured at fair value through profit or loss, amortized cost or fair value through other comprehensive income (OCI). The classification is based on two criteria: the Group's business model for managing assets; and if the contractual cash flows of the instruments represent "only capital and interest payments" on the outstanding principal amount.

The classification and measurement required for IFRS 9 do not have a material impact in the Company as of transition date of the January 1, 2018. The Company continue measuring at fair value all financial assets previously measured at fair value under IAS 39. The changes in the classification of the financial assets of the company are presented below:

- Trade receivables and trade receivables from related parties, and other receivables, previously classified as loans and accounts receivable that is held to collect contractual cash flows and give rise to flows that represent only payments of principal and interest. These are now classified and measured as debt instruments at amortized cost.

- Dividends receivable, previously classified at amortized cost, these are now classified and measured at fair value with changes in other comprehensive income.

- Derivative financial instruments remain classified and measured at fair value with changes in other comprehensive income.

(b) Impairment –

IFRS 9 requires the Company to record the expected credit losses of all its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables. The Company has determined that, due to the nature of its loans and receivables, the impact on impairment losses is immaterial as of January 1, 2018, and did not make adjustments to the separate financial statements of that date.

2.2 Summary of significant accounting policies -

The following are the significant accounting policies applied by the Company's Management in preparing its separate financial statements:

(a) Cash and cash equivalents -

Cash and cash equivalents in the separate financial statement comprise cash balances, fixed funds, funds to be deposited, current accounts and time deposits. For the purposes of preparing the statement of cash flows, cash and cash equivalents include cash and short–term deposits with an original maturity shorter than three months, net of banking overdrafts.

(b) Financial instruments: initial recognition and subsequent measurement -

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets -

Initial recognition and measurement -

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest" (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement -

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments).
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments).
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).
- Financial assets at fair value through profit or loss.

The classification depends on the business model of the Company and the contractual terms of the cash flows.

Financial assets at amortized cost (debt instruments)
The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets are not reclassified after their initial recognition, except if the Company changes its business model for its management.

The Company's financial assets held at amortized cost included trade receivables and other receivable and investment in Ferrocarril Central Andino S.A.

Financial assets at fair value through OCI (debt instruments) –
The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

The Company does not have debt instruments classified in this category.

Financial assets at fair value through OCI (equity instruments) –
Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company maintain dividends receivable of its subsidiaries under this category.

Financial assets at fair value through profit or loss -
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value and net changes in such fair value are presented as financial costs (net negative changes in fair value) or financial income (net positive changes in fair value) in the separate statements of comprehensive income.

The Company has investments classified as financial assets at fair value through profit or loss.

Derecognition -
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is removed from the separate statement of financial position, when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

(ii) Impairment of financial assets -

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 365 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(iii) Financial liabilities -

Initial recognition and measurement -

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, other financial liabilities.

Subsequent measurement -
The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss -
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term; gains or losses on liabilities held for trading are recognized in the statement of profit or loss. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 "Financial Instruments" are satisfied.

As of December 31, 2018, the Company maintain a derivative instrument of negotiation, swap contract by interest rate, see note 30(b).

Interest-bearing Loans and borrowings -
This is the Company's most relevant category. After their initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the separated statement of profit or loss.

This category includes trade and other payables and interest-bearing loans and borrowings. For more information refer to Notes 13 and 14.

Derecognition -
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amount is recognized in the separate statement of comprehensive income.

(iv) Offsetting of financial instruments -
Financial assets and financial liabilities are offset and the net amount is reported in the separate statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

(v) Fair value of financial instruments -
The Company uses derivative financial instruments, such as cross currency swaps (CCS), to hedge its foreign currency exchange rate risk. These derivative financial instruments are initially recognized at their fair values on the date on which the derivative contract is entered into and subsequently are remeasured at their fair value. Derivatives are accounted for as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are recorded as cash flow hedges:

Cash flow hedges -
The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income in the caption "Unrealized gain on cash flow hedge", while any ineffective portion is recognized immediately in the separate statements of comprehensive income.

The Company designated all of the cross currency swaps contracts as hedging instrument. Any gains or losses arising from changes in the fair value of derivatives were taken directly to profit or loss, except for the effective portion of cash flow hedges, which were recognized in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

For the purposes of hedge accounting, the Company designated the three interest rate swap contracts signed in 2018 as a cash flow hedge.

(c) Current versus non-current classification -

The Company presents assets and liabilities in the separate statement of financial position based on current/non-current classification. An asset is current when it is:

- It is expected to be realized or intended to be sold or consumed within a normal operating cycle;
- It is held primarily for trading purposes;
- Expected to be realized within twelve months after the reporting period;
- It is cash or cash equivalent, unless it is restricted from being exchanged or used to settle a liability for, at least, twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when either:

- It is expected to be settled within a normal operating cycle;
- It is held primarily for trading purposes;
- It is due to be settled within twelvemonths after the reporting period or;
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(d) Foreign currency transactions -

The Company's financial statements are presented in Soles. The Company´s Management has determined the Sol as the functional and presentation currency, because it reflects the nature of economic events and circumstances relevant to the Company.

Transactions and balances in foreign currency -
Are considered foreign currency transactions those made in a currency other than the functional currency. Transactions in foreign currencies are initially recorded at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the functional currency using the Exchange rate ruling at the separate statement of financial position date. The differences between the closing rate at the date of each separate statement of financial position presented and the exchange rate initially used to record the transactions are recognized in the separate statements of income in the period in which they occur in the caption "Exchange difference, net". Non-monetary assets and liabilities acquired in foreign currencies are translated at the exchange rate at the date of the initial transaction.

(e) Inventories -
Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- Raw materials -
  Purchase cost, using the weighted average method.

- Spare, materials and supplies –
  Purchase cost, using the weighted average method.

- Packages and packing –
  Purchase cost, using the weighted average method.

- Finished goods and work in progress –
  At cost of direct materials and supplies, services provided by third parties, raw material, direct labor cost, other direct cost, general manufacturing expenses and an overhead based on fixed and variable cost based on normal operating capacity, but excluding borrowing costs and exchange differences currency.

- Inventory in transit –
  At purchase cost, specifically.

Net realizable value is the sales price obtained in the ordinary course of business, less the costs of placing the inventories into a ready-for-sale condition and the commercialization and distribution expenses.

Management periodically evaluates the impairment and obsolescence of these assets. The estimation, if any, is recognized with charge to the separate statement of comprehensive income.

(f) Investments in subsidiaries -

These investments in subsidiaries are recorded at acquisition cost less the estimation for impairment. The Company evaluates the impairment of the investments for events or changes in the circumstances, which may indicate that the book value is not recoverable.

In case of an impairment indicator, the Company makes an estimation of the recoverable amount. If the carrying value is higher than the recoverable amount, the investment is considered impaired and is reduced to its recoverable amount. If in a subsequent period the amount of the impairment loss is reduced, such loss is reversed. Any subsequent reversal is recognized in the separate statements of income to the extent the book value of the asset is not higher than the amortized cost at the date of reversal.

Dividends from investments are credited in the statement of income when declared.

As of December 31, 2018 the Company presents the detail of investments in subsidiaries in the note 9.

(g) Borrowing costs -

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(h) Leases -

The determination of whether an agreement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset, even it that right is not explicitly specified in an arrangement.

Finance leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased asset, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between financial charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the separate statements of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the separate statement of income on a straight-line basis over the lease term.

As of December 31, 2018 and 2017, the Company presents the detail of financial lease in the note 14(e). During 2018, the Company canceled the financial lease contracts.

(i) Property, plant and equipment -

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation. Such cost includes the cost of replacing component parts of the Property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. The present value of the estimate cost of dismantling the asset and rehabilitation the site where it is located, is included in the cost of the respective assets, see note 2.2(o). When significant parts of property, plant and equipment are required to be replaced at intervals, the Company derecognizes the replaced part, and recognizes the new part with its own associated useful life and depreciation. Likewise, when major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other maintenance and repair costs are recognized in the separate statements of income in the period on which they are incurred.

Depreciation is calculated using a straight-line-basis method over the estimated useful lives of such assets as follows:

	Years
Buildings and other constructions	10- 50
Installations and other	3 to 10
Machinery and equipment	7 to 25
Transportation units	5 to 10
Furniture and fixtures	6 to 10
Other equipment	4 to 10

An item of Property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the separate statements of income when the asset is derecognized.

The work in progress include the projects in execution and are recorded to the cost. This include at cost of building, acquisition of equipment and other direct costs. The buildings in progress are not depreciated until that the relevant assets are concluded and operational.

Lands are measured at cots and has unlimited useful for those that do not depreciate.

The asset's residual value, useful lives and methods of depreciation/amortization are reviewed at each reporting date, and adjusted prospectively if appropriate.

As of December 31, 2018 and 2017, the Company presents the detail of Property, plant and equipment in the note 10.

(j) Mining concessions -

Mining concessions correspond to the exploration rights in areas of interest acquired in previous years. Mining concessions are stated at cost, net of accumulated amortization and/or accumulated impairment losses, if any, and are presented within the "Mining concessions and property, plant and equipment, net". Those mining concessions are amortized is calculated using a straight-line-basis method. In the event the Company abandons the concession, the costs associated are written-off in the separate statement of income.

As of December 31, 2018 and 2017, the Company presents the detail of Mining concessions in the note 10.

(k) Intangible assets -

Goodwill -

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. Goodwill is presented within the "Intangible assets, net" caption in the separate statement of financial position.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination.

Concessions for general electric

The concessions for electricity generation are presented initially at cost, as well as the right of assignment of use of said concessions, for which the Company receives in return royalties. The cost and the right of assignment of use are amortized according to the term of the concession, which is 25 years.

Software and Licenses -

The Software and licenses of software are stated at cost and include expenditures directly related to the acquisition or entry into use of specific software. These costs are amortized over their estimated useful life between 3 and 10 years.

(l) Deferred stripping costs -
The Company incurs in waste removal costs (stripping costs) during the development and production phases of its surface operations. During the production phase, stripping costs (production stripping costs) can be incurred both in relation to the production of inventory in that period and the creation of improved access and flexibility operational in relation to be mined in the future. The former are included as part of the costs of production, while the latter are capitalized as a stripping activity asset, when certain criteria are met. Significant judgment is required to distinguish between development stripping and production stripping and to distinguish between the productions stripping that relates to the extraction of inventory and what relates to the creation of a stripping activity asset.

Once the Company has identified its production stripping for each surface mining operation, it identifies the separate components of the ore bodies for each of its mining operations for the purposes of accumulating costs for each component and pay off based on their respective useful lives. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgment is required to identify and define these components, and also to determine the expected volumes (e.g., in tons) of waste to be stripped and ore to be mined in each of these components.

These assessments are undertaken for each individual mining operation based on the information available in the mine plan. The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the ore body, the geographical location and/or financial considerations.

The cost of production stripping is then depreciated using the units-of-production method considering the period of life of the identified component which is more accessible as a result of the stripping activity. This cost is stated at cost, less of accumulated depreciation and accumulated impairment losses, if any.

(m) Estimates of resources and reserves -
The mineral reserves are estimates of the amount of ore that can be economically and legally extracted from the non-metallic Company's mining properties and concessions. The Company estimates its ore reserves and mineral resources, based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and require complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, ore prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body.

Changes in the reserve or resource estimates may impact upon the carrying value of property, plant and equipment, provision for rehabilitation and depreciation and amortization charges.

(n) Impairment of non-financial assets -
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of a fair value less the sales costs and its value in use and said value is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in that case it is considered the cash generating unit (CGU) related to those assets. When the carrying amount of an asset of CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account by the Company, if available. If no such transactions can be identified, the Company can use an appropriate valuation model.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the separate statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, the Company assesses an impairment test to each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of corresponding depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the separate statement of income, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of goodwill:

Goodwill is tested for impairment annually (as of December 31). Impairment is determined by assessing the recoverable amount of each cash generating unit which the goodwill relates. When the recoverable amount of each cash generating unit is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

(o) Provisions -

General -

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

Quarry closure provision -

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. Quarry closure costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risk specific to the rehabilitation provision. The unwinding of the discount is expensed as incurred and recognized in the separate statement of income as a financial cost. The estimated future costs of rehabilitation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

(p) Contingencies –

Contingent liabilities are disclosed when the existence of the liability is confirmed by future events or when the amount of the liability cannot be measured reasonably. Contingent assets are not recognized in the financial statements, but they are disclosed when it is probable that economic benefits flow to the Company. When the realization of the revenue is practically certain, the asset related is not contingence character, and its recognition in the separate financial statement is appropriate.

(q) Employees' benefits -

The Company has short-term obligations for employees' benefits that include salaries, social contributions, gratifications, bonuses for performance, and workers' sharing profit. These liabilities are recorded monthly with charge to profit and loss, as they are accrued.

(r) Revenue recognition –
Revenue from contracts with customers is recognized when the control of the goods or services is transferred to the customer for an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

Revenue from the sale of goods is recognized at the moment (a point in time) in which control of the asset is transferred to the customer, generally at the time of delivery of the asset.

The following specific recognition criteria must be also met before revenue is recognized:

Sales of goods -
Revenue from sales of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, on delivery of the goods.

The Company considers the existence of other commitments in the contract that constitute separate performance obligations for which it is necessary to allocate a portion of the transaction price.

Some contracts with customers provide return rights and commercial discounts or volume discounts.

Variable considerations -
If a contract includes a variable amount, the Company estimates the amount of consideration to which it is entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at the beginning of the contract and is restricted until it is highly probable that a significant reversal of income does not occur at the time when the uncertainty associated with the variable consideration disappears.

Interest income -
The revenue is recognized when the interest accrues using the effective interest rate. Interest income is included in financial income in the separate statements of income.

Dividends income -
Dividends from investments are credited in the statement of income when declared.

(s) Taxes -
Current income tax -
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount of tax are those that are enacted or substantively enacted, at the close of the reporting period under review.

Current income taxes related to items that are directly recognized in net equity are also recognized in net equity and not in the separate statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax -
Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for separate financial statements.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the liabilities for deferred income taxes arises from the initial recognition of goodwill, or from an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, does not affects neither the accounting profit nor taxable profit or loss; or
- Where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and for the future compensation of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available to offset such unused tax credits and unused tax losses, except:

- When the deferred tax asset relating to deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, or
- When the deferred tax assets is recognition only in the measure that is probably that the temporal differences, related with the investments in the subsidiaries, will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are measured at tax rates that expected to be applied in the period in which the asset is realized or the liability is canceled, based on the taxable rates and tax laws that were approved to date of the separate statement of financial position, or whose approval procedure is nearing to culminate.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Value added tax -
Revenues, expenses and assets of ordinary activities are recognized net of the general sales tax, except:

- Where the general sales tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the general sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- Receivables and payables are stated with the general sales tax included.

The net amount of sales tax recoverable from, or payable to, the tax authority is included as part of receivables or payables in the separate statement of financial position.

(t) Earnings per share -
Basic and diluted earnings per share have been calculated based on weighted average of common shares at the date of the separate statement of financial position. As of December 31, 2018 and 2017, the Company has no dilutive financial instruments; therefore the basic and diluted earnings per share are the same.

(u) Reclassifications -
There are some transactions were reclassified in the presentation of the current year and, in Management's opinion, they are not significant to the separate financial statements as of December 31, 2017.

(v) Subsequent events -
Events occurred subsequent to the year-end which provide additional information about separate financial status of the Company and that is related to events occurred and registered to the date of the separate statement of financial position (adjustment events) are included as part of the separate financial statements. Subsequent events that do not represent adjustment events are disclosed in notes to the separate financial statements.

3. Significant accounting judgments, estimates and assumptions

The preparation of the separate financial statements requires management to make judgments, estimates and assumptions to determine the reportable figures of assets and liabilities, the disclosure of contingent assets and liabilities as of the separate financial statements date, and also the income and expenses balances for the years ended as of December 31, 2018 and 2017.

The most significant estimates considered by Management related to the financial statements are:

- Fair value of derivatives financial instruments– note 2.2(b)
- Provision for inventory obsolescence– note 2.2(e)
- Deferred stripping assets– note 2.2(l)
- Estimates of resources and reserves – note 2.2(m)
- Estimation for impairment of non-financial assets– note 2.2(n)
- Provisions– note 2.2(o)
- Income tax– note 2.2(s)

Management considers that estimates included in the separate financial statements were made on the basis of their better knowledge of the relevant facts and circumstances at the date of preparations of separate financial statements; however, final results may differ from the estimates included in the separate financial statements.

4. Standards issued but not yet effective

Below are described those standards and interpretations applicable to the Company, that have been published, but not yet effective up to the date of issuance of the Company's separate financial statement. The Company intends to adopt these standards and interpretations, if applicable, when they are in force.

- *IFRS 16 "Leases"*

  IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognized a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasured the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

During 2018, the Company began evaluating the impact of IFRS 16 and is in the process of reviewing and approving the Management and Board of Directors, however, as of the date of these separate financial statements, the Management of the Company expects that the adoption of this standard does not have any significant effect.

- *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*
  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately.
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities.
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
  - How an entity considers changes in facts and circumstances.

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition exemptions are available. The Company will apply interpretation from its effective date. The Company may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

The Management of the Company and its subsidiaries are analyzing the possible effects of this rule.

- *Annual improvements to IFRS - 2015-2017 Cycle (issued as of December 31, 2018)*
  IAS 23 Interest costs - Capitalized interest costs
  The amendments clarify that an entity considers part of its general interest costs any interest costs originally incurred to develop a qualified asset when substantially all the activities necessary to prepare the asset for its use or sale have been completed. These modifications will be applied to the interest costs incurred in the periods beginning on January 1, 2019 or later, allowing early application.

  An entity applies those modifications to financing costs incurred on or after the beginning of the annual reporting period in which the entity applies those modifications. An entity applies those modifications for annual reporting periods beginning on or after January 1, 2019, and early adoption is permitted. The Company does not expect any effect on its separate financial statements.

  IAS 12 Tax income – Income tax consequences of payments on financial instruments classified as equity
  The amendments clarify that the tax consequences of the dividends depend more on the transactions or past events that generated that distributable profit than on the distribution to the owners. Therefore, an entity recognizes the tax consequences of a dividend in results, in other comprehensive income or in equity depending on how the entity recorded those transactions or past events. These modifications will be applied to the periods beginning on January 1, 2019 or later, allowing early application. When an entity applies these modifications for the first time, it will do so from the start date of the oldest comparative exercise.

  The Management of the Company is analyzing the possible effects of this rule.

5. Foreign currency transactions

Foreign currency transactions are made at free market exchange rates published by the Superintendence of Banks, Insurance and Private Funds. As of December 31, 2018, the weighted average market exchange rate for transactions in Soles published by the Superintendence of Banks, Insurance and Private Pension Funds was S/3.369 for buying and S/3.379 for selling (S/3.238 for buying and S/3.245 for selling as of December 31, 2017), respectively.

As of December 31, 2018 and 2017, the Company had the following assets and liabilities in U.S. Dollars:

	2018		2017	
	US$(000)	Equivalent in S/(000)	US$(000)	Equivalent in S/(000)
Asset				
Cash and cash equivalents	345	1,163	13,615	44,085
Trade and other receivables, net	91,393	307,905	46,302	149,924
	91,738	309,068	59,917	194,009
Liabilities				
Trade and other payables	(14,907)	(50,372)	(12,732)	(41,316)
Other financial payables	(406,000)	(1,371,874)	(762,757)	(2,475,148)
	(420,907)	(1,422,246)	(775,489)	(2,516,464)
Derivative financial instruments of exchange rate	(6,724)	(22,720)	(3,034)	(9,845)
Net liability position	(335,893)	(1,135,898)	(718,606)	(2,332,300)

6. Cash and cash equivalents

(a) This item is made up as follows:

	2018 S/(000)	2017 S/(000)
Petty cash	815	802
Current accounts (b)	25,341	17,351
Time deposits (c)	3,800	79,551
	29,956	97,704

(b) Current accounts are maintained in local and foreign currency, kept in domestic and foreign banks and are freely available. These deposits earn interest at market rates.

(c) Corresponds to time deposits in domestic banks, denominated in local and foreign currency which earn interest at market rates and have original maturities less than 3 months. During 2018, the time deposits as of December 31, 2017 were liquidated.

7. **Trade and other receivable, net**

(a) This item is made up as follows:

	Current		Non-current	
	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)
Trade;				
Trade accounts receivable (b)	64,140	71,844	-	-
Related parties:				
Accounts receivable from related parties, note 27(c)	256,690	358,196	159,338	58,927
Others:				
Claims to Tax Authority (d)	23,735	179	19,638	38,399
Claims to third parties	9,768	16,570	2,922	2,922
Advances to suppliers	9,171	5,115	3,958	-
Loans to employees (c)	4,577	5,915	158	4,124
Derivative financial instruments, note 30.1(i)(a)	-	280	-	-
Other accounts receivable	5,969	6,570	-	-
	53,220	34,629	26,676	45,445
Taxes:				
Advance payments of income tax	11,425	-	-	-
	385,475	464,669	186,014	104,372
Less – Allowance for doubtful accounts (e)	(7,175)	(3,375)	-	-
	378,300	461,294	186,014	104,372

(b) Trade account receivables are mainly denominated in Soles, have current maturities, do not bear interest, have no specific guarantees and do not present significant overdue balances.

(c) As of December 31, 2018 and 2017 corresponds mainly to loans to employees, which will be collected within two and three years according to the agreements signed by the Company, respectively.

(d) As of December 31, 2018 and 2017 corresponds mainly to claims submitted to the Tax Authority for the return of overpayments of income tax and selective excise of previous year, see note 29.4. the balance corresponds mainly to claims presented to the Tax Authority for the return of payments more than income tax and excise tax of previous years, see note 29.4. During 2018, the Company recorded new claims receivable for approximately S/6,800,000 corresponding to the income tax audits of 2014 and the excise tax for the years 2016 and 2017. In addition, the Company received resolutions from the Tax Administration in favor of S/2,005,000, which correspond to the excise tax and were fully charged.

As of December 31, 2018, the Company has received from resolutions with favorable results from the Tax Authority, which are presented in the short term and are pending collection or settlement for a total amount of S/23,735,000. Management expects to collect this amount during the first semester of 2019.

In Management´s opinion and its legal counsel, there are sufficient legal arguments to estimate that these claims will be recovered in short and long term.

(e) The aging analysis of trade receivables and other as of December 31, 2018 and 2017 is as follows:

			Neither defeated nor deteriorated			
	Total S/(000)	Neither defeated nor deteriorated S/(000)	< 30 días S/(000)	30-90 días S/(000)	91-180 días S/(000)	> 180 días S/(000)
2018	564,314	526,216	17,112	3,718	359	16,909
2017	565,666	523,099	21,978	3,122	4,461	13,006

As of December 31, 2018 and 2017, the Company evaluated the exposure to credit risk in trade accounts receivable, see note 30.2.

(f) The movement of the allowance for doubtful trade and other receivable for the years ended December 31, 2018 and 2017 was as follows:

	2018 S/(000)	2017 S/(000)
Opening balance	3,375	3,370
Provision, note 21 and 24	3,741	56
Exchange difference	59	(51)
Ending balance	7,175	3,375

In Management's opinion, the allowance for doubtful accounts adequately covers the credit risk as of December 31, 2018 and 2017.

8. Inventories, net

(a) This item is made up as follows:

	2018 S/(000)	2017 S/(000)
Finished goods	16,306	15,560
Work in progress (b)	200,529	184,090
Raw and auxiliary materials (c)	100,031	97,971
Packages and packing	26,621	24,747
Spare parts and supplies (d)	233,135	210,953
Inventory in transit	18,580	15,320
	595,202	548,641
Allowance for inventory obsolescence (d)	(22,363)	(15,320)
	572,839	533,321

(b) Work in progress includes coal, pozzolan, gypsum, clay, clinker in production and limestone extracted from the Company's mines, which according to the Management's estimates will be used in the short-term production.

(c) Raw and auxiliary materials mainly include imported and domestic coal. As of December 31, 2018, the Company has in stock coal for approximately S/50,738,000 (S/61,896,000 as of December 31, 2017).

(d) Movement in the provision for inventory obsolescence as of December 31, 2018 and 2017 was the following:

	2018 S/(000)	2017 S/(000)
Opening balance	15,320	6,593
Addition, note 20	7,043	8,727
Ending balance	22,363	15,320

In opinion of Company's Management, the allowance for obsolescence of inventories covers appropriately its obsolescence risk as of December 31, 2018 and 2017.

9. Investments in subsidiaries and other

(a) This item is made up as follows:

	Economic activity	Country	Share participation		Carrying book value	
			2018	2017	2018	2017
			%	%	S/(000)	S/(000)
Investments in subsidiaries:						
Inversiones Imbabura S.A.	Holding	Peru (subsidiary in Ecuador)	99.99	99.99	1,516,724	1,516,724
Skanon Investments Inc.	Cement and Concrete	Unites States	85.06	85.05	1,026,345	1,025,145
Compañía Eléctrica El Platanal S.A.	Electrical Energy	Peru	90.00	90.00	567,829	567,829
Cementos Portland S.A.C.	Cement	Peru	100.00	-	99,496	-
Inversiones en Concreto y Afines S.A.	Holding	Peru	93.38	93.38	67,036	67,036
Transportes Lurín S.A.	Services	Peru	99.99	99.99	64,250	64,250
Staten Island Co. LLC	Holding	United States	100.00	100.00	25,992	25,992
Prefabricados Andinos S.A.	Precast	Chile	51.00	51.00	20,021	20,021
Prefabricados Andinos Perú S.A.C.	Precast	Peru (subsidiary in Colombia)	50.02	50.02	17,537	17,537
Minera Adelaida S.A.	Holding	Peru	99.99	99.99	3,010	2,815
Depósito Aduanero Conchán S.A.	Services	Peru	99.99	99.99	2,783	2,783
Generación Eléctrica de Atocongo S.A.	Services	Peru	99.85	99.85	125	125
Other investments:						
Ferrocarril Central Andino S.A.	Services	Peru	16.49	16.49	7,567	7,567
Others					232	224
					3,418,947	3,318,048
Allowance for impairment of investments (b)					(28,725)	(28,725)
					3,390,222	3,289,323

The Company recognized its investment in subsidiaries and held-to-maturity at cost. See more detail in the note 2.2(f).

A brief summary of the activities of the most significant subsidiaries of the Company is presented below:

- Inversiones Imbabura S.A. (IMBABURA)
  It is a company incorporated in July 2014. The main activity of IMBABURA is the investment in securities in companies domiciled in Ecuador, mainly dedicated to activities related to the cement industry, the supply of pre-mixed concrete, construction materials and related activities. . As of December 31, 2018, IMBABURA participates in 98.89 percent of the total shares representing the capital of UNACEM Ecuador S.A. (UNACEM Ecuador) and subsidiaries, whose main activity is the production and sale of cement in Ecuador.

- Skanon Investments Inc. – SKANON
  It is a non-resident company incorporated in February 2007 under the laws of the State of Arizona in the United States of America. SKANON owns 94.15 percent of Drake Cement LLC, a company domiciled in the United States of America, which built cement plant in Yavapai County, in northern Arizona.

  In January 2018, the Company made a cash contribution to its subsidiary for US$ 370,000 (equivalent to approximately S/1,201,000).

- Compañía Eléctrica El Platanal S.A. - CELEPSA
  It is a company incorporated in Lima in December 2005. It is dedicated to the generation and sale of electricity, using water resources, geothermal and thermal, as well as to the operation of its property and facilities in general. CELEPSA directly and indirectly owns the 100 percent of the shares of capital Celepsa Renovables SRL, proprietary company of hidroeléctrica Marañon project, located on the river whit the same name near the town Nuevas Flores, department of Huánuco. The project started commercial operations in the second quarter of 2017.

- Cementos Portland S.A.C. - CEMPOR
  It is a company incorporated in the city of Lima in July 2007, which is currently in the preoperative stage. Its main activity is the exploitation and commercialization of limestone of the mining concession "El Silencio 8", located in the districts of Pachacamac and Cieneguilla, in the province and department of Lima.

  Through a Board Meeting held on September 21, 2018, the acquisition of 100 percent of CEMPOR's shares was approved for approximately US$29,933,000 (equivalent to approximately S/99,496,000), which was fully paid by the Company. On October 10, 2018, the Company took control of CEMPOR.

  On November 26, 2018, the change of name of Cementos Portland S.A. was approved. to Cementos Portland S.A.C.

- Inversiones en Concreto y Afines S.A. - INVECO
  It is a company incorporated in the city of Lima in April 1996. It is dedicated to investing in companies dedicated mainly to the supply of concrete, pre-mixed, construction materials and related activities, through its subsidiary Unión de Concreteras SA-UNICON, in which it owns 99.90 percent of participation, which in turn owns 99.90 percent of Concremax S.A. - CONCREMAX and 100% stake of Unicon de Concreteras Unicon UCUE Cia. Ltda. (UNICON Ecuador), subsidiary acquired on July 18, 2017, both companies are engaged in the same economic activity.

On March 26, 2018, UNICON subscribed a purchase and sale agreement with the objective of acquiring 100 percent of the shares of UNICON Chile S.A. The agreement includes seven concrete plants strategically located in the northern, central and southern areas of Chile. The approximate cost of the transaction was US$22,200,000 (equivalent to S/72,006,000), which is subject to adjustments at the closing date, for which the parties agreed to maintain a retained fund for approximately US$969,600, (equivalent to S/4,642,000), which is deposited in an Escrow Account in the Custodio Bank in favor of the seller, to cover price adjustments and possible contingencies for tax, labor and recoverability issues of accounts receivable. This escrow account will be released in favor of the seller to the extent that such contingencies prescribe according to a schedule established in the contract that expires on the month of April 2021.

On May 4, 2018, UNICON took control of UNICON Chile S.A., and disbursed the agreed compensation.

- Transportes Lurín S.A. - LURIN
  It is a company incorporated in Lima in July 1990. The General Shareholders' Meeting held on February 23, 2015 agreed the extending of core business through which the company will can to dedicate to the activity of creation, design, development and administration of own and third parties franchises, and any other activities conducive to carrying out the above in the condition of franchisor and/or franchisors, being able to sign franchise agreements and others, necessary for the development of such activities.

- Staten Island Co. LLC.
  During the year 2017, the Company acquired Staten Island Company for US$8,027,000 (equivalent to approximately S/25,992,000), this company is dedicated to real estate investments, has land in Las Vegas and Staten Island, New York. The Company is domiciled in the state of Arizona, United States and was created on July 1, 2017.

- Prefabricados Andinos S.A. – PREANSA Chile
  It is a company constituted in November 1996. The mainly activity of PREANSA Chile is the manufacture, sale and rental of all types of products especially concrete for industrial construction.

  On January 2014, the Company acquired 51 percent of the equity shares of PREANSA Chile for a total amount of US$7,140,000 (equivalent to approximately S/20,021,000).

- Prefabricados Andinos Perú S.A.C. – PREANSA Peru
  It is a company founded in Lima in October 2007. The mainly activity of PREANSA Peru is the manufactures of prestressed concrete structures and precast concrete, as well as the sales of these products in Peru and abroad. PREANSA Peru own 100 percent of the of the share capital in its subsidiary Prefafricados Andinos Colombia S.A.S. (hereinafter "PREANSA Colombia"), which operate from November 1, 2016.

(b) As of December 31, 2018 and 2017 the Company's Management expect than the allowance for impairment of investments to S/28,725,000 mainly related to Transportes Lurín S.A.

10. Mining concessions and property, plant and equipment, net

(a) The table below presents the changes in Mining concessions and property, plant and equipment, net:

	Mining concessions (b) S/(000)	Land S/(000)	Quarry closure S/(000)	Buildings and constructions S/(000)	Other installations S/(000)	Machinery and equipment S/(000)	Transportation units S/(000)	Furniture and fixtures S/(000)	Other equipment S/(000)	Work in progress (d) S/(000)	Total S/(000)
Cost -											
As of January 1, 2017	43,541	586,223	10,204	904,170	90,653	2,738,324	24,423	17,222	61,954	526,051	5,002,765
Additions (d)	90	-	3,572	-	-	249	690	36	2	117,421	122,060
Reclassification	-	-	-	-	-	11,403	-	-	-	-	11,403
Transfers	-	25,351	-	162,845	9,523	213,869	-	122	2,519	(414,229)	-
Withdrawals	-	(208)	(220)	-	-	-	(117)	-	-	-	(545)
As of December 31, 2017	43,631	611,366	13,556	1,067,015	100,176	2,963,845	24,996	17,380	64,475	229,243	5,135,683
Additions (d)	714	20	20,135	485	651	1,855	790	21	84	151,479	176,234
Reclassification	-	225	-	60,951	5,836	110,046	-	195	4,032	(181,285)	-
Transfers	-	-	(5)	(656)	(1,778)	(8,708)	-	-	-	-	(11,147)
As of December 31, 2018	44,345	611,611	33,686	1,127,795	104,885	3,067,038	25,786	17,596	68,591	199,437	5,300,770
Accumulated depreciation -											
As of January 1, 2017	10,527	-	4,617	171,800	49,112	696,800	19,256	15,426	45,679	-	1,013,217
Period depreciation (e)	8,157	-	1,181	44,717	6,902	161,543	1,907	484	2,986	-	227,877
Withdrawals	-	-	-	(7)	-	(3)	(23)	-	-	-	(33)
As of December 31, 2017	18,684	-	5,798	216,510	56,014	858,340	21,140	15,910	48,665	-	1,241,061
Period depreciation (e)	312	-	458	46,614	5,569	163,849	717	366	3,354	-	221,239
Withdrawals	-	-	(37)	-	-	(17)	-	-	-	-	(54)
As of December 31, 2018	18,996	-	6,219	263,124	61,583	1,022,172	21,857	16,276	52,019	-	1,462,246
Net book value -											
As of December 31, 2018	25,349	611,611	27,467	864,671	43,302	2,044,866	3,929	1,320	16,572	199,437	3,838,524
As of December 31, 2017	24,947	611,366	7,758	850,505	44,162	2,105,505	3,856	1,470	15,810	229,243	3,894,622

The caption "Mining concessions and property, plant and equipment, net" is presented according to accounting policies described in the notes 2.2(i), (j) and (o).

(b) As of December 31, 2018 and 2017, corresponds mainly to the concessions of the quarries of Atocongo, Atocongo Norte, Pucará and Oyón.

(c) As of December 31, 2017, the net book value of fixed assets acquired through financial leasing agreements amounted to approximately S/440,701,000. During 2018, the financial lease liabilities were canceled, see note 14(i) and (k), and the guarantees on the leased assets were lifted.

(d) The main additions during 2018 correspond to the Atocongo Thermal Plant Project, the Condorcocha Furnaces 2 and 3 Chiller dewatering system, and the Carpapata III Hydroelectric Power Plant's complementary works for approximately S/69,719,000.

In the first semester of 2018, the Company completed the construction related to the projects i) complementary works of the Carpapata III Hydroelectric Power Plant, ii) the firefighting network of the Atocongo - Conchán belt, and iii) interconnection between the hydroelectric power plants of Carpapata I and Huasahuasi, for approximately S/43,010,000, S/9,591,0000 and S/8,839,000, respectively. These projects were transferred from work in progress to their corresponding classification in the caption "Mining concessions and property, plant and equipment, net".

The main additions during the year 2017 corresponded to the complementary works of the Hydroelectric Plant Carpapata III, acquisition of land in the province of Tarma to obtain the limestone concession "Caripa" located near the Condorcocha plant and disbursements related to the Thermal Plant project Atocongo amounting to S/67,088,000.

In January 2017, the Company completed construction and began using the Carpapata III Hydroelectric Project, located in the Condorcocha plant, for a cost of approximately S/197,241,000. In July and September of 2017, work was completed in Furnace 1 of the Atocongo plant, the modernization works of the Furnace 3 control system and the improvement works in Furnace 2 of the Condorcocha plant for approximately S/56,685,000, S/28,933,000 and S/23,245,000, respectively. These projects were transferred from work in progress to their corresponding classification in the caption "Mining concessions and property, plant and equipment, net".

(e) The depreciation for the years 2018 and 2017 was distributed as follows:

	2018 S/(000)	2017 S/(000)
Cost of sales, note 20	213,929	212,541
Administrative expenses, note 21	5,934	5,373
Other expenses, note 24	770	9,338
Work-in-process	606	625
	221,239	227,877

(f) During the year 2018, borrowing costs were capitalized for approximately S/2,510,000. The amount of the capitalizable financing costs is determined by applying the capitalization rate to the capital expenditures incurred in the rated assets. The rate used to determine the amount of financing costs susceptible to capitalization was approximately 4.7 percent. In 2017, there was not borrowing cost capitalization due the Carpapata III Hydroelectric Power Plant project was culminated in January 2017.

11. Deferred stripping cost

This item is made up as follows:

	S/(000)
Cost -	
As of January 1, 2017	164,912
Additions	-
As of December 31, 2017	164,912
Additions	-
As of December 31, 2018	164,912
Accumulate depreciation-	
As of January 1, 2017	(37,780)
Additions, note 20	(4,155)
As of December 31, 2017	(41,935)
Additions, note 20	(4,877)
As of December 31, 2018	(46,812)
Net book value -	
As of December 31,2018	118,100
As of December 31,2017	122,977

As of December 31, 2018 and 2017, the Company has three identifiable components that allow a specific volume of limestone quarry and waste. Atocongo; North Atocongo and Pucará quarry.

12. Intangible assets, net

(a) The table below presents the components of this item:

	Concession for electricity generation (b) S/(000)	Goodwill (c) S/(000)	Software S/(000)	Environmental protection program S/(000)	Others S/(000)	Total S/(000)
Cost -						
As of January 1, 2017	61,330	9,745	19,372	17,071	8,156	115,674
Additions	-	-	407	-	2,957	3,364
As of December 31, 2017	61,330	9,745	19,779	17,071	11,113	119,038
Additions	-	-	914	-	1,910	2,824
As of December 31, 2018	61,330	9,745	20,693	17,071	13,023	121,862
Accumulated amortization -						
As of January 1, 2017	10,073	-	8,442	17,071	920	36,506
Amortization of the year, note 24(a)	18,471	-	3,142	-	6,821	28,434
As of December 31, 2017	28,544	-	11,584	17,071	7,741	64,940
Amortization of the year, note 24(a)	8,725	-	3,300	-	3,637	15,662
As of December 31, 2018	37,269	-	14,884	17,071	11,378	80,602
Net book value -						
As of December 31, 2018	24,061	9,745	5,809	-	1,645	41,260
As of December 31, 2017	32,786	9,745	8,195	-	3,372	54,098

(b) This amount corresponds to the expenditures to develop the overall project "El Platanal" consisting of the construction of two hydroelectric reservoirs and a system for the irrigation of uncultivated lands, and also to obtain the final concession to develop the activity of electricity generation, which was obtained by the Company, through Supreme Resolution N°130-2001-EM, dated July 25, 2001. On October 2, 2003 was approved through Supreme Resolution N°036-2003-EM the division of the definite concession of electric generation in two concessions of independent electric generation: G-1 "El Platanal" with an installed capacity 220 megawatts and G-2 "Morro Arica" with installed capacity of 50 megawatts. On September 12, 2006, the transfer of the concession and the assignment of use of the "El Platanal" project to its subsidiary Compañía Eléctrica El Platanal S.A. (CELEPSA) was approved by Supreme Resolution N°053-2006-EM for a period of 25 years from March 30, 2011, whereby the Company receives royalties in exchange equivalent to 3.55 percent of net monthly income obtained by CELEPSA, on sales of energy and power to third parties. As of December 31, 2017, the Company decided to prioritize its investments in the development of alternative electricity generation, for which it approved the disposal of investments that are not in line with the strategic plan, such as the G-2 power generation project "Morro of Arica."

(c) Effective 2003, the Company acquired 100 percent of the capital stock of Lar Carbón S.A. The acquisition was recorded following the purchase method, so adjustments were incorporated in the Company's separate financial statements to reflect the assets and liabilities acquired at their fair values at the acquisition date. As a result of this acquisition, the Company recognized a goodwill of S/9,745,000.

The recoverable amount of coal grinding plant (generating unit) is established on the basis of calculation of value in use, which uses projections of cash flows on preliminary financial budgets prepared by Management covering a 5-year period, calculated on the resource base. As a result of this analysis, no impairment loss on this unit was found. Management believes that there will not be significant changes in estimated production volumes, which would produce that the book value of these assets exceeds its recoverable value.

13. Trade and other payable

(a) This item is made up as follows:

	2018 S/(000)	2017 S/(000)
Trade accounts payable (b)	166,467	120,652
Accounts payable from related parties, note 27(c)	94,854	80,429
Interest payable, note 14 (d) and (s)	25,118	30,166
Salaries and vacation payable	17,846	15,502
Board compensation payable	1,370	3,182
Dividends payable	178	261
Value Added Tax payable	-	4,088
Other accounts payable	8,674	7,547
	314,507	261,827

(b) Trade account payables are mainly originated by mining services and procurement of supplies and additives for the production of the Company, as well they are denominated in domestic and foreign currency, have current maturities, do not accrue interest and have no specific guarantees.

14. Other financial liabilities

(a) The table below presents the components of this caption:

	2018			2017		
	Short-term S/(000)	Long-term S/(000)	Total S/(000)	Short-term S/(000)	Long-term S/(000)	Total S/(000)
Confirming (b)	-	-	-	30,828	-	30,828
Bank loans (c) and (d)	89,709	118,265	207,974	221,480	200,470	421,950
Bonds and long-term debt (e)	134,454	2,906,633	3,041,087	233,756	2,706,384	2,940,140
	224,163	3,024,898	3,249,061	486,064	2,906,854	3,392,918

The Company recognized its financial liabilities at amortized cost, see note 2.2(b)(iii), and the financial leases according to indicated in the note 3.2(h).

(b) In April 2018, the Company signed a confirming contract with the Banco Santander de Perú for approximately S/38,800,000, which accrues an interest rate to 4.50 percent annual, and was paid in December 2018, according to its maturity. On January 4, 2018, the Company canceled the entire account payable confirming contract with Banco Santander of Panamá, signed in March 2017, which accrued interest at a rate to 4.50 percent annual.

(c) Bank loans mainly correspond to loans for working capital at fixed annual rates that range from 5.20 to 5.85 percent, do not have specific guarantees and are renewed depending on the needs of working capital from the Company.

As of December 31, 2018 and 2017, the balance per bank consists of:

	2018 S/(000)	2017 S/(000)
Creditor -		
Citibank N.A. New York	189,224	227,150
Banco Santander Uruguay	18,750	56,251
Scotiabank Perú S.A.	-	94,105
BBVA Banco Continental	-	44,444
	207,974	421,950

(d) As of December 31, 2018 and 2017, the interest payable amounts to approximately S/3,081,000 and S/5,095,000, respectively, and are recorded in the caption "Trade and other payable" of the separate statement of financial position, see note 13(a). As of December 31, 2018 and 2017, the interest expenses amounted to approximately S/18,962,000 and S/33,360,000, respectively, and are included in the caption "Financial costs" of the separate statement of income, see note 26.

(e) The table below presents the components of the long-term bonds and debt to banks:

	Annual interest rate %	Maturity	Guarantee	2018 S/(000)	2017 S/(000)
Corporative Bonds -					
International bonds (f) and (r)	5.875	October 2021	No guarantees	760,275	2,028,125
First and third issuance of the second program (g) y (q)	Between 4.93 and 5.16	March 2020 and 2023	No guarantees	120,000	120,000
First and third issuance programs (h)	6.25	January 2018	No guarantees	-	9,086
				880,275	2,157,211
Amortized cost				(6,442)	(17,824)
				873,833	2,139,387
Bank debt (q) -					
Banco de Crédito del Perú (j)	5.80	November 2025	No guarantees	331,000	-
Scotiabank (l)	5.30	October 2025	No guarantees	330,200	-
BBVA Continental (l)	5.68	November 2024	No guarantees	280,500	-
Banco Internacional del Perú (m)	Between 4.35 and 5.25	March 2019 and March 2020	No guarantees	268,727	302,541
Banco Internacional del Perú (m)	4.60	September 2022	No guarantees	260,000	-
Citibank N.A. (n)	Libor 3 months plus 1.75	October 2025	No guarantees	168,950	-
Banco Santander (o)	Libor 3 months plus 1.85	November 2023	No guarantees	152,055	-
Scotiabank Perú (l)	5.80	December 2021	No guarantees	102,857	120,000
BBVA Banco Continental (l)	5.20	November 2021	No guarantees	102,857	130,108
Bank of Nova Scotia (p)	Between Libor 3 months plus 2.60	September 2025, April 2019 and February 2020	No guarantees	101,370	65,305
Banco de Crédito del Perú (j)	Between 5.90 and 6.60	April 2019 and February 2020	No guarantees	83,818	142,084
				2,182,334	760,038
Amortized cost				(15,080)	(3,534)
				2,167,254	756,504
Finance leases -					
Banco de Crédito del Perú (i)	6.52	February 2018	Leased goods	-	23,701
Banco Internacional del Perú (k)	5.80	October 2018	Leased goods	-	20,548
				-	44,249
Total				3,041,087	2,940,140
Less - Current portion				134,454	233,756
Non-current portion				2,906,633	2,706,384

(f) On October 31, 2014, the Company issued bonds by US$625,000,000 (approximately equivalent to S/1,868,125,000) yielding gross proceeds of US$615,073,000 (approximately equivalent to S/1,839,342,000) with a nominal interest rate of 5.875 percent and maturity on October 2021, which does not present specific guarantees.

On September 21, 2018, the Board of Directors approved the Company will finance up to US$490,000,000 for the refinancing of existing liabilities for US$400,000,000 and other corporate uses. On October 30, 2018, the Company made a partial redemption of these bonds for US$400,000,000 (approximately S/1,336,400,000) as established in section 3.01 of the Offering Memorandum issued on October 30, 2014. Partial redemption was made on the date of the first Call Option ("Option to purchase") of the bonds, at a price equal to 102.93750 percent of the principal. Additionally, on the same date, all accrued interest was paid for approximately S/61,337,000. Also, as a result of the advance payment of the bonds, the Company paid costs related to the partial redemption of the international bonds for approximately S/39,257,000, see note 26.

(g) On April 7, 2010, the General Shareholders' Meeting approved the "Second Program of Issuance of Debt Instruments up to a maximum outstanding amount of US$150,000,000 or its equivalent in Soles".

On March and December 2013, the Company placed the First, Second and Third Issuance of the Second Program of Corporate Bonds for a total amount S/60,000,000 each. As of December 31, 2018, The Company maintains a debt in relation to first and second issues payable.

(h) On March 26 and June 19, 2009, the Board of Directors and General Shareholders' Meeting, respectively, approved the First Program of Corporate Bonds of Cemento Andino S.A. (transferred later than the date of merger to the Company) until US$40,000,000 or its equivalent in Soles. In January 2018, the Company canceled the last installment.

(i) On December 17, 2008, the Company signed a financial leasing agreement with Banco de Crédito del Perú (BCP), by amount of US$187,000,000, for the construction of the kiln 4 at Condorcocha plant, located in Junin. On February, 2018, the last installment of the financial lease was cancelled, taking purchase option and as a consequence the lease assets were released from any lien.

(j) In 2015, the Company signed three medium-term loan agreements with BCP by S/13,432,000, S/27,899,000 and S/150,000,000, the first two were loans for working capital and the third was for construction, equipment, assembly and commissioning of the Carpapata III Hydroelectric Plant. The term of these loans is 4 and a half years and accrues interest to an interest rate between 5.90 and 6.60 percent. As of December 31, 2018, the balance payable amounts to approximately S/83,818,000.

In October 2018, the Company signed into a long-term financing agreement with BCP for S/ 331,000,000 with an annual interest rate to 5.80 percent by seven years. The funds were used for the partial redemption of international bonds.

(k) On May 19, 2010, the General Shareholders Meeting agreed to approved the lease agreement to increase the production capacity with Banco Internacional del Perú (Interbank), this project increase the production capacity of kiln 1 plant from 3,200 to 7,500 tones clinker/daily, located in Atocongo. The Company completed the project in the year 2013. In October 2018, the last installment corresponding to the financial lease was paid, taking the option to purchase and, consequently, the assets related to said lease were released from all liens.

(l) On November 30, 2016, the Company signed two financing contracts, each by S/120,000,000, with Scotiabank Perú and BBVA Continental, both for a term of five years with a grace period of eighteen months and fourteen quarterly installment, with the purpose of refinancing short-term financial debt. On December 6, 2017, addendums to the contracts were signed, modifying the annual effective rate to 5.80 percent and the annual nominal rate to 5.20 percent, respectively. As of December 31, 2018, the balance payable amounts to approximately S/102,867,000.

On October 2018, the Company signed into two long-term financing agreements with Scotiabank Perú and BBVA Continental. The first amounting to S/330,200,000 with a term of seven years and an annual interest rate to 5.30 percent and the second for S/280,500,000 by six years and an annual interest rate to 5.68 percent. The funds obtained were used to refinance financial liabilities.

(m) On March 30, 2017, the Company entered into a short-term financing agreement with Interbank for S/260,000,000 with an interest rate of 4.35 percent. The funds were used to refinance current financial debt.

On October 2018, the Company signed a new medium-term financing agreement with Interbank for S/260,000,000 with an annual interest rate to 4.60 percent and a four-year maturity. The funds were used for the partial redemption of international bonds.

(n) On October 2, 2018, the Company entered into a long-term financing agreement with Citibank N.A. for US$50,000,000 (equivalent to approximately S/168,950,000). The interest rate corresponds to LIBOR plus 1.75 percent, with a term of seven years. The funds were used to refinance financial liabilities. In addition, the Company signed a swap contract to reduce the risk of the variable rate, see note 30(i),(a).

(o) On November 27, 2018, the Company entered into a medium-term financing agreement with Banco Santander S.A. for US$45,000,000 (equivalent to approximately S/152,055,000). The interest rate corresponds to LIBOR plus 1.80 percent, for a term of five years. The funds were used to refinance financial liabilities. In addition, the company signed a swap contract to reduce the risk of the variable rate, see note 30(i) (a).

(p) On October 31, 2018, the Company signed into a long-term financing agreement with the Bank of Nova Scotia for US$30,000,000 (equivalent to approximately S/101,370,000). The interest rate corresponds to LIBOR plus 2.60 percent, for a term of seven years. The funds were used for the partial redemption of foreign bonds and other corporate uses. In addition, the Company signed a swap contract to reduce the risk of the variable rate, see note 30 (i) (a).

(q) The applicable financial covenants to other local financial liabilities are of quarterly follow-up and it must be calculated on the bases of the separate financial information and the calculation methodologies by each financial entity.

As of December 31, 2018, the main financial covenants that the Company maintains with each financial entity fluctuate between the following rates and indexes:

- Maintain an index debt minor or equal to 1.5 times.
- Maintain a debt service coverage ratio major o equal between 1.2 to 1.25 times.
- Maintain an interest coverage ratio major o equal between 3.0 to 4.0 times.
- Maintain a debt coverage ratio that equals to financial debt/EBITDA minor or equal between 3.50 and 3.75.

In Management's opinion, the Company has complied with financial covenants requested for financial entities related to these obligations as of December 31, 2018 and 2017.

(r) Clauses of incurrences in issuance contracts of foreign bonds, note 15(f)
The contract contains certain clauses that restrict the capacity of the Company and of its subsidiaries, among other:

- Consolidate, merge or transfer substantially all the assets.
- Pay dividends or perform any other type of payment or restricted distribution.
- Sell assets, including share capital of its subsidiaries.
- Perform operations with related parties that are not restricted subsidiaries.
- Create limitations in the capacity of its restricted subsidiaries to pay dividends, perform loans.
- Transfer of the ownership of the Company.
- Incur charges.
- Participate in any business that is not an allowed business.
- Obtain additional debt, for which should:

  (i) Maintain a Consolidated Fixed Charge Coverage Ratio equal or greater than 2.5 to 1.0.
  (ii) Maintain Consolidated Leverage Ratio (net Financial Debt/EBITDA) equal o minor of 4 until 1, in the case of the incurred debt before of December 2015, and 3.5 until 1 thereafter.

In Management's opinion, the Company has been fulfilling with the restricted includes in the contract of issuance of foreign bonds as of December 31, 2018 and 2017.

(s) As of December 31, 2018 and 2017, interests payable related to bonds and long-term debt are amounted to approximately S/22,037,000 and S/25,071,000, respectively and are recorded in the caption "Trade and other payable", of the separate statement of financial position, note 13(a).

(t) Interests generated by Bonds and long-term loans as of December 31, 2018 and 2017, amounting approximately S/158,708,000 and S/168,542,000, respectively are included in the caption "Financial costs" in the separate statement of comprehensive income, note 26.

15. Deferred income

As of December 31, 2018, mainly correspond to sales of cement and clinker invoiced and not delivered, amounting to approximately S/11,410,000 which will be conducted in the first quarter of year 2019 (S/15,349,000 as of December 31, 2017 sales of cement delivered during first quarter of the 2018).

16. Provisions

(a) The table below presents the components of this caption:

	Current		Non-Current	
	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)
Workers' profit sharing (b)	16,453	23,768	-	-
Quarry closure provision (c)	2,953	410	35,124	15,778
Severance indemnities	1,694	1,541	-	-
	21,100	25,719	35,124	15,778

(b) Workers' profit sharing –

In accordance with Peruvian legislation, the Company maintains an employee profit sharing plan of 10 percent of annual taxable income. Distributions to employees under the plan are based 50 percent on the number of days that each employee worked during the preceding year and 50 percent on proportionate annual salary levels. During the years 2018 and 2017, the Company recognized an expense approximately to S/38,153,000 y S/42,369,000, respectively, see note 23(a). During 2018, the Company granted approximately S/18,612,000 as profit advancement (S/18,490,000 in 2017).

(c) Quarry closure provision -

As of December 31, 2018 and 2017, the Company maintains a provision for future closure costs of its mines to be occur between 10 and 33 years. The provision was created on the basis of studies conducted by internal specialists using a discount rate. Based on the current economic environment, Management adopted certain assumptions which are considered reasonable to make an estimation of future liabilities. These estimates are reviewed annually to take into account any significant change in the assumptions. However, the actual costs of quarry closure finally depend on future market prices for the necessary works of abandonment that will reflect market conditions at the relevant time. In addition, the actual closing time depends on when the mines ceases to produce economically viable products.

As of December 31, 2018, the future value of the quarry closure provision ascend to approximately S/46,552,000 (S/34,023,000 in December 2017). The range of the risk-free discount rate used in calculating the provision ranges from 0.97 to 1.21 percent, resulting in an updated liability of S/38,077,000 (S/16,188,000 as of December 31, 2017). The Company's Management considers that this liability is sufficient to comply with the current environmental protection laws approved by the Ministry of Energy and Mines.

17. Deferred income tax liability, net

(a) The following table presents the composition of the caption, in accordance to the difference:

	As of January 1, 2017 S/(000)	Statement of income S/(000)	Charge to equity S/(000)	Others	As of December 31, 2017 S/(000)	Statement of income S/(000)	Charge to equity S/(000)	As of December 31, 2018 S/(000)
Deferred liability								
Differences on fixed assets tax bases	463,467	7,432	-	2,184	473,083	(15,862)	-	457,221
Stripping cost	37,504	(1,226)	-	-	36,278	(1,439)	-	34,839
Capitalized interests	36,975	(2,145)	-	-	34,830	(1,408)	-	33,422
Amortization of software	5,092	(5,044)	-	-	48	(1,965)	-	(1,917)
Workers' profit sharing charged to inventories	2,184	-	-	(2,184)	-	-	-	-
	545,222	(983)	-	-	544,239	(20,674)	-	523,565
Deferred asset								
Derivative financial instruments	(2,976)	191	(34)	-	(2,819)	1,630	(5,513)	(6,702)
Allowance for inventory obsolescence	(1,954)	(2,565)	-	-	(4,519)	(2,078)	-	(6,597)
Provision for vacation	(3,098)	(309)	-	-	(3,407)	(505)	-	(3,912)
Quarry closure provision	(2,076)	(277)	-	-	(2,353)	(274)	-	(2,627)
Fair value with changes in other comprehensive income	-	-	-	-	-	-	(1,561)	(1,561)
Deferred income (net)	(1,507)	(437)	-	-	(1,944)	523	-	(1,421)
Other provisions	(1,767)	(2,696)	-	-	(4,463)	(354)	-	(4,817)
	(13,378)	(6,093)	(34)	-	(19,505)	(1,058)	(7,074)	(27,637)
Deferred income tax liability, net	531,844	(7,076)	(34)	-	524,734	(21,732)	(7,074)	495,928

The Company offsets assets and liabilities if and only if it has a legally enforceable right to offset current tax assets with current tax liabilities and when the deferred assets and deferred liabilities are relate to income taxes levied by the same Tax Authority.

(b) The current and deferred portions of income tax for the years ended 2018 and 2017 are comprised as follows:

	2018 S/(000)	2017 S/(000)
Current	(103,216)	(116,631)
Deferred	21,732	7,076
	(81,484)	(109,555)

(c) The table below presents the conciliation of the effective tax rate and the legal tax rate for the years 2018 and 2017:

	2018 S/(000)	%	2017 S/(000)	%
Profit before income tax	323,700	100.00	575,713	100.00
Income tax according tax rate	95,492	29.50	169,835	29.50
Tax effect on permanent items	(14,008)	(4.33)	(60,280)	(10.47)
Expense for income tax	81,484	25.17	109,555	19.03

18. Equity

(a) Capital issued–

As of December 31, 2018 and 2017, the capital stock is represented by 1,646,503,408 common shares totally subscribed and paid at a nominal value of S/1 per share. The common shares representing the Company's capital stock are traded on the Lima Stock Exchange.

Shareholders	**Number of shares**	**Percent of participation** %
Sindicato de Inversiones y Administración S.A.	714,311,308	43.38
Inversiones Andino S.A.	399,979,008	24.29
AFPs	336,819,847	20.46
Others	195,393,245	11.87
	1,646,503,408	100.00

As of December 31, 2018, the share price of each share has been S/2.60 (S/3.00 as of December 31, 2017).

As of January 1, 2019, the common share amount to S/1,818,126,611 with a nominal value of S/1.00 per share, see note 33.

(b) Legal reserve -

Under the terms of the General Corporation Law, it is required that at least 10 percent of the distributable profit for each year, less income tax, has to be transferred to a legal reserve until such reserve equals to 20 percent of the share capital. The legal reserve may offset any losses or may be capitalized, existing in both cases the obligation to replenish it. As of December 31, 2018 and 2017, the Company has reached the required limit according to law.

(c) Unrealized net profit -

Corresponds to the fair value changes on hedging financial instruments and reserve on financial assets measured at fair value, net of its corresponding tax effect.

(d) Dividend distributions –

The Board of Directors meetings held on January 26, April 27, July 26 and October 26, 2018, agreed to distribute dividends charge to retained earnings for approximately S/85,618,000 (S/0.052 per common share), such payments were made on 28 February, May 31, August 28 and November 30, 2018, respectively, which have been paid. The Company paid S/83,000 for distribution of dividends from previous years.

The Board of Directors meetings held on January 27, April 28, July 21 and October 27, 2017, agreed to distribute dividends with charge to retained earnings for approximately S/85,619,000 (S/0.052 per common share), such payments were made on March 1, June 1, August 24 and November 30, 2017, respectively, which maintain as account payable by approximately S/16,000.

19. Net sales

(a) This item is made up as follows:

	Cement		Clinker		Concrete blocks, bricks and pavers		Total	
	As of December 31, 2018 S/(000)	As of December 31, 2017 S/(000)	As of December 31, 2018 S/(000)	As of December 31, 2017 S/(000)	As of December 31, 2018 S/(000)	As of December 31, 2017 S/(000)	As of December 31, 2018 S/(000)	As of December 31, 2017 S/(000)
Segments								
Sale of cement	1,793,084	1,739,540	-	-	-	-	1,793,084	1,739,540
Clinker export (b)	-	-	105,234	64,493	-	-	105,234	64,493
Sale of concrete blocks, bricks and pavers (c)	-	-	-	-	70,676	58,618	70,676	58,618
	1,793,084	1,739,540	105,234	64,493	70,676	58,618	1,968,994	1,862,651
Revenue recognition								
Goods transferred at a point in time	1,793,084	1,739,540	105,234	64,493	70,676	58,618	1,968,994	1,862,651
	1,793,084	1,739,540	105,234	64,493	70,676	58,618	1,968,994	1,862,651

(b) The sales of clinker correspond mainly to the exportations of the raw materials to clients located in South America and Central America.

(c) Corresponds mainly to sales to UNICON and Concremax, related companies, see note 27(b).

20. Cost of sales

This item is made up as follows:

	2018 S/(000)	2017 S/(000)
Beginning balance of finished goods and work in process, note 8(a)	199,650	273,155
Cost of production:		
Fuel	265,405	214,909
Depreciation, note 10(e)	213,929	212,541
Personnel expenses, note 23(b)	129,728	124,917
Comsumption of raw material	111,191	76,959
Maintance of furnaces, machinery and equipment	103,382	66,760
Power	91,638	83,954
Packaging	66,616	65,822
Transport of row material	65,099	50,572
Depreciation for stripping cost, note 11	4,877	4,155
Otros gastos de fabricación	180,454	157,620
Ending balance of finished goods and work in process, note 8(a)	(216,835)	(199,650)
	1,215,134	1,131,714
Provision for inventory obsolescence- note 8(e)	7,043	8,727
	1,222,177	1,140,441

21. Administrative expenses

This item is made up as follows:

	2018 S/(000)	2017 S/(000)
Personnel expense, note 23(b)	67,400	67,111
Management services, note 27(b)	43,200	69,424
Services rendered by third parties	36,519	32,286
Grants	17,983	15,970
Taxes	8,154	7,111
Depreciation, note 10(e)	5,934	5,373
Allowance for doubtful accounts, nota 7(f)	137	56
Others	10,165	9,012
	189,492	206,343

22. Selling expenses

(a) This item is made up as follows:

	2018 S/(000)	2017 S/(000)
Advertising and marketing (b)	47,441	41,976
Personnel expenses, note 23(b)	6,460	5,970
Warehouse managing services	2,004	1,820
Other	10,947	7,706
	66,852	57,472

(b) Correspond mainly to the services of advertising in radio, television and other media in order to improve sales.

23. Personnel expenses

(a) This item is made up as follows:

	2018 S/(000)	2017 S/(000)
Remunerations	107,124	96,258
Workers' profit sharing, note 16(b)	38,153	42,369
Vacations	13,580	12,367
Bonuses	13,495	12,421
Social contributions	11,433	10,416
Severance compensation	9,777	8,752
Medical aid	7,133	6,730
Fees and remunerations of the Board	4,059	6,942
Other	1,077	1,944
	205,831	198,199

(b) Personnel expenses are allocated as follows:

	2018 S/(000)	2017 S/(000)
Cost of sales, note 20	129,728	124,917
Administrative expenses, note 21	67,400	67,111
Selling expenses, note 22(a)	6,460	5,970
Other operating income (expenses), net, note 24(a)	2,243	201
	205,831	198,199

(c) The average number of employees during 2018 was 780 (763 in the year 2017).

24. Other operating income (expenses), net

(a) This item is made up as follows:

	2018 S/(000)	2017 S/(000)
Other income -		
Income of dividends, note 27(b) y (b)	98,238	247,161
Income from use of intellectual property, note 28(b)	18,430	18,169
Sale of goods and supplies	12,046	8,454
Income from services	11,689	10,091
Income from royalties, note 27(b)	4,868	5,189
Rental income	2,368	2,474
Sale of property, machinery and equipment	88	1,391
Others	16,019	10,609
	163,746	303,538
Other expenses -		
Amortization of intangibles, note 12(a)	15,662	28,434
Cost of goods and supplies	11,797	7,483
Allowance for doubtful accounts, note 7(f)	3,604	-
Personnel expenses, note 23(b)	2,243	201
Cost from services	2,237	1,294
Depreciation, note 10(e)	770	9,338
Others	1,142	5,870
	37,455	52,620
	126,291	250,918

(b) The income declared from dividends in the 2018 correspond mainly to the declared dividends by Inversiones Imababura S.A. and Ferrocarril Central Andino S.A. for approximately S/98,238,000 (correspond mainly to Inversiones Imababura S.A., Inversiones en Concreto y Afines S.A., Compañía Eléctrica El Platanal S.A.and Ferrocarril Central Andino for approximately S/247,161,000 for the year 2017). See note 27(b). During 2018, the Company has collected an amount approximately of S/122,930,000 for dividends concept (S/124,143,000 in the year 2017).

25. Finance income

This item is made up as follows:

	2018 S/(000)	2017 S/(000)
Gain on derivative financial instrument, net, note 30.1(i)(b)	5,547	-
Interest on deposits	3,435	3,666
Others	5,303	287
	14,285	3,953

26. Finance cost

This item is made up as follows:

	2018 S/(000)	2017 S/(000)
Interest on bonds and long-term debt, note 14(t)	158,708	168,542
Interests on bank loans, note 14(d)	18,962	33,360
Redención parcial de bonos, nota 14(f)	39,257	-
Other	11,137	9,281
	228,064	211,183
Commissions for structuring other financial liabilities (b)	13,985	6,395
	242,049	217,578
Interest on hedging derivative instruments, note 30.1(i)(a)	4,373	4,915
Change in fair value of trading derivatives, net, note 30.1(i)(b)	-	2,521
Loss by update of the fair value of the liabilities	478	581
	4,851	8,017
	246,900	225,595

(b) Corresponds mainly to structured commissions related to partial redemption of bonds amounting to S/7,513,000, see note 14(f).

27. Related parties transactions

(a) Nature of the relationship -

During the years 2018 and 2017, the Company has made transactions with the following related entities:

- Sindicato de Inversiones y Administración S.A. – SIA

  Sindicato de Inversiones y Administración S.A. own 43.38 percent of the share capital of the Company. Additionally, SIA is dedicated to provide management services to the Company, in exchange for an annual payment of the 7.2 percent of its liquid profits before income tax, the workers' profit sharing and Board remunerations. As indicated in note 33, on January 1, 2019 SIA merged with the Company, being absorbed by it, consequently, SIA was extinguished without being dissolved or liquidated and the contract for management service was resolved

- Inversiones Andino S.A. – IASA

  Inversiones Andino S.A. own 24.29 percent of the share capital of the Company. Additionally, IASA is dedicated to provide administrative and management advisory services to the Company, in exchange for an annual payment of the 2.8 percent of its liquid profits before income tax, the workers' profit sharing and Board remunerations. As indicated in note 33, on January 1, 2019, the IASA merged with the Company, being absorbed by it, consequently, IASA was extinguished without dissolution or liquidation and the contract for administrative and managerial advisory services was resolved.

- Unión de Concreteras S.A. – UNICON

  Its main activity is the commercialization of cement with UNICON that is an indirect subsidiary of the Company, through Inversiones en Concreto y Afines S.A. Likewise, UNICON provides the service of producing concrete blocks, bricks and pavers.

- Concremax S.A. -

  In November 2015, Firth Industries Perú S.A. changes name to Concremax S.A. The Company is dedicated to commercialization of cement with Concremax S.A who is a subsidiary of the Company through Unión de Concreteras S.A.

- Compañía Eléctrica el Platanal S.A. – CELEPSA, see note 9 y 12(b).

- Prefabricados Andinos Perú S.A.C. – PREANSA, see note 9.

- Depósito Aduanero Conchán S.A. – DAC

  DAC's main activity is to provide storage services, authorized warehouse for own and third parties goods, as well as the promotion of services, transportation, storage, management and delivery of cement manufactured by the Company, which also rents to DAC the warehouse facilities for the development of its activities.

- Generación Eléctrica de Atocongo S.A. – GEA
  GEA's main activity is the generation and sale of electricity to the Company, which also leases GEA the equipment for the development of its business.

- ARPL Tecnología Industrial S.A. – ARPL
  As of December 31, 2018, ARPL is a direct subsidiary of Inmobiliaria Pronto S.A. with a 100 percent share. Some of the Company's shareholders exercise significant influence in ARPL, from which it receives advisory services and technical assistance, development and management of engineering projects. As of January 1, 2019, as a result of the merger of the Company with Inmobiliaria Pronto S.A., see note 33, ARPL becomes a direct subsidiary of the Company

- La Viga S.A.
  It's the main distributor of cement of the Company in the city of Lima, representing approximately 22.5 and 22.0 percent of total cement sales of the Company in 2018 and 2017, respectively.

- Inversiones Imbabura S.A – IMBABURA, see note 9.

- UNACEM Ecuador S.A.
  It´s a subsidiary of Inversiones Imbabura S.A. and an indirect subsidiary of the Company. In 2015 the Company signed a trademark license and intellectual property agreement through which this subsidiary is obligated to pay royalties of 1.5 percent and 2.5 percent, respectively, of sales.

(b) The main transactions with related during the years 2018 and 2017 were as follows:

	2018 S/(000)	2017 S/(000)
Revenues:		
Cement sales –		
La Viga S.A.	418,595	402,240
Unión de Concreteras S.A.	209,891	193,271
Concremax S.A.	63,513	54,985
Prefabricados Andinos Perú S.A.C.	1,263	798
Asociación UNACEM	649	506
Dividends income, note 24(a) –		
Inversiones Imbabura S.A.	94,298	155,375
Ferrocarril central Andino S.A.	3,940	3,209
Inversiones en Concreto y Afines S.A.	-	44,729
Compañía Eléctrica el Platanal S.A.	-	43,848

	2018 S/(000)	2017 S/(000)
Blocks, bricks and paving sales –		
Unión de Concreteras S.A.	50,252	19,439
Concremax S.A.	20,401	49,985
Licenses - Intellectual property and trademarks – Abroad, note 24(a)		
UNACEM Ecuador S.A.	18,430	18,169
Administrative, technology and management support –		
Unacem Ecuador S.A.	8,961	5,232
Prefabricados Andinos Perú S.A.C.	544	465
Drake Cement LLC.	320	348
Depósito Aduanero Conchán S.A.	192	192
Compañía Eléctrica el Platanal S.A.	154	111
Vigilancia Andina S.A.	108	92
Generación Eléctrica Atocongo S.A.	105	105
Transportes Lurín S.A.	38	105
Others	32	29
Income from royalties –		
Compañía Eléctrica el Platanal S.A., note 24(a)	4,868	5,189
Leases of plant, equipment and facility		
Unión de Concreteras S.A.	736	730
Depósito Aduanero Conchán S.A.	319	316
Prefabricados Andinos Perú S.A.C.	187	187
La Viga S.A.	177	175
Others	54	47
Other income –		
UNACEM Ecuador S.A.	2,304	2,271
Compañía Eléctrica el Platanal S.A.	655	1,078
Sunshine Concrete & Materials Inc	238	550
Unión de Concreteras S.A.	192	406
Drake Aggregates LLC	-	128
Others	114	42
Purchase and costs:		
Purchase of electric energy –		
Compañía Eléctrica el Platanal S.A.	81,173	75,472

	2018 S/(000)	2017 S/(000)
Management services, note 21 –		
Sindicato de Inversiones y Administración S.A.	31,100	49,985
Inversiones Andino S.A.A.	12,100	19,439
Tolling agreement Service –		
Unión de Concreteras S.A.	18,455	18,467
Concremax S.A.	11,676	6,735
Commissions and freight costs of cement sales -		
La Viga S.A.	23,229	22,238
Concremax S.A.	792	899
Security service -		
Vigilancia Andina S.A.	22,268	20,734
Technical assistance and engeniering services –		
ARPL Tecnología Industrial S.A.	18,467	17,607
Purchase of additional material -		
Concremax S.A.	2,689	-
Unión de Concreteras S.A.	2,353	2,995
Purchase and costs		
Management Project services		
ARPL Tecnología Industrial S.A.	5,598	4,973
Deposit management service –		
Depósito Aduanero Conchán S.A.	3,730	3,120
Expense reimbursements –		
Unión de Concreteras S.A.	5,595	3,156
ARPL Tecnología Industrial S.A.	403	98
Others –		
Generación Eléctrica Atocongo S.A.	2,530	2,965
Inversiones Andino S.A.	985	978
Unión de Concreteras S.A.	910	834
Depósito Aduanero Conchán S.A.	720	410
Prefabricados Andinos Perú S.A.C	378	145
Transportes Lurín S.A.	2	4,459
Others	197	254

(c) As a result of these and other minor transactions, as of December 31, 2018 and 2017, the Company had the following balances with its related entities:

	2018 S/(000)	2017 S/(000)
Trade receivable		
Unión de Concreteras S.A.	54,933	45,103
La Viga S.A.	23,951	28,024
Drake Cement LLC	15,889	27,721
Concremax S.A.	11,649	16,927
UNACEM Ecuador S.A.	5,284	6,407
Compañía Eléctrica El Platanal S.A.	4,929	5,503
Others	1,747	943
	118,382	130,628
Dividendos receivable, (e)		
Inversiones Imbabura S.A.	154,794	155,394
Compañía Eléctrica El Platanal S.A.	38,538	43,848
Inversiones en Concreto y Afines S.A.	7,816	22,456
	201,148	221,698
Loans receivable, (d)		
Drake Cement LLC	70,970	58,927
Drake Aggregates LLC	13,576	-
Skanon Investments Inc	6,402	5,870
Prefabricados Andinos Perú S.A.C.	5,550	-
	96,498	64,797
Total trade receivable, note 7(a)	416,028	417,123
By term –		
Current portion	256,690	358,196
Non-current portion	159,338	58,927
	416,028	417,123

	2018 S/(000)	2017 S/(000)
Trade payable, note 14 –		
Unión de Concreteras S.A.	41,103	10,376
Sindicato de Inversiones y Administración S.A.	16,481	33,882
Compañía Eléctrica El Platanal S.A.	9,365	8,153
Inversiones Andino S.A.	6,666	8,439
ARPL Tecnología Industrial S.A.	6,482	4,986
Concremax S.A.	6,023	8,807
La Viga S.A.	4,200	3,042
Vigilancia Andina S.A.	2,131	404
Generación Eléctrica Atocongo S.A.	685	49
Depósito Aduanero Conchán S.A.C.	664	643
Transporte Lurin S.A.	650	833
Inversiones en Concreto y Afines S.A.	308	-
Drake Cement LLC	-	718
Others	96	97
	94,854	80,429

The Company conducts its operations with related entities under the same conditions as those made with third parties, therefore there is no difference in pricing policies or the settlement of tax base, in relation to the payment, and they do not differ with the policies issued to third parties.

(d) In August 2018, the Company entered into a loan agreement in favor of Drake Aggregate LLC for a total amount of US$3,956,000 (equivalent to S/13,620,000), which accrues an annual effective interest rate to 4.75 percent and expires on August 1, 2021.

(e) As of December 31, 2018, the balance receivable from related companies includes dividends receivable from IMBABURA, CELEPSA and INVECO amounting to S/157,795,000, S/40,824,000 and S/7,816,000, respectively. Dividends have been classified as financial assets measured at fair value with changes in other comprehensive income, in accordance with IFRS 9, and as a result of the impairment assessment, a provision for loss of value of money has been estimated to S/5,289,000 (S/3,730,000 net of its income tax effect).

(e) The total remuneration paid to directors and key members of management as of December 31, 2018 is amounting to approximately S/23,730,000 (approximately S/27,470,000 in 2017), which include short-term benefits and compensation for time served.

28. Earnings per share

Basic earnings per share amounts are calculated by dividing net income for the year by the weighted average number of common shares outstanding during the year.

Calculation of the weighted average number of shares and the basic and diluted earnings per share is presented below:

	2018 S/(000)	2017 S/(000)
Numerator		
Net income attributable to common shares	242,216	466,158
	Thousand	**Thousand**
Denominator		
Weighted average number of common shares	1,646,503	1,646,503
Basic and diluted earnings for common shares	0.147	0.283

29. Commitments and contingencies

29.1 Financial commitments -

As of December 31, 2018, the Company has the following commitments:

- Guarantee letter in favor of the National Institute for the Defense of Competition and the Protection of Intellectual Property (INDECOPI) issued by BBVA Banco Continental in an amount of S/6,300,000, with maturity on May 2019, in order to ensure compliance with the payment of a fine imposed by the Defense of Free Competition Committee of INDECOPI, see note 29.4.

- Guarantee letter to the Ministry of Energy and Mines (MEM), issued by Banco de Crédito del Perú, by a total approximate of US$4,150,000 (equivalent to S/13,981,000) with maturity January 2019, in order to ensure compliance of the Mine Closure.

29.2 Financial leases -

The future minimum payments for leases are as follows:

	2017	
	Minimum payments S/(000)	**Present value of minimum lease payments** S/(000)
Between one to five years	45,295	44,249
Total payments	45,295	44,249
Less - finance costs	(1,046)	-
Present value of minimum lease payments	44,249	44,249

During 2018, the Company canceled financial leases, see note 14(j) and (k).

29.3 Tax situation -

(a) The Company is subject to the Peruvian tax system

By Legislative Decree No. 1261 published on December 10, 2016, the government introduced certain amendments to the Income Tax Law, effective as from January 1, 2017. The most relevant are presented below:

- An income tax rate of 29.5% is set.

- A tax of 5% of income tax is established on dividends or any other form of distribution of profits. The rate applicable to dividends will be considered taking into account the year in which the results or profits that form part of the distribution have been obtained, in accordance with the following: 4.1% with respect to the results obtained until December 31, 2014; 6.8% on results obtained during the years 2015 and 2016; and 5% with respect to the results obtained from January 1, 2017. It is important to note that it is assumed, without admitting evidence to the contrary, that the distributed dividends correspond to the oldest accumulated results.

(b) For purposes of determining the Income Tax, the transfer prices for transactions with related entities and entities domiciled in territories with little or no taxation must be supported by documentation and information on the valuation methods used and the criteria considered for their determination. Based on an analysis of the Company's operations, management and its legal advisors believe that the application of this rule would not result in material contingencies for the Company as of December 31, 2018 and 2017.

(c) The Tax Authority has the power to review and adjust the income tax calculated by the Company in the four years following the year the tax returns presentation. The tax returns of the Income Tax for the years 2013 to 2014 and 2016 to 2017, as well as the value added tax ("IGV" for its acronym in Spanish) for the periods December 2013 to December 2018 are open to review by Tax Authority.

On October 2017, the Tax Authority concluded the review of the income tax of period 2015. At the date, Tax Authority has been inspecting the income tax for the period of 2014.

(d) Due to the interpretations likely to be given by the Tax Authority on current legal regulations, it is not possible to determine, as of this date, whether the reviews to be conducted will result or not in liabilities for the Company, therefore, any increased tax or surcharge that could arise from possible tax reviews will be applied to the results of the year in which it is determined. In the Management's and its legal advisors' opinion, any additional tax settlement would not be significant for the separate financial statements as of December 31, 2018 and 2017.

(e) As of December 31, 2018, the Company registered a provision of income tax by S/92,842,000, and credit to advance payments by S/100,618,000 (S/116,631,000 and S/68,800,000, respectively as of December 31, 2017). As of December 31, 2018, the credit to advance payment amounting to S/7,776,000 and other credits amounting to S/3,649,000 are presented of the separate financial statement as "Trade receivables and others".

(f) The main tax regulations issued during 2018 are the following:

(i) As of January 1, 2019, the treatment applicable for royalties and retributions for services rendered by non-domiciled persons was modified, eliminating the obligation to pay the amount equivalent to the withholding due to the accounting record of the cost or expense, the income tax must be withheld due to the payment or accreditation of the remuneration. In order to deduct a cost or expense, the retribution must have been paid or credited up to the filing date of the annual tax return for the income tax (Legislative Decree N°1369)

(ii) Standards that regulate the obligation of legal persons and / or legal entities to inform the identification of their final beneficiaries (Legislative Decree No. 1372) were established. These rules are applicable to legal entities domiciled in the country, in accordance with the provisions of Article 7 of the Income Tax Law, and legal entities established in the country. The obligation covers non-domiciled legal persons and legal entities established abroad, as long as: a) they have a branch, agency or other permanent establishment in the country; b) the individual or legal entity that manages the autonomous assets or the investment funds from abroad, or the natural or juridical person that has the status of protector or administrator, is domiciled in the country and c) any of the parties of a consortium is domiciled in the country. This obligation will be fulfilled by submitting an informative Sworn

Statement to the Tax Authority, which must contain the information of the final beneficiary and be presented, in accordance with the regulations and within the terms established by resolution of SUNAT.

(iii) The Tax Code was modified in the application of general anti-avoidance rule (Rule XVI) of the Preliminary Title of the Tax Code (Legislative Decree No. 1422).
As part of this modification, a new assumption of joint and several liability is envisaged, when the tax debtor is subject to the application of the measures provided by Rule XVI in the event that tax evasion cases are detected; in such case, the joint and several liability shall be attributed to the legal representatives provided that they have collaborated with the design or approval or execution of acts or situations or economic relations foreseen as elusive in Rule XVI. In the case of companies that have a Board of Directors, it is up to this corporate body to define the tax strategy of the entity, having to decide on the approval or not of acts, situations or economic relations to be carried out within the framework of tax planning, this power being non-delegable. The acts, situations and economic relations carried out within the framework of fiscal planning and implemented on the date of entry into force of Legislative Decree No. 1422 (September 14, 2018) and which continue to have effect, must be evaluated by the Board of Directors of the legal entity for the purpose of ratification or modification until March 29, 2019, without prejudice to the fact that the management or other administrators of the company have approved the aforementioned acts, situations and economic relations.

Likewise, it has been established that the application of Rule XVI, as regards the re-characterization of tax evasion cases, will take place in the final inspection procedures in which acts, events or situations produced since 19 are reviewed. July 2012.

(iv) Amendments to the income Tax Law were included, effective as of January 1, 2019, to improve the tax treatment applicable to Legislative Decree No. 1424:

- The system of credits against Income Tax for taxes paid abroad, including the indirect credit (corporate tax paid by foreign subsidiaries) as credit applicable against the Income Tax of domiciled legal entities, in order to avoid double economic.

- The deduction of interest expenses for the determination of corporate income tax. In the years 2019 and 2020, the debt limit set at three times the net equity as of December 31 of the previous year will be applicable, both to loans with related parties, and to loans with third parties contracted as of September 14, 2018. As of 2021, the limit for the deduction of financial expenses will be equivalent to 30 percent of the EBITDA of the entity.

- Standards have been established for the accrual of income and expenses for tax purposes as of January 1, 2019 (Legislative Decree No. 1425). Until 2018 there was not normative definition of this concept, so in many cases accounting rules were used for its interpretation. In general terms, with the new criteria, for purposes of the determination of Income Tax, it will now be considered if the substantial facts for the generation of income or expense agreed by the parties have occurred, which are not subject to a condition precedent, in which case the recognition will be given when it is fulfilled; the opportunity for collection or payment established will not be taken into account; and, if the determination of the consideration depends on a future event or event, the total or part of the corresponding income or expense will be deferred until that event or event.

29.4 Contingencies –

In the normal course of business, the Company has received several complaints of such tax, legal (labor and management) and regulatory, which are recorded and disclosed in accordance with International Financial Reporting Standards as set out in note 2.2(p).

Income tax -

As a result of audits for the years 2004 to 2006, the Company has been notified by the Superintendence of Tax Authority (SUNAT) with different resolutions for alleged omissions in income tax. In some cases, the Company has filed appeals for not finding the appropriate resolutions in accordance with the laws in force in Peru and in other cases it has proceeded to pay the assessments received. In the months of August and September 2018, the Tax Court issued judgments for these periods, resolving in favor of the Company the objections to the value of exports and maintaining other objections; likewise, I order that the SUNAT proceed to carry out the reassessment of the securities by virtue of the decision of the Tax Court. To date, the Company has not been notified of the reassessment that the return requests for the 2004, 2005, and 2006 years presented must be considered.

Likewise, the Company holds claims to Tax Authority (SUNAT), corresponding to demands and requirements of refund of income tax paid in excess for the years 2000, 2006 and 2009, in which it requested the decisions of the Tax Court set aside and will return the money paid ascending approximately S/30,383,000 and other claims by approximately S/3,451,000, see note 8(d).

For the years 2000 and 2001, on May 22, 2018, the Chamber of Constitutional and Social Permanent Law of the Supreme Court of Justice of the Republic notified the writ of appeal of cassation No. 12464-2017, through which the appeal filed by the Company was declared inadmissible. In June 2018, the Company filed a writ of amparo requesting the annulment of the qualifying writ of appeal No. 12464-2017. To date, it is pending to be resolved by the Eleventh Constitutional Court with Subspecialty in Tax and Customs.

For the claims of the years 2002 and 2003, on January 22, 2018, the Third Constitutional Court of Lima issued Resolution No. 1 declaring the claim filed by the Company inadmissible. On February 16, 2018, the Company filed an appeal against said resolution.

For the claims of the years 2004 and 2005, on November 5, 2018, the Company was notified with the Resolution of Intendance No. 0150150001764, through which the Tax Administration proceeded to comply with the provisions of Resolution No. 05598-1-2018, and proceeded to reconcile the debt corresponding to the taxable years 2004 and 2005. On November 21, 2018, the Company filed an appeal with the Resolution of Intendance No. 0150150001764 issued in compliance with Resolution No. 05598-1-2018, considering that the reassessment was not in accordance with the law, in said resolution a balance was determined in favor of the Company corresponding to taxable year 2005, amounting to S/3,533,000 and with respect to fiscal year 2004, an ascending tax liability to S/1,562,062. On November 30, 2018, the Company filed a lawsuit against the Fiscal Court Resolution No. 05598-1-2018, in the extremes related to the following objections: (i) Expenditure per camp and teaching service for the years 2004 and 2005, (ii) Claim for depreciation associated with the assets "camp" and "supervised schools", as well as (iii) the reference omissions corresponding to the payments on account from January to December 2004 and 2005. To date, the aforementioned lawsuit is pending to resolve by the "Poder Judicial".

In the case of the claim for the year 2006, on October 31, 2018, the Company filed a lawsuit against the Fiscal Court Resolution No. 05616-1-2018, in the end linked to the following objections: (i) Expense by camp and teaching service for the 2006 fiscal year; (ii) Reparation due to unaccepted depreciation linked to the camp and school supervised, (iii) the reference omissions corresponding to the payments on account from January to December 2006.

On November 8, 2018, the Tax Administration issued Resolution No. 0150150001783 in compliance with the provisions of Tax Court Resolution No. 05616-1-2018, in said resolution a balance was determined in favor of the ascending Company to S/2,389,000. To date, the lawsuit filed by the Company is pending.

As result of inspection of 2010, the Company has been notified by the Superintendence of Tax Authority (SUNAT) with other resolutions for supposed omissions to the tax income. In some cases, the Company has filed appeals for not finding the appropriate resolutions in accordance with the laws in force in Peru and in other cases it has proceeded to pay the assessments received. As of December 31, 2018, the Company has recorded necessary provisions, in accordance with Management and legal consultants.

Excise tax -

On the other hand, the Company has two additional claims for excise tax related to coal imports in 2006 and 2007 for a total amount of S/7,027,000, see Note 7(d). In December 2015, the Superior Court upheld the original ruling in 2014 declaring void the Tax Court Resolution N°14294-A-2013 by claims amounting to approximately S/5,023,000 and are pending collection. As of September 26, 2017, the Specialized Civil Court of Villa El Salvador declared the appeal filed by the Company well founded. The Company expects to obtain a favorable resolution in the judicial instance.

On October 6, 2017, the Judiciary, with judgment of Cassation No. 5104-2016, declared the other claim filed by the company well founded. On March 26, 2018, the Company filed with SUNAT, the respective refund request. On August 8, 2018, the Chamber of Constitutional and Social Permanent Law of the Supreme Court of Justice of the Republic issued the Judgment of Cassation No. 5104-2016 by deciding not to marry the hearing decision. Through Division Resolution No. 000-323300 / 2018-000111, a check was issued for S/2,005,000 plus interest in favor of the Company, which has already been collected, see note 7 (d).

During 2016 and 2017, the Company paid selective consumption tax for its coal imports, filing an appeal with the Judiciary to declare the provisions of Article 2 of Supreme Decree No. 111 not applicable to the company. -2016-EF, through which it was included in Appendix II of Taxable Assets with the Selective Consumption Tax. In the month of December 2017, the Superior Court of Justice of Lima South Permanent Civil Chamber, with file No. 00343-2016, declared the claim filed by the Company well founded, for the amount of S/4,460,000, the Company submitting the respective requests for return in the month of March 2018.

Additionally, during the third quarter of 2018, the Company recorded other claims for approximately S/55,000, see note 8 (d).

Administrative -

On the other hand, through Resolution N° 004-2010/ST-CLC-INDECOPI of March 25, 2010, the Technical Secretary of the Committee for the Defense of Free Competition declared admissible the complaint by the Ferretería Malva S.A., against to the Company and others related to commission of anticompetitive behavior, and initiate an infringement procedure against the complained companies. In 2013, through Resolution N° 010-2013/CLC, the Committee for the Defense of Free Competition sanctions to the Company at the end of the unjustified refusal sales, imposing a penalty of 1,488.20 UIT and absolves the offense relating to boycott. Given the resolution of the Commission, the Company filed an appeal to the Court of Competition, at the end of the penalty for the alleged refusal of unjustified sales, which confirmed the decision appealed, whereupon the Company has decided to bring contentious administrative proceedings before the Judiciary, for the annulment of the decision of INDECOPI is declared. Through Resolution N°05 of July 13, 2015, the Twenty-Fifth Administrative Court declared the process sanitized the evidence was admitted and ordered to refer the case to the Public Ministry to issue the final opinion. The Company expects to obtain a favorable ruling in court.

29.5 Mining royalties –

According to the law and regulation of royalties for the metallic and non-metallic mining activity in effect from October 1, 2011, the mining royalty for the metallic and non-metallic mining activities of the holders or assignees of mining concessions, must be liquidated quarterly and for its determination, the highest amount will be used between: (i) the amount obtained by applying a staggered table of marginal rates to be applied to the quarterly operating profit adjusted for certain items; and, (ii) 1% of net sales for the quarter. These amounts should be determined based on the separate financial statements prepared under IFRS of the Company whose operations are within the scope of this standard. Payments for this mining royalty are deductible for purposes of determining the income tax for the year in which the payments are made.

Mining royalty expense paid to the Peruvian Government for the years 2018 and 2017 amounted to S/3,874,000 and S/3,534,000, respectively.

29.6 Environmental commitments -

The Company's activities are subject to environmental protection standards and have to meet the following regulations:

(a) Industrial activities -

The Law N° 28611 General Environment Law and the Law N° 27446 National System of the Evaluation of Environment, regulates the environmental responsibilities of all the activities from their identification, prevention, supervision, control and anticipated correction of the negative environmental impacts derived from the human actions expressed through the investment project.

In accordance with the mentioned law, the Company filed Environmental Impact Assessments (EIA by its acronym in Spanish), Environmental Impact Statement (EIS by its acronym in Spanish) and the Environmental Adaptation Programs (PAMA by its acronym in Spanish) for its operating units.

Currently, the Company has an EIA for the modernization of its industrial plant facility approved by the Ministry of Production in May 2011, and has been executing environmental protection activities with an accumulated investment as of December 31, 2018 of US$57,514,000(US$56,019,830 as of December 31, 2017) for implementation of the environmental management plan in the cement manufacturing process.

(b) Mining and port activities –

In relation to its mining and port activities, the Company in the environmental impact studies (EIA by its acronym in Spanish) mentioned in note 29.6(a), which are in compliance with the terms and amounts determined in such studies, and the accumulated investment in mining and port activities as of December 31, 2018 amounts to approximately US$21,965,894,000 (approximately US$20,965,289 as of December 31, 2017).

On October 14, 2003, the Congress of Peru issued the Law N° 28090, regulating the mine closures. This law regulates the obligations and procedures that must be complied with to statements of the mining activity to prepare, submit and implement a Quarry Closure Plan, as well as the environmental guarantees that ensure the compliance of the investments subject to the principles of protection, preservation and restoration of the environment. The Company has submitted the closure plans of its mining units to the Ministry of Production and the Ministry of Energy and Mines within the statutory terms. The Closure Plans Studies have established the guaranties and investments to be made in the future, when the incremental and final closures of the mining activities in each unit of production are made. The provision for quarry closure corresponds to the activities that must be performed for restoring the areas affected by the exploitation activities. The main works are related to earth movements and reforesting.

As of December 31, 2018 and 2017, the provision for mine closure amounts to approximately S/38,077,000 and S/16,188,000, respectively and it is included in the "Provisions" caption in the separate statement of financial position, see note 16(a). The Company believes that this liability is sufficient to meet environmental protection laws in force approved by the Ministry of Energy and Mines. The company is perform the actualization of the quarry closure plan of its mains units, according to law.

(c) Use of hydrocarbons –

Supreme Decree N° 039-14-EM Regulation for the Protection of Hydrocarbon Activities updated on November 5, 2014 regulates the activities performed by the Company related to use of hydrocarbons as final user. In compliance with this regulation, the Company has a PAMA that was approved by the Ministry of Energy and Mines in 1996. As of December 31, 2018, the Company has made an accumulated investment of approximately US$114,000 (US$110,000 as of December 31, 2017).

30. Financial risk management, objectives and policies

The Company’s principal financial liabilities comprise – aside derivative instruments – bank loans, trade and others payables, and other financial liabilities. The main purpose of these financial liabilities is to finance the Company’s operations. The Company has cash and trade and others receivables that arise directly from its operations. The Company also holds derivative financial instruments.

The Company is exposed to market risk, credit risk and liquidity risk.

The Company’s Senior Management oversees the management of these risks. The Company’s Senior Management is supported by the Financial Management that advises on financial risks and the appropriate financial risk governance framework for the Company. The Financial Management provides assurance to the Company’s Senior Management that the Company’s financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company policies and company risk appetite. All activities comprising risk management related derivative instruments are handled by a team of experts with suitable capabilities, experience and oversight.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below:

30.1 Market risk –

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk. Financial instruments affected by market risk include loans and borrowings and derivative financial instruments.

The sensitivity analyses shown in the following sections relate to the position as of December 31, 2018 and 2017.

The sensitivity analyses have been prepared on the basis that the amount of net debts, the ratio of fixed to floating interest rate of the debt and the proportion of financial instruments in foreign currencies are all constant as of December 31, 2018 and 2017.

(i) Interest rate risk –

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Exposure of the Company to the interest rate risk is related mainly to the long-term debt with variable interest rates.

(a) Derivative Financial instruments from hedge -

As of December 31, The Company has three contracts interest rate swap designated as cash flow hedges and are recorded at their fair value. The details of these operations are as follows:

Counterparty	Reference value	Maturity	Receives variable rate at	Fix rate pay at:	Fair value	
					2018	2017
	US$(000)				S/(000)	S/(000)
Pasivo -						
Citibank N.A.	50,000	Octubre de 2025	Libor a 3 meses + 1.75%	5.700%	11,806	-
Santander S.A.	45,000	Noviembre 2023	Libor a 3 meses + 1.85%	5.030%	4,440	-
Bank of Nova Scotia	30,000	Setiembre 2025	Libor a 3 meses + 2.60%	5.660%	2,161	-
					18,407	-
Assets-						
Bank of Nova Scotia	-	August 2018	Libor to 3 months + 2.35%	3.175%	-	78
Bank of Nova Scotia	-	October 2018	Libor to 3 months + 2.70%	3.420%	-	202
					-	280

Financial instruments are intended to reduce exposure to interest rate risk variable associated with the financial obligations set out in note 14. These financings bear interest at a variable rate equal to 3-month Libor.

The Company pays or receives on a quarterly basis (on each interest payment date of the loan) the difference between the Libor rate on the loan market in that period and the fixed rate agreed upon in the contract coverage. Flows actually received or paid by the Company are recognized as a correction of the financial cost of the loan period for the hedged loans.

The Company has designated it as a hedge, given that it has determined that there is an economic relationship between the hedged item and the hedging instrument.

In October 2018, a hedge contract was signed with Citibank N.A., and in November 2018 two hedge contracts were signed with Banco Santander S.A. and Bank of Nova Scotia; with the purpose of reducing the risk of the variable interest rate associated with the loan obtained on October 2, November 27 and October 31, 2018, respectively, see note 14 (n), (o) and (p).

During the year 2018, the Company recognized in the caption "Changes in the fair value of hedging derivative financial instruments" of the separate statement of comprehensive income the negative effect of the fair value of the new derivative instruments and the settlement of previous derivative instruments by approximately S/18,407,000 and S/283,000, respectively.

The effective portion of the changes in the fair value of derivative financial instruments that qualify as hedges are recognized as assets or liabilities, having as a counterpart the net equity. As of December 31, 2018 and 2017, the Company recognized a negative and positive variation in the fair value of approximately S/12,977,000 and S/198,000 in the caption "Unrealized Results" of the separate statement of changes in equity. which are presented net of the effect on income tax, respectively.

In addition, the Company recognized a financial expense for these derivative financial instruments of approximately S/4,373,000 (S/4,915,000 during the year 2017), the amounts of which have been effectively paid during the year and are presented as part of the caption "Financial Costs" of the separate statement of comprehensive income, see note 26.

(b) Derivative Financial instruments from trading -

Counterparty	Reference value US$(000)	Maturity	Receives variable rate at:	Pays fix rate at:	Fair value 2018 S/(000)	Fair value 2017 S/(000)
Liabilities -						
Citibank N.A. New York	56,000	October 2020	Libor to 3 months + 1.08%	5.200%	4,313	9,845
					4,313	9,845

During 2018, the variation in the fair value of the derivate financial instruments that qualify as negotiation is recognized as expense or income and the effect in the year. As of December 31, 2018, the effect amounts to approximately S/5,547,000 (S/2,521,000 as of December 31, 2017) and is presented as part of the line caption "Financial income" and "Financial costs" of the separate statement of comprehensive income, see note 27 and 26, respectively.

Sensitivity to interest rate -

The following table shows the sensitivity to a reasonably possible change in interest rates on the portion of the loans, after the impact of hedge accounting. With all other variables remaining constant, the income before income tax would be affected by the impact on variable rate loans, as follows:

Increase / decrease in basis points	Impact on income before income taxes	
	2018	2017
%	S/(000)	S/(000)
+10	(1,543)	(588)
-10	1,543	588

The movement course in the basics related to the analysis of sensitivity to interest rate is based on the current market environment.

(ii) Foreign currency risk -

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange relates primarily to the Company's operating activities (when revenue or expense is denominated in a different currency from the Company's functional currency).

Management monitors this risk through analysis of the country's macroeconomic variables.

The result of holding balances in foreign currency for the Company in years 2018 and 2017 was a loss in exchange difference amounting approximately S/60,449,000 (a loss of approximately S/129,128,000 and earn approximately S/68,679,000) and a earn of approximately S/88,042,000 (earn of approximately S/108,639,000 and a loss of approximately S/20,597,000), respectively, which are presented in the caption "Exchange difference, net" in the separate statement of income.

Foreign currency sensitivity -

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's profit before income tax (due to changes in the fair value of monetary assets and liabilities, including derivative financial instruments in foreign currency not classified as hedge).

Change in US Dollars exchange rate	Effect on profit before tax	
	2018	2017
%	S/(000)	S/(000)
+5	(56,795)	(116,615)
+10	(113,590)	(233,230)
-5	56,795	116,615
-10	113,590	233,230

30.2 Credit risk –

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to a credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, and trade and other receivables. The maximum credit risk of the components of the financial statements as of December 31, 2018 and 2017 is represented by the amount of the captions cash and cash equivalents, trade and other accounts receivable.

Financial instruments and cash deposits -

Credit risk from balances with banks and financial institutions is managed by the Company's CFO in accordance with the Company's policy. Counterparty credit limits are reviewed by Management and Board of Directors. Credit limits are established to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure.

Trade accounts receivable –

Customer credit risk is managed by management, subject to the Company's established policies, procedures and controls. Outstanding customer receivables are regularly monitored to assure the collection. The credit quality of a client is evaluated based on an extensive scorecard of credit rating and individual credit limits that are defined with this evaluation.

Outstanding assets from customers' accounts receivable and contracts are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance obtained from accredited companies.

The Company's sales are mainly made to domestic customers and it has a portfolio of 47 clients as of December 31, 2018 (December 50 to December 31, 2017). The Company's 4 largest clients account for approximately 47 percent of sales (approximately 52.5 percent of its sales as of December 31, 2017). An impairment analysis is performed on each reporting date using a provision matrix to measure the expected credit of losses. Provision rates are based on days due for groupings of different customer segments with a similar pattern of loss (i.e., by geographic region, type of product, type and rating of the customer, and coverage by letters of credit or other forms of insurance of credit). The calculation reflects the weighted probability result, the value of money over time and the reasonable and valid information that is available on the date of reporting on past events, current conditions and forecasts of future economic conditions. In general, trade accounts receivable are written off if they are due for more than one year and are not subject to compliance activities. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of financial assets disclosed in note 7(a) of the separate statement of financial position.

The Company has no collateral guarantees (letters of credit). Customer bond letters are considered an integral part of the sales and are considered in the calculation.

As of December 31, 2018, 18 percent (10 percent as of December 31, 2017) of the Company's trade accounts receivable are covered by letters of guarantee and other forms of credit insurance. The credit behavior obtained by the Company resulted in an increase in the PCE (expected credit loss) of S/2,114,000 as of December 31, 2018. Due to the political environment and the investigation processes for alleged corruption in public works construction companies Through Concessions with the Peruvian State, the construction sector has more risk.

The Company evaluates the concentration of risk with respect to commercial accounts receivable as a low risk; since, its clients belong mainly to the private sector and it is managed in an independent market to the contracting with the Peruvian State. Additionally, sales to construction companies represent 17 percent of sales.

Accounts receivable related various -

Accounts receivable from various related companies mainly correspond to dividends and loans granted, such loans accrue interest at a market rate. Dividends receivable are classified as Financial Assets at fair value with changes in other comprehensive income, and are not subject to impairment.

Other accounts receivable –

Accounts receivable correspond to balances pending of collection due to concepts not related to the main operation activities of the Company. As of December 31, 2018 and 2017, other accounts receivable correspond mainly to: advances to suppliers, claims to Tax Authority and claims to third parties. Company's Management made a continuous monitoring of the credit risk to such items and periodically, it assesses the balances that evidence an impairment to determine the required allowance for no recoverability.

30.3 Liquidity risk –

The Company monitors its risk of shortage of funds using a recurring liquidity planning tool.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of overdraft current accounts, bank loans and other financial liabilities.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

	As of December 31, 2018			
	From 3 to 12 months S/(000)	**From 1 to 3 years** S/(000)	**From 4 to 8 years** S/(000)	**Total** S/(000)
Trade and other payable	313,132	-	-	313,132
Other financial liabilities				
Amortization of capital	224,163	2,174,329	850,569	3,249,061
Flow of interest payments	177,040	339,777	58,224	575,041
Total liabilities	714,335	2,514,106	908,793	4,137,234

	As of December 31, 2017			
	From 3 to 12 months S/(000)	**From 1 to 3 years** S/(000)	**From 4 to 8 years** S/(000)	**Total** S/(000)
Trade and other payable	261,827	-	-	261,827
Other financial liabilities				
Amortization of capital	486,064	750,158	2,156,696	3,392,918
Flow of interest payments	177,541	318,375	132,205	628,121
Total liabilities	925,432	1,068,533	2,288,901	4,282,866

30.4 Capital management–

The Company's objective in managing capital is to safeguard its ability to continue as a going concern in order to generate returns for shareholders, benefits for other groups of interest and maintain optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company can adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce its debt.

Consistent to the industry, the Company monitors its capital on the basis of leverage ratio. This ratio is calculated dividing the net debt into the capital stock. The net debt corresponds to the total of debt (including current and non-current debt) minus the cash and cash equivalents. The total capital stock corresponds to the net equity and is presented in the separate statement of financial position plus the net debt.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2018 and 2017.

31. Fair values

Instruments recorded at fair value according to hierarchy –

The following table presents an analysis of the financial instruments recorded at fair value, according to their hierarchy level:

	2018 S/(000)	2017 S/(000)
Assets for derivative financial instruments:		
Level 2	-	280
Total	-	280
Liability for derivative financial instruments:		
Level 2	22,720	9,845
Total	22,720	9,845

Level 1 -

The financial assets included in the Level 1 category are measured based on quotations obtained from an active market. A financial instrument is regarded as quoted in an active market if prices are readily and regularly available from a centralized trading mechanism, agent, broker, industry group, pricing providers or regulatory agencies; and those prices stem from regular transactions in the market.

Level 2 -

Level 2 Financial instruments are measured based on market factors. This category includes instruments valued using market prices of similar instruments - whether it be an active market or not – and other valuation techniques (models) where all significant inputs are directly or indirectly observable in the marketplace. The following is a description of how the fair value of the Company's main financial instruments included in this category is determined:

- Derivative financial instruments –

  The valuation technique most commonly used includes forwards and swaps valuation methods that calculate the present value. These models consider various inputs, including the counterparties' credit quality, spot exchange rates, forward rates and interest rate curves.

Level 3 -

As of December 31, 2018 and 2017, the Company does not maintain financial instruments in this category.

The Company only carries derivative financial instrument at fair value, as indicated in paragraph 30.1(a) y (b); therefore, they are considered in Level 2 of the fair value hierarchy.

Other financial instruments are carried at amortized cost and their estimated fair value. The level of the fair value hierarchy is described as follows:

Level 1 –

- Cash and cash equivalents do not represent a credit risk or a significant interest rate; therefore, their carrying amounts are close to their fair value.

- Accounts receivable, as they are net of provision for loan losses and most have maturities of less than three months; Management deems their fair value is not materially different from its carrying value.

- Trade and others payables, due to its current maturity, Management deems that its accounting balances are close to its fair value.

Level 2 –

- The fair value of other financial liabilities was determined by comparing the market's interest rates at the time of its initial recognition against the market's current interest rates offered for similar financial instruments. The following is a comparison between the carrying value and the fair value of these financial instruments.

	2018		2017	
	Carrying value S/(000)	Fair value S/(000)	Carrying value S/(000)	Fair value S/(000)
Other financial liabilities (*)	3,041,087	2,621,342	2,940,140	2,598,634

(*) As of December 31, 2018 and 2017, the balance does not include bank notes, see note 14.

32. **Change in liabilities arising from financing activities continued**

The reconciliation of the movements in the financial obligations and the financing activities of the separate cash flow statement is presented below:

	As of January 1, 2018 S/(000)	Cash flows S/(000)	New bank loans S/(000)	Declared dividends S/(000)	Exchange difference effect S/(000)	Other S/(000)	As of December 31, 2018 S/(000)
Confirming and bank loans	452,778	(451,553)	198,800	-	7,949	-	207,974
Obligations for debt contracts, financial lease contracts and bond contracts	2,940,140	(1,693,604)	1,717,220	-	77,495	(164)	3,041,087
Dividends payables	261	(85,701)	-	85,618	-	-	178
Derivatives financial instruments	9,565	-	-	-	-	13,155	22,720
Total liabilities from financing activities	3,402,744	(2,230,858)	1,916,020	85,618	85,444	12,991	3,271,959

	As of January 1, 2017 S/(000)	Cash flows S/(000)	New bank loans S/(000)	Declared dividends S/(000)	Exchange difference effect S/(000)	Other S/(000)	As of December 31, 2017 S/(000)
Confirming and bank loans	704,203	(339,772)	104,880	-	(16,533)	-	452,778
Obligations for debt contracts, financial lease contracts and bond contracts	3,158,528	(404,761)	260,000	-	(78,092)	4,465	2,940,140
Dividends payables	246	(85,603)	-	85,619	-	(1)	261
Derivatives financial instruments	10,096	-	-	-	-	(531)	9,565
Total liabilities from financing activities	3,873,073	(830,136)	364,880	85,619	(94,625)	3,933	3,402,744

33. Subsequent events

- *Merge project -*

At the General Shareholders' Meeting held on December 28, 2018, the project to merge the Company as an absorbing company and the Sindicato de Inversiones y Administración S.A. (SIA), Inversiones Andino S.A (IASA) and Inmobiliaria Pronto S.A. (PRONTO) as absorbed companies was approved. The merger project of the Company was previously approved at the Independent Directors Committee Session of November 29, 2018 and Director's Board of November 30, 2018

On the other hand, with a merger public deed and in accordance to of the term of exercise of right of opposition by the creditors and without the opposition of any creditor, the Company will increase its capital subscribed and paid in S/171,624,203, from S/1,646,503,408 to S/1,818,127,611, issuing 171,624,203 new common shares of the same nominal value as the existing ones (S/1.00 each), which will be distributed among the shareholders of the three absorbed companies based on their exchange ratios.

The stock exchange ratios established for this operation were 2,104.322, 8.502 and 6.678 shares of UNACEM for each share of SIA, IASA and PRONTO, respectively, and were set based on their closing price value of said shares, to the date of the transaction.

After this corporate reorganization, Inversiones JRPR S.A. and Nuevas Inversiones S.A. maintain 26.55 and 25.25 percent of the Company, respectively, and Inversiones JRPR S.A. is the Company's new parent company (as of December 31, 2017, SIA was the parent company of the Company, which in turn was an indirect subsidiary of Inversiones JRPR S.A.).

The effective date of the merger was January 1, 2019, and included: (i) the absorption of IASA, SIA and PRONTO, by the Company and (ii) the issuance of shares by the Company in favor of the shareholders of the absorbed companies.

In accordance with IFRS, the corporate reorganization carried out did not generate any change in the control of Inversiones JRPR S.A. on the Company and its Subsidiaries and, therefore, it is considered as a transaction between entities under common control; consequently, all amounts were recorded at their book values.

In this sense, on January 1, 2019, the total net assets and liabilities of the absorbed companies that were transferred to the Company as a result of the merger are detailed:

	Assets S/(000)	Liabilities S/(000)
SIA	1,999,991	32,037
IASA	977,845	64,607
PRONTO	113,316	3,444

As of January 1, 2019, the main items of the separate statement of financial position are shown below:

	January 1, 2019 S/(000)
Total assets	8,729,261
Total liabilities	4,179,351
Total equity	4,549,910

- *Distribution of dividends -*
  At the Director's Board held on January 25, 2019, the Company agreed to distribute dividends charged to available profits for approximately S/21,405,000.

Between January 1, 2019 and the date of issuance of these separate financial statements (February 22, 2019), no other significant events of a financial-accounting nature have occurred that may affect the interpretation of these separate financial statements.

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