Unión Andina de Cementos S.A.A. and Subsidiaries

Consolidated financial statements as of December 31, 2018 and 2017 together with the Independent Auditors' Report

Building a better working world

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Paredes, Burga & Asociados
Sociedad Civil de Responsabilidad Limitada

Independent Auditors' Report

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

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

Management responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company and its Subsidiaries preparation and fair presentation of the consolidated 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 Company and its Subsidiaries' 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 consolidated financial statements.

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

Independent Auditors' Report (continued)

Opinion

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

Lima, Peru,
April 26, 2019

Paredes, Burga & Asociados

Countersigned by:

Mayerling Zambrano R.
Peruvian Certified Public Accountant
Register N° 23765

Unión Andina de Cementos S.A.A. and Subsidiaries

Consolidated statement of financial position

As of December 31, 2018, and 2017

	Note	2018 S/(000)	2017 S/(000)
Assets			
Current assets			
Cash and cash equivalents	7	111,410	157,002
Trade and other receivables, net	8	561,546	466,924
Inventories, net	9	752,069	698,627
Prepaid expenses	10	25,494	23,448
Other non-financial assets		2,073	1,250
Total current assets		1,452,592	1,347,251
Non-current assets			
Trade and other receivables, net	8	42,619	63,396
Investment in associate and others	4.3(c)(i) and (h)	16,164	14,235
Mining concessions and property, plant and equipment, net	11	7,250,243	7,185,922
Deferred stripping cost, net	12	118,100	122,977
Intangible assets, net	13	1,382,223	1,349,819
Deferred income tax assets	18(a)	151,691	140,483
Other non-financial assets		8,994	7,839
Total non-current assets		8,970,034	8,884,671
Total assets		10,422,626	10,231,922

	Note	2018 S/(000)	2017 S/(000)
Liability and equity			
Current liabilities			
Other financial liabilities	14	461,218	710,879
Trade and other payables	15	724,922	607,714
Deferred income	16	76,196	57,990
Liabilities for income tax	31.3(d)	34,417	71,752
Provisions	17	55,054	57,594
Total current liabilities		1,351,807	1,505,929
Non-current liabilities			
Other financial liabilities	14	3,919,904	3,748,761
Trade and other payables	15	84,641	64,966
Deferred income	16	2,161	4,322
Derivative financial instruments	32.1(i) and (ii)	24,565	12,585
Deferred income tax liability	18(a)	678,214	676,802
Provisions	17	77,389	55,340
Total non-current liabilities		4,786,874	4,562,776
Total liabilities		6,138,681	6,068,705
Equity	20		
Capital stock		1,646,503	1,646,503
Legal reserve		329,301	329,301
Unrealized net loss		(17,375)	(3,780)
Result from foreign currency translation		184,893	147,777
Retained earnings		1,967,159	1,859,385
Equity attributable to equity holders of the parent		4,110,481	3,979,186
Non-controlling interests	19	173,464	184,031
Total equity		4,283,945	4,163,217
Total liabilities and equity		10,422,626	10,231,922

The accompanying notes are an integral part of this consolidated financial statement.

Unión Andina de Cementos S.A.A. and Subsidiaries

Consolidated statement of income

For the years ended December 31, 2018 and 2017

	Note	2018 S/(000)	2017 S/(000)
Net sales	21	3,902,004	3,412,440
Cost of sales	22	(2,814,597)	(2,365,095)
Gross profit		1,087,407	1,047,345
Operating income (expenses)			
Administrative expenses	23	(296,378)	(312,071)
Selling expenses	24	(94,278)	(78,059)
Other income	26	53,831	44,177
Other expenses	26	(41,212)	(70,378)
Total operating expenses, net		(378,037)	(416,331)
Operating profit		709,370	631,014
Other income (expenses)			
Gain on sharing in associate, net	4.3(h)	1,930	1,983
Finance income	27	15,438	9,669
Finance costs	28	(321,279)	(291,663)
Exchange difference, net	32.1(ii)	(75,194)	102,206
Total other expenses, net		(379,105)	(177,805)
Income before tax		330,265	453,209
Income tax expense	18(b)	(147,069)	(245,294)
Net income		183,196	207,915
Attributable to:			
Equity holders of the parent		193,413	227,604
Non-controlling interests	19	(10,217)	(19,689)
		183,196	207,915
Earnings per share			
Basic and diluted, profit for the year attributable to ordinary equity holders of the parent (S/ per share)	30	0.117	0.138

The accompanying notes are an integral part of this consolidated financial statement.

Unión Andina de Cementos S.A.A. and Subsidiaries

Consolidated statements of other comprehensive income

For the years ended December 31, 2018 and 2017

	Note	2018 S/(000)	2017 S/(000)
Net income		183,196	207,915
Other comprehensive income			
Conversion effect	20(e)	38,187	(53,431)
Effect of actuarial update of the provision of retirement and eviction		(135)	(3,168)
Changes in the fair value of hedging derivative financial instruments	32.1(i)	(19,267)	(1,082)
Income tax related	18(a)	5,513	22
Other comprehensive income, net of income tax		24,298	(57,659)
Total comprehensive income		207,494	150,256
Attributable to:			
Equity holders of the parent		216,934	173,791
Non-controlling interests		(9,440)	(23,535)
		207,494	150,256

The accompanying notes are an integral part of this consolidated financial statement.

Unión Andina de Cementos S.A.A. and Subsidiaries

Consolidated statement of changes in equity

For the years ended December 31, 2018 and 2017

	Equity attributable to equity holders of the parent							
	Capital stock S/(000)	Legal reserve S/(000)	Unrealized net loss S/(000)	Result from foreign currency translation S/000	Retained earnings S/(000)	Total S/(000)	Non-controlling interests S/(000)	Total equity S/(000)
Balance as of January 1, 2017	1,646,503	329,301	343	197,935	1,716,896	3,890,978	214,454	4,105,432
Net income	-	-	-	-	227,604	227,604	(19,689)	207,915
Other comprehensive income for the year, net of income tax	-	-	(3,655)	(50,158)	-	(53,813)	(3,846)	(57,659)
Total comprehensive income	-	-	(3,655)	(50,158)	227,604	173,791	(23,535)	150,256
Dividend distributions, note 20(d)	-	-	-	-	(85,619)	(85,619)	(9,875)	(95,494)
Acquisition of subsidiary	-	-	-	-	367	367	41	408
Changes in non-controlling interests and others	-	-	(468)	-	137	(331)	2,946	2,615
Balance as of December 31, 2017	1,646,503	329,301	(3,780)	147,777	1,859,385	3,979,186	184,031	4,163,217
Net income	-	-	-	-	193,413	193,413	(10,217)	183,196
Other comprehensive income for the year, net of income tax	-	-	(13,595)	37,116	-	23,521	777	24,298
Total comprehensive income	-	-	(13,595)	37,116	193,413	216,934	(9,440)	207,494
Dividend distributions, note 20(d)	-	-	-	-	(85,618)	(85,618)	(1,148)	(86,766)
Changes in non-controlling interests and others	-	-	-	-	(21)	(21)	21	-
Balance as of December 31, 2018	1,646,503	329,301	(17,375)	184,893	1,967,159	4,110,481	173,464	4,283,945

The accompanying notes are an integral part of this consolidated financial statement.

Unión Andina de Cementos S.A.A. and Subsidiaries

Consolidated statement of cash flows

For the years ended December 31, 2018 and 2017

	Nota	2018 S/(000)	2017 S/(000)
Operating activities			
Collections for the sale of goods and provision of services		4,615,970	4,080,784
Tax recovery		12,281	31,978
Payments to suppliers		(2,740,104)	(2,331,469)
Payments to employees		(463,860)	(420,417)
Taxes paid		(225,473)	(130,999)
Interest paid		(313,390)	(284,581)
Payment of other taxes		(191,585)	(184,433)
Other receipts (payments), net		(30,138)	(2,171)
Net cash flows from operating activities		663,701	758,692
Investing activities			
Sale of property, plant and equipment		3,609	12,519
Dividend received	29(b)	5,404	5,346
Purchase of property, plant and equipment	11(a)	(221,075)	(235,209)
Purchase of intangible assets	13(a)	(9,403)	(8,360)
Acquisition of subsidiary, net of incorporated cash	2.1, 2.2 and 2.3	(169,114)	(41,418)
Adjustment of the purchase price	2.2 and 2.3	172	1,446
Other receipts (payments), net		-	421
Net cash flows used in investing activities		(390,407)	(265,255)
Financing activities			
Loans received from related	29(e)	8,029	30,761
Proceeds from bank overdrafts	14(x)	205,496	120,711
Proceeds from cession of payments and short-term loans	14(x)	305,843	300,505
Proceeds from long-term financial obligations	14(x)	2,023,250	439,445
Payment of bank overdrafts	14(x)	(215,416)	(123,361)
Payment of cession of payments and short-term loans	14(x)	(564,111)	(525,001)
Payment of long-term financial obligations	14(x)	(1,992,277)	(655,388)
Dividends paid (controlling interest)	20(d)	(85,701)	(85,603)
Dividends paid (non-controlling interest)	20(d)	(2,646)	(3,056)
Net cash flows used in financing activities		(317,533)	(500,987)
Net decrease in cash and cash equivalents		(44,239)	(7,550)
Foreign exchange difference on cash and cash equivalents		(1,353)	(2,269)
Cash and cash equivalents at the beginning of the year		157,002	166,821
Cash and cash equivalents at the end of the year	7	111,410	157,002
Significant non-cash transactions -			
Acquisition of properties, plant and equipment under finance leasing	11(a)	44,022	32,168
Quarry closure provision	11(a)	20,135	3,572
Payables from property, plant and equipment	11(a)	6,505	21,444
Other intangibles assets	13(a)	2,162	787
Capitalized interest	11(a) and (i)	2,510	-
Provision for decommissioning	11(a)	1,591	2,267

The accompanying notes are an integral part of this consolidated financial statement.

1. **Economic activity**

Unión Andina de Cementos S.A.A. (hereinafter "the Company" or "UNACEM") 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 capital stock, which in turn is a subsidiary of Inversiones JRPR S.A., ultimate parent of the consolidated economic group. From January 1, 2019, the Principal, Inversiones Andino S.A., and Inmobiliaria Pronto S.A. merged with the Company, see note 36.

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 sales of cement and clinker. For this purpose, the Company owns two plants located at Lima and Junin, whose capacity is 6.7 million tons of clinker and 8.3 million tons of cement.

The consolidated financial statements of the Company and Subsidiaries (hereinafter "the Group") as of December 31, 2017 were approved by the Management of the Group. The consolidated financial statements of the year 2018 had been issued and will be approved by the Management of the Group without modifications.

As of December 31, 2018, and 2017, the consolidated financial statements include the financial statements of the Company and the following subsidiaries:

- Skanon Investments, Inc. – SKANON

  It is an entity constituted in February 2007 in the state of Arizona, in United States of America, in which the Company owns directly and indirectly 93.33 percent share of the capital stock as of December 31, 2018 and 2017, whose main activity is investment in securities.

  As of December 31, 2018, and 2017, SKANON holds a share in the capital of Drake Cement LLC (hereinafter "DRAKE" or "Drake Cement") of 94.04 percent. DRAKE is an entity located in the United States of America, whose main business is the production and marketing of cement in the states of Arizona and Nevada.

  Additionally, SKANON maintains 100 percent stake in the capital of Sunshine Concrete & Materials, Inc. ("Drake Materials"), an entity located in the United States of America, whose main activity is the sale of ready-mix concrete, sand and gravel.

Drake Cement, together with the other subsidiaries of SKANON as Drake Materials, Drake Aggregates LLC, MRM Equipment Leasing LLC and MRM Holdings LLC celebrated several agreements with California Calportland Cement Company (hereinafter "CPC") in the year 2015, see more detail in note 3.1. Furthermore, as of December 31, 2018 and 2017, SKANON has a participation agreement in Desert Ready Mix, see note 4.3(a)(iii).

- Inversiones Imbabura S.A. - IMBABURA
  It is an entity constituted in July 2014, in which the Company owns directly and indirectly the 100 percent of the shares of capital. IMBABURA main activity is investment in securities in entities domiciled in Ecuador.

  IMBABURA's subsidiaries are entities that belong the group UNACEM Ecuador S.A. ("UNACEM Ecuador") and subsidiaries, whose percentage of participation is 98.89 percent in UNACEM Ecuador, which has as its main activity the exploitation, industrialization of cement and its derivatives and related services.

- Compañía Eléctrica El Platanal S.A. – CELEPSA
  It is an entity constituted in December 2005, direct subsidiary of the Company who owns 90 percent share of the capital stock. The main activity of CELEPSA is the generation and sale of electricity using water resources.

  CELEPSA directly and indirectly owns the 100 percent equity interest in Celepsa Renovables S.R.L., the entity owner Company of Marañon Hydroelectric Plant, located in the department of Huánuco, which started operations in the second quarter of 2017.

- Unión de Concreteras S.A. – UNICON Peru
  It is an entity constituted in December 1995, Company's indirect subsidiary, through INVECO that holds 99.99 percent share of the capital stock. UNICON main activity is the development and commercialization of ready mix, and to a lesser extent related products such as bricks and concrete sleepers. For the preparation of ready mix, UNICON Peru requires mainly cement, stone, sand and additives.

  During the year 2017, UNICON Peru acquired 100 percent of the shares of Concreteras UNICON UCUE Cía. Ltda. (formerly Hormigonera Quito Horquito Cia. Ltda. and thereafter "UNICON Ecuador"), see note 2.3.

  Additionally, in May 2018, UNICON Peru acquired 100 percent of the shares of Unicon S.A. (formerly Hormigones Independencia S.A. and thereafter "UNICON Chile"), see note 2.2.

- CONCREMAX S.A.
  It is an entity constituted in March 1995, Company's indirect subsidiary, through INVECO holds 99.99 percent share of the equity shares of UNICON Peru who in turn holds 99.99 percent of the shares of capital CONCREMAX since October 10, 2011. In General Shareholders' Meeting celebrated in October 21, 2015, agreed to change the corporate name of Firth Industries Peru S.A. to CONCREMAX S.A. The main activity of CONCREMAX is the development and commercialization of concrete, and to a lesser extent related products such as pre-stressed beams, bagged products and aggregates.

- Inversiones en Concreto y Afines S.A. - INVECO
  It is an entity constituted in April 1996, Company's direct subsidiary, who owns 93.38 percent share of the capital stock. It is dedicated to investing in companies principally engaged in supplying ready mix, building materials and related activities through its subsidiary UNICON Peru, which holds 99.99 per cent stake, which in turn owns 99.99 percent of CONCREMAX S.A. and 100 percent of UNICON Ecuador and UNICON Chile, all dedicated to the same economic activity.

- Cementos Portland S.A.C. - CEMPOR
  It is an entity constituted in Lima in July 2007, which is currently in pre-operational stage. The main activity of CEMPOR is the exploitation and commercialization of limestone from mining concession "El Silencio 8", located in Pachacamac district, province and department of Lima.

  In October 2018, the Company acquired 100 percent of the share of CEMPOR, see note 2.1.

- Prefabricados Andinos Perú S.A.C. – PREANSA Peru
  It is an entity constituted in October 2007, Company's direct subsidiary, who holds 50.02 percent share of the capital stock. The main activity of PREANSA Peru is the manufacture of pre-stressed concrete and precast concrete structures, as well as selling them, both in Peru and abroad. PREANSA Peru holds 100 percent of the capital stock in the subsidiary Prefabricados Andinos Colombia S.A.S. (hereinafter "PREANSA Colombia"), which is in operation since November 1, 2016, and its main activity is the manufacture of prestressed and precast concrete structures in Colombia and abroad.

- Prefabricados Andinos S.A. – PREANSA Chile
  It is an entity constituted in November 1996, Company's direct subsidiary since January 2014, which owns 51 percent share of the capital stock. PREANSA Chile's main activity is the manufacture sale and rent of all types of products, especially concrete for the industrialized construction.

- Transportes Lurín S.A. – LURIN
  It is an entity constituted in June 1990, Company's direct subsidiary, which holds 99.99 percent share of the capital stock. LURIN main activity is investment in securities, mainly in Skanon Investment Inc. (a Company incorporated in the United States of America).

- Generación Eléctrica de Atocongo S.A. - GEA
  It is an entity constituted in May 1993, Company's direct subsidiary, which holds directly and indirectly 100 percent ownership of the shares of capital. GEA's main activity is to provide operating services in the Atocongo thermal plant owned by the Company, with an installed capacity of 41.75 MW, as a consequence of the authorization granted by the Ministry of Energy and Mines to the Company to perform activities of power generation directly.

  In April 2017, GEA signed a contract of "Cession of Contractual Position" of the Carpapata III Hydroelectric Plant with the Company, with which GEA yield the power generation concession and on July 25, 2017, through Ministerial Resolution No. 315-2017-MEM/MD the Ministry of Energy and Mines approves the transfer in favor of the Company.
- Depósito Aduanero Conchán S.A. - DAC
  It is an entity constituted in July 1990, Company's direct subsidiary, who owns 99.99 percent share of the capital stock. DAC's main activity is the provision of warehousing services, goods and merchandise Authorized owned and third customs warehouse and promotion services, transportation, storage, management and delivery of cement manufactured by the Company.

- Staten Island Company, Inc. - SIC
  It is an entity constituted on July 1, 2017, in the State of Arizona in the United States of America, who owns 100 percent share of the capital stock. SIC's main activity is the investment in real estate and has land in Las Vegas (Nevada) and Staten Island (New York).

  During the year 2017, SIC acquired shares of Staten Island Terminals, Inc. and Staten Island Holding, Inc., all Group's purchases, as a part of a corporate reorganization.

The table below shows the summary of the main items of the financial statements of subsidiaries controlled by the Group as of December 31, 2018 and 2017:

		Percentage of participation				Assets		Liabilities		Net Equity		Income (loss)	
		2018		2017									
Entity	Economic activity	Direct	Indirect	Direct	Indirect	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)
Inversiones Imbabura S.A and Subsidiaries (i)	Cement	100.00	-	100.00	-	1,886,033	1,838,119	424,519	404,284	1,461,514	1,433,835	109,108	100,904
Skanon Investments Inc. and Subsidiaries (ii)	Cement and concrete	85.06	8.28	85.05	8.28	1,345,607	1,319,970	738,302	688,006	607,305	631,964	(49,640)	(183,698)
Compañía Eléctrica El Platanal S.A. and Subsidiaries (iii)	Electrical Energy	90.00	-	90.00	-	1,250,133	1,287,261	554,257	612,640	695,876	674,621	21,347	29,622
Inversiones en Concreto y Afines S.A. and Subsidiaries (iv)	Concrete	93.38	-	93.38	-	1,049,522	808,787	614,766	397,194	434,756	411,593	24,022	24,114
Cementos Portland S.A.C., note 2.1	Cement	100.00	-	-	-	82,730	-	534	-	82,196	-	118	-
Prefabricados Andinos Perú S.A.C. and Subsidiary	Prefabricated	50.02	-	50.02	-	76,556	71,683	47,183	39,956	29,373	31,727	(1,780)	(4,155)
Prefabricados Andinos S.A.	Prefabricated	51.00	-	51.00	-	64,914	68,317	57,815	59,310	7,099	9,007	(676)	(1,571)
Staten Island Company, Inc. and Subsidiaries	Holding	100.00	-	100.00	-	61,538	58,505	2,645	1,815	58,893	56,690	(84)	30,923
Transportes Lurín S.A.	Services	99.99	-	99.99	-	35,206	36,571	18	1,282	35,188	35,289	(101)	173
Generación Eléctrica de Atocongo S.A.	Services	99.85	0.15	99.85	0.15	33,804	1,250	32,868	470	936	780	156	221
Depósito Aduanero Conchán S.A.	Services	99.99	-	99.99	-	1,634	2,315	923	830	711	1,485	(774)	(686)

(i) Imbabura's subsidiaries are: UNACEM Ecuador S.A. and Canteras y Voladuras S.A.

(ii) The main subsidiaries are located in the United States of America, which are: Drake Cement, LLC, Sunshine Concrete & Materials, Inc., Maricopa Ready Mix, LLC, Ready Mix Inc. and Desert Ready Mix.

(iii) CELEPSA's subsidiaries are: Ambiental Andina S.A. and Celepsa Renovables S.R.L.

(iv) INVECO's subsidiaries are: UNICON Peru, which in turn is a shareholder of Concremax S.A., UNICON Ecuador, UNICON Chile and Entrepisos Lima S.A.C. It should be noted that, UNICON Ecuador and UNICON Chile were acquired in July 2017 and May 2018, respectively, see note 2.2 and 2.3.

2. Business combinations and corporate reorganization

2.1 Acquisition of Cementos Portland S.A.C. (CEMPOR) -

In October 2018, the Group acquired 100 percent of the shares of CEMPOR, a company located in Peru, which is currently in a pre-operative stage. Its main activity is the exploitation and commercialization of limestone from mining concession "El Silencio 8", located in Pachacamac district, province and department of Lima.

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

The acquisition value was approximately US$29,933,000 (equivalent to S/99,496,000), which was paid in full by the Company. On October 10, 2018, the Company took the control of CEMPOR.

The Group acquired CEMPOR, taking advantage of its proximity to Atocongo's Plant, in search of a competitively increase, sustainability, and environmental improve. Furthermore, it seeks to generate synergies, expense optimization and increase the quarry's useful lives.

The fair value of CEMPOR's identifiable assets and liabilities as of the acquisition date were:

	Fair values recognized at the date of acquisition S/(000)
Assets	
Cash and cash equivalents	7
Trade and other receivables, net	479
Deferred income tax asset, note 18	6,162
Mining concessions and property, plant and equipment, net, note 11	103,812
Value added tax credit	4,065
Other assets	7
	114,532
Liabilities	
Trade and other payables	132
Deferred income tax liability, note 18	14,823
Income tax payable	81
	15,036
Net identifiable assets at fair value	99,496
Goodwill generated on acquisition	-
Consideration transferred from the acquisition	99,496

	Fair values recognized at the date of acquisition S/(000)
Net cash incorporated with the subsidiary	7
Cash payment	(99,496)
Net cash flow at the date of acquisition	(99,489)
Cash flow analysis of the acquisition	
Transaction costs	(54)
Cash flow incorporated with the subsidiary	7
Cash flow net from acquisition	(47)

The Group mainly used a discounted cash flow model to estimate the expected future cash flows of the concession El Silencio 8 of CEMPOR, based on the exploitation plans of limestone reserves. Expected future cash flows are based on the estimation of future production and prices of basic products, operating costs and expected capital expenditures using the reserves plan at the date of acquisition.

From the date of acquisition, CEMPOR has contributed S/260,000 for losses before income taxes, for its continued operations.

The costs of the CEMPOR purchase transaction for approximately US$16,000 (equivalent to S/54,000) are included in the administrative expenses in the consolidated statement of income and are part of the operating cash flows in the consolidated statement of cash flows.

2.2 Acquisition of Unicon Chile S.A. (UNICON Chile) -

In May 2018, the Group acquired 100 percent of the shares of Hormigones Independencia S.A, a company domiciled in Chile, dedicated to the extraction, selection, elaboration, commercialization and distribution of materials intended for the construction of all types of works, focalized on cement, concrete, asphalt and aggregates in general. During May 2018, at an Extraordinary Shareholders Meeting took the decision of change its legal name from Hormigones Independencia S.A. to Unicon Chile S.A.

UNICON Chile has seven plants of cement strategically located in north, center and south of Chile.

The acquisition value was approximately US$21,980,000 (equivalent to S/72,006,000), which is subject to adjustments at the closing date of June 19, 2018; furthermore, the parties agreed to maintain a restricted fund for approximately US$1,566,000 (equivalent to S/5,130,000), which is deposited in the custody bank (Citibank) in favor of the seller, to cover prices adjustment and possible contingencies due to tax matters, labor matters and recoverability of accounts receivables. Said escrow account will be released in favor of the seller inasmuch as said contingencies prescribed according to a schedule established in the contract which matures in April 2021.

On May 4, 2018, UNICON Peru took the control of UNICON Chile, and disbursed the agreed consideration.

In June 2018, an adjustment to the purchase price of US$52,000 (equivalent to S/172,000) in favor of UNICON Peru was made.

The fair value of UNICON Chile's identifiable assets and liabilities as of the acquisition date were:

	Fair values recognized at the date of acquisition S/(000)
Assets	
Cash and cash equivalents	2,381
Trade and other receivables, net	47,632
Inventories	3,715
Mining concessions and property, plant and equipment, net, note 11	40,853
Customers' list, note 13	18,216
Other assets	2,019
	114,816
Liabilities	
Trade and other payables	49,393
Deferred income tax liability, note 18	10,982
	60,375
Net identifiable assets at fair value	54,441
Goodwill generated on acquisition, note 13	17,393
Consideration transferred from the acquisition	71,834
Net cash incorporated with the subsidiary	2,381
Cash payment	(72,006)
Net cash flow at the date of acquisition	(69,625)
Cash flow analysis of the acquisition	
Transaction costs	(242)
Cash flow incorporated with the subsidiary	2,381
Cash flow net from acquisition	2,139

The Group used a discounted cash flow model to estimate the expected future cash flows of customers' list of UNICON Chile, based on its sales plan. Expected future cash flows are based on the estimation of future production and prices of basic products, operating costs and expected capital expenditures using the sales plan at the date of acquisition.

Goodwill of S/17,393,000 includes the value of expected synergies from acquisitions. The Goodwill has been totally assigned to the concrete and prefabricated segments. Due to contractual terms imposed in the acquisition, the customers' list meets the criteria to be registered as an intangible asset according to IAS 38 "Intangible assets". The Goodwill is not deductible for income tax purposes.

From the date of acquisition, UNICON Chile has contributed S/2,482,000 for losses before income taxes, for its continued operations. If the business combination were made at the beginning of the year, the ordinary income from continued operations would have been S/201,266,000 and net losses before income tax S/2,498,000.

The costs of the UNICON Chile purchase transaction for approximately US$75,000 (equivalent to S/242,000) are included in the administrative expenses in the consolidated statement of income and are part of the operating cash flows in the consolidated statement of cash flows.

2.3 Acquisition of Unión de Concreteras UNICON UCUE Cía. Ltda. (UNICON Ecuador) -
In July 2017, the Group acquired 100 percent of the shares of Unión de Concreteras Unicon Ucue Cia. Ltda. (before Hormigonera Quito Horquito Cía. Ltda. and hereinafter "UNICON Ecuador"), a Company domiciled in Ecuador that is not listed on the stock exchange, dedicated to the manufacture, sale, distribution and commercialization of ready-mixed concrete for construction.

The acquisition value was approximately US$13,000,000 (equivalent to S/42,263,000), of which UNICON Peru disbursed S/41,429,000 and retained an amount of approximately S/834,000 for labor contingencies.

On July 18, 2017, the date on which UNICON Ecuador took control, the participation assignment agreement (hereinafter "the Contract") was signed, stipulating the terms and conditions for payment; between which the parties agreed to keep a retained fund for approximately US$6,005,000 deposited in an Escrow Account of the Custodian Bank (Citibank N.A.) in favor of the seller, to cover price adjustments and possible contingencies for tax, labor, environmental issues, among others, which at the date of the evaluation amounts to US$4,005,000 (equivalent to S/12,969,000). This fund is available to the seller and will be released to the extent that such contingencies prescribe according to a schedule established in the contract that expires in the year 2021.

The Group acquired UNICON Ecuador since it contributes to generate synergies with UNACEM Ecuador by developing an additional distribution channel. Likewise, it will represent important strategic opportunities for the Group that will allow to deliver a producer of greater added value to customers.

The fair value of UNICON Ecuador's identifiable assets and liabilities as of the acquisition date were:

	Fair values recognized at the date of acquisition S/(000)
Assets	
Cash and cash equivalents	11
Trade and other receivables, net	15,257
Inventories	878
Properties, plant and equipment, net, note 11	47,434
Other assets	1,366
	64,946
Liabilities	
Trade and other payables	4,183
Other financial liabilities	742
Deferred income tax liability, note 18	4,049
Other liabilities	16,277
	25,251
Net identifiable assets at fair value	39,695
Goodwill generated on acquisition, note 13	1,734
Consideration transferred from the acquisition	41,429
Net cash incorporated with the subsidiary	11
Cash payment	(41,429)
Net cash flow at the date of acquisition	(41,418)
Cash flow analysis of the acquisition	
Transaction costs	(198)
Cash flow incorporated with the subsidiary	11
Cash flow net from acquisition	(187)

In November 2017, an adjustment was made to the purchase price of US$445,000 (equivalent to S/1,446,000) that was applied with the consideration paid.

From the date of acquisition, UNICON Ecuador has contributed US$ 449,000 (S/1,456,000) for losses before income taxes, for continued operations.

The registered goodwill is mainly attributed to the expected synergies and other benefits of the combination of the assets and activities of UNICON Ecuador with the Group.

The costs of the UNICON Ecuador purchase transaction for approximately US$61,000 (equivalent to S/198,000) are included in the administrative expenses in the consolidated statement of income and are part of the operating cash flows in the consolidated statement of cash flows.

3. Contracts and concessions

3.1 Agreement with California Calportland Cement Compay (CPC) -

On March 27, 2015, the subsidiaries Drake Materials, Drake Aggregates, MRM Equipment LLC y MRM Holdings LLC, celebrated several leases with CPC to lease the ready mixed operations based in Phoenix (Drake Materials), which includes mixer trucks and batch process plants, for a period approximately of tree years, expires on December 31, 2018. At the same time, CPC made purchase agreements with Drake Aggregates and Drake Cement for the purchase of aggregates and cement, respectively, for the same period. As a result, Drake Materials ceased ready mix operations and only attends cement aggregates. During 2016, three amendments to the cement sales contract were singed, which adjusted the level of tons sold for the first and second market period.

During 2018, the main agreements' terms with CPC are:

(i) The payments for leases of mixer trucks will be US$300,000 per each year.

(ii) CPC is committed to the purchase of a minimum volume of cement. According to market volumes by installments and minimum amounts (between 144,000 and 185,000 tons), prices are determined according to market fluctuations.

During the year 2018, the tons sold of cement, related to the contract with CPC, were 540,232 tons (429,292 tons in the year 2017).

On the other hand, CPC purchased from Drake Aggregates 1,061,567 and 1,225,641 tons of aggregates for the years 2018 and 2017, respectively.

On November 9, 2018, the fourth addendum to the purchase contract of cement with CPC was signed, including volume and prices conditions reflecting the recovery of cement market in Arizona State in the United States of America. Furthermore, the term of the contract is extended until December 31, 2020.

3.2 Regulatory framework and electric concession contracts -

- Electric Concessions Law -

  According to the Electricity Concessions Law No. 25844 (hereinafter "Concessions Law"), the operations of the generation plants are subject to the provisions established by the Economic Operation Commission of the National Interconnected System (hereinafter "COES-SINAC"). In order to guarantee the security of the supply of electric power and the best use of energy resources, among others. The COES-SINAC regulates the prices of power and energy transfer between the generators as well as the compensation to the holders of the transmission systems.

- Efficient development of electricity generation law -

  On July 23, 2006, was enacted the Law N°28832, in order to ensure the efficient development of electricity generation. Such law has as principal objectives: i) ensure the sufficiency of efficient electric generation, which reduce the exposition of electric system to the volatility of prices and the risk of electricity rationing due to the lack of energy; and, ensure a competitive electric tariff to the consumer; ii) reduce the administrative intervention over the determination of generation prices through market solutions; and iii) promote effectiveness competition in the generation market.

  Main changes introduced by the Law are referred to the participation in the short-term market of generation companies, distribution companies and large free customers, including distributors and free clients as members of COES-SINAC, modifying the structure of this Organization. Additionally, introduced the bidding mechanism which would be follow by electric distributors companies in order to celebrate electric supply contracts with generators companies.

  The sales or energy from generators to distributors will be made at generation level prices that is calculated as the weighted average of contract without biddings and contracts resulting from biddings. Such disposition has as an objective establish a mechanism to promote the investments in a new generation capability trough long-term electric supply contracts and fixed prices with distributors companies.

- Regulation of electricity wholesale market -

  Supreme Decree N° 026-2016-EM approves the Regulation of the electricity wholesale market. The principal points of such regulation are: incorporate the definition of "MME" which comprises the short-term market and allocation mechanism of complementary services, operating inflexibilities and allocations of congestion pricing. Authorized participants to purchase in the short-term market are: generators to attend their supply contracts; distributors to attend their free users up to 10 percent of the peak demand; and, large consumers, to attend up to 10 percent of their peak demand.

The COES will calculate the energy spot price and marginal congestion costs, daily valorize the transactions in the MME and the results shall be available for the participants in the COES' web. The congestion pricing will be allocated between participants in accordance to the established in the respective procedure. Participants without risk rating A (A, AA o AAA) must have payment guarantees of their obligations in the MME, also incorporates COES actions for the non-compliance of payment obligations by a participant.

Supreme Decree N°033-2017-EM published on October 2, 2017, stipulates that the Regulation of electricity wholesale market, approved trough Supreme Decree N°026-016-EM, becomes effective on or after January 1, 2018.

- Charge for electricity strengthening security -
  Law N°30543 published on March 3, 2017, removed the charge for electricity strengthening security which is having a significant effect in the electric service cost and order the recovery to energy service users; override the collection for charge for electricity strengthening security (CASE the Spanish acronym), override the charge for hydrocarbons strengthening security (SISE rate) and security regulated price (TRS the Spanish acronym), and instructed to the Executive Authority to establishes the mechanisms for the refund of payments made through electricity bills.

  Supreme Decree N°022-2017-EM published on August 16, 2017, identify procedures to regulating the Law N°30543, which removed the charge for electricity strengthening security which is having a significant effect in the electric service cost and order the refund of such amount to the electric service users.

- Atocongo Thermal plant -
  On January 28, 2013, the Company through Ministerial Resolution No. 028-2013-EM/DM, is authorized to develop the activity of generating electricity at the Atocongo thermal plant, with an installed capacity of 41.75MW.

- Hydroelectric Plant Carpapata III -
  On July 7, 2014, through Ministerial Resolution No. 319-2014-MEM/MD, the transfer of the definitive generation concession with renewable energy resources was approved to develop the electric power generation activity, with an installed capacity of 12.8 MW in the Carpapata III Hydroelectric Plant of the Company to the subsidiary GEA.

  In April 2017, GEA signed a "Contractual Position Assignment" contract through which the GEA yield the concession to the Company and on July 25, 2017, through Ministerial Resolution No. 315-2017-MEM/MD the MEM approves the transfer of the ownership of the electricity generation concession in favor of the Company.

4. **Summary of significant accounting policies**

4.1 Basis of preparation -

The consolidated financial statements have been prepared in accordance to International Financial Reporting Standards (hereinafter "IFRS") issued for the International Accounting Standards Board (hereinafter "IASB ") prevailing as of December 31, 2018 and 2017, respectively.

The financial consolidated statements have been prepared on a historical cost basis, except for derivative financial instruments and the social benefits for retirement and eviction, which have been measured at fair value, from the accounting records of each of the subsidiaries in the Group. The consolidated financial statements are presented in soles and all values are rounded to the nearest thousand (S/000), except when otherwise indicated.

The accounting policies adopted are consistent with those applied in previous years, the only exception being t that the Group has adopted the new IFRS and revised IAS that are mandatory for periods beginning on or after January 1, 2018; however, due to the structure of the Company and nature of its operations, the adoption of these standards did not, have a significant effect on its financial position and results, therefore, it has not been necessary to modify the comparative consolidated financial statements of the Group. The Group has not adopted in advance any standard, interpretation or amendment issued, and which is not yet effective.

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

The Group 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 Group adopted IFRS 15 using the total retrospective method.

(a) Sale of goods –
Contracts with customers are for the cement sale, blocks, pavements and paving stones and exportation clinker, which are a single performance obligation. The Group 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 Group maintain with the client, therefore the consideration is not assigned, given that not different performance obligations have been identified.

(b) Variable consideration –
Some contracts with customers provide a right of return, trade discounts or volume rebates 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 Group presented the sale commissions in the Selling expenses of the consolidated statement of income. After the adoption of the IFRS 15, the Group 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 Group's consolidated statement of income.

In summary, the impact of adoption IFRS 15 is as follows:

	S/(000)
Net sales	(49,633)
Selling expenses	49,633

(c) Advances received from customers –
Generally, the Group receive only short-term advances from its customers, the same that are presented as part of the other accounts payables. The Group 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 Group expect, 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 Group will not account a financing component even if it is significant.

(d) Energy and power sales –

Revenues from energy and power sales are monthly recognized over the base of cyclical reading and are full recognized in period the service are rendered, over the time. The income for delivered energy and not invoiced, generated in each cyclic reading and at the end of each month, are included in next month billing, but are recognized in the corresponding month in base of estimates of energy consumption by the service users during the referred period.

Considerations of "Principal" and "Agent" for the reimbursement of regulated charges (tolls, FISE, rural electrification and others).

In relation to the invoicing of regulated charges, CELEPSA only acts as a collection agent to third parties, made a disbursement on behalf of the customer and then recovers the charges from themselves.

Therefore, the main impact resulting from the initial adoption of IFRS 15 corresponds to the presentation of compensations, including tolls and other charges, over a net rate.

In summary, the impact of adoption IFRS 15 is as follows:

	S/(000)
Net sales	(76,533)
Selling expenses	76,533

(e) Services rendered –

The income related to lease services of rack cranes, bridge cranes, hydropower plants and other services are recognized over the time.

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 Group 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 Group as of transition date of the January 1, 2018. The Group 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 Group 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.

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

(b) Impairment –
IFRS 9 requires the Group to record the expected credit losses of all its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group 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.

(c) Hedge Accounting –
The Group applied the hedge accounting prospectively. At the initial application date, all hedge relationships continuing classifying as hedge in accordance to IFRS 9. Before the adoption of IFRS 9, the Group designated the change in fair value of all-time contracts in its relationships of cash flow hedging. After the adoption of requirements of hedge accounting in accordance to IFRS 9, the Group designated only the intrinsic value of short-term contracts as hedging instrument. The temporary value is recognized in other comprehensive income and accumulates as a separate component of net equity in “Unrealized profit”. This change only applies prospectively from the date of IFRS 9 adoption and no have an impact in the presentation of comparative financial information.

4.2 Basis of consolidation -

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of December 31, 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the investor controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

When the investor has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The existence of a contractual agreement between the investor and the other holders of the voting rights of the entity receiving the investment.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The investor assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

4.3 Summary of significant accounting policies -

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

(a) Business combination -

(i) Combination of business between entities under common control -

The business combinations between entities under common control in which the existence of economic substance can not be demonstrated, are registered by the method of unification of interests.

In accordance with the interest unification method, the items in the financial statements of the merging companies, both in the period in which the merger occurs and in the other periods presented in comparative form, as if they had been merged since the beginning of the oldest period that is presented.

Due that the unification of interests originates a single merged entity, it must adopt uniform accounting policies. Therefore, the merged entity recognizes the assets, liabilities and assets of the merging companies at their book values, adjusted for the concepts necessary to standardize the accounting policies and apply them to all the periods presented. No surplus value is recognized in this process. Likewise, the effects of all transactions between merging companies are eliminated when preparing the financial statements of the merged entity.

Business combinations between entities under common control, in which the existence of an economic substance can be demonstrated, are recorded under the purchase method. In this process, a goodwill is recognized on the acquisition date, which represents the payment made as an advance of future economic benefits of the assets that could not be individually identified or recognized separately.

In 2017, Celepsa Renovables S.R.L. absorbed Celepsa Renovables S.A.C.

(ii) Combination of business and goodwill (goodwill) –

Business combination -

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred, measured by its fair value at the date of acquisition, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree, either by its fair value or by the proportional share of the net identifiable assets acquired. Acquisition costs incurred are charged to income and are included in the expense of administration of the consolidated statement of income.

When the Group acquires a business, it evaluates the identifiable assets acquired and the assumed liabilities for their appropriate classification and designation, in accordance with the contractual conditions, economic circumstances and other conditions pertinent to the date of acquisition.

Any contingent consideration that must be transferred by the acquirer will be recognized at their fair value at the acquisition date. Considerations classified as net equity, it should be not remeasured and its subsequent liquidation are registered within net equity. Contingent considerations classified as financial assets or financial liabilities in accordance with IFRS 9 "Financial Instruments" are recognized at fair value, recording any change in fair value in the consolidated income statement according to IFRS 9. Other contingent considerations out of the scope of IFRS 9 are recorded at fair value at closing date and changes in fair value are recorded in the consolidated income statement.

Goodwill -
Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date.

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 Group’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(iii) Participations in consolidated structured entities –
Desert Ready Mix, LLC, (“DRM”) is a consolidated structured entity, through which SKANON conduct its cement and aggregate operations in Phoenix City, United States of America. Initial capitalization and operating expenses of DRM were financed by SKANON.

In July 2014, SKANON began to provide financing to DRM amounting to US$1,750,000 for working capital purposes and US$1,750,000 for raw materials. With the financing provided, executed an agreement of exclusive option granting to SKANON the irrevocable and exclusive right to convert the unpaid part of financing in a majority participation in DRM, to the absolutely and exclusive discretion of SKANON. SKANON and DRM also executed an operating agreement through which SKANON render to DRM technical and commercial support, short-term financing and other services. DRM's Shareholders committed their participation as a guarantee in the case of DRM not fulfill its obligations according to the operating agreement.

SKANON determined that it's the principal beneficiary of DRM in reference to the benefits and power criteria. The Group consider that the financing granted by SKANON to DRM and the disposition of the operating agreement, grant to SKANON the power of manage the activities which significant impacts in the economic performance of DRM. Furthermore, SKANON is the major source of finance to DRM and assume the major risk of losses. As of December 31, 2018, and 2017, the Group maintain 70 percent of interest in DRM's equity, in case of DRM not fulfill with its obligations according to the operating contract.

Following, the main balances of DRM after related parties' elimination:

	As of December 31, 2018	**As of December 31, 2017**
	S/(000)	S/(000)
Assets	55,841	35,069
Liabilities	37,989	19,398

(b) Cash and cash equivalents -

Cash and cash equivalents in the consolidated statement of financial position comprise cash balances, fixed funds, funds to be deposited, current accounts, time deposits, mutual funds and restricted funds. For purposes of preparing the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits with a maturity of three month or less.

(c) 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 Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group have applied the practical expedient, the Group initially measure a financial asset at their 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 Group have 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 Group'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 Group and the contractual terms of the cash flows.

Financial assets at amortized cost (debt instruments)
The Group measure 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 Group change its business model for its management.

The Group'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 Group measure 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 Group do not have debt instruments classified in this category.
Financial assets at fair value through OCI (equity instruments) –
Upon initial recognition, the Group 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 Group 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 Group do not have financial assets classified in 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 consolidated 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 consolidated statements of comprehensive income.

The Group do not have 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 Group have 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 Group continue to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognize an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group have 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 Group could be required to repay.

(ii) Impairment of financial assets -
The Group recognize 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 Group expect 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 Group apply a simplified approach in calculating ECLs. Therefore, the Group do not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group have 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 Group consider a financial asset in default when contractual payments are 365 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. 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 -

Group's financial liabilities are classified, at initial recognition, as financial liabilities at amortized cost, at fair value through comprehensive income and at fair value thorough profit or loss.

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 Group'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 Group 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 Group maintain a derivative instrument of negotiation, swap contract by interest rate, see note 32.1(i)(b) and 32.1(ii).

Interest-bearing Loans and borrowings -
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 consolidated statement of profit or loss.

This category includes trade and other payables and other financial liabilities.

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 consolidated statement of comprehensive income.

(iv) Offsetting of financial instruments -
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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 -

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible by the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use to rank the asset or liability value, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account the ability of market participant to generate economic benefits by using the asset in its highest and best use or by selling this to another market participant that would use the asset at its maximum and best use.

The Group use valuation techniques that are appropriate in the circumstances and for which sufficient information is available to measure fair value, maximizing the use of relevant observable inputs and minimize the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated statements of financial position on a recurring basis, the Group determine whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(vi) Fair value of financial instruments -
The Group use 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 Group formally designate and document the hedge relationship to which the Group wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

After January 1, 218, 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 Group actually hedges and the quantity of the hedging instrument that the Group 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 consolidated statements of comprehensive income.

The Group 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 Group designated seven interest rate swap contracts as a cash flow hedge.

(d) Current versus non-current classification -
The Group presents assets and liabilities in consolidated 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:

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

The Group classifies all other liabilities as non-current.

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

(e) Foreign currency translation -
The Group's consolidated financial statements are presented in soles, which is also the parent company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

The accompanying consolidated financial statements have been prepared to show the joint activity of the companies comprising the Group; so it has been established as the presentation currency used by the Company, the Sol. Accordingly, the balances of the financial statements of companies operating in countries with a functional currency other than the Sol have been converted in accordance with the methodologies set out in IAS 21 "The effects of changes in exchange rates of foreign currency".

Balances and transactions in foreign currency -
Balances or transactions in foreign currency are made in a currency other than the functional currency. Transactions in foreign currency are initially recorded in the functional currency using the exchange rates prevailing at the dates of the transactions in which initially qualify for recognition. Monetary assets and liabilities denominated in foreign currencies are subsequently translated into the functional currency using the exchange rates prevailing at the date of the consolidated statement of financial position. The differences between the exchange rates prevailing at the dates of the consolidated financial statements presented and the exchange rate initially used to record transactions are recognized in the consolidated income statement in the period in which they occur, in the "Exchange difference, net".

Non-monetary assets and liabilities acquired in foreign currency are converted at the exchange rate at the dates of the initial transactions.

As required by IAS 21, exchange differences arising from transactions between related parties eliminated on consolidation and are not included as part of the net investment in a foreign operation, should be recorded in profit or loss in the consolidated financial statements.

Group companies -

On consolidation, the assets and liabilities of foreign operations are translated into soles at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in consolidated statement of other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(f) 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 –
  Acquisition cost, using the weighted average method.

- Parts, materials and supplies -
  Acquisition cost, using the weighted average method.

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

- Finished goods and work in progress -
  At the 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, using the weighted average method, but excluding borrowing costs and exchange currency differences.

  Inventory in transit –
  At specific acquisition cost.

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

The Group's Management periodically evaluates the impairment and obsolescence of these assets. The estimation for impairment and obsolescence, if any, is recognized with charge to the consolidated statement of income.

(g) Prepaid expenses –

Corresponds to services or tax paid in advance and are recognized as such at the time the payment is made and will be amortized to the extent that the service is required or consumed.

(h) Investments in associate and joint agreements –

An associate is an entity that the Group have significant influence. Significant influence is the power of participation in the decisions related to economic and operating politics of the entity, but not entail control or conjunction control over those politics.

A joint agreement is kind of agreement which the parts maintains conjunction control over the joint agreement's net assets. Conjunction control is the contractual agreement to share the control, and exist only when decision over relevant activities require the unanimous consent of the parties sharing the control.

During 2018, the Group acquired shares of Hidrointag S.A., an entity domiciled in Ecuador with a participation of 49 percent.

The Group's investment in associates are BASF Construction Chemicals Perú S.A and Preinco Ltda. with a participation of 30 and 50 percent as of December 31, 2018 and 2017.

As of December 31, 2018 and 2017, the Group maintain one joint agreement in Compañía Eléctrica San Bernardino S.A.C. with a participation of 40 percent.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

Group's investment in an associate and in joint agreements are accounted through the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate and joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate or joint venture.

The financial statements of the associate and joint ventures are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determine whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss as "Share of profit of an associate and a joint venture" in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated income statement.

(i) 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 contract of borrowing of funds.

(j) 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.

Group as a lessee:

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date 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 consolidated statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group 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.

An operating lease is a lease other than financial lease. Operating lease payments are recognized as an operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

Group as a lessor:
Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

Rental income is recorded in a straight line during the lease term and are included in ordinary incomes in the consolidated statement of profit and loss due to its operating nature. Initial direct costs incurred in negotiating and contracting the operating lease are added to the book value of the leased asset and are recorded over the term of the lease applying the same criteria as rental income. Contingent rentals are recorded as income in the period in which they are obtained.

(k) Leaseback -
The fixed assets for which the Group has signed leaseback sales contracts are included in the consolidated financial statements at the value of the respective contract and the related liability is shown under "Other financial liabilities" in the consolidated statement of financial position, in note 14(f). The gain on the sale of assets related to contracts of sale leaseback is deferred under "Deferred income" in the consolidated statement of financial position, in note 16(e) and recognized in the consolidated statement of income in a straight line during the term of the contract.

(l) 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 rehabilitating the site where it is located, is included in the cost of the respective assets, see note 4.3(r). When significant parts of property, plant and equipment are required to be replaced at intervals, the Group 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 consolidated statement of income in the period on which they are incurred.

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

	Years
Buildings and constructions	10 to 50
Other installations	3 to 20
Machinery and equipment	5 to 25
Transportation units	2 to 10
Furniture and fixtures	3 to 10
Other equipment	2 to 15

An item of mining concessions and 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 consolidated statement 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 lifes and methods of depreciation/amortization are reviewed at each reporting date, and adjusted prospectively if appropriate.

As of December 31, 2018 and 2017, the Group presents the composition of mining and property, plant and equipment in note 11.

(m) 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 property, plant and equipment caption. Those mining concessions are amortized starting from the production phase following the units-of-production method based on proved reserves to which they relate. If the Group abandons the concession, the costs associated are written-off in the consolidated statement of income.

As of December 31, 2018 and 2017, the Group presents the composition of mining concessions and property, plant and equipment in note 11.

(n) Intangible assets –

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the consolidated of income in the period in which the expenditure is incurred.

The useful lifes of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lifes are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lifes is recognized in the consolidated statement of income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lifes are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

List of customers -

The brand is presented under the caption “Intangibles assets, net” in the consolidated statement of financial position. The list of customers mainly comes from the credit portfolio granted to customers and have a useful finite life of 10 years.

Brand -

Brand is presented under the caption "Intangible assets, net" in the consolidated statement of financial position, has an indefinite useful life and do not depreciate.

Goodwill -

Goodwill is presented under the caption "Intangible assets, net" in the consolidated statement of financial position. For further explanation see note 4.3(a)(ii).

Software and Licenses -
Software and the licenses of computer software are 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 of three to ten years.

Concession for electric generation -
Concessions for electric generation is initially presented at cost, as well as, the cession of rights of use of those concessions. The cost and the cession of rights of use are amortized according the term of the concession, which is 25 years.

(o) Deferred stripping costs -
The Group incurs 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 operational flexibility in relation to the mineral expected to be mined in the future. The first ones 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 stripping production related to the extraction of inventory and the related to the creation of a stripping activity asset.

Once the Group 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 lifes. 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 stripping production is then depreciated using the production unit's method taking into account the life of the identified component that is more accessible as a result of the stripping activity. This cost is stated at cost less accumulated depreciation and accumulated impairment losses, if any.

(p) Estimates of resources and reserves -
The mineral reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties and concessions. The Group 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.

(q) Impairment of non-financial assets -
The Group 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 Group 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 Group, if available. If no such transactions can be identified, the Group can use an appropriate valuation model.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset, except for assets previously revaluated, which revaluation is recorded in other comprehensive income. In this case, the impairment losses are also recorded in other comprehensive income until compensate the amount of previous revaluation.

For assets excluding goodwill, the Group 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 Group estimates the recoverable amount of the asset or CGU.

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 consolidated statement of income, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

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

(r) Provisions -

General -

Provisions are recognized when the Group 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 Group 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 the consolidated statement of income 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. When discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

Pit closure provision -

The Group 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. Pit 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 accrual of the discount is recognized as expense when incurred and is recognized in the consolidated statement of income as a finance 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.

Provision for environmental remediation (Ecuador) –
The Group make judgments and estimates to record costs and establish provisions for environmental manage plan, which are based on current information related to expected costs and plans for remediation in force by law. In the case of this provision, cost may be differed of estimates due to changes in laws and regulations, discovery and analysis of localized conditions, as well as changes in remediation technology. Therefore, any change in factors or circumstances related to this kind of provisions, as well as in laws and regulations, could be, as a consequence, a significant effect in the provision recorded for this cost. The provision for environmental remediation is annually review with a report which is updated every three years.

(s) 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 Group. When the realization of the income is virtually certain, the related asset is not contingent, and its recognition in the consolidated financial statement is appropriate.

(t) Employees' benefits -
The Group has short-term obligations for employees' benefits that include salaries, social contributions, gratifications, bonuses for performance, and workers' profit sharing. These liabilities are recorded monthly with charge to consolidated statement of income, as they are accrued.

Employer retirement and eviction of workers and other benefits according to collective contract -
The Group have a definite benefit plan for employer retirement, controlled and required by Ecuadorian labor laws. Additionally, according to current legislation, in the case of termination of labor relationship for eviction requested by the employer or employee, the employer gives a bonus to the employee equivalent to 25 percent of his last monthly remuneration per worked year, this benefit is denominated eviction. For certain employees, covered under a collective contract, the Group maintain a additional plan of benefits.

The Group determine annually the provision for employer retirement and eviction based on actuarial studies made by independent experts and is recognized with a charge in the consolidated profit or losses statement applying the Projected Unit Credit Method and representing the present value of obligations at the date of the consolidated financial statements, which is obtained discounting the cash outflows with a rate equivalent to the average rate of United States of Americas bonds, which are denominated in the same currency in which these bonuses will be paid and have terms that approximate to terms of pension obligations until its maturity.

The actuarial hypothesis includes variables as, in addition of discount rate, mortality rate, age, gender, years of service, remunerations, future increments of remunerations, rotation rate among others.

Actuarial gains and losses that arise from adjustments based on the experience and change in actuarial assumptions is recorded in other comprehensive income in the period in which arising. Past service costs are recognized immediately in consolidated profit or loss.

(u) Revenue recognition –
The Group is dedicated to the sale of cement, concrete and prefabricated, supply of electricity and other services. 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 Group expect to be entitled in exchange for those goods or services. The Group has concluded that it is principal in its sales agreements, except in sales from toll services in energy supply, because it controls the goods or services before transferring to the customer.

The consideration committed in a contract may include fixed amounts, variable amounts or both. The variable consideration is estimated at the begging of the contract and is restricted until it's highly probably that not occurs a significant reversal of the income at the moment that associated uncertainty disappear with the variable consideration.

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

Sales of goods -
Revenue from sales of cement and concrete and prefabricate, are recognized when the significant risks and rewards of ownership have been transferred to the buyer, generally at point in time.

Sales of energy and power –
Revenues of ordinary activities of sales energy and power are recognized monthly on basic to cyclic metering of energy and are completely recognized in the period in which services are provided, over the time. The income for delivered energy and not invoiced, generated in each cyclic reading and at the end of each month, are included in next month billing, but are recognized in the corresponding month in base of estimates of energy consumption by the service users during the referred period.

Services -
Revenues of ordinary activities related to rental portal cranes, bridge cranes and hydroelectric station are recognized over the time.

The Group consider the existence of other contract considerations that constitute separate performance obligations for which it is necessary to assign a portion of the price.

Some contracts provide rights of return and discounts or volume discounts.

Variable considerations -
If a contract includes a variable amount, the Group estimate the amount of the consideration that have rights in exchange of transfer the goods The variable consideration is estimated at the begging of the contract and is restricted until it's highly probably that not occurs a significant reversal of the income at the moment that associated uncertainty disappear with the variable consideration.

Interest income -
The revenue is recognized when the interest accrues using the effective interest rate. Interest income is included in finance income in the consolidated statement of income.

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

(v) Costs and expenses recognition –
The costs and expenses are recognize as it accrued, regardless of when payment is being made, and are register in the periods with which are relate.

(w) Taxes -
Current income tax -
The income tax for the current period is calculated according to the legal regulations in each country, based on non-consolidated financial statements, and 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 consolidated statement of income. The Group's 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 income 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 date of the consolidated statement of financial position.

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 n 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 assets related to temporary difference arisen 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 are recognized only to the extent that it is probable that the temporary differences will reverse in the near 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 liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted at the reporting date consolidated statement of financial position, or substantively enacted.

Tax benefits acquired from a business combination that not fulfill with criteria for their recognition at the acquisition date, they are later recognized if the Group obtained new information regarding events and circumstances have changed. Adjustment is recorded as a Goodwill discount (if it's not greater than goodwill) when are recorded in the valuation period, or in the consolidated income statement, otherwise.

An entity must offset deferred tax assets and deferred tax liabilities are if, and only 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; or different entities or subject to tax effects who pretend, liquidate tax assets and liabilities for their net amount, either realize the assets and pay the liabilities simultaneously, on each future years in which is expected to settle or recover significant amounts of assets or liabilities by deferred taxes.

Value added tax -

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

- Where value added tax incurred on when 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 value added tax included.

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

(x) Earnings per share -

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

(y) Reclassifications -

There are certain transactions that were reclassified for presentation purposes during the current year and, in Management's opinion, there are not significant for the consolidated financial statements as of December 31, 2017.

(z) Subsequent Events -

Events subsequent to the end of the year that provide additional information on the Group's consolidated financial position and related to events occurring and recorded at the date of the consolidated statement of financial position (adjustment events) are included in the consolidated financial statements. Significant subsequent events that are not adjustment events are disclosed in notes to the consolidated financial statements.

5. Significant accounting judgments, estimates and assumptions

Many of the amounts included in the consolidated financial statements involve the use of criteria and/or estimates. These judgments and estimates are made based at best knowledge of relevant facts and circumstances, taking into account previous experience; however, actual results could differ from the estimates included in the consolidated financial statements. The details of these policies and estimates are included in the accounting policies and/or the notes to the consolidated financial statements.

The preparation of the consolidated financial statements includes criteria and/or estimates used by the Group's Management, following:

- Estimation of expected credit portfolio impairment – Note 4.3(c)(i).
- Estimation useful lifes of assets, by depreciation and amortization - Note 4.3(l), (m) and (n).
- Fair value of derivatives financial instruments - Note 4.3(c)(vi).
- Estimation for impairment of inventories - Note 4.3(f).
- Deferred stripping cost - Note 4.3(o).
- Estimates of resources and reserves – Note 4.3(p).
- Estimation for impairment of non-financial assets - Note 4.3(q).
- Provision for quarry closure and environmental remediation – Note 4.3(r).
- Provisions for contingencies – Note 4.3(s).
- Income tax – Note 4.3(w).

During 2018, the Group's Management evaluated the useful lifes assigned to the cement plant of Drake Cement, due to a new operation plan that includes changes in the program of maintenance and expansions. The effect of the change in useful lifes decreased the depreciation and increased the income in 2018 for US$11,625,000 approximately (equivalent to S/39,165,000 approximately).

Group's Management believes that the estimates included in the consolidated financial statements were made on the basis of their best knowledge of the relevant facts and circumstances at the date of preparation: however, the final results may differ from the estimates included in the consolidated financial statements.

6. New accounting standards

Below are described those standards and interpretations applicable to the Group, that have been published, but not yet effective up to the date of issuance of the consolidated financial statement. The Group 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 recognize 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 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  During 2018, the Group is assessing the potential effect of IFRS 16; however, at the date of this consolidated financial statements, the Group's Management believes that the adoption of this standard will 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 reliefs are available. The Group will apply interpretation from its effective date. The Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

  Group's Management is assessing the possible effects of this standard; however, expect that will not have significant effect.

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture -
  The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

- Amendments to IAS 28: Long-term interests in associates and joint ventures -
  The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests).

  The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

  Amendments clarified that tax consequences of dividends depends more on past transactions and events that generated this distributable benefit that the distribution to the owners. Therefore, an entity recognizes the tax consequences of a divided in the profit or loss, other global profit or loss or net equity depending on how the entity registered those past transactions or events.
  An entity applies those modifications for annual reporting periods beginning on or after January 1, 2019, and early adoption is permitted. When an entity applies those amendments for first time, it will do from the beginning date of the oldest comparative period.

- *Annual improvements to IFRS - 2015-2017 Cycle (issued as of December 31, 2018)*
  IFRS 3 – Business Combinations
  The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

  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.

  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 Group does not expect any effect on its consolidated 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 Group is analyzing the possible effects of this rule.

7. Cash and cash equivalents

(a) This caption is made up as follows:

	2018 S/(000)	2017 S/(000)
Petty cash	1,215	1,072
Funds to deposit	126	71
Current accounts (b)	75,234	67,216
Term deposits (c)	29,103	88,579
Mutual funds	5,665	-
Restricted funds	67	64
	111,410	157,002

(b) Current accounts are maintained in domestic and foreign banks, mainly in soles and U.S. Dollars, are freely available and earn interest at market rates.

(c) Corresponds to term deposits in domestic and foreign financial entities, mainly in soles and U.S. Dollars, earn interest at market rates and have original maturities shorter than three months. During 2018, term deposits maintained as of December 31, 2017 were liquidated.

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

(a) This caption is made up as follows:

	Current		Non-current	
	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)
Trade accounts receivable:				
Invoices and bills of exchange receivables (b)	406,079	331,345	13,730	12,660
Provision of invoices receivable (c)	21,319	24,759	-	-
	427,398	356,104	13,730	12,660
Related parties receivables:				
Accounts receivable from related parties, note 29(c)	25,157	28,519	-	-
Other receivables:				
Claims to tax authority (d)	24,211	1,230	19,638	38,399
Advances to suppliers	11,774	6,965	3,958	-
Claims to third parties	9,856	17,071	2,922	2,922
Loans to employees (e)	6,926	9,054	158	4,124
Account receivable from the Escrow fund, note 2.3	5,815	1,184	6,448	11,785
Derivative financial instruments, note 32.1(i)(a)	484	280	-	-
Other accounts receivable	20,449	20,481	780	718
	79,515	56,265	33,904	57,948
Taxes:				
Prepaid income tax (f)	30,235	13,298	-	-
Value added tax credit (g)	11,413	20,570	8,715	5,157
	41,648	33,868	8,715	5,157
	573,718	474,756	56,349	75,765
Less – Allowance for expected credit losses (h)	(12,172)	(7,832)	(13,730)	(12,369)
	561,546	466,924	42,619	63,396

(b) Trade receivables are mainly denominated in soles and U.S. Dollars, have current maturities and do not earn interest. Bills of exchange receivables have current maturities and earn interest at market rates.

(c) As of December 31, 2018, and 2017, correspond mainly to provisions for invoicing for sale of energy, power and prefabricated of the month of December of such years for S/21,319,000 and S/24,759,000, respectively, which were invoiced and collected during the opening of the following year.

(d) At December 31, 2018 and 2017, the balance corresponds mainly to claims to Tax Authority (SUNAT) for the refund of payments in excess of income tax, selective consumption tax and value added tax on sales of previous years, See note 31.4. During 2018, the Group recorded new claims receivable for S/6,800,000 approximately corresponding to income tax audits of 2014 and selective excise tax of 2016 and 2017. Furthermore, the Group received resolutions in favor from Tax Authority for S/2,005,000, corresponding to selective excise tax which were totally collected.

As of December 31, 2018, the Group received from Tax Authorities resolutions in favor of several cases, which are presented in short-term and are pending to collect or liquidation for S/23,735,000. The Group's Management expect to collect such amount during the first semester of 2019.

In the opinion of the Group Management and its legal advisors, it is estimated that there are sufficient legal arguments to obtain favorable recovery in short and long term.

(e) As of December 31, 2018, and 2017, corresponds mainly to loans granted to personnel, which will be collected within two years according to the agreement signed by the Company.

(f) As of December 31, 2018, and 2017, it corresponds to the balance in favor of the payments on account of the income tax, disbursed at said dates, in addition to the payments on account of the temporary tax to the net assets.

In Group of Management's opinion, these payments on account of the income tax will be applied with the future taxes that are generated in the current period.

(g) As of December 31, 2018, mainly corresponds to the value added tax credit resulting from the construction of the Hydroelectric Power Plant Marañon project and the "Silencio 8" project of CEMPOR (mainly corresponds to the prepaid of the financial leases of the subsidiary CELEPSA, see note 14(j) and the construction of the Hydroelectric Power Plant Marañon project as of December 31, 2017)

(h) The movement of the allowance for expected credit losses for the years ended December 31, 2018 and 2017 was follows:

	2018 S/(000)	2017 S/(000)
Opening balance	20,201	18,019
Estimation charged to income, note 23 and 26	6,018	2,814
Acquisition of subsidiaries, note 2.2	199	-
Write-offs	(23)	(54)
Recoveries, note 26	(793)	(302)
Translation adjustment	300	(276)
Ending balance	25,902	20,201

In Group of Management's opinion, the allowance for expected credit losses adequately covers the credit risk for the years ended December 31, 2018 and 2017.

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

			Past due			
	Total S/(000)	Outstanding S/(000)	< 30 días S/(000)	30-90 días S/(000)	91-180 días S/(000)	> 180 días S/(000)
2018	604,165	499,587	53,091	21,269	4,577	25,641
2017	530,320	442,217	47,589	11,330	5,821	23,363

As of December 31, 2018, and 2017, the Group manages and measures the credit risk of the trade receivables that have neither expired nor are impaired, see note 32.2.

9. Inventories, net

(a) This caption is made up as follows:

	2018 S/(000)	2017 S/(000)
Finished goods	33,898	36,338
Work in progress (b)	242,388	229,385
Raw and auxiliary materials (c)	171,292	153,053
Packages and packing	27,192	25,225
Spare parts and supplies (d)	313,232	282,632
Inventory in transit	3,133	4,102
	791,135	730,735
Estimate for impairment of inventories (e)	(39,066)	(32,108)
	752,069	698,627

The caption "Inventories, net" is presented in accordance with the accounting policies described in note 4.3(f).

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

(c) Raw and auxiliary materials include mainly imported and domestic coal, pozzolan, iron and clinker. As of December 31, 2018, the Group mainly has in stock coal and clinker for approximately S/51,788,000 and S/14,791,000, respectively (S/63,860,000 and S/14,528,000, respectively as of December 31, 2017).

(d) As of December 31, 2018, and 2017, the Group maintain no significant and necessary supplies and parts to provide maintenance machinery and kilns, which are evaluated through technical reviews, and in turn comply with the provisions of quality and are in proper storage conditions.

(e) Movement in the estimation for impairment of inventories for the years ended December 31, 2018 and 2017 was follows:

	2018 S/(000)	2017 S/(000)
Opening balance	32,108	22,809
Estimation charged to income, net, note 22	8,272	9,961
Recoveries, note 26	(369)	(102)
Translation adjustment	(945)	490
Writte-off	-	(1,050)
Ending final	39,066	32,108

In Group Management's opinion, the estimation for impairment of inventories adequately covers the impairment risk as of December 31, 2018 and 2017.

10. Prepaid expenses

(a) This caption is made up as follows:

	2018 S/(000)	2017 S/(000)
Prepaid insurance	18,959	16,568
Tax property (b)	-	2,271
Others	6,535	4,609
	25,494	23,448

(b) As of December 31, 2017, correspond to balance for tax property payment for the subsidiary Drake Cement to Yavapai County, United States of America. Such tax will be deductible for payments for state taxes.

11. 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)	Pit 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)	Units in transit S/(000)	Work in progress (d) S/(000)	Total S/(000)
Cost -												
As of January 1, 2017	50,787	798,482	11,297	2,522,557	111,042	4,627,459	548,726	23,815	140,982	-	819,563	9,654,710
Additions (d)	90	16,501	5,083	2,746	2,085	9,918	29,114	89	3,309	2,197	223,528	294,660
Acquisition of subsidiary, note 2.3	-	25,436	-	5,925	-	3,696	12,366	10	1	-	-	47,434
Transfers (e)	-	26,116	-	373,060	18,344	307,015	14,498	403	10,906	-	(750,342)	-
Disposals and sell (f)	-	(208)	(220)	(2,094)	(1,021)	(28,677)	(43,196)	(380)	(1,536)	-	-	(77,332)
Reclassifications (g)	-	-	-	-	-	11,403	-	-	-	-	(156)	11,247
Others	-	4,074	-	184	-	(72)	501	-	(37)	218	2,204	7,072
Translation adjustments	-	(2,048)	-	(22,313)	167	(51,849)	(2,823)	(99)	(1,032)	-	(1,523)	(81,520)
As of December 31, 2017	50,877	868,353	16,160	2,880,065	130,617	4,878,893	559,186	23,838	152,593	2,415	293,274	9,856,271
Additions (d)	714	1,432	20,832	6,280	4,947	25,604	56,598	36	4,114	-	175,281	295,838
Acquisition of subsidiary, note 2.1 and 2.2	65,786	38,026	-	-	8,730	21,745	10,276	-	-	-	102	144,665
Transfers (e)	-	1,500	-	68,401	5,779	127,608	18,914	425	6,419	(2,197)	(226,849)	-
Disposals and sell (f)	-	(114)	(5)	(656)	(1,778)	(16,123)	(9,938)	(9)	(4,412)	-	(815)	(33,850)
Reclassifications	-	-	-	-	-	-	-	-	-	-	(918)	(918)
Others	-	-	-	126	-	414	269	-	-	(227)	(121)	461
Translation adjustments	-	3,002	-	24,504	(1,175)	59,260	1,973	96	1,296	9	886	89,851
As of December 31, 2018	117,377	912,199	36,987	2,978,720	147,120	5,097,401	637,278	24,386	160,010	-	240,840	10,352,318
Accumulated depreciation -												
As of January 1, 2017	10,527	-	4,617	478,621	55,893	1,229,652	406,695	20,013	94,515	-	-	2,300,533
Additions (h)	8,157	-	1,980	102,971	9,600	272,488	46,867	962	11,829	-	-	454,854
Transfers	-	-	-	-	-	7	(12)	5	-	-	-	-
Disposals and sell (f)	-	-	-	(1,358)	(226)	(18,735)	(40,928)	(315)	(1,394)	-	-	(62,956)
Adjustments	-	-	-	-	-	33	-	-	1	-	-	34
Translation adjustments	-	-	-	(5,139)	116	(14,637)	(1,753)	(83)	(620)	-	-	(22,116)
As of December 31, 2017	18,684	-	6,597	575,095	65,383	1,468,808	410,869	20,582	104,331	-	-	2,670,349
Additions (h)	312	-	1,142	97,638	9,429	251,075	48,464	799	11,381	-	-	420,240
Transfers	-	-	-	-	-	(12)	-	-	12	-	-	-
Disposals and sell (f)	-	-	(37)	-	-	(5,364)	(8,481)	(9)	(4,370)	-	-	(18,261)
Translation adjustments	-	-	-	7,029	(240)	20,202	1,898	88	770	-	-	29,747
As of December 31, 2018	18,996	-	7,702	679,762	74,572	1,734,709	452,750	21,460	112,124	-	-	3,102,075
Net book value:												
As of December 31, 2018	98,381	912,199	29,285	2,298,958	72,548	3,362,692	184,528	2,926	47,886	-	240,840	7,250,243
As of December 31, 2017	32,193	868,353	9,563	2,304,970	65,234	3,410,085	148,317	3,256	48,262	2,415	293,274	7,185,922

The caption "Mining concessions and property, plant and equipment, net" is presented in accordance with the accounting policies described in the notes 4.3(l), (m) and (r)

(b) As of December 31, 2018 and 2017, mainly corresponds to the mining concessions of Atocongo, Atocongo Norte, Pucara and Oyon of UNACEM; Selva Alegre, Cumbas y Pastavi of UNACEM Ecuador; Jicamarca of UNICON Peru and "El Silencio 8" of CEMPOR.

(c) As of December 31, 2018, the carrying value of assets acquired through finance leases and leaseback amounted to approximately S/587,791,000 (S/665,978,000 as of December 31, 2017). During the year 2018, there were additions of fixed assets under the system of finance lease and leaseback to approximately S/44,022,000 (S/32,168,000 in the year 2017). The leased assets guaranteed financial lease liabilities, see note 14(f).

(d) The additions during the year 2018 correspond mainly to:

(i) Additional work in Termic Plant Atocongo, depopulation system of ovens 2 and 3 of plant Condorcocha, complementary works in Hydroelectric Plant Carpapata III and Cement plant in Iquitos for S/30,818,000 approximately and other minor projects for S/73,900,000 approximately.

(ii) UNACEM Ecuador incurred costs in work in progress of Milling Station N°3, for approximately US$6,912,000 (equivalent to S/23,288,000).

(iii) UNICON Peru incurred costs to: i) work in progress related to the construction of a cement recycling plant and civil works in San Juan plant for S/2,949,000 and construction of batching plants for S/4,637,000; ii) acquisition of mixer trucks for S/11,172,000, mining trucks for S/6,507,000 and front-end loaders for S/1,403,000 and; iii) improve of machinery, equipment and vehicles for S/13,322,000 approximately.

(iv) CONCREMAX incurred costs in: i) disbursement by work in progress for S/5,896,000 approximately mainly related to overhaul and constructions of plants; ii) acquisition of machinery and equipment for S/4,575,000 approximately related to front-end loaders, forklifts, excavators and; iii) mixer trucks for S/2,611,000 approximately.

(v) UNICON Chile incurred costs for the acquisition of vehicles for S/18,259,000 approximately related to mixer trucks.

(vi) Desert Ready Mix, LLC incurred costs for the acquisition of vehicles for S/12,335,000 related to mixer trucks.

The additions during the year 2017 correspond mainly to:

(i) Additional work of the Hydroelectric Power Plant Carpapata III, acquisition of lands in province of Tarma for obtain the concession of limestone "Caripa" located near of the Condorcocha plant and improvements in infrastructure of the Thermal Plant of the Company by approximately S/67,088,000.

(ii) Acquisition of mixer trucks; purchase of land located in Quebrada de Huaycoloro, acquisition of hydraulic excavators and front loaders; and disbursements for ongoing works of UNICON Peru for approximately S/13,858,000, S/4,401,000, S/3,368,000 and S/16,882,000, respectively.

(iii) Improvements to the channels of the CELEPSA hydroelectric plant, imposed by alcabala and acquisition of equipment for approximately S/8,954,000.

(iv) The subsidiary Celepsa Renovables S.R.L. incurred costs for the completion of the Marañón Hydroelectric Power Plant, for approximately S/49,392,000.

(v) The subsidiary UNACEM Ecuador incurred costs for the implementation of the gas filtration system and clinker discharge system, for approximately US$4,348,000 and US$402,000, respectively (equivalent to S/14,078,000 and S/1,302,000, respectively).

(e) The transfers during the year 2018, correspond mainly to the following:

(i) During the first semester of 2018, the Group finished the works related to: i) complementary works in Hydroelectric Power Plant Carpapata III, ii) fire-fighting network of Atocongo – Conchán, and ii) interconnection between Hydroelectric Plants Carpata I and Huasahuasi, for approximately S/43,010,000, S/9,591,000 and S/8,839,000, respectively. Those projects were transferred from work in progress to their respectively classification in the caption "Mining concessions and property, plant and equipment.

(ii) Activation of major maintenance of mixer trucks and pumps for S/10,263,000 approximately, cement recycling plant San Juan for S/1,718,000 approximately and civil works en San Juan plant for S/1,248,000 by UNICON Peru.

The transfers during the year 2017, correspond mainly to the following:

(i) In January 2017, the Company completed construction and began using the Carpapata III Hydroelectric Plant project, located in the Condorcocha plant, at a cost of approximately S/197,241,000. In July and September of 2017, the work was completed in Furnace 1 of the Atocongo plant, the modernization works of the control system of Furnace 3 and the work of changes of ferrules and rims 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 ongoing works to their corresponding classification in the category of "Mining concessions and property, plant and equipment, net".

(ii) In the month of June 2017, the subsidiary Celepsa Renovables S.R.L. (formerly Marañón Hydroelectric S.R.L.) completed the construction of the Marañón Hydroelectric Plant, for an amount of S/264,612,000, which were transferred according to the analysis of asset componentization of assets.

(iii) Improvements made to the fleet of transport units of the subsidiary UNICON Peru, such as: change of engines, chassis, hydraulic system, manufacture and change of tops for S/6,925,000; electrification and other improvement works carried out at the Yerbabuena and Jicamarca plants for S/2,765,000 and paving of the San Juan, Oquendo plants, among others for S/1,588,000.

(f) During 2018 and 2017, UNICON Peru made sales of front loaders and mixer trucks, which costs amounting to approximately S/5,708,000 and S/14,930,000, respectively.

(g) During the year 2017, UNACEM transferred replacement units for approximately S/11,403,000 of the "Inventories" heading to the caption "Mining concessions and property, plant and equipment, net" of the consolidated statement of financial position.

(h) The depreciation for the year 2018 and 2017 was distributed as follows:

	2018 S/(000)	2017 S/(000)
Cost of sales, note 22	407,717	433,565
Administrative expenses, note 23	10,912	11,019
Selling expenses, note 24	121	93
Other expenses, note 26	884	9,552
Inventories	606	625
	420,240	454,854

(j) During 2018, interests were capitalized for approximately S/2,510,000. The amount of capitalizable finance costs is determined applying the capitalization rate to the capital expenditures in qualified assets. The rate utilized to determine the amount of finance costs eligible for capitalization was 4.7 percent approximately. In 2017, was no interest's capitalization due to the Hydroelectric Power Plant Carpata III was completed in January 2017.

(k) The foreign subsidiaries maintain mainly trust as security for the production line 2 of the plant located in Ecuador and plant, transport units and equipment located in the United States of America, guaranteeing bank loans, see note 14(f).

On the other hand, the UNICON Peru subsidiary, maintain mortgages on properties: (i) mortgage for approximately US$5,520,000 over the property located in Callao; to guarantee the loan obtained from Banco Internacional del Perú, see note 14(f), (ii) mortgage for approximately US$40,117,000 over properties located in Cercado de Lima and Villa el Salvador district; to guarantee the loan obtained from Scotiabank Peru used to buy UNICON Chile, see note 14(f).

Furthermore, Celepsa Renovables S.R.L. subsidiary, maintains two mortgages over property, plant and equipment for approximately US$40,820,000 (equivalent to S/132,175,000) to guarantee the loan obtained used in the construction of Hydroelectric Plant Marañon, see note 14(f).

(l) As of December 31, 2018, and 2017, the Group's management performed an evaluation of the state of use of its property, plant and equipment and non-found the indicators of impairment on these assets, except by the assets related to its subsidiary Skanon Invesment, Inc. and Subsidiaries.

The Management performed an evaluation of impairment by the cash-generation units related to the subsidiary Skanon Invesment, Inc. and Subsidiaries and the Management's opinion, the net book value of the property, plant and equipment, intangible assets and goodwill are recoverable from the future profits that generate the different cash-generating units (cement and ready mix).

Show below the key assumptions used in the evaluation of impairment by each CGU:

	Category	Average discount rate %	Average long-term growth rate %	EBITDA margin average long-term %
Drake Cement (include Skanon Investments, Inc.)	Cement– Unit States of America	8.7	2.0	36.7
Drake Materials y Subsidiaries (include Drake Aggregates, Dessert Ready Mix, Maricopa Ready Mix & Subsidiaries, Sunshine Concrete & Materials Inc. and other)	Ready mix and aggregates – Unit States of America	8.7	2.0	20.85

Key assumptions used in the calculation of the value in use.

- EBITDA margin –
  It is based in the historical values recorded in the prior years to the start of the beginning of the budget period and increases during the budget period with the efficiency improvements that are expected by the normal improvements of the productive process and related to the recovery of cement market in Arizona State of United States of America.

- Discount rate -
  Future cash flows were adjusted according the specific risk assigned to the related assets and have been discounted to a rate after tax.

- Growth rate -
  The growth rate of the concrete and aggregate category of the United States of America is related to the conditions established in the contract with CPC until 2018 and with the estimated growth rates for the following years taking into account the renewal of the contract that the Directory is coordinating with CPC, see detail in note 3.1.

Respect to the evaluation of the value in use, the assumptions described may change if the market conditions, the economy and the estimation of renovation of the contract with CPC change and might that the book value of the cash-generation unit to exceed the recoverable value of the assets of Skanon Invesment, Inc. and Subsidiaries.

12. Deferred stripping cost, net

(a) This caption 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
Accumulated depreciation -	
As of January 1, 2017	(37,780)
Additions, note 22	(4,155)
As of December 31, 2017	(41,935)
Additions, note 22	(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

The caption "Deferred stripping cost, net" is presented in accordance with the accounting policy described in note 4.3(o).

As of December 31, 2018 and 2017, the Group have three identifiable components that allow a specific volume of limestone pit and waste: Atocongo pit; North Atocongo and Pucara pit.

13. **Intangibles assets, net**

(a) The table below presents the composition and movement of the caption:

	List of customers S/(000)	Trademark S/(000)	Concession for electricity generation (b) S/(000)	Goodwill (c) S/(000)	Environmental protection program S/(000)	Exploration expenses S/(000)	Software S/(000)	Other S/(000)	Total S/(000)
Cost -									
As of January 1, 2017	35,612	152,057	61,330	1,147,516	17,071	3,225	38,235	33,158	1,488,204
Additions	-	-	-	-	-	-	3,873	5,274	9,147
Acquisition of subsidiary, note 2.3	-	-	-	1,734	-	-	-	-	1,734
Reclassification	-	-	-	-	-	-	61	-	61
Others	-	-	-	-	-	-	(13)	(815)	(828)
Translation adjustments	(1,119)	(4,917)	-	(1,546)	-	(110)	(292)	(144)	(8,128)
As of December 31, 2017	34,493	147,140	61,330	1,147,704	17,071	3,115	41,864	37,473	1,490,190
Additions	-	-	-	-	-	-	4,855	6,710	11,565
Acquisition of subsidiary, note 2.2	18,215	-	-	17,393	-	-	1	-	35,609
Reclassification	-	-	-	-	-	-	891	-	891
Disposals	(33,069)	(12,637)	-	-	-	-	(5,996)	(4,247)	(55,949)
Translation adjustments	1,286	5,644	-	1,776	-	126	352	165	9,349
As of December 31, 2018	20,925	140,147	61,330	1,166,873	17,071	3,241	41,967	40,101	1,491,655
Accummulated amortization -									
As of January 1, 2017	34,258	12,627	10,073	-	17,071	1,076	19,177	13,517	107,799
Additions (e)	271	37	18,471	-	-	209	6,623	8,797	34,408
Others	-	-	-	-	-	-	(106)	-	(106)
Translation adjustments	(1,119)	(188)	-	-	-	(39)	(240)	(144)	(1,730)
As of December 31, 2017	33,410	12,476	28,544	-	17,071	1,246	25,454	22,170	140,371
Additions (e)	1,334	35	8,725	-	-	211	7,229	5,447	22,981
Disposals	(33,070)	(12,635)	-	-	-	-	(5,994)	(4,248)	(55,947)
Translation adjustments	1,286	213	-	-	-	54	308	166	2,027
As of December 31, 2018	2,960	89	37,269	-	17,071	1,511	26,997	23,535	109,432
Net book value -									
As of December 31, 2018	17,965	140,058	24,061	1,166,873	-	1,730	14,790	16,566	1,382,223
As of December 31, 2017	1,083	134,664	32,786	1,147,704	-	1,869	11,847	15,303	1,349,819

The caption "Intangibles assets, net" is presented in accordance with the accounting policies described in note 4.3(n).

(b) Corresponds to the disbursements made to develop the comprehensive project "El Platanal" consisting of the construction of two hydroelectric plants and a reservoir system for the irrigation of uncultivated land, as well as to obtain the definitive concession to develop the activity of electric power generation, which was obtained by UNACEM, by means of Supreme Resolution No. 130-2001-EM, dated July 25, 2001. On October 2, 2003, it was approved by Supreme Resolution No. 036-2003-EM the fractionation of the definitive power generation concession in two independent power generation concessions: G-1 "El Platanal" with an installed capacity of 220 MW and G-2 "Morro de Arica" with an installed capacity of 50 MW. On September 12, 2006, the transfer was approved through Supreme Resolution No. 053-2006-EM, as well as the transfer of the "El Platanal" project to the subsidiary Compañía Eléctrica El Platanal S.A. (CELEPSA) for a period of 25 years as of March 30, 2011, for which UNACEM receives in return royalties up to 3.55 percent of the monthly net income obtained by CELEPSA, for the sales of energy and power it performs to thirds. As of December 31, 2017, the Group decided prioritize their investments in the develop of alternative electric power, whereby approved the disposition of investments that are no aligned to the strategic plan as the electric generation project G-2 "Morro de Arica".

(c) The balance of goodwill consists of higher amounts paid for the acquisition of the following companies:

	Category	2018 S/(000)	2017 S/(000)
Unacem Ecuador S.A.	Cement - Ecuador	1,023,795	1,023,795
Concremax S.A., SAG Concreto Premezclado S.A. and Entrepisos Lima S.A.C.	Ready mix and aggregates – Perú	65,327	65,327
Maricopa Ready Mix & Subsidiaries, Sunshine Concrete & Materials Inc. and other	Ready mix and aggregates – United States of America	39,673	39,673
Unicon Chile S.A., note 2.2	Ready mix - Chile	17,393	-
Lar Carbón S.A.	Cement - Perú	9,745	9,745
Prefabricados Andinos S.A.	Prefabricated - Chile	3,207	3,207
Unicon UCUE Cía. Ltda., note 2.3	Ready mix - Ecuador	1,734	1,734
		1,160,874	1,143,481
Translation adjustment (d)		5,999	4,223
		1,166,873	1,147,704

(d) Changes in the balances as of December 31,2018 and 2017 in relation to the prior year are due to the changes in the exchange rate due to the conversion of the functional currencies of those countries to soles, according to the translation methodology described in note 4.3(e).

Impairment test of goodwill -
For the purpose of impairment testing, goodwill acquired through business combinations to cash-generating units listed below was assigned:

- Cement – Ecuador: Inversiones Imbabura S.A. acquired UNACEM Ecuador in the year 2014.
- Ready mix and aggregates – Perú: UNICON acquired Concremax S.A., Entrepisos Lima S.A.C., SAG Concreto Premezclado S.A., UNICON Ecuador and UNICON Chile in the year 2011, 2009, 2007, 2017 and 2018, respectively.
- Concrete y aggregates – United States of America: Drake Materials acquired Maricopa Ready Mix & Subsidiaries, Sunshine Concrete & Materials Inc. and other between the years 2007 and 2011.
- Cement – Perú: UNACEM acquired Lar Carbón in the year 2010.
- Prefabricated – Chile: UNACEM acquired Preansa Chile in the year 2014.

The recoverable amount of each CGU has been determined based on value in use, using projections of cash flows arising from financial budgets approved by Management, and the discount rate corresponding to the risk related. The cash flows are then projected a certain period and are using a growth rate that is similar to the average rate of long-term growth for the industry in which each CGU operates.

Show below the key assumptions used in the evaluation of impairment by each CGU:

	Category	Average discount rate %	Average long-term growth rate %	EBITDA margin average long-term %
Imbabura and Subsidiaries (included Unacem Ecuador S.A. and Cantivol S.A.(*)	Cement - Ecuador	11.6	2.5	36.8
Concremax S.A., SAG Concreto Premezclado S.A. and Entrepisos Lima S.A.C.	Ready mix y aggregates – Perú	7.9	-	10.24
Drake Materials and Subsidiaries (included Drake Aggregates, Dessert Ready Mic, Maricopa Ready Mix & Subsidiaries, Sunshine Concrete & Materials Inc. and other.	Ready mix and aggregates – United Stated of America	8.7	2.0	20.85

(*) Evaluation includes the value of the brand Unacem Ecuador with indefinite useful life.

Key assumptions used in the calculation of the value in use.

- EBITDA margin –
  It is based in the historical values recorded in the prior years to the start of the beginning of the budget period and increases during the budget period with the efficiency improvements that are expected by the normal improvements of the productive process taking into consideration the country that operates each CGU.

- Discount rate -
  Future cash flows were adjusted according the specific risk assigned to the related assets and have been discounted to a rate after tax and the risk of each country.

- Growth rate -
  It is based on the market and, in general, is in line with the long-term inflation forecast for the countries where each CGU operates.

As of December 31, 2018, and 2017, the book value of the goodwill related to each CGU has been compared with the recoverable value and the Management has determined that it is not necessary to establish any provision for impairment.

Sensitivity to changes in the key assumptions used -
The assumptions described may change if the market conditions and the economy change. Respect to the evaluation of the value in use, the Group's Management believes that a material change in any of the key (growth rate and discount rate) used might cause that book value of the unit exceeds its recoverable value. In that sense, if for the CGU Cemento Ecuador, occurs an increase in the discount rate of 2.39 percent it supposed that the goodwill for this CGU would have an impairment to record for US$79,457,000 (equivalent to S/267,691,000).

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

	2018 S/(000)	2017 S/(000)
Cost of sales, note 22	4,386	2,987
Administrative expenses, note 23	2,245	2,075
Selling expenses, note 24	417	357
Other expenses, note 26	15,933	28,989
	22,981	34,408

14. Other financial liabilities

(a) This caption is made up as follows:

	2018			2017		
	Short-term S/(000)	Long-term S/(000)	Total S/(000)	Short-term S/(000)	Long-term S/(000)	Total S/(000)
Bank overdrafts (b)	22,642	-	22,642	31,357	-	31,357
Cession of payments (c)	-	-	-	30,828	-	30,828
Bank promissory notes (d) and (e)	101,536	118,265	219,801	238,415	200,470	438,885
Bonds and long-term loans (f)	337,040	3,801,639	4,138,679	410,279	3,548,291	3,958,570
	461,218	3,919,904	4,381,122	710,879	3,748,761	4,459,640

The Group records its financial liabilities at amortized cost, see note 4.3(c)(iii), and financial leases as described in note 4.3(j) and (k).

(b) As of December 31, 2018, and 2017, overdraft mainly correspond to obligations of SKANON with many financial entities in U.S. dollars for US$6,709,000 and US$9,709,000, respectively.

(c) In April 2018, the Group signed a contract of payment assignment with Banco Santander of Peru for approximately S/38,800,000, which accrue interests at a rate of 4.50 percent annually, and was cancelled in December 2018, according its mature. On January 4, 2018, the Group cancelled the total of account payables of the contract of payment assignment with Banco Santander of Panama, signed in March 2017, which accrued interest at a rate of 4.12 percent annually.

(d) Bank loans correspond to working capital loans at fixed annual rates that range between 2.67 and 7.25 percent, do not have specific guarantees and are renewed depending on the working capital needs of the Group. As of December 31, 2018, and 2017, the balance by bank is as follows:

Creditor	2018 S/(000)	2017 S/(000)
Citibank N.A. New York	189,224	227,150
Scotiabank Perú	18,750	56,251
Citibank N.A. (Ecuador)	11,827	-
Banco Santander Uruguay	-	94,105
Banco Internacional (Ecuador)	-	9,735
BBVA Banco Continental	-	44,444
Banco de Crédito del Perú - BCP	-	7,200
	219,801	438,885

(e) As of December 31, 2018, and 2017, interest payable on bank loans amounted to approximately S/3,801,000 and S/5,095,000, respectively, and is recorded in the caption "Trade and other payable" in the consolidated statements of financial position, see note 15(a). As of December 31, 2018, and 2017, interest expense totaled approximately S/20,056,000 and S/36,301,000, respectively, and are included in the caption "Finance costs" item in the consolidated statement of income, see note 28.

(f) The composition of the caption "Bonds and long-term loans" is as follows:

	Annual interest rate %	Maturity	Guarantee	2018 S/(000)	2017 S/(000)
Bonds -					
International Bonds – "Senior Notes "(g) and (w)	5.875	October 2021	No guarantees	760,275	2,028,125
Bonds of Arizona State (h) and (w)	Between 1.65 and 2.40 + variable rate	September 2035	Letter of credit, note 31.1(c)	388,585	373,175
Corporate bonds (i)	Between 4.93 and 5.16	March 2020 and 2023	No guarantees	120,000	129,086
				1,268,860	2,530,386
Amortized cost				(14,371)	(25,895)
				1,254,489	2,504,491
Syndicated loans -					
Scotiabank del Perú (j) and (v)	3.30	September 2021	Administration and guarantee trust, note 31.1(c)	92,923	121,688
Banco de Crédito del Perú – BCP (j) and (v)	3.35	September 2021	Administration and guarantee trust, note 31.1 (c)	72,581	85,376
				165,504	207,064
Amortized cost				(1,375)	(1,875)
				164,129	205,189
Bank loans -					
Banco Internacional del Perú – INTERBANK (k) and (v)	Between 4.25 and 5.25	March 2019, March 2020 and September 2022	No guarantees	528,727	302,541
Scotiabank del Perú (m) and (v)	Between 5.30 and 5.80	December 2021 and October 2025	No guarantees	433,057	120,000
Banco de Crédito del Perú – BCP (l) and (v)	Between 5.80 and 6.60	Between April 2019, February 2020 and November 2025	No guarantees	414,818	142,084
BBVA Banco Continental (m) and (v)	Between 5.20 and 5.68	November 2021 and November 2024	No guarantees	383,357	120,000
Citibank N.A. (s) and (v)	Libor to 3 months + 1.75	October 2025	No guarantees	168,950	-
Santander S.A. (n) and (v)	Libor to 3 months + 1.85	November 2023	No guarantees	152,055	-
Bank of Nova Scotia (o) and (v)	Libor to 3 months + 2.60	September 2025	No guarantees	101,370	65,305
Banco de Crédito del Perú – BCP	6.25	August 2030	Security and mortgage guarantee, note 11(j)	104,960	81,220
Scotiabank del Perú (r) and (v)	4.90	April 2025	Security and mortgage guarantee, note 11(j)	72,000	-
BBVA Banco Continental	3.90	June 2019	No guarantees	32,438	-
Banco Internacional S.A. – Ecuador	Between 6.82 and 6.98	Between March 2019 and July 2023	Guarantee trust (machinery production line 2), see note 11(j)	31,657	55,868
Banco Internacional del Perú – INTERBANK	5.25	February 2022	Leased assets	17,047	21,664
Banco Scotiabank (Chile)	Libor to 30 days + 3.36 and Libor to 90 days + 1.75	July and August 2019	Credit letter, see note 31.1(b)	16,356	16,779
Banco Internacional del Perú – INTERBANK	2.87	May 2021	Land in guarantee, see note 11(j)	10,651	14,122
Scotiabank del Perú (r) and (v)	3.30	February 2020	No guarantees	11,827	-
Citibank N.A. (New York)	5.15	July and October 2023	No guarantees	11,825	-
Scotiabank (Chile)	Libor to 30 days + 1.85	October 2023	No guarantees	11,040	-
BBVA Banco Continental	-	-	-	-	11,358

	Annual interest rate %	Maturity	Guarantee	2018 S/(000)	2017 S/(000)
BBVA Banco Continental (v)	-	-	-	-	10,108
Other less than S/10,000,000				32,094	36,725
				2,534,229	997,774
Amortized cost				(16,403)	(5,471)
				2,517,826	992,303
Finance leasebacks -					
Banco de Crédito del Perú - BCP (j) and (v)	6.50	December 2020	Leased goods	71,013	87,874
				71,013	87,874
				(860)	(1,290)
Amortized cost				70,153	86,584
Finance leases -					
Consorcio Transmantaro	12.00	July 2039	Leased goods	52,861	51,124
Scotiabank del Perú (r) and (v)	Between 2.71 and 5.09	Between March 2020 and August 2021	Leased goods	21,027	12,348
Banco de Crédito e Inversiones (BCI)	5.63	November 2027	Leased goods	12,503	13,866
Scotiabank del Perú	Between 2.81 and 6.40	Between February 2019 and September 2021	Leased goods	11,011	7,340
Banco de Crédito del Perú – BCP (p) and (v)	-	-	-	-	23,701
Banco Internacional del Perú – INTERBANK (q) and (v)	-	-	-	-	20,548
Other less than S/10,000,000				34,359	29,580
				131,761	158,507
Factoring				321	2,861
Letters				-	8,635
Total				4,138,679	3,958,570
Less - Current portion				337,040	410,279
Non - current portion				3,801,639	3,548,291

(g) On October 31, 2014, the Group issued an international bonds for US$625,000,000 (equivalents to approximately S/1,868,125,000) obtaining a net proceeds of US$615,073,000 (equivalents to S/1,868,125,000), with a nominal interest rate of 5.875 percent and mature in October 2021, do not have specific guarantees.

On September 21, 2018, the Board of Directors approved that the Group be financed for up to US$490,000,000, see notes (k), (l), (m), (n) and (o) to refinance existing liabilities for US$400,000,000 and other corporate purposes. On October 30, 2018, the Group made a partial redemption of such bonds for US$400,000,000 (equivalents to S/1,336,400,000 approximately) according to in the section 3.01 of the Offering Memorandum issued on October 30, 2014. The partial redemption was made on the date of the first call option of bonds at an equal price to 102.93750 percent of principal. Additionally, on the same date, all accrued interest was paid for approximately S/61,337,000. Further, as a consequence of the paid in advance of bonds, the Group paid related costs with the partial redemption of the international bonds for approximately S/39,257,000, see note 28.

(h) On November 18, 2010, Drake Cement, LLC obtained a bond financing of the Development Authority of Yavapai County, Arizona, United States of America, for the purpose of finance part of the investment in the cement plant of the subsidiary by amounting to US$40,000,000, with maturing in September 2035 and a monthly interest payments on the basis a variable interest rate (Securities Industry and Financial Markets Association Index rate) at 1.65 percent as of December 31, 2018 (1.60 percent as of December 31, 2017) plus 3.245 percent, compared to a maximum interest rate 12 percent. The bonds are secured by a letter of credit from the bank, see note 31.1(c).

In addition, on July 30, 2015, made a new bond issue, with the purpose of refinancing loans for construction of the plant, pay acquisition of assets, materials and facilities for an amount of US$75,000,000 with maturing in September 2035 and a monthly interest payment on the basis of a variable interest rate (Securities Industry and Financial Markets Association Index rate) at 2.40 percent as of December 31, 2018 (1.60 percent as of December 31, 2017) plus 2.75 and 0.1 percent, compared with a maximum interest rate of 12 percent. The bonds are guaranteed by a bank letter of credit; see note 31.1(c).

(i) On April 7, 2017, the General Shareholders' Meeting approved the "Second Issuance Program of Corporate Bonds" of the Company up to a maximum outstanding amount of US$150,000,000 or its equivalent in soles each.

In March and December 2013, the Group placed the first, second and third issuance of the "Second Issuance Program of Corporate Bonds" for S/60,000,000 each. As of December 31, 2018, the Group maintains payable the first and second issuance.

In General Shareholders' Meeting and Board of Directors of March 26, 2009 and June 19, 2009, respectively, were approved the First Program of Corporate Bonds of Cemento Andino S.A. (transferred subsequently at the date of Company's fusion) up to US$40,000,000 or its equivalent in Soles. In March 2018, the Company cancelled the last installment corresponding to such program.

(j) In May 2015, the total balance of financial leaseback signed in December 20, 2013 with the BCP and the Scotiabank that initially agreed in U.S. dollars was modified to soles, consequently, funding had a change to an interest rate of 6.50 percent per annum effective.

On September 21, 2016, CELEPSA signed two loans contracts of medium-term (syndical loans) with the BCP by US$30,000,000 and the Scotiabank by US$47,500,000, with rate of 3.35 and 3.30 percent, respectively, both with maturity in five years. Such loans were obtained with the purpose to pre-pay the leaseback with the Scotiabank that expires in December 2020 and whose balance as of September 22, 2016 amounting to S/47,477,000; in turn, CELEPSA pre-pay six leases contracts maintained with the BCP and Scotiabank by approximately S/150,404,000.

(k) On March 30, 2017, the Group signed a short-term financing contract with Interbank for S/260,000,000. The funds were used to refinance current financial debt.

In October 30, 2018, the Group signed a new medium-term financing contract witrh Interbank for S/260,000,000, with an annually rate of 4.60 and maturity in four years. Funds were used to the partial redemption of foreign bonds.

(l) In 2015, the Group signed three medium-term contracts with BCP for S/13,432,000, S/27,899,000 and S/150,000,000, the first two loans were for working capital purposes and the third was for the construction, equipment, mounting and set up of Hydroelectric Plant Carpapata III. The maturity of these loans is 4 years and a half and accrue interest at effective annual rate between 5.90 and 6.60 percent. As of December 31, 2018, the balance payable amounts to S/83,818,000.

In October 2018, the Group subscribed a long-term financing contract with BCP for S/331,000,000 with an annual interest rate of 5.80 percent and a maturity of 7 years. The funds were used for the partial redemption of foreign bonds.

(m) On November 30, 2016, the Company signed two financing contracts, each by S/120,000,000, with the Scotibank Perú S.A.A. and BBVA Banco Continental, both for a term of five years with the grace period of eighteen months and fourteen quarterly payments, with the purpose of refinance short-term financial debt. On December 6, 2017, the addenda to the contracts modified the effective annual rate to 5.80 percent and 5.20 percent, respectively. As of December 31, 2018, the balance payable amounts to S/102,867,000.

In October 2018, the Group subscribed two long-term financing contracts with Scotiabank Perú and BBVA Continental. The first one for S/330,200,000 with a maturity in seven years and at annual interest rate of 5.30 percent and the second for S/280,500,000 with a maturity in six years and at annual interest rate of 5.68 percent. Funds obtained were used for the refinancing of financial liabilities.

(n) On November 27, 2018, the Group subscribed a medium-term financing contract with Banco Santander S.A. for US$45,000,000 (equivalent to S/152,055,000 approximately). The interest rate is Libor to 3 months plus 1.80 percent, with maturity in five years. Likewise, the Group signed a swap contract to reduce the risk of the variable rate, see note 32.1(i)(a).

(o) On October 31, 2018, the Group subscribed a long-term financing contract with Bank of Nova Scotia for US$30,000,000 (equivalent to S/101,370,000 approximately). The interest rate is Libor to 3 months plus 2.60 percent, with maturity in seven years. Funds were used for the refinancing of financial liabilities. Likewise, the Group signed a swap contract to reduce the risk of the variable rate, see note 32.1(i)(a).

(p) On December 17, 2008, the Company signed with BCP a contract of terms and conditions of financial leasing by amount of US$187,000,000 for the construction of a new line of production (Oven 4) in the plant located in Junín. In February 2018, the last installment corresponding to the leasing was paid, taking the purchase option and consequently, assets related to such leasing were released from all charges.

(q) In General Shareholders Meeting dated May 19, 2010, approved the sign of the lease agreement to increase the production capacity with Banco Internacional del Perú (INTERBANK), this project increases the production capacity of Kiln 1 from 3,200 to 7,500 tones clinker/day, located in Atocongo's plant. The Company completed the project in the year 2013. In October 2018, the last installment corresponding to the leasing was paid, taking the purchase option and consequently, assets related to such leasing were released from all charges.

(r) On April 18, 2018, UNICON Peru subscribed a promissory note for S/80,000,000 with maturity in 138 days and at annual interest rate of 2.75 percent, subsequently on September 3, 2019 the promissory note was paid and subscribed a loan contract for S/72,000,000 with maturity in 7 years and at effective annual rate of 4.9 percent, with a grace period of 2 years, the funds were used in the acquisition of subsidiary UNICON Chile, see note 11(j).

On December 4, 2017, UNICON Peru subscribed a loan contract for US$3,500,000 (equivalent to S/11,330,000) for a period of 60 days at an effective annual rate of 1.79 percent, the resources were destined for working capital. On February 28, 2018 the maturity was extended in 2 years with at effective annual rate of 3.3 percent.

On the other hand, in 2018, UNICON Peru subscribed with Banco Scotiabank Perú S.A.A. various leasing contracts for a total amount of S/14,362,000 for the acquisition of a new fleet of mixer trucks and other equipment (US$4,663,000 (equivalent to S/15,059,000) and S/1,133,000 in 2017).

(s) On October 2, 2018, the Company subscribed a long-term financing contract with Citibank N.A. for US$50,000,000 (equivalent to S/168,950,000 approximately). The rate is up to Libor plus 1.75 percent, with maturity in 7 years. Funds were used for the refinancing of financial liabilities. Likewise, the Company signed a swap contract to reduce the risk of the variable rate, see note 32.1(i)(a).

(t) As of December 31, 2018, and 2017, interests payable related to bonds and long-term debt are amounted to approximately S/23,751,000 and S/25,823,000, respectively and are recorded in the caption "Trade and other accounts payable", of the consolidated statement of financial position, note 15(a).

(u) The amount of interest generated by bonds and long-term debt with financial entities during the years ended December 31, 2018 and 2017 are approximately S/217,653,000 and S/221,732,000, respectively, are included in the caption "Financial cost" of the consolidated statement of income, see note 28. Of the total interest generated in 2018, were capitalized approximately S/2,510,000, and are included in the caption "Mining concessions and property, plant and equipment, net" of the consolidated financial situation, see note 11(i).

(r) The financial safeguards applicable to the Other financial liabilities of the Company are the quarterly monitored and should be calculated on the base of the separate financial information and the calculation methodologies required by each financial institution.

As of December 31, 2018, the main financial safeguards that the Company maintains with each financial entity fluctuate in the rates or indices following:

- Maintain a leverage ratio greater or equal to 1.5 times.
- Maintain debt service coverage ratio greater than or equal to 1.2 to 1.25 times debt.
- Maintain an interest coverage ratio major o equal to 3.0 to 4.0 times.
- Maintain a debt coverage ratio of financial debt/EBITDA minor or equal to 3.75.

As part of the commitments acquired in relation to the debt of the subsidiaries, they must comply with the following financial safeguards:

CELEPSA and Subsidiaries
- Debt service coverage ratio: Greater than or equal to 1.10 times for CELEPSA and 1.20 times for Celepsa Renovables S.R.L.
- Debt ratio: Less than or equal to 1 time for CELEPSA and Celepsa Renovables S.R.L.

UNICON and Subsidiaries
- Maintain a leverage ratio less than or equal to 1.5 times for CONCREMAX.
- Maintain debt service coverage ratio major than or equal to 1.2 to 1.25 times for leasing and major than or equal to 1.5 times for medium-term debt for CONCREMAX and 1.2 timed for UNICON Peru.
- Maintain an interest coverage ratio minor than or equal to 2.5 times for UNICON Peru.

- Maintain a debt coverage ratio of financial debt/EBITDA minor or equal to 2.5 for leasing and minor than or equal to 1.75 for medium-term debt for CONCREMAX.

PREANSA Peru

- Maintain a leverage less than or equal to 1 time.
- Maintain a debt ratio maximum of 2.5 times.
- Maintain a debt coverage ratio minimum of 1.3 times.

The subsidiary PREANSA Peru obtained a waiver from the Interbank.

PREANSA Chile

The subsidiary PREANSA Chile not complied with ratios of Scotiabank; nevertheless, its loan matures in 2019, in consequence, it does not have effects in presentation nor the Bank requested the execution.

In the Management's opinion, the Company and subsidiaries has complied with the financial safeguards required by the financial institutions with which it maintains financing as of December 31, 2018 and 2017, except as indicated by the subsidiaries PREANSA Peru and PREANSA Chile.

(s) Clauses of incurrences in issuance contracts of foreign bonds, note 14(g)

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.

Yavapai State's Bonds –Drake Cement, note 14(h)

- Drake Cement subsidiary can't increase its debt, by more of US$5,000,000 of the outstanding balance at the moment of the bond issue, excluding refinance.
- Maintain an interest expense coverage ratio major o equal to 1.0.

In the Management's opinion, Drake Cement has complied with the restrictive consideration and financial safeguard required by the Yavapai as of December 31, 2018.

(t) The movement of other financial liabilities is as follows:

	2018 S/(000)	2017 S/(000)
Opening balance	4,459,640	4,984,623
Additions	2,534,589	860,661
Leasing additions	42,670	28,317
Payments	(2,771,804)	(1,303,750)
Amortized cost	1,522	4,432
Exchange difference and translation adjustment	120,729	(124,435)
Others	(6,224)	9,792
Ending balance	4,381,122	4,459,640

15. Trade and other payables

(a) This caption is made up as follows:

	2018 S/(000)	2017 S/(000)
Trade payables (b)	526,849	364,273
Accounts payable to related entities, note 29(c)	145,167	144,688
Remunerations and vacations payables	53,237	45,015
Interest payable, note 14(e) and (t)	26,832	30,918
Tax payable	18,787	13,850
Dividends payable, note 20(d)	7,420	9,001
Director's remunerations payable	2,456	4,264
Valued added tax	967	6,828
Work's valuation (c)	-	21,027
Other accounts payable	27,848	32,816
	809,563	672,680
Term -		
Current portion	724,922	607,714
Non-current portion	84,641	64,966
	809,563	672,680

(b) The trades payable arising, mainly, by acquisition of assets and services for Group's activities of production and correspond to payable invoices to supplier local and foreign, have current maturity, do not earn interests and do not have guarantees.

The subsidiaries UNICON Peru and CONCREMAX offer their suppliers a program for the payment of their accounts through financial institutions. This program allows suppliers to sell their accounts receivable to financial institutions in a separate negotiated agreement between the supplier and the financial institution, allowing suppliers to better manage their cash flows and the Subsidiaries to reduce their payment processing costs. These Subsidiaries have no direct financial interest in these transactions. All obligations with its suppliers, including the balances payable, are maintained according to the contractual agreements entered into with them. As of December 31, 2018, and 2017, the balances related to these operations amount to S/74,073,000 and S/54,812,000, respectively.

(c) As of December 31, 2017, mainly corresponds to valuations to be paid to Mota-Engil Perú S.A. for approximately S/21,027,000 in accordance with the construction contract for the construction of the Marañón Hydroelectric Plant, does not accrue interest and has no specific guarantees. In August 2018, Celepsa Renovables S.R.L. canceled the total of payables with loans received.

(d) During the year 2013, CELEPSA realized a financing transaction of finance leaseback and obtained a higher value of the assets recorded as a result of a valuation of the assets; this increased value caused the recognition on "mining concessions and property, plant and equipment" and "Other accounts payable" by S/21,675,000. They are being recognized in the consolidated statement of income according to the duration of the financial leaseback agreement, which expires in 2020 and the highest value of the asset is depreciated according to the estimated useful life.

In September 2016, CELEPSA pre-pay part of the financing under the modality of leaseback, for which it was recognized the income from to greater value of this operation in the consolidated statement of income the income, which amounting approximately to S/4,054,000.

16. Deferred income

(a) This caption is made up as follows:

	2018 S/(000)	2017 S/(000)
Ready mix concrete (b)	46,935	20,279
Prefabricated (c)	16,593	10,318
Cement and clinker (d)	9,233	24,468
	72,761	55,065
Leaseback (e)	4,322	6,483
Other	1,274	764
	78,357	62,312
Term -		
Current portion	76,196	57,990
Non-current portion	2,161	4,322
	78,357	62,312

(b) As of December 31, 2018, and 2017, mainly corresponds to subscribed contracts by subsidiary UNICON Peru, to supply ready mix concrete for which has received advances from its customers. These advances are discounted from the valorizations by deliveries of ready mixed concrete during the first months of the year 2019 and 2018.

As of December 31, 2018, received advances mainly comprises Consorcio Puente de Loreto, La Viga S.A., HV Contratistas S.A., Compañía Minera Antamina S.A., Marcobre S.A.C., Consorcio Constructor M2 Lima and Consorcio San Martín (Consorcio Constructor M2 Lima, Consorcio Salud Loreto, JE Construcciones Generales S.A. as of December 31, 2017)

(c) As of December 31, 2018, and 2017, mainly corresponds to advances from customers to initiate the projects of prefabricated by the subsidiary PREANSA Chile for approximately S/10,812,000 (S/7,598,000 as of December 31, 2017). Likewise, the subsidiary PREANSA Peru received advances from customers under the subscribed contracts for the fabrication, transport, assembly of concrete prefabricated facilities amounting to S/4,562,000 (S/2,454,000 as of December 31, 2017).

(d) As of December 31, 2018, and 2017, mainly corresponds to concrete sales and clinker invoiced but not delivered, which are made in the first quarter of the year 2019 and 2018, respectively.

(e) In 2013, CELEPSA made a financing operation under leaseback modality and obtained a greater value of assets as a result of appraisal of themselves, this higher value originated a charge in caption "Mining concessions and property, plant and equipment" with a credit to "Trade and other payables" for S/21,675,000. They are being recognized in the consolidated statement of income according to the term of leaseback contract, which matures in the year 2020 and the higher value is depreciated according to the useful life assigned.

17. Provisions

(a) This caption is made up as follows:

	Current		Non-current	
	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)
Workers' profit sharing (b)	44,853	50,951	-	-
Severance indemnities	3,636	3,044	-	-
Employer retirement of workers (c)	-	-	16,393	14,269
Eviction provision of workers (c)	-	-	4,219	3,598
Pit closure provision (d)	6,158	3,192	42,438	23,642
Other provisions	407	407	14,339	13,831
	55,054	57,594	77,389	55,340

(b) In accordance with Peruvian legislation, the Group's entities maintain a workers' profit-sharing plan ranging between 5 and 10 percent of the annual taxable income depending on the economic sector in which they operate. 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.

According to Ecuadorian legislation, group entities within the scope of Ecuador's workers have right to participate in 15 percent of net income. In the case of subsidiary Canteras y Voladuras S.A., 3 percent of net income is distributed between workers and 12 percent is delivered to the Internal Revenue Service (acronym in Spanish "SRI").

Employee participation expense for the years 2018 and 2017 amounts approximately to S/72,388,000 and S/74,798,000, respectively, and is recorded in the consolidated statement of income, see note 25(a).

(c) As of December 31, 2018, and 2017, the benefits to employees, by the subsidiaries of Ecuador, correspond to:

Employer retirement of workers –
According with the provisions of the Worker's Code of Ecuador, the subsidiaries of the Group in Ecuador that maintain workers that by 25 years or more provide theirs services in continuous or interrupted form, shall be the right to be retired by their employers without prejudice of the employer retirement that correspond in their condition of affiliates to Social Security Institute.

Eviction of workers –
Likewise, according with the reform of the Worker's Code of Ecuador, issued on the 2016. In the case of the termination of the employment relationship defined by the employee, the subsidiaries of the Group in Ecuador, will deliver the 25 percent of the last monthly remuneration by each of the years of service as long as the employee had formally notified his departure.

The Management performed the provisions based in the studies perform for actuarial specialist using the following actuarial hypothesis, by the years 2018 and 2017:

	2018 %	2017 %
Discount rate	4.43	4.10
Salary increase rate	1.50	1.50
Table of mortality and disability (*)	Table IESS	Table IESS
Rotation rate (average)	9.34	9.34
Average remaining labor life	7 years	7.21 years
Length to retirement (men and women)	25 years	25 years

(*) Information provided by the Ecuadorian Social Security Institute.

According to the projections of the Group Management, these liabilities will be realized in the long term.

(d) As of December 31, 2018, and 2017, the Group maintains in Peru a provision for future closure costs of its mines to be occurring by UNACEM between 2 and 38 years, UNICON Peru between 10 and 27 years and by CONCREMAX 3 years for approximately S/46,266,000.

Additionally, the Environmental Management Law and the Environmental Regulations for Mining Activities in Ecuador, requires the completion of a restoration plan for the concessions of Selva Alegre, Cumbas and Pastaví, the same that hold a future closure plan based on assessment such pit, the concession periods are 22, 21 and 22 years, respectively, for approximately S/2,330,000.

Based on the current economic environment, Management adopted certain assumption 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 pits 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 cease to produce economically viable products.

As of December 31, 2018, the Group recognized the effect of restatement due to quarry closing liabilities for approximately S/782,000 (S/682,000 during 2017), which is recorded in income for the year, within the caption "Financial costs", see note 28(a). The Management's Group considers that this liability is sufficient to comply with the current environmental protection laws approved in each country.

18. Income tax

(a) The composition of the liability for deferred income tax arises, according to the caption that originated:

	As of January 1, 2017 S/(000)	Effect in Consolidated Statement of income S/(000)	Translation adjustments S/(000)	Other S/(000)	Charged to Other Comprehensive income S/(000)	Acquisition of Subsidiaries, note 2.3 S/(000)	As of December 31, 2017 S/(000)	Effect in Consolidated Statement of income S/(000)	Translation adjustments S/(000)	Charged to Other Comprehensive income S/(000)	Acquisition of Subsidiaries, note 2.1 and 2.2 S/(000)	As of December 31, 2018 S/(000)
Movement of deferred tax assets:												
Deferred tax asset												
Tax loss carryforwards, note 31.3(c)	195,089	(61,420)	(6,267)	-	-	-	127,402	11,362	5,047	-	-	143,811
Provision for vacation and other provision	14,637	(3,390)	44	(1,674)	-	-	9,617	3,611	(54)	-	-	13,174
Pre-operating expenses	-	-	-	-	-	-	-	378	-	-	6,162	6,540
Derivative financial instruments	-	(99)	-	-	-	-	(99)	382	-	-	-	283
Total movement of deferred tax assets, net	209,726	(64,909)	(6,223)	(1,674)	-	-	136,920	15,733	4,993	-	6,162	163,808
Deferred income tax liability												
Depreciation and amortization	6,347	(2,555)	(229)	-	-	-	3,563	(15,522)	(158)	-	-	(12,117)
Total movement of deferred tax assets, net	216,073	(67,464)	(6,452)	(1,674)	-	-	140,483	211	4,835	-	6,162	151,691
Movement of deferred tax liabilities:												
Deferred tax asset												
Tax loss carryforwards, note 31.3(c)	85,590	7,099	-	1	-	-	92,690	(2,219)	-	-	-	90,471
Provision for vacation	7,179	584	-	-	-	-	7,763	1,415	(13)	-	275	9,440
Derivative financial instruments	3,132	(335)	-	-	22	-	2,819	(1,631)	-	5,513	-	6,701
Pit closure provision	2,076	277	-	-	-	-	2,353	274	-	-	-	2,627
Deferred income	1,507	437	-	-	-	-	1,944	(523)	-	-	-	1,421
Other provisions	8,056	6,160	-	-	-	-	14,216	4,552	(610)	-	337	18,495
Total deferred tax asset	107,540	14,222	-	1	22	-	121,785	1,868	(623)	5,513	612	129,155
Deferred tax liability												
Differences on fixed assets between financial and tax base	(655,627)	(20,497)	840	-	-	(4,049)	(679,333)	15,084	(332)	-	(21,499)	(686,080)
Amortization of intangibles assets	(41,381)	326	1,242	-	-	-	(39,813)	1,965	(1,642)	-	-	(39,490)
Stripping cost	(37,504)	1,226	-	-	-	-	(36,278)	1,439	-	-	-	(34,839)
Borrowing cost	(36,975)	2,145	-	-	-	-	(34,830)	1,408	-	-	-	(33,422)
Deferred commissions and net interest	(2,338)	(9)	6	-	-	-	(2,341)	76	(5)	-	-	(2,270)
Clients list and develop of systems	(2,471)	(142)	-	-	-	-	(2,613)	453	-	-	(4,918)	(7,078)
Others	(2,313)	(471)	-	(595)	-	-	(3,379)	(841)	30	-	-	(4,190)
Total movement of deferred tax liabilities, net	(671,069)	(3,200)	2,088	(594)	22	(4,049)	(676,802)	21,452	(2,572)	5,513	(25,805)	(678,214)
Total deferred tax liability, net	(454,996)	(70,664)	(4,364)	(2,268)	22	(4,049)	(536,319)	21,663	2,263	5,513	(19,643)	(526,523)

The caption "Tax income" is presented in accordance with the accounting polices described in the note 4.3(w).

The Group's Management has made an assessment of the recovery of its tax loss and has recorded the probable amount that it will recover with the future taxable profits, which are mainly based on the estimate of contract renewal with CPC and power generation contracts, see note 3.1 and 3.2, respectively.

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

	2018 S/(000)	2017 S/(000)
Income tax:		
Current	(167,075)	(175,471)
Deferred	21,663	(4,045)
Effect of exchange rate on the income tax due to Tax Reform in the United States of America, note 31.3(a.2)	-	(66,619)
Compensation for tax loss	2,217	4,375
	(143,195)	(241,760)
Mine royalties	(3,874)	(3,534)
	(147,069)	(245,294)

(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)
Income before tax	330,265	453,209
Income tax according tax rate	90,266	122,362
Effect of exchange rate on the income tax due to Tax Reform in the United States of America, note 31.3(a.2)	-	66,619
Non-deductible expenses, net	49,257	51,642
Rectification of previous years	3,672	1,137
Income tax expense	143,195	241,760

19. Non-controlling interests

(a) Non-controlling interests are included in the consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of income according to the table presented below:

Company	Percentage of participation of third		Income (loss)		Equity		Participation of non-controlling interests in the income of the Company		Non-controlling interests in equity of the Company	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	%	%	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Skanon Investments Inc. and Subsidiaries (b)	6.66	6.67	(49,640)	(183,698)	607,305	631,964	(15,310)	(23,519)	45,256	58,974
Compañía Eléctrica El Platanal S.A. and Subsidiaries (b)	10.00	10.00	21,347	29,622	695,876	674,621	2,271	3,054	70,133	67,954
Inversiones en Concreto y Afines S.A. and Subsidiaries	6.62	6.62	24,022	24,114	434,756	411,593	2,835	2,506	35,072	32,296
Prefabricados Andinos Perú S.A.C. and Subsidiaries	49.98	49.98	(1,780)	(4,155)	29,373	31,727	(890)	(2,077)	14,679	15,856
Prefabricados Andinos S.A.	49.00	49.00	(676)	(1,571)	7,099	9,007	(331)	(770)	3,479	4,413
Inversiones Imbabura S.A. and Subsidiaries	-	-	109,108	100,904	1,461,514	1,433,835	1,208	1,117	4,845	4,538
							(10,217)	(19,689)	173,464	184,031

(b) As December 31, 2018 and 2017, the balance of non-controlling interest in the income and equity of each company includes the minority shareholdings of each consolidated of the subsidiaries.

20. Net Equity

(a) Capital stock –

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
AFP's	336,819,847	20.46
Other	195,393,245	11.87
	1,646,503,408	100.00

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

As of January 1, 2019, the quantity of common shares amounts to 1,818,126,611 at a nominal value of S/1 per share, see note 36.

(b) Legal reserve -

Under the terms of the General Corporation Law Peruvian, 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 income on hedging financial derivative instruments -

It corresponds to the fair value changes on hedging financial instruments, net of its corresponding tax effect, see note 32.1(i)(a).

(d) Dividend distributions –

In Board of Directors meetings held on January 26, April 27, July 26 and October 26, 2018, it was agreed to distribute dividends charged to freely available profits for approximately S/85,618,000 (S/0.052 per common share), whose payment was made on February 28, May 31, August 28 and November 30, 2018, respectively, which were totally paid. Likewise, the Company paid S/83,000 from dividends distribution of previous years.

The Board of Directors meetings held on January 27, April 28, July 21, August 14 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, of which it has a balance to be paid for approximately S/16,000.

Likewise, the subsidiaries of CELEPSA, INVECO and IMBABURA distributed dividends for approximately S/1,148,000 and S/9,875,000 in the years 2018 and 2017, respectively.

As of December 31, 2018, maintain an outstanding balance of approximately S/7,420,000, see note 15(a).

(e) Result from foreign currency translation –
Correspond mainly to the exchange differences resulting from the translation of financial statements of foreign subsidiaries to the Group's presentation currency. As of December 31, 2018, and 2017, the exchange difference resulting from each foreign subsidiary is a follows:

	2018 S/(000)	2017 S/(000)
Skanon Investments, Inc. and Subsidiaries	121,042	98,833
Unacem Ecuador S.A. and Subsidiaries	65,133	50,917
Staten Island Company, Inc. and Subsidiaries	2,062	(225)
Prefabricados Andinos Perú S.A. and Subsidiary	(890)	(603)
Prefabricados Andinos S.A. – Chile	(1,260)	(948)
Inversiones en Concreto y Afines S.A. and Subsidiaries	(1,194)	(197)
	184,893	147,777

21. Net sales

This caption is made up as follows:

	2018			
	Cement S/(000)	Energy and power S/(000)	Concrete S/(000)	Total S/(000)
Segments				
Cement sales	2,313,567	-	-	2,313,567
Energy and power	-	151,816	-	151,816
Concrete	-	-	1,436,621	1,436,621
	2,313,567	151,816	1,436,621	3,902,004
Revenue recognition				
Goods transferred at a point in time	2,313,567	-	1,360,436	3,674,003
Services rendered at point in time	-	151,816	76,185	228,001
	2,313,567	151,816	1,436,621	3,902,004

	2017			
	Cement S/(000)	Energy and power S/(000)	Concrete S/(000)	Total S/(000)
Segments				
Cement sales	2,193,402	-	-	2,193,402
Energy and power	-	151,342	-	151,342
Concrete	-	-	1,067,696	1,067,696
	2,193,402	151,342	1,067,696	3,412,440
Revenue recognition				
Goods transferred at a point in time	2,193,402	-	993,911	3,187,313
Services rendered at point in time	-	151,342	73,785	225,127
	2,193,402	151,342	1,067,696	3,412,440

The caption "Net sales" is presented according to the accounting policies described in the notes 4.3(u).

22. Cost of sales

This caption is made up as follows:

	2018 S/(000)	2017 S/(000)
Beginning balance of finished goods and in process goods, note 9(a)	265,723	334,974
Cost of production:		
Consumption of raw material	678,358	412,687
Personnel expenses, note 25(b)	464,718	409,200
Depreciation, note 11(h)	407,717	433,565
Fuel	399,790	329,865
Maintenance	168,766	118,661
Transport of raw materials	112,758	94,809
Electrical energy	96,792	95,513
Consumption of packaging	81,661	80,019
Estimate for impairment of inventories, note 9(e)	8,272	9,961
Depreciation for deferred assets by clearing, note 12	4,877	4,155
Transport, assembly and rental of cranes	4,663	1,896
Amortization, note 13(e)	4,386	2,987
Other manufacturing expenses	392,402	302,526
Ending balance of finished goods and in process goods, note 9(a)	(276,286)	(265,723)
	2,814,597	2,365,095

23. Administrative expenses

This caption is made up as follows:

	2018 S/(000)	2017 S/(000)
Personnel expense, note 25(b)	126,976	126,449
Services rendered by third parties	61,381	53,288
Management services, note 29(b)	43,200	69,424
Grants	18,070	16,094
Taxes	17,680	16,190
Depreciation, note 11(h)	10,912	11,019
Estimation for doubtful accounts, note 8(h)	2,479	2,814
Other management charges	5,499	5,625
Amortization, note 13(e)	2,245	2,075
Others	7,936	9,093
	296,378	312,071

24. Selling expenses

(a) This caption is made up as follows:

	2018 S/(000)	2017 S/(000)
Advertising and marketing (b)	51,057	40,289
Personnel expenses, note 25(b)	28,774	25,935
Amortization, note 13(e)	417	357
Depreciation, note 11(h)	121	93
Others	13,909	11,385
	94,278	78,059

(b) Corresponds mainly to advertising services on radio, television and other media in order to boost the sales.

25. Personnel expenses

(a) This caption is made up as follows:

	2018 S/(000)	2017 S/(000)
Remunerations	363,768	313,799
Workers' profit sharing, note 17(b)	72,388	74,798
Bonuses	40,274	35,882
Employer contributions	35,166	32,141
Vacations	26,950	24,200
Severance indemnities	25,731	25,610
Mobility and meals	17,071	13,166
Board's Fees	5,146	8,024
Other personnel expenses	36,290	34,224
	622,784	561,844

(b) Personnel expenses are allocated as follows:

	2018 S/(000)	2017 S/(000)
Cost of sales, note 22	464,718	409,200
Administrative expenses, note 23	126,976	126,449
Selling expenses, note 24	28,774	25,935
Other expenses, note 26	2,259	228
Others	57	32
	622,784	561,844

(c) The average number of employees of the Group during 2018 was 4,707 (4,117 in the year 2017).

26. Other operating income and expenses

This caption is made up as follows:

	2018 S/(000)	2017 S/(000)
Other incomes -		
Income from previous years	13,522	9,566
Sale of fixed assets, goods and supplies	6,933	14,684
Income from services	6,794	5,232
Income from dividends	5,405	3,209
Insurance indemnities	4,670	767
Leaseback income	2,624	2,814
Rental income	1,927	2,420
Recovery of doubtful accounts, note 8(h)	793	302
Recovery of estimates of impairment of inventories, note 9(e)	369	102
Other minors	10,794	5,081
	53,831	44,177
Other expenses -		
Amortization, note 13(e)	(15,933)	(28,989)
Cost of fixed assets, goods and supplies	(6,269)	(6,134)
Estimation of doubtful accounts, note 8(h)	(3,539)	-
Personnel expenses, note 25(b)	(2,259)	(228)
Inventory adjustment	(964)	(1,637)
Depreciation, note 11(h)	(884)	(9,552)
Extraordinary expenditure for employer retirement	-	(10,745)
Other minors	(11,364)	(13,093)
	(41,212)	(70,378)
	12,619	(26,201)

27. Finance income

This caption is made up as follows:

	2018 S/(000)	2017 S/(000)
Interest on deposits and loans	4,242	4,725
Changes in fair value derivative instruments, see note 32(i)(b) y (ii)	7,998	2,698
Others	3,198	2,246
	15,438	9,669

28. Finance costs

(a) This caption is made up as follows:

	2018 S/(000)	2017 S/(000)
Interest on bond and debt banks, see note 14(u)	217,653	221,732
Partial redemption of bonds, see note 14(g)	39,257	-
Interest on bank notes, see note 14(e)	20,056	36,301
Expenses related to bonds	8,896	6,030
Interest on loans from related parties, note 29(b)	3,179	2,405
Other minors	8,289	6,503
	297,330	272,971
Commissions for structuring other liability financial (b)	16,318	9,274
	313,648	282,245
Interest on derivative instruments -Swap, see note 32.1(i)(a)	6,227	5,890
Net loss by update of liabilities for pit closure, see note 17(d)	782	682
Financial expenses on derivatives, see note 32(i)(b) and (ii)	622	2,846
	7,631	9,418
	321,279	291,663

(b) Corresponds mainly to the structuring fees related to the partial redemption of the bonds for approximately S/7,513,000, see note 14(g).

29. Related parties transactions

(a) Nature of the relationship –
During the years 2018 and 2017, the Group has made transactions with the following related entities:

- Nuevas Inversiones S.A. - NISA
  As of December 31, 2018, NISA owns 58.92 percent of the share capital of SIA (58.91 percent at December 31, 2017) through which holds investments in Group companies.

- Sindicato de Inversiones y Administración S.A. - SIA
  Sindicato de Inversiones y Administración S.A. owns 43.38 percent of the Company's capital stock. Additionally, SIA is dedicated to the provision of management services to the Company, in exchange for an annual remuneration of 7.2 percent of its net profit before income tax, legal participation of workers and the Board fee. According to indicate in note 36, on January 1, 2019 SIA merged with the Company, and was absorbed by the Company, as consequence, SIA was extinguished without dissolving or liquidating and the contract for management services was resolved.

- Inversiones Andino S.A. - IASA
  Inversiones Andino S.A. owns 24.29 percent of the Company's capital stock. Additionally, IASA is mainly dedicated to providing administrative and managerial advisory services to the Company. The remuneration for the services corresponds to an annual amount of 2.8 percent of the net profit before the income tax, legal participation of the workers and the fee of the Board of Directors. As indicated in note 36, as of January 1, 2019 IASA merged with the Company, and was absorbed by the Company, as consequence, IASA was extinguished without dissolving or liquidating and the contract for administrative and management services was resolved.

- ARPL Tecnología Industrial S.A. - ARPL
  The shareholders of the Company have significant influence in ARPL. The Group receives services related to advisory and technical assistance, development and management of engineering projects.

- La Viga S.A. - VIGA
  It is the main distributor of cement in the city of Lima city of the Company, which represent approximately the 22.1 and 22.5 percent of the Company’s sale cement of the years 2018 and 2017, respectively.

- Vigilancia Andina S.A. - VASA
  VASA dedicated to the provision of surveillance, control and security of all facilities and public and private buildings, shows, festivals and events in Peru.

- BASF Construction Chemicals Perú S.A. - BASF
  It is entity dedicated to the manufacture, importation, sale and supply of chemicals used mainly as additives for the manufacture of concrete and associated investment is a subsidiary of the Company (UNICON Peru).

- Asociación UNACEM - Association
  It is a non-profit institution whose main activity is to promote corporate private social investment; whose objective is to generate human development. The Association receives donations mainly from the Company.

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

	2018 S/(000)	2017 S/(000)
Income -		
Cement sales -		
La Viga S.A.	418,595	402,240
Asociación UNACEM	649	506
Dividends income -		
Ferrocarril Central Andino S.A.	3,940	3,209
BASF Construction Chemicals Perú S.A.	1,464	2,137
Costs and/or expenses -		
Management services, see note 23		
Sindicato de Inversiones y Administración S.A.	31,100	49,985
Inversiones Andino S.A.	12,100	19,439
Technical assistance and engineering services -		
ARPL Tecnología Industrial S.A.	19,141	20,163
Donations granted -		
Asociación UNACEM	17,655	16,821
Purchansing of additives -		
BASF Construction Chemicals Perú S.A.	46,038	36,935
Surveilance services expenses -		
Vigilancia Andina S.A.	28,024	26,177
Commissions and freight costs of cement sales -		
La Viga S.A.	23,229	22,238
Paid system support service -		
ARPL Tecnología Industrial S.A.	5,263	5,043
Management project services -		
ARPL Tecnología Industrial S.A.	5,598	4,536
Interest expense -		
Sindicato de Inversión y Administración S.A.	1,459	1,333
Inversiones Andino S.A.	1,160	519
ARPL Tecnología Industrial S.A.	560	553
Other expenses -		
BASF Construction Chemicals Perú S.A.	3,258	3,332
Inversiones Andino S.A.	1,493	1,482
ARPL Tecnología Industrial S.A.	670	313

	2018 S/(000)	2017 S/(000)
Other incomes -		
BASF Contruction Chemicals Perú S.A.	1,010	1,877
La Viga S.A.	177	175
Vigilancia Andina S.A.	112	100
Asociación UNACEM	66	24

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

	2018 S/(000)	2017 S/(000)
Trade receivable, note 8(a)		
La Viga S.A.	23,951	28,024
BASF Construction Chemicals Perú S.A.	554	320
Sindicato de Inversiones y Administración S.A.	436	155
Other minors	216	20
	25,157	28,519
Trade payables, note 15(a)		
Sindicato de Inversiones y Administración S.A.	58,414	72,689
ARPL Tecnología Industrial S.A.	31,863	32,905
Inversiones Andinos S.A.	29,414	20,972
BASF Contruction Chemicals Perú S.A.	18,484	13,633
La Viga S.A.	4,200	3,042
Vigilancia Andina S.A.	2,792	1,447
	145,167	144,688
Term -		
Current portion	74,437	91,510
Non-current portion	70,730	53,178
	145,167	144,688

(d) The Group 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.

(e) During the year 2018, the Subsidiary Skanon Investments Inc. and Subsidiaries received two loans for US$2,500,000 (equivalent to S/8,422,000), from Inversiones Andino S.A., which accrue interest at an effective annual rate of 4.5 percent with maturity in 2021 (SIA and IASA granted loans to SKANON for US$6,820,000 and US$2,680,000, respectively (equivalent to S/22,131,000 and S/8,677,000, respectively in 2017).

On the other hand, in 2015, ARPL granted a loan for US$1,500,000 (equivalent to S/5,054,000 and S/4,857,000 as of December 31, 2018 and 2017, respectively), which accrues interest at an annual rate of 4.25 per and expires in 2021 and, in turn, extended the maturity date of the loan granted in 2012 for US$2,500,000 (equivalent to S/8,423,000 and S/8,095,000 as of December 31, 2018 and 2017, respectively), which accrues interest at an annual rate of 4.25 percent.

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

30. 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	193,413	227,604

	2018 Thousand	2017 Thousand
Denominator		
Weighted average number of common shares	1,646,503	1,646,503

	2018 S/	2017 S/
Basic and diluted earnings for common shares	0.117	0.138

31. Commitments and contingencies

31.1 Financial commitments -

(a) As of December 31, 2018, the Group and its subsidiaries kept the following letters of guarantee:

- 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 in January 2019, in order to ensure compliance of the Pit Closure of UNACEM.

- Guarantee letter in favor of the National Institute for the Defense of Competition and the Protection of Intellectual Property (INDECOPI) requested by the Company, issued by Banco Interbank in an amount of S/6,300,000, with maturity May 2019, in order to ensure compliance with the payment of a fine imposed for defense of free competition of INDECOPI, see note 31.4(b).

(b) The subsidiaries maintain the following letters of guarantees:

- Guarantee letters issued by financial institutions negotiated by UNICON Peru and CONCREMAX with the purpose of guarantee the concrete supply to certain clients, as of December 31, 2018 for approximately S/107,111,000 (S/80,100,000 as of December 31, 2017).

- Guarantee letters negotiated by DAC with any financial institutions guaranteeing its obligations generated in compliance of its functions as customs broker according with the General Law on Customs, its regulation and other administrative arrangements applicable by US$200,000 equivalent to S/676,000 (US$200,000, equivalent to S/649,000 as of December 31, 2017).

- Guarantee letters negotiated by PREANSA Peru issued in favor of financial institutions guaranteeing obligations related with the clients for the advances received for the star of the operations of productions, as of December 31, 2018 for approximately S/3,347,000 (S/4,119,000 as of December 31, 2017).

- Guarantee letters negotiated by CELEPSA in favor of Consorcio Transmantaro S.A. for US$3,000,000, with maturing in July 2019, issued by Scotiabank Perú in order to guarantee the agreement for electrical transmission facilities of the complementary transmission system.

- On September 23, 2016, the bank Scotiabank Chile approved a credit line up to US$4,000,000, in favor of PREANSA Chile, the same that is guarantee through of the letter of guarantee of PREANSA Peru issued by the Scotiabank Perú S.A.A, with maturity in August 2019.

- On December 13, 2016, the BBVA Colombia approved a credit line up to US$3,550,000 in favor of PREANSA Colombia, the same that is guarantee through of the letter of guarantee of PREANSA Peru issued by the BBVA Banco continental, with maturity in February 2019.

(c) Guarantee for the payment of its financial obligations

- Trust of management and guarantee: include credit rights of CELEPSA and futures-cash flows from them, which is intended to secure the payment of the obligations under the funding and serving as a means of payment. Activation of this trust was given immediately after the start of operations of hydroelectric central "El Platanal".

- Credit letter by US$40,000,000, dated November 18, 2010, held between US Bank National Association and the Industrial Development Authority of Yavapai County (authority) guaranteeing to Sindicato de Inversiones y Administración S.A. (applicant) the direct payment of credit on behalf of the applicant, see note 14(h).

- Credit letter for US$75,000,000, dated July 30, 2015, held between Drake Cement, LLC, Skanon Investments, Inc (guarantor) and Nova Scotia Bank, New York Agency (issuer) in order that the issuer make direct payment of credit on behalf of Drake in favor of US Bank National Association (trustee), the latter entity entered into a trust agreement with the Industrial Development Authority of Yavapai, see note 14(h).

- The Company maintains as security guarantee its shares, to secure the compliance the loan of JRPR S.A. with Banco Internacional del Perú. At the date of this report, the loan of JRPR S.A. amounts to S/20,000,000.

- The Company maintains an obligation as co-borrower for the loan signed by its subsidiary Generación Eléctrica Atocongo S.A. with BBVA Banco Continental for an amount of US$9,600,000.

(d) Indemnity Agreement

The Subsidiary SKANON establish indemnity provisions according to its agreements with other companies in the normal course of its operations, generally with commercial partners, customers, facilities owners, lenders and lessors. Under such provisions, SKANON generally indemnifies and exempts of suffered or incurred losses to the indemnified party as result of its activities, or sometimes, as a result of indemnified party activities according to the agreement. The higher potential of future payments that SKANON could realize for this provisions are unlimited. SKANON has not incurred significant costs to defend or resolve claims related to these indemnity agreements. As a result, SKANON considers that the estimated fair value of these agreements are minimum. In consequence, the Group's Management does not maintain recorded liabilities for these agreements as of December 31, 2018 and 2017.

(e) Purchase option

According to the third addendum of the operation agreement (Restated Limited Liability Company Operating Agreement) of Drake Cement on September 1, 2007, SKANON has the purchase option, but not the obligation, to purchase the participation of minority shareholders at any time at their fair value. The fair value will be determined by mutual agreement of members of the General Shareholders' Meeting. As of December 31, 2018, Drake Cement has not executed this purchase option.

31.2 Finance leases -

The future minimum payments for leases and leaseback are as follow:

	2018		2017	
	Minimum payments S/(000)	Present value of minimum lease payments S/(000)	Minimum payments S/(000)	Present value of minimum lease payments S/(000)
Up to 1 year	61,477	47,523	98,189	82,121
Between one and more years	273,001	154,391	282,799	162,970
Total payments	334,478	201,914	380,988	245,091
Less - finance costs	(132,564)	-	(135,897)	-
Present value of minimum lease payments	201,914	201,914	245,091	245,091

31.3 Tax situation -

(a) The Companies of the Group are subject to the Peruvian tax system and taxes separately on the basis of their non-consolidated results. As of December 31, 2018, and 2017, the tax rate in the main countries that operate the Company and their subsidiaries are:

	Tax rates	
	2018 %	2017 %
Peru	29.5	29.5
Ecuador	25.0	22.0
United States of America (*)	21.0 and 4.9	21.0 and 4.9
Chile	27.0	25.5
Colombia	33.0	34.0

(*) According to United States of America and Arizona State legislation, the subsidiary are subject to the application of the federal rate of 21 percent and state rate of 4.9 percent.

(a.1) 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 percent is set.
- A tax of 5 percent 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 percent with respect to the results obtained until December 31, 2014; 6.8 percent on results obtained during the years 2015 and 2016; and 5 percent 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.

The main tax regulations issued during 2018 are the following:

- 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).

- 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.

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.

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.

(a.2) On December 22, 2017, the government of the Unit States of America approved the Tax Cuts and Jobs Act, which presents the following changes to the tax law:

- Establishes a flat corporate income tax rate of 21 percent to replace current rates that range from 15 percent to 35 percent and eliminates the corporate alternative minimum tax (AMT).

- Creates a territorial tax system rather than a worldwide system, which will generally allow companies to repatriate future foreign source earnings without incurring additional US taxes by providing a 100 percent exemption for the foreign source portion of dividends from certain foreign subsidiaries.

- Reduces the maximum deduction for the net operating loss (NOL) carryforward arising in tax years beginning after 2017 to 80 percent of the taxable income in each year. The law also generally repeals all carrybacks for losses generated in taxable years ending after December 31, 2017. However, any NOL generated in taxable years ending after December 31, 2017 can be carried forward indefinitely.

- The Law limits the deduction for the net interest expense that exceeds 30% of the taxpayer's adjusted taxable income (ATI) for that year. ATI is computed initially excluding depreciation, amortization or depletion (approximating earnings before interest, taxes, depreciation and amortization) and includes these items beginning in 2022.

- The Acts permits an indefinite carryforward of any disallowed business interest. This provision applies to taxable years beginning after December 31, 2017 and provides exceptions to the interest limitation for the companies with gross receipts not exceeding US$25,000,000.

The entities domiciled in the United States America have not determined income tax due to tax loss carryforwards, see next paragraph (c), the applicable tax rate of 35 and 21 percent as of December 31, 2018 and 2017, respectively. The effect of this change in the United States of America legislation was approximately for US$20,500,000 in the income tax.

(a.3) For the entities domiciled in Ecuador, the rate for income tax is calculated 25 and 22 percent on profits subject to distribution as of December 31, 2018 and 2017.

(i) Fiscal situation
According to legal dispositions, the Tax Authority has the right of review the income tax return of UNACEM Ecuador and Subsidiaries within the term of 3 years after the filing of the tax return and six years when it has not been declared completely.

UNACEM Ecuador decided to take advantage of the regime of tax referral envisaged in the Encourage Production Law though the payment of the amount determined by the Internal Revenue Service, as difference in payment of income tax without fines and interests and the presentation of procedural withdrawal of tax judgments of the years 2013 and 2014. For the year 2015, which was in administrative stage, UNACEM Ecuador also decided to take advantage of the tax referral process. In this way, the Group paid the amounts claimed by the Tax Authority without fines and interests. This operation was approved by Director's resolution in October 2018.

(ii) Tax reform
In the Official Gazette N°309 dated on August 21, 2018, the Organic Law for Encourage the Production, Attracting Investments, Employment Generation, and Balance and Stability Fiscal has been adopted; and in the Official Gazette N°302 dated on December 31, 2018, its regulation was published, which includes certain changes in the income tax and value-added tax.

On August 24, 2018, on the first supplementary of the Official Register was published the Regulation of the Economic Recovery and Dollar Strengthening Law, through which grants certain benefits and exonerations to the companies under determined criteria.

By Decree N°504 published on the Official Gazette N°336 dated on September 27, 2018, reformed the article corresponding to withholdings by foreign payments of the Internal Tax Regime Law.

The Management of the subsidiary UNACEM Ecuador and Subsidiaries believes that the aforementioned reforms will not have a significant impact in the consolidated financial statements.

During 2017, it was promulgated the second supplementary of the Official Register N°150 of the Organic Law for the Reactivation of the economy, strengthening of dollarization and modernization of financial management, which includes among other changes in the Tributary Code, the Production Organic Code, Trade and Investments, Internal Tax Regime Law and the Reform Law for Tax Equity in the Ecuador. The main tax reforms are as follows:

Reforms to the Law of the Internal Tax Regime (LRTI, by its acronym in Spanish)

- As of January 1, 2018, the corporate income tax rate is 25 percent. However, the tax rate will increase by three percentage points, that is to say 28 percent, in the event that the company had shareholders, partners, participants, constituents, beneficiaries or similar, residents or established in tax havens or lower tax regimes. , with a direct or indirect participation, individually or jointly, equal or superior to 50 percent of the share capital or of the one that corresponds to the nature of the company.

(a.4) For entities domiciled in Chile, the rate of income tax applicable as of December 31, 2018 is 27 percent (25.5 percent as of December 31, 2017).

In September 2014, the Tax Reform Law N° 20.780, which introduces several changes to the current tax system in Chile, considered a progressive increase in the rate of income tax first class for commercial years 2014, 2015, 2016 , 2017 and 2018 onwards, changing the tax rate of 20 percent to 21 percent, 22.5 percent, 24 percent, 25.5 percent and 27 percent, respectively, in the event that is applied the System Partially Integrated or, for commercial years 2014, 2015, 2016 and 2017 onwards, increasing the tax rate to a 21 percent, 22.5 percent, 24 percent and 25 percent, respectively, in case you opt for System Application Income Attributed.

(a.5) For companies domiciled in Colombia, according with the Law N°1943 and N°1819, are present the following changes from the 2018 and 2017, which apply to the Company.

- During 2018, were issued modifications in force from 2019, which will apply a gradual reduction of income tax rate and complementary as follows: year 2019, rate of 33 percent; year 2020, rate of 32 percent; year 2021, rate of 31 percent and from 2022 onwards rate of 30 percent.

  - During 2017, the Rent rate will be 34 percent plus 6 percent of the rate, and by 2018 of the 33 percent plus 4 percent of the rate. The above rate only applies to companies that have profits greater than US$800,000,000 Colombian pesos (equivalent to S/890,000) going forward. In this case, it does not apply to PREANSA Colombia.

(b) The Tax Authority in each country has the right to review and if necessary, adjust the corresponding income tax calculated by the Company and its subsidiaries in the four years after the filing of the tax return. The affidavits of income tax are open to inspection by the Tax Authority as follows:

	Periods open to review
Peru -	
Unión Andina de Cementos S.A.A.	2013-2018
Compañía Eléctrica el Platanal S.A.	2013-2018
Generación Eléctrica Atocongo S.A.	2013-2018
Unión de Concreteras S.A.	2014-2018
CONCREMAX S.A.	2013-2018
Inversiones en Concreto y Afines S.A.	2013-2018
Prefabricados Andinos Perú S.A.C.	2014-2018
Transportes Lurín S.A.	2013-2018
Depósito Aduanero Conchán S.A.	2013-2018
Inversiones Imbabura S.A.	2014-2018
Cementos Portland	2014-2018
Ecuador -	
UNACEM Ecuador S.A.	2016-2018
Unión de Concreteras UNICON UCUE Cía. Ltda.	2016-2018
Chile-	
Prefabricados Andinos S.A.	2014-2018
Unicon Chile S.A.	2014-2018
Colombia -	
Prefabricados Andinos Colombia S.A.S.	2016-2018
United States of America	2015-2018

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 in liabilities for the Company and subsidiaries; 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 consolidated financial statements as of December 31, 2018 and 2017.

(c) As of December 31, 2018, and 2017, the tax loss carryforwards determined by the subsidiaries were as follows:

	2018 S/(000)	2017 S/(000)
Skanon Investments, Inc. and Subsidiaries (i)	1,571,318	1,395,303
Compañía Eléctrica El Platanal S.A. and Subsidiaries	336,494	334,920
Prefabricados Andinos S.A. – PREANSA Chile	34,833	39,951
Prefabricados Andinos Colombia S.A.S	6,664	4,365
Depósito Aduanero Conchán S.A.	2,943	2,523
Transportes Lurín S.A.	422	-
Other minor Peruvian subsidiaries	378	365

(i) The tax loss carryforward for the subsidiaries in the United States of America ascended to approximately US$466,405,000 (equivalent to S/1,571,318,000), which, according to the evaluation performed by the Management believes that will recover a federal and state loss for US$166,178,000 and US$155,570,000, respectively (equivalent to S/559,854,000 and S/524,116,000, approximately), in consequence, the Group recognized a deferred income tax asset by tax losses carryforward for approximately US$40,355,000 (equivalent to S/135,893,000 approximately).
According with the legislation of the United States of America, the subsidiaries of Group in such country, are subject to federal and state tax that have rate of 21 and 4.9 percent, respectively, on taxable income.

(ii) The Management of each subsidiary of Peru, with tax loss carryforwards has therefore chosen the option to offset the tax loss up to 50 percent of the taxable income generated each year, indefinitely, as well as the option to offset the tax loss in the four years starting from the date of his generation. The amount of the tax loss carryforwards is subject to the outcome of the reviews referred to in the preceding paragraph.

(iii) The tax loss carryforwards of the subsidiaries in Chile and Colombia, will be offset with the future profits of the subsidiaries according with the tax requirements.

(d) As of December 31, 2018, the Group recorded a provision for income taxes of S/34,417,000 (S/71,752,000 as of December 31, 2017), which mainly corresponds to subsidiary UNACEM Ecuador for S/32,336,000 (As of December 31, 2017, mainly corresponds to UNACEM and UNACEM Ecuador for S/43,075,000 and S/27,071,000, respectively).

31.4 Contingencies –

In the normal course of business, the Company and subsidiaries have received some complaints of such tax, legal (labor and management) and regulatory matters, which are recorded and disclosed in accordance with International Financial Reporting Standards as set out in note 4.3(s).

Peru –

(a) Tax -

Tax income -

As a result of the tax audits for the years 2004 and 2006, the Company has been notified by the 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 August and September 2018, the Tax Court issued rulings for such periods, resolving in favor of the Company the additions from exports value and maintaining others; likewise, ordered to SUNAT proceed to affect the reassessment the amounts according to the rulling of Tax Court. At the date, the Company has not notified of the reassessment which must be considered in the refund requests in the return of the years 2004, 2005 and 2006 issued.

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/30,384,000 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 court.

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.

In relation to the audit corresponding to the Income Tax of the fiscal year 2012, on August 22, 2016, the subsidiary CONCREMAX was notified with the Resolution of Intendance No. 0150140012650 through which the Tax Administration declared the values determined in 2015 null, returning again to the control stage. Thus, the Tax Administration issued a new Information Request in the month of December 2016 in order for the CONCREMAX to support the observations originally made; however, on January 5, 2017, CONCREMAX was notified with Determination Resolution No. 012-003-0083092, issued by the Third Category Income Tax for 2012 for S/3,123,000 and the Fine Resolution No 012-002-0029815 for S/1,661,000.

On October 9, 2018, the subsidiary CONCREMAX presented the Bond Letter No. DDO-02748341, which was issued for the sum of S/5,708,000 in order to guarantee the tax debt in the aforementioned paragraph and filed with the Tax Court a claim file that is pending resolution. In the opinion of the legal advisors of CONCREMAX, this contingency is possible.

Selective consumption tax -
On the other hand, the Company has two additional claims for selective consumption tax related to coal imports in 2006 and 2007 for a total of S/7,028,000, see note 8(d). In December 2015, the Superior Court upheld the judgment contested in 2015 declaring null the Tax Court Resolution No. 14294-A-2013 by claims amounting to approximately S/5,023,000, which is 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 8(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).

As of December 31, 2018, the subsidiaries PREANSA Peru and LURIN presented claims to the tax authority for S/471,000 and S/5,000, respectively. According to the evaluation of the Group's Management will be recovered in the current period.

(b) Administrative -

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. By Resolution N° 05 of July 13, 2015, the Twenty-Fifth Administrative Court declared the process solved and 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.

Ecuador –

(c) Regulatory

In 2015, CANTYVOL received two notifications of the Mining Regulation and Control Agency - (SRI, by its acronym in Spanish) for approximately US$5,000,000 (equivalent to S/17,065,000), corresponding to differences mining royalties determined by the years 2010 to 2014. After an objection in administrative headquarters, the process concluded through a revision resource to the Ministry of Mines, in which, on May 12, 2017, resolved to cancel the notifications determined by ARCOM and the case was archived.

During the years 2016 and 2018 the Internal Revenue Service – IRS, initiated audits to the income tax return from the years 2013 to 2015 of UNACEM Ecuador. In 2018, UNACEM Ecuador decided to take advantage of the regime of tax referral envisaged in the Encourage Production Law though the payment of the amount determined by the Internal Revenue Service -IRS, as difference in payment of income tax without fines and interests and the presentation of procedural withdrawal of tax judgments of the years 2013 and 2014. For the year 2015, which was in administrative stage, UNACEM Ecuador also decided to take advantage of the tax referral process. In this way, UNACEM paid the amounts claimed by the Tax Authority without fines and interests. This operation was approved by Director's resolution in October 2018.

The Group's legal advisers consider that it is only possible, not probable tax, administrative and regulatory matters referred to the preceding paragraphs. In accordance with the foregoing and in Group's Management opinion no provision was recorded in the consolidated financial statements as of December 31, 2018 and 2017. Additionally, Group Management and its legal counsel consider that there are other tax, administrative, labors and regulatory issued whose degree of contingency is remote.

Likewise, as of December 31, 2018 and 2017, the Group has claims to the Tax Authority, related to demands and claims requesting tax refunds. Management and its legal advisors estimate that there are sufficient legal arguments to obtain a favorable result in referral processes, in which case they do not have a significant impact on the consolidated financial statements of the Group.

31.5 Mining royalties –

Peru -

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/3,543,000, respectively, and were recorded in the consolidated statement of income, see note 4.3(m).

Ecuador –

According to the Mining Law of Ecuador, the owner of non-metallic mining concession in exploration stage must be liquidated to the Ecuadorian Government a royalty corresponding to a percentage of the ore cost production based on certain parameters, and is liquidated every six months.

Mining royalty expense paid by UNACEM Ecuador to the Ecuadorian Government for the years 2018 was US$890,000 (equivalent to S/2,927,000) and for the year 2017 was US$774,000 (equivalent S/2,518,000), and were recorded in the consolidated statement of income, see note 4.3(m).

31.6 Environmental commitments -

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

(a) Industrial activities -

Peru -

Law N° 28611 General Environment Law and Law N° 27446 Law of National System of Environmental Impact Assessment, regulate the environmental responsibilities of the all activities from its identification, prevention, supervision, control and anticipate correction of the negative environmental impacts derived of human's actions expressed through the investment project.

In accordance with the above-mentioned law, the Company filed the Environmental Impact Assessments (EIA by its acronym in Spanish), the Environmental Impact Statement (EIS) 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.

On the other hand, UNICON Peru has invested in the implementation of environmental protection programs approximately S/662,000 and S/441,000 in the years 2018 and 2017, respectively.

(b) Mining and port activities –

Peru -

In relation to its mining and port activities, the Company in the environmental impact studies (EIA by its acronym in Spanish), 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 (approximately US$20,965,000 as of December 31, 2017).

On October 14, 2003, the Congress of the Republic of Peru issued Law N° 28090, regulating pit closures. This law standardizes the obligations and procedures that companies must comply with respect to statements of the mining activity to preparing, submit ting implementing a Pit Closure Plan, as well as the environmental guarantees that ensure the compliance of the investments subject to the principles of environment 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 pit 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 pit closure amounts to approximately S/38,077,000 and S/24,322,000, respectively, and is presented in the "Provisions" caption of the consolidated statement of financial position, see note 17(a). The Company considers that this liability is sufficient to comply with current environmental protection laws approved by the Ministry of Energy and Mines. The Company is in the process of updating the Pit Closure Plan of its main units, in accordance with the provisions of the Law.

Ecuador -
In Ecuador, the subsidiaries are required to the implementation of the Environmental Management Law and the Environmental Regulations for Mining Activities.

As of December 31, 2018, and 2017, the Group's provision for pit closure amounts to approximately S/2,330,000 and S/2,512,000, respectively and it is included in the caption "Provisions" in the consolidated statement of financial position, see note 17(a).

(c) Use of hydrocarbons –
Peru -
The Supreme Decree N° 046-93-EM for the Regulation of Hydrocarbon Activities was enacted on November 12, 1993. It regulates the activities performed by the Company related to the 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 Group has made an accumulated investment of approximately US$114,000 (US$110,000 as of December 31, 2017) in such PAMA.

(d) Environmental Protection in electrical activities -
According to the Electricity Concessions Law (Decree N°25844 Act) and the General Environmental Law (Law N°28611), the State designs and implements policies and rules necessary for the proper conservation of the environment and cultural heritage of the nation, as well to ensure the rational use of natural resources in the development of activities related to the generation, transmission and distribution of electricity and hydrocarbon activities. In this regard, the MEM approved the Regulations on Environmental Protection Electricity Activities (Supreme Decree N° 29-94-EM) and Regulation Environmental Protection in Hydrocarbon Activities (Supreme Decree N° 015-2006-EM). In the opinion of Management Group, Celepsa Renovables S.R.L is complying with the standards related to environmental conservation.

32. Financial risk objectives and management policies

The Group's financial liabilities comprise –along with derivative instruments, include other financial liabilities and trade payables and others. The main purpose of these financial liabilities is to finance the Group's operations. The Group has cash and trade receivables and others that arise directly from its operations. The Group also holds derivative financial instruments.

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

The Group'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:

32.1 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. In turn, market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and another price risk. Financial instruments affected by market risk include loans and borrowings, deposits and derivative financial instruments.

The sensitivity analyses shown in the following sections relate to the financial 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. Company exposure of the Group to the interest rate risk is related mainly to the long-term debt with variable interest rates.

(a) Derivative financial instruments from hedge -

The Group has contracts interest rate swap designated as cash flow hedges and are recorded at their fair value. The detail of these operations is as follows:

	As of December 31, 2018				
Counterparty	Reference value US$(000)	Maturity	Receives variable rate at:	Pays fix rate at:	Fair value S/(000)
Assets -					
Bank of Nova Scotia (Chile)	846	July 2019	Libor to 3 months + 3.36%	9.50%	261
Bank of Nova Scotia (Chile)	3,995	August 2019	Libor to 3 months + 1.75%	5.50%	183
Bank of Nova Scotia (Chile)	11,040	October 2023	Libor to 3 months + 1.85%	5.55%	40
Total, note 32(a)					484
Liabilities -					
Citibank N.A.	50,000	October 2025	Libor to 3 months + 1.75%	5.700%	11,806
Bank of Nova Scotia	30,000	September 2025	Libor to 3 months + 2.60%	5.660%	2,161
Santander S.A.	45,000	November 2023	Libor to 3 months + 1.85%	5.030%	4,440
Banco de Crédito e Inversiones (BCI)	3,700	November 2027	6.78%	3.3766%	887
Total, note 32(a)					19,294

	As of December 31, 2017				
Counterparty	Reference value US$(000)	Maturity	Receives variable rate at:	Pays fix rate at:	Fair value S/(000)
Assets -					
Bank of Nova Scotia (Chile)	9,625	September 2018	Libor to 3 months + 2.40%	1.020%	202
Bank of Nova Scotia (Chile)	2,083	August 2018	Libor to 3 months + 2.35%	0.825%	78
Total, note 32(a)					280
Liabilities -					
Banco de Crédito e Inversiones (BCI)	3,700	November 2027	6.78%	3.3766%	957
Bank of Nova Scotia (Chile)	846	July 2019	Libor to 3 months + 3.36%	9.50%	810
Bank of Nova Scotia (Chile)	3,995	August 2019	Libor to 3 months + 1.75%	5.50%	637
Total, note 32(a)					2,404

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 Libor rate to 3 months.

The Group 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 Group are recognized as a correction of the financial cost of the loan period for the hedged loans.

In October 2018, a hedge contract was signed with Citibank N.A., and in November 2018 were signed two hedge contracts with Banco Santander S.A. and Bank of Nova Scotia; in order to reduce the variable interest rate risk associated to the loans obtained on October 2, November 27 and October 31, 2019, respectively, see note 14 (s), (n) and (o).

In the year 2018, the Group recorded an expense on these derivative financial instruments amounting to approximately S/6,227,000 (S/5,269,000 during the year 2017), whose amounts were actually paid during the year and are presented as "Finance costs" in the consolidated statement of income, see note 28.

The effective portion of changes in the fair value of financial instruments that qualify as hedges is recognized as assets or liabilities with an impact on equity. As of December 31, 2018, and 2017, the Group recorded in the caption "Unrealized net loss" of the consolidated statement of changes in equity a negative variation in fair value for approximately S/15,389,000 and S/1,635,000, which are presented net of the income tax, respectively.

(b) Derivative Financial instruments from trading –

					Fair value	
Counterparty	Reference value as of December 31, 2018 US$(000)	Maturity	Receives variable at:	Pays fix rate at:	2018 S/(000)	2017 S/(000)
Liability -						
Citibank N.A. – New York	70,000	October 2020	Libor to 3 months +1.08%	5.20%	4,313	9,845
Total, note 32(a)					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 amount to approximately S/5,547,000 (S/2,521,000 during 2017) and are present as part of item "Finance income " and "Financial costs" of the consolidated statement of income, see note 27 and 28.

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 profit before income tax of Group 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	1,546	610
-10	(1,546)	(610)

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 Group's exposure to the risk of changes in foreign exchange relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).

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

The result of holding balances in foreign currency for the Group in the years 2018 and 2017 was a loss in exchange difference amounting approximately S/75,194,000 and S/102,206,000, which are presented in the caption "Exchange difference, net" in the consolidated statement of income.

As of December 31, 2018, and 2017, the Group has "Cross currency interest rate swap" amounting to S/958,000 and S/336,000 in favor of bank, respectively, and hedging of risks associated with exchange rate fluctuations. These instruments were designated as held for trading. The effect in 2018 and 2017 is an income by approximately S/622,000 and S/2,662,000, see note 27 and 28.

Foreign currency sensitivity -

Foreign currency transactions are made at free market exchange rates published by the Superintendence of Banks, Insurance and Private Pension Funds. As of December 31, 2018, the weighted average market exchange rate for transactions in U.S Dollars 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. The weighted average exchange rates for transactions in Euros as of December 31, 2018 were S/3.695 for buying and S/4.150 for selling (S/3.718 for buying and S/3.945 for selling as of December 31, 2017), respectively.

As of December 31, 2018, and 2017, the Group had the following assets and liabilities in foreign currency:

(a) U.S. Dollars

	2018		2017	
	US$(000)	Equivalent in S/(000)	US$(000)	Equivalent in S/(000)
Asset				
Cash and cash equivalents	7,355	24,776	18,226	59,015
Trade and other receivables, net	87,681	295,397	29,908	96,838
	95,036	320,173	48,134	155,853
Liabilities				
Other financial payables	(520,443)	(1,758,575)	(879,760)	(2,854,817)
Trade and other payables	(43,556)	(147,177)	(40,836)	(132,516)
Derivative financial instruments	(1,276)	(4,313)	(3,775)	(12,249)
	(565,275)	(1,910,065)	(924,371)	(2,999,582)
Financial derivatives foreign currency	(284)	(958)	(104)	(336)
Net liability position	(470,523)	(1,590,850)	(876,341)	(2,844,065)

(b) Euros

	2018		2017	
	€(000)	Equivalent in S/(000)	€(000)	Equivalent in S/(000)
Asset				
Trade and other receivables	80	318	59	221
Asset position	80	318	59	221

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 Group'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	**Impact on income before income taxes**	
	2018	**2017**
%	S/(000)	S/(000)
+5	(79,542)	(142,203)
+10	(159,085)	(284,406)
-5	79,542	142,203
-10	159,085	284,406

32.2 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 Group 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 consolidated 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 Finance Manager in accordance with the Group’s policy. Counterparty credit limits are reviewed by Group’s Management and Board of Directors 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 Group’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.

The outstanding assets of customer accounts receivable and contracts are regularly monitored and any shipments to major client are generally covered by letter of credits or other forms of credit insurance obtained from accredited companies.

The Group's sales are mainly made to domestic customers and it has a portfolio of 47 clients as of December 31, 2018 (50 to December 31, 2017). The Group'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 is 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 8(a) of the consolidated statement of financial position.

The Group 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, 5 percent (4 percent as of December 31, 2017) of the Group's trade accounts receivable are covered by letters of guarantee and other forms of credit insurance.

The Group 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.

Other accounts receivable –
Accounts receivable correspond to balances pending of collection due to concepts not related to the main operation activities of the Group. 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. The Group's Management made a continuously monitors of the credit risk to such items and periodically, it assesses the balances that evidence an impairment to determine the required allowance for un-collectability.

32.3 Liquidity risk -
The Group monitors its risk of shortage of funds using a recurring liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank deposits and other financial liabilities.

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

	As of December 31, 2018			
	From 1 to 12 months S/(000)	**From 1 to 3 years** S/(000)	**From 4 to more years** S/(000)	**Total** S/(000)
Trade and other payables	724,922	4,961	79,680	809,563
Other financial liabilities				
Amortization of capital	461,218	2,041,419	1,878,485	4,381,122
Flow of interest payments	222,060	407,551	381,738	1,011,349
Total liabilities	1,408,200	2,453,931	2,339,903	6,202,034

	As of December 31, 2017			
	From 1 to 12 months S/(000)	From 1 to 3 years S/(000)	From 4 to more years S/(000)	Total S/(000)
Trade and other payables	607,714	3,550	61,416	672,680
Other financial liabilities				
Amortization of capital	710,879	1,028,763	2,719,998	4,459,640
Flow of interest payments	223,849	411,502	412,014	1,047,365
Total liabilities	1,542,442	1,443,815	3,193,428	6,179,685

32.4 Capital management -

The Group'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 Group can adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce its debt.

Consistent with the industry, the Group monitors its capital on the basis of leverage ratio. This ratio is calculated dividing the net debt and the capital stock. The net debt corresponds to the total 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 consolidated statement of financial position plus the net debt.

	2018 S/(000)	2017 S/(000)
Other financial liabilities, note 14	4,381,122	4,459,640
Trade and other payables, note 15	809,563	672,680
Less: Cash and cash equivalents, note 7	(111,410)	(157,002)
Net debt (a)	**5,079,275**	**4,975,318**
Equity	4,283,945	4,163,217
Total capital and net debt (b)	**9,363,220**	**9,138,535**
Leverage ratio (a/b)	**0.542**	**0.544**

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

33. Fair value

(a) 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)
Asset for derivative financial instruments:		
Level 2	484	280
Total asset, note 8(a)	484	280
Liability for derivative financial instruments:		
Level 2	24,565	12,585
Total liability, note 32(i) and (ii)	24,565	12,585

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 Group'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 Group does not maintain financial instruments in this category.

The Group only carries derivative financial instrument at fair value, as indicated in paragraph (a); 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.
- Since accounts receivable, are net of estimation for doubtful accounts and, mainly, have maturities of less than three months; Group's Management deems their fair value is not materially different from its carrying value.
- Trade payables and others, due to its current maturity, the Group's 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 (*)	4,138,679	3,686,574	3,958,570	3,617,064

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

34. Change in liabilities arising from financing activities

The reconciliation of the movements in the financial obligations and the financing activities of the consolidated 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)	New financial leases S/(000)	Exchange difference effect S/(000)	Other S/(000)	As of December 31, 2018 S/(000)
Overdarfts	31,357	(215,416)	205,496	-	-	1,205	-	22,642
Cession of payment contracts and bank notes	469,713	(564,111)	305,843	-	-	8,356	-	219,801
Obligations for loans banks contracts, financial lease and corporate bonds	3,949,935	(1,992,277)	2,023,250	-	42,670	111,168	3,933	4,138,679
Letters	8,635	-	-	-	-	-	(8,635)	-
Dividends payables	9,001	(88,347)	-	86,766	-	-	-	7,420
Derivative Financial instruments	12,305	-	-	-	-	-	11,776	24,081
Total liabilities from financing activities	4,480,946	(2,860,151)	2,534,589	86,766	42,670	120,729	7,074	4,412,623

The movements exclude loans granted by related parties for approximately S/8,029,000 and S/30,761,000 as of December 31, 2018 and 2017, respectively.

	As of January 1, 2017 S/(000)	Cash flows S/(000)	New bank loans S/(000)	Declared dividends S/(000)	New financial leases S/(000)	Exchange difference effect S/(000)	Other S/(000)	As of December 31, 2017 S/(000)
Overdarfts	35,207	(123,361)	120,711	-	-	(1,200)	-	31,357
Cession of payment contracts and bank notes	711,003	(525,001)	300,505	-	-	(16,794)	-	469,713
Obligations for loans banks contracts, financial lease and corporate bonds	4,238,132	(655,388)	439,445	-	28,317	(106,441)	5,870	3,949,935
Letters	281	-	-	-	-	-	8,354	8,635
Dividends payables	2,166	(88,659)	-	95,494	-	-	-	9,001
Derivative Financial instruments	14,133	-	-	-	-	-	(1,828)	12,305
Total liabilities from financing activities	5,000,922	(1,392,409)	860,661	95,494	28,317	(124,435)	12,396	4,480,946

35. Segment information

For management purposes, the Group is organized into business units based on their products and activities and have three main reportable segments as follows:

- Manufacture and sale of cement.
- Manufacture and sale of concrete.
- Generation and sale of electrical energy generated using hydraulic resources.

No operating segments have been aggregated to form the above reportable operating segments.

Management of each entity monitors the operating profit of each business unit separately for purposes of making decisions about resources allocation and performance assessment.

Segment performance is evaluated based on gain or less operating and is measured consistently with gain or less operating in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The following financial information is presented as of December 31, 2018 and 2017 by business segment, net of eliminations:

	2018						
	Cement S/(000)	Concrete S/(000)	Electrical energy S/(000)	Other S/(000)	Total segments S/(000)	Adjustments and eliminations S/(000)	Consolidated S/(000)
Income							
Third-party customers	2,313,567	1,436,621	151,816	-	3,902,004	-	3,902,004
Inter segments	274,667	152,412	81,173	10,083	518,335	(518,335)	-
Total revenues	2,588,234	1,589,033	232,989	10,083	4,420,339	(518,335)	3,902,004
Gross profit	900,992	170,628	78,727	1,091	1,151,438	(64,031)	1,087,407
Operating income (expenses)							
Administrative expenses	(239,295)	(61,702)	(14,243)	(5,752)	(320,992)	24,614	(296,378)
Selling expenses	(73,495)	(21,050)	(2,531)	-	(97,076)	2,798	(94,278)
Other operating income (expenses), net	121,752	1,422	9,884	2,942	136,000	(123,381)	12,619
Operating profit	709,954	89,298	71,837	(1,719)	869,370	(160,000)	709,370
Other income (expenses)							
Gain on sharing in associate, net	-	1,975	(45)	-	1,930	-	1,930
Finance income	14,061	4,325	143	853	19,382	(3,944)	15,438
Finance costs	(259,373)	(29,229)	(27,716)	(8,905)	(325,223)	3,944	(321,279)
Exchange difference, net	(58,206)	(3,064)	(13,237)	(164)	(74,671)	(523)	(75,194)
Income before tax	406,436	63,305	30,982	(9,935)	490,788	(160,523)	330,265
Income tax expense	(124,824)	(12,580)	(9,635)	(30)	(147,069)	-	(147,069)
Net income for segment	281,612	50,725	21,347	(9,965)	343,719	(160,523)	183,196
Income before tax for segment	651,748	86,234	58,600	(1,883)	794,699	(464,434)	330,265
Operating assets	7,570,155	1,312,706	1,246,699	131,897	10,261,457	161,169	10,422,626
Operating liabilities	463,558	496,489	88,180	4,097	1,052,324	5,086,357	6,138,681

	2017						
	Cement S/(000)	Concrete S/(000)	Electrical energy S/(000)	Other S/(000)	Total segments S/(000)	Adjustments and eliminations S/(000)	Consolidated S/(000)
Income							
Third-party customers	2,193,402	1,067,696	151,342	-	3,412,440	-	3,412,440
Inter segments	253,745	94,717	75,538	14,095	438,095	(438,095)	-
Total revenues	2,447,147	1,162,413	226,880	14,095	3,850,535	(438,095)	3,412,440
Gross profit	836,771	133,656	75,931	1,761	1,048,119	(774)	1,047,345
Operating income (expenses)							
Administrative expenses	(260,748)	(56,440)	(13,486)	(4,902)	(335,576)	23,505	(312,071)
Selling expenses	(60,874)	(21,527)	(2,836)	-	(85,237)	7,178	(78,059)
Other operating income (expenses), net	231,560	(5,791)	765	31,081	257,615	(283,816)	(26,201)
Operating profit	746,709	49,898	60,374	27,940	884,921	(253,907)	631,014
Other income (expenses)							
Gain on sharing in associate, net	-	1,983	-	-	1,983	-	1,983
Finance income	4,210	4,651	107	701	9,669	-	9,669
Finance costs	(235,667)	(21,369)	(27,463)	(7,164)	(291,663)	-	(291,663)
Exchange difference, net	85,308	3,030	13,449	419	102,206	-	102,206
Income before tax	600,560	38,193	46,467	21,896	707,116	(253,907)	453,209
Income tax expense	(210,943)	(17,268)	(16,845)	(238)	(245,294)	-	(245,294)
Net income for segment	389,617	20,925	29,622	21,658	461,822	(253,907)	207,915
Income before tax for segment	832,017	52,928	73,823	28,359	987,127	(533,918)	453,209
Operating assets	7,635,973	1,065,484	1,283,844	98,019	10,083,320	148,602	10,231,922
Operating liabilities	440,286	359,678	111,032	4,418	915,414	5,153,291	6,068,705

Eliminations and conciliation -

Finance income and expenses and gains and losses from changes in fair value of financial assets at the individual segments are not charged because the underlying instruments are managed at centralized level.

Current and deferred taxes and certain financial assets and liabilities to the segments are not charged as also managed at centralized level.

	2018 S/(000)	2017 S/(000)
Reconciliation of income -		
Income before tax per segment before adjustments and eliminations	794,699	987,127
Finance income	15,438	9,669
Finance cost	(321,279)	(291,663)
Gain on sharing in associate, net	1,930	1,983
Inter segments	(160,523)	(253,907)
Income before tax per segment	330,265	453,209
Reconciliation of assets -		
Segment operating assets	10,261,457	10,083,320
Deferred income tax asset	151,691	140,483
Derivative financial instruments	484	280
Other non-financial assets	8,994	7,839
Group's operating assets	10,422,626	10,231,922
Reconciliation of liabilities -		
Segment operating liabilities	1,052,324	915,414
Other financial liabilities	4,381,122	4,459,640
Trade of payables to Directors	2,456	4,264
Deferred income tax liability	678,214	676,802
Derivative financial instruments	24,565	12,585
Group's operating liabilities	6,138,681	6,068,705

Geographic information –

The income information contained above is based on customer location.

	2018 S/(000)	2017 S/(000)
Income of customers		
Peru	2,756,272	2,540,507
Ecuador	556,238	512,721
United States of America	414,339	313,615
Chile	169,149	45,480
Colombia	6,006	117
Total income according to the consolidated statements of income	3,902,004	3,412,440

	2018 S/(000)	2017 S/(000)
Non-current operating assets:		
Peru	6,813,387	6,840,804
United States of America	1,236,655	1,209,247
Ecuador	794,711	757,355
Chile	93,992	45,040
Colombia	31,289	32,225
Non – current assets according to the consolidated statements of financial position	8,970,034	8,884,671

36. 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

- *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 consolidated financial statements (April 26, 2019), no other significant events of a financial-accounting nature have occurred that may affect the interpretation of these consolidated financial statements.

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