



(Free translation from the original in Spanish)

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Free translation from the original in Spanish)

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S/ = Peruvian sol

US\$ = United States dollars



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors
Ferreycorp S.A.A.

February 27, 2019

We have audited the attached consolidated financial statements of **Ferreycorp S.A.A. and subsidiaries** (altogether "the Group"), which comprise the consolidated statements of financial position at December 31, 2018 and 2017, and the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information included in notes 1 to 30.

Management's 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 as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to 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 audits in accordance with International Standards on Auditing approved for their application in Peru by the Board of Deans of Institutes of Peruvian Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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 misstatements 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's 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Gaveglio Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada.
Av. Santo Toribio 143, Piso 7, San Isidro, Lima, Perú, T: +51 (1) 211 6500 F: +51 (1) 211 6550
www.pwc.pe



February 27, 2019
Ferreycorp S.A.A.

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

Opinion

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of **Ferreycorp S.A.A. and subsidiaries** at December 31, 2018 and 2017, their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

GAVEGLIO APARICIO Y ASOCIADOS

Countersigned by

A handwritten signature in black ink, appearing to read "CGG", written over a horizontal dashed line.

-----(partner)

Carlos González González
Peruvian Public Accountant
Registration No. 50403

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FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At December 31,			At December 31,	
		2018	2017		2018	2017
		S/000	S/000		S/000	S/000
ASSETS						
Current assets						
Cash and cash equivalents	5	73,698	80,710		788,686	816,839
Trade receivables, net	6	1,195,047	1,031,198		560,439	601,934
Other receivables, net	7	292,386	196,120		511,556	396,736
Inventories, net	8	1,772,667	1,393,334		13,642	17,407
Investments in shares	9	10,465	80,057		1,874,323	1,832,916
Investments in property		-	14,599			
Investments in securities	4.2	2,500	-			
Prepaid expenses		31,581	22,433		1,210,437	737,763
Total current assets		3,378,344	2,818,451		34	369
Non-current assets						
Long-term trade receivables, net	6	25,501	79,795		189,951	196,885
Other receivables, long-term, net	7	272	459		104	55
Investments in associates and joint venture	9	13,336	13,140		1,400,526	935,072
Property, plant and equipment, net	10	1,455,074	1,464,543		3,274,849	2,767,988
Intangible assets, net	11(a)	161,475	105,834			
Goodwill	11(e)	176,287	175,793			
Deferred income tax asset	15	198,528	190,119			
Total non-current assets		2,030,473	2,029,683			
Total assets		5,408,817	4,848,134		5,408,817	4,848,134
LIABILITIES AND EQUITY						
Current liabilities						
Borrowings	12				975,683	975,683
Trade payables	13				73,536	73,536
Other payables	14				189,129	162,427
Income tax liability					353,474	385,630
Total current liability					542,146	482,870
Non-current liabilities						
Long-term borrowings	12				2,133,968	2,080,146
Other long-term payables	14					
Deferred income tax liability	15					
Deferred income						
Total non-current liabilities						
Total liabilities						
Equity						
Share capital						
Additional capital						
Legal reserve						
Other reserves						
Retained earnings						
Total equity						
Total liabilities and equity		5,408,817	4,848,134		5,408,817	4,848,134

The notes attached from pages 8 to 80 are part of the consolidated financial statements.

(Free translation from the original in Spanish)

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	Note	For the year ended	
		December 31,	
		2018	2017
		S/000	S/000
Net sales	17	5,199,321	4,839,700
Other operating income		1,600	305
Total operating income		<u>5,200,921</u>	<u>4,840,005</u>
Cost of sales	17	<u>(3,947,056)</u>	<u>(3,673,067)</u>
Gross profit		1,253,865	1,166,938
Selling expenses	18	(580,159)	(542,299)
Administrative expenses	19	(276,096)	(265,687)
Other income and expenses, net	9 y 2(d)	68,407	62,440
Operating profit		<u>466,017</u>	<u>421,392</u>
Finance income	21	21,600	18,122
Share of the profit of associates and joint venture	9(b)	1,068	7,708
Finance expenses	22	(73,205)	(85,107)
Exchange difference, net	27(c)	<u>(59,365)</u>	<u>25,079</u>
Profit before income tax		356,115	387,194
Income tax	15	<u>(131,087)</u>	<u>(120,181)</u>
Net income		<u><u>225,028</u></u>	<u><u>267,013</u></u>
Basic and diluted earnings per share (expressed in soles)	23	<u>0.231</u>	<u>0.273</u>
Weighted average of shares outstanding (in thousands of units)	23	<u>975,683</u>	<u>977,407</u>

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FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	<u>Note</u>	<u>For the year ended December 31,</u>	
		<u>2018</u>	<u>2017</u>
		<u>S/000</u>	<u>S/000</u>
Net income		<u>225,028</u>	<u>267,013</u>
Other comprehensive income to be reclassified to profits in subsequent periods:			
Exchange difference on translation of foreign operations	16(e)	710	(2,516)
Revaluation of investment property	10(i)	-	3,964
Others, net of the effect on income tax		<u>(7)</u>	<u>-</u>
		<u>703</u>	<u>1,448</u>
Other comprehensive income to be not reclassified to profits in subsequent periods:			
Devaluation of land	16(e)	(36,753)	(20,716)
Effect on income tax		<u>10,842</u>	<u>6,111</u>
		<u>(25,911)</u>	<u>(14,605)</u>
Other comprehensive income for the year		<u>(25,208)</u>	<u>(13,157)</u>
Net comprehensive income for the year		<u>199,820</u>	<u>253,856</u>

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(Free translation from the original in Spanish)
FERREYCORP S.A.A. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

Note	Number of shares En miles	Share capital S/000	Treasury shares S/000	Additional capital S/000	Legal reserve S/000	Other equity reserves			Subtotal	Retained earnings S/000	Total S/000
						Revaluation surplus S/000	Unrealized profits S/000	Foreign currency translation S/000			
	-	964,118	-	50,345	139,394	-	-	44,582	385,695	271,045	1,914,352
	-	1,014,326	(65,209)	-	-	(2,634)	-	-	-	271,045	2,071,819
16(a)	-	-	-	-	-	(14,605)	-	-	(14,605)	-	(14,605)
16(a)	-	-	-	-	-	(3,546)	-	-	(3,546)	3,546	-
16(b)	-	-	-	-	-	3,964	-	(2,516)	3,964	-	3,964
16(c)	-	-	-	-	-	-	-	(2,516)	-	-	-
	-	-	-	-	-	(14,187)	-	-	(14,187)	-	253,856
16(d)	-	-	-	-	23,043	-	-	-	-	(23,043)	-
16(e)	-	-	-	-	-	-	-	-	12,638	(12,638)	-
16(f)	-	-	-	-	-	-	-	-	-	(124,434)	(124,434)
16(g)	-	(36,643)	-	11,252	-	-	-	-	-	(11,252)	-
16(h)	-	-	-	73,539	-	-	-	-	-	-	-
16(i)	11,565	-	-	11,565	-	-	-	-	-	-	-
16(j)	975,683	-	-	73,539	162,427	313,019	42,066	-	385,630	-	23,504
	-	975,683	-	73,539	162,427	313,019	42,066	-	385,630	462,870	2,063,146
3, 5	-	975,683	-	73,539	162,427	313,019	42,066	-	385,630	473,898	2,063,264
16(a)	-	-	-	-	-	-	-	-	-	-	-
16(b)	-	-	-	-	-	(25,911)	-	-	(25,911)	-	(25,911)
16(c)	-	-	-	-	-	(3,063)	-	710	(2,353)	-	-
16(d)	-	-	-	-	-	(7)	-	-	(7)	-	(7)
16(e)	-	-	-	-	26,702	-	-	-	26,702	-	26,702
16(f)	-	-	-	-	-	-	-	-	-	(1,945)	(1,945)
16(g)	-	-	-	-	-	-	-	-	-	(132,171)	(132,171)
16(h)	975,683	-	-	73,539	188,725	292,098	42,776	-	385,174	542,146	2,133,968

The notes attached from pages 6 to 89 are part of the consolidated financial statements.

(Free translation from the original in Spanish)

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	<u>Note</u>	For the year ended	
		December 31,	
		2018	2017
		S/000	S/000
OPERATING ACTIVITIES			
Collections from customers and third parties		5,076,163	5,009,628
Payments to suppliers		(4,585,940)	(4,140,479)
Payments to workers and others		(434,108)	(364,557)
Income tax payments		(115,580)	(116,738)
Tax payments		(12,235)	(14,315)
Net cash (used in) provided by operating activities		<u>(71,700)</u>	<u>373,539</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10(a)	(109,593)	(188,509)
Sale (repurchase) of own shares	16(c)	-	23,506
Purchase of intangibles assets	11(a)	(73,364)	(40,259)
Purchase of investments in securities (mutual fund)	4.2	(2,500)	-
Sale of investments	2(d)	10,074	7,522
Sale of investment in property		15,159	-
Sales of property, plant and equipment		6,315	78,598
Net cash used in investing activities		<u>(153,909)</u>	<u>(119,142)</u>
FINANCING ACTIVITIES			
Obtaining of borrowings	26	3,718,781	2,499,758
Payment of borrowings	26	(3,301,887)	(2,595,045)
Interests paid	26	(62,301)	(83,197)
Dividends paid	16(f)	(132,171)	(124,434)
Net cash provided by (used in) financing activities		<u>222,422</u>	<u>(302,918)</u>
Net decrease in cash and cash equivalents		(3,187)	(48,521)
Effect of exchange rate differences on cash and cash equivalents		(3,825)	249
Cash and cash equivalents balance at beginning of the year		80,710	128,982
Cash and cash equivalents balance at end of the year		<u>73,698</u>	<u>80,710</u>
TRANSACTIONS THAT DO NOT GENERATE CASH AND CASH EQUIVALENTS FLOWS			
Sale of investments	9	109,667	-
Transfer of inventories to fixed assets	10	186,774	188,473
Devaluation of land	16(e)	25,911	14,605

The notes attached from pages 8 to 80 are part of the consolidated financial statements.

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FERREYCORP S.A.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1 ECONOMIC ACTIVITY

(a) General information -

Ferreycorp S.A.A. (hereinafter "the Company") was incorporated in Lima in September 1922. Ferreycorp S.A.A. acts as a holding company of all companies operating in Peru and abroad, called "Ferreycorp Group"; coordinating their policies and management. The Company's legal address is Cristóbal de Peralta Norte Avenue No.820, Surco, Lima, Peru.

(b) Distribution agreements -

On April 13, 2012 Ferreycorp Group through its subsidiary Ferreyros S.A. signed the update of two (2) non-exclusive distribution agreements for Caterpillar products in Peru with Caterpillar S.A.R.L. (Dutch Limited Partnership), represented by Caterpillar Americas C.V. (hereinafter "CAT"). The "Sales & Services Agreement" and "Distribution Agreement for Engine, Parts and Services" agreements, relating to the sale of "Prime" plant and engines, spare parts and services, respectively, are non-time restricted. Ferreycorp Group, for more than 75 years, sells machinery and spare parts, provides factory warranty and after-sales service (preventive maintenance and repair). Company Management estimates that agreements will be renewed in the normal course of business.

(c) Approval of the consolidated financial statements -

The consolidated financial statements at December 31, 2017 were approved at the Board of Directors' meeting held on February 28, 2018 and Shareholders' Meeting held on March 29, 2018. The consolidated financial statements at December 31, 2018 were authorized by Company's Management and the Audit Committee on February 25, 2019 and will be submitted for their approval by the Board of Directors and Shareholders' Meeting that will take place during the first quarter of 2019. Management considers these consolidated financial statements will be approved at the Board of Directors and Shareholders' Meeting without any changes.

2 GROUP STRUCTURE IDENTIFICATION

At December 31, 2018 and 2017, the consolidated financial statements include the financial statements of Ferreycorp S.A.A., subsidiaries in which it has control and an investment in a joint venture. The Group owns 100 percent interest in subsidiaries, either through its parent company (Ferreycorp S.A.A.) or through other subsidiaries. Major data of the consolidating companies at December 31, 2018 and 2017, before eliminations for consolidation purposes, are as follows:

Entity	Core activity	Percentage of interest		Assets		Liabilities		Net equity		Net profit (loss)	
		2018 %	2017 %	2018 S/000	2017 S/000	2018 S/000	2017 S/000	2018 S/000	2017 S/000	2018 S/000	2017 S/000
Ferreyros S.A.	Purchase and sale of plant, spare parts and workshop services	99.99	99.99	2,676,209	2,097,156	1,577,059	1,155,376	1,099,150	941,780	261,278	259,721
Inti Inversiones Interamericanas Corp. and subsidiaries (a)	Holding of the business in Central America	100.00	100.00	585,703	579,610	314,395	297,890	271,308	281,720	(12,767)	44,268
Unimaq S.A.	Purchase and sale of plant, spare parts and workshop services	99.99	99.99	465,882	562,772	358,512	431,971	107,370	130,801	(11,548)	(8,411)
Maquicentro S.A.	Wholesale and retail of construction equipment, agricultural machinery and port equipment	99.00	99.00	33,149	27,644	28,497	23,300	4,652	4,344	210	(653)
Trex Latinoamerica SpA and subsidiaries (b)	Holding of the business in South America	100.00	100.00	258,218	195,200	214,456	144,805	43,762	50,395	(3,018)	5,070
Motriz S.A.	Purchase, sale, distribution, Marketing and export of the Trex property line	99.00	99.00	96,877	76,951	81,282	61,525	15,695	15,426	252	528
Fargoline S.A.	Storage services	99.91	99.91	111,557	112,212	51,766	48,350	59,791	63,862	2,460	2,654
Motored S.A.	Purchase and sale of automotive line, spare parts and automotive services	99.99	99.99	214,084	157,169	190,192	122,959	23,892	34,210	(10,317)	15
Orvisa S.A. and subsidiaries	Purchase and sale of plant, spare parts and workshop services	99.37	99.37	127,438	137,276	82,766	92,433	44,672	44,843	1,027	1,378
Soltrak S.A. and subsidiaries	Representative and distributor of tires, lubricants and safety equipment	99.99	99.99	168,506	196,427	131,733	179,600	36,773	16,827	(14,649)	(18,763)
Cresko S.A.	Purchase and sale of plant, equipment and chemical supplies	99.99	99.99	3,157	22,240	710	167	2,447	22,073	(108)	(813)
Soluciones Sitech Perú S.A.	Software marketing and technology-related equipment	99.80	99.80	13,745	9,277	11,925	6,075	1,820	3,202	(1,250)	(68)
Forbis Logistics S.A. and subsidiary	Cargo agent	99.98	99.98	15,874	9,489	12,369	8,537	3,505	952	2,837	(192)
Xpedite Procurement Services S.A.C.	Non-specialized wholesale and retail sales	90.00	90.00	2,634	2,726	2,534	2,802	100	(76)	179	(93)

- (a) This holding entity mainly includes subsidiaries in Central America and North America: Compañía General de Equipos S.A. (El Salvador), Corporación General de Tractores S.A. (Guatemala), General Equipment Company (Belice), Mercado Centroamericano de Lubricantes S.A. (Nicaragua), Transportes Pesados S.A. (El Salvador) and Forbis Logistics Corp. (United States of America). The activities of the subsidiaries conforming Inti Group are purchase and sale of part, spare parts and workshop services.
- (b) This holding entity mainly includes subsidiaries in South America: Trex Latinoamerica SpA, which is the parent Company of Equipos y Servicios Trex SpA and Trex Overseas Investment S.A. (both based in Chile), the latter, in turn, has a subsidiary in Colombia.
- (c) On March 29, 2017, at the General Shareholders' Meeting the decision was made to absorb subsidiary Inmobiliaria CDR S.A.C. as part of a merger by which the absorbed party extinguished without liquidation. The merger effective date is July 1, 2017. As a result of the absorption of this entity, the Company included assets for a total of S/87,812 thousand and liabilities for a total of S/23,115 thousand; as a result, the Company's total assets and liabilities are increased by those amounts.
- (d) On November 23, 2017, the Company sold 100% its interest (24,645,676 common shares) it held in Fiansa S.A. at S/17,500,000. On April 25, 2018, the Company signed an addendum to the respective contract, by which, the sales price was adjusted, provided certain conditions are met, by S/10,074,000. In 2017 and 2018, this transaction result in profits for S/7,516,000 and S/10,074,000, respectively, that was recognized within "Other income" in the consolidated statement of income.

3 BASIS OF PREPARATION AND SUMMARY OF CRITICAL ACCOUNTING POLICIES

The main accounting policies applied in the preparation of the consolidated financial statements are detailed below. These policies have been consistent applied to all the years presented, unless otherwise noted.

3.1 Basis of preparation and presentation of the consolidated financial statements -

The Company has prepared these consolidated financial statements in compliance with the financial reporting rules set forth by the Peruvian company and securities regulator (Superintendencia del Mercado de Valores - SMV). The attached consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS"), issued by the International Accounting Standards Board (hereinafter "IASB"), effective at the date of the financial statements, which include International Financial Reporting Standards (IFRS), International Accounting Standards and IFRIC Interpretations issued by IFRS Interpretations Committee (IFRSIC).

The information included in these financial statements is the responsibility of the Company's Management, which expressly confirms that all of the principles and criteria contemplated under IFRS as issued by the IASB have been applied in its preparation.

The consolidated financial statements have been prepared under the historical cost principle and based on the relevant accounting records kept by the Group, except for revaluation of land, which is measured at fair value. The consolidated financial statements are presented in thousands of Peruvian Soles (under the heading S/), unless otherwise indicated.

The accounting policies adopted by the Group are consistent with those applied in previous years, except for the new revised IFRS and IAS that are mandatory for periods beginning on or after January 1, 2018.

The Group has not early-adopted standards, interpretations or amendments that have been issued but are not yet effective.

3.2 Basis of consolidation -

The consolidated financial statements include the financial statements of the Company and its subsidiaries in which the Company exercises control for all years presented. Control is achieved when the Group is exposed or it is entitled to variable returns from its interest in the investee and has the ability to affect those returns through its power over such entity. The Group controls an entity if and only if it has:

- Power over the entity; that is, to have existing rights that give it the current ability to govern the relevant activities of the entity,
- Exposure or right to variable returns from its participation in the entity and,
- Ability to use its power over the entity to affect its performance significantly.

When the Group has less than the majority of votes or similar rights in the entity, the Group considers all relevant facts and circumstances to assess whether it has the power over such entity, including:

- Contractual agreements with other voting power holders of the entity,
- Rights under other contractual agreements,
- Voting rights of the Group and potential voting rights.

The Group assesses whether or not it has control over an entity when facts and circumstances indicate that there are changes in any of the control elements. Consolidation of a subsidiary begins when the Group has control over the subsidiary and it is no longer consolidated from the date on which control ceases. The consolidated financial statements include assets, liabilities, income and expenses of the Company and its subsidiaries.

Profit or loss for the year and each component of other comprehensive income are attributable to the owners of the controlling entity and to non-controlling interests, even if this results in non-controlling interests with a negative balance. When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the policies adopted by the Group. All assets and liabilities, equity, income, expenses and cash flows related to transactions between Group members are eliminated entirely in the consolidation.

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

3.3 Summary of significant accounting policies -

(a) Business combination and goodwill -

Business combinations are accounted for at the acquisition method. The consideration transferred for an acquisition of a subsidiary is the fair values of the assets transferred, the liabilities assumed to the former owners of the acquiree plus any non-controlling interest in the acquiree. For each business combination, the Group opts to measure any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Acquisition transaction costs are charged to expenses as they are incurred and are shown within administrative expenses in the consolidated statement of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities acquired for an adequate classification and designation as per the relevant contracts, the specific economic circumstances and conditions prevailing at the acquisition date. This includes the separation of host contracts in embedded derivatives of the acquiree, if any.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in the consolidated profit or loss. This is considered in determining goodwill.

Any contingent consideration arrangement to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9, "Financial Instrument" (formerly IAS 39, "Financial instruments, recognition and measurement") either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the applicable IFRS. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost and represents the excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired. If the fair value of the acquired net assets exceeds the consideration transferred, the Group re-evaluates if all acquired assets and assumed liabilities have been adequately identified; it reviews the procedures used to measure the amounts recognized at the date of acquisition. If, as a result of this re-evaluation, the carrying amount of the acquired assets is determined to exceed the consideration transferred, the resulting gains will be recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at costs less any impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Cash Generating Unit (CGU), or groups of CGUs, that is expected to benefit from the synergies of the combination, regardless of whether or not other assets or liabilities of the acquiree's were allocated to those units.

If goodwill was allocated to a cash-generating unit and a portion of the assets used by that unit in operations are disposed of, goodwill and the disposed assets are included in the carrying amount of the transaction in determining any gains or losses on that disposals. Under these circumstances a reduction in goodwill is measured based on the relative value of disposed assets and the retained portion of the cash-generating unit.

Impairment of goodwill is determined by evaluating the recoverable amount of each CGU (or group of CGUs) to which goodwill is allocated. When the recoverable amount of the CGU is lower than the carrying amount, an impairment loss is recognized. Impairment losses on goodwill cannot be reversed in future periods.

(b) Investment in associates and joint venture -

Associates are all entities over which the Group has significant influence. Significant influence is usually evidenced in the power to participate in financial and operating policy-making processes of the investee, but without having control or joint control. Considerations to be taken into account in determining the existence of significant influence or joint control are similar to those taken into account over the existence of control over subsidiaries.

A joint arrangement is an arrangement in which two or more parties have joint control. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangements. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing contract. As a result of the assessment of the joint arrangement, the Group has determined that it has a joint venture.

The Group's investments in associates and joint ventures are accounted for under the equity method. Under this method, the investment in its associates and joint ventures are initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's interest in the net assets of its associates and joint venture from the acquisition date.

The consolidated statement of income reflects the Group's share of the results of operations of its associates and joint venture, after giving effect to the adjustments made at the time of acquisition. Any changes in other comprehensive income of its associates and joint venture are shown in other comprehensive income of the Group. Also, if there changes occur that are recognized directly in the equity of its associates and joint venture, the Group would recognize its interest in any of those changes, as applicable, in the consolidated statement of changes in equity. When the interest in these investments exceeds the total investment, the Group ceases to recognize these losses unless it has the obligation to assume those losses.

At each date of the consolidated statement of financial position, the Group determines whether there are financial assets to be classified as available for sale. When necessary, the Group recognizes them as current assets held for sales and measures them at the lower of their carrying amount and fair value less cost of disposal. If the carrying amount is higher than the fair value of the financial asset, the difference is recognized with a charge to statement of income within impairment of investment in associates.

The Company's share of the profits of its associates and joint venture are shown within "Share of the profit of associates and joint venture" in the consolidated statement of income.

The financial statements of the associates and joint ventures are prepared for the same reporting period than that of the Company. If necessary, relevant adjustments are made to their accounting policies to be consistent with those of the Company.

(c) Financial instruments: Recognition and measurement -

(c.1) Financial assets -

Classification and initial measurement -

From January 1, 2018 the Group classifies its financial assets in the following categories:

- Measured at fair value (either through profit or loss or other comprehensive income), and
- Measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and if the contractual terms solely represent payments of principal and interest.

At initial recognition, financial assets are measured at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets at fair value through profit or loss carried at profit or loss.

The financial assets containing embedded derivatives are assessed on a comprehensive basis to determine whether their contractual cash flows that are solely payments of principal and interests.

Subsequent measurement of debt instruments -

Subsequent measurement of debt instruments depend on the Group's business model established for management of those assets as well as the cash flow characteristics of the assets. There are three possible categories in which debt instruments can be classified:

(i) Assets at amortized cost, notes 5, 6 and 7 -

Applicable for financial assets held within a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest. Interest arising from these assets are recognized as financial income using the effective interest method. Any gains or losses arising from the disposal of these assets are recognized through profit or loss. Impairment losses are shown in the consolidated statement of income.

(ii) Assets at fair value through other comprehensive income (FVTOCI) -

Applicable to financial assets within a mixed business model; that is, assets held to collect the contractual cash flows as well as for sale; provided the contractual cash flows from these assets are solely payments of the principal and interest, are recognized at fair value through other comprehensive income (FVTOCI). Changes in the fair value of these financial assets are recognized in other comprehensive income (OCI), except for impairment losses (or reversal of impairment losses), interest and exchange gains or losses which are stated in profit or loss. When a financial asset is derecognized, the cumulative gain or loss stated in OCI, is reclassified from equity to profit or loss and presented within the item "Other income (expenses)". Interest generated by these financial assets are recognized as financial income under the effective interest rate method. Exchange gains or losses are as stated in profit or loss within the item "Exchange difference, net" and impairment losses are also presented as a separate item in the consolidated statement of income.

(iii) Assets at fair value through profit or loss (FVTPL) -

Financial assets that do not qualify to be recognized at the amortized cost or FVTOCI are recognized at fair value through profit or loss. Changes in the fair value of debt instruments in this category are recognized within "Other income (expenses)" in the period in which they occur.

The Group reclassifies its debt instruments when and only when it changes the business model used in managing those assets.

Impairment of financial assets -

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in the credit risk.

For trade receivables, the Group applies the simplified approach established under IFRS 9, which requires the expected credit loss to be estimated for the instrument lifetime and recognize it from initial recognition (see note 27(c.1) regarding financial risk management for more details). In addition, to measure the expected credit losses, the trade receivables have been grouped based on shared credit risk characteristics and the days past due (see note 3.5 regarding new accounting pronouncements for more details).

Accounting policy applied until December 31, 2017 -

Classification and initial measurement -

Until December 31, 2017, financial assets were classified as: (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) financial assets available for sale, (iv) investments to be held to maturity, and (v) derivatives designated as hedging instruments in an effective hedge, as appropriate. Management determines the classification of its financial instruments at the time of initial recognition and re-evaluates this classification at the date of the financial statements.

The classification of financial instruments at their initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial assets are initially recognized at fair value plus, in the case of financial assets that are not accounted at fair value through profit or loss, incremental costs related to the transaction that are attributed directly to the purchase or issue of the instrument.

Purchases or sales of financial assets that require the delivery of assets within the period generally established by the regulation or market conditions are recorded on the trading date of the transaction; i.e. the date on which the Group undertakes to buy or sell the asset. Derivatives are recognized on the trade date of the transaction.

Subsequent measurement -

The subsequent measurement of financial assets depends on their classification. At December 31, 2017, the Group only maintains financial assets classified only in the categories of loans and receivable, and the criteria for these categories are explained below.

Loans and receivables -

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, so the Group does not intend to sell them immediately or in the near future, and they have no recovery risks other than their credit deterioration. They are included in current assets, except for maturities greater than twelve (12) months after the date of the consolidated statement of financial position. These are classified as non-current assets.

Loans and receivables are initially recognized at fair value and thereafter, to the extent that the cost of money is relevant, they are measured at amortized cost using the effective interest rate method less the impairment provision, otherwise they are shown at face value. Losses arising from impairment are recognized in the consolidated statement of income.

The Group maintains in this category "Cash and cash equivalents", "Trade receivables" and "Other receivables" in the consolidated statement of financial position, which are stated at the transaction value, net of its estimate for doubtful accounts when applicable.

De-recognition of financial assets -

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) are derecognized when:

- (i) The rights to receive cash flows from the investments have expired, or

- (ii) The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay all of the cash flows received immediately to a third party under a transfer agreement ("pass through"); and (a) the Group has substantially transferred all the risks and rewards of ownership of the asset; or (b) if no risks and rewards have been substantially transferred, control was actually transferred.

When the right to receive cash flows from the asset is transferred, or an assignment agreement is signed but the related risks and rewards inherent to the ownership of the asset has not been transferred or retained, that asset will continue to be recognized to the extent the Group is committed with the asset. In the latter case, the Group also recognizes the related liability. The associated transferred assets and assumed liabilities are measured in such a way to reflect the rights and obligations that the Group has retained.

A firm commitment that takes the form of a guarantee on the transferred asset is measured at the lower amount between the original carrying amount of the asset and the maximum amount of the consideration the Group may be obliged to pay.

Impairment of financial assets -

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets, valued at amortized cost, are impaired. A financial asset or a group of financial assets valued at amortized cost is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset (or group of financial assets valued at amortized cost) that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant difficulties, default or delinquency in interest or principal payments.

(c.2) Financial liabilities -

Initial recognition and measurement -

In accordance with IFRS 9, "Financial Instruments", financial liabilities are classified as: (i) financial liabilities at fair value through profit or loss, (iii) other financial liabilities. Management determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized when the Group is part of the instrument's contractual agreement. All financial liabilities are initially recognized at its fair value less, in the case of financial liabilities that are not accounted at fair value through profit or loss, incremental costs related to the transaction that are attributed directly to the purchase or issue of the instrument.

At December 31, 2018 and 2017, the Group has only liabilities as well as other financial liabilities that include borrowings, trade payables, payables to related parties and other payables.

Subsequent measurement -

After initial recognition, when the cost of money effect is significant, financial liabilities are measured at amortized cost using the effective interest rate method. The amortized cost is calculated considering any discount or premium on the issue and costs that are an integral part of the effective interest rate. Financing costs are recognized according to the criteria of the accrual, including commissions related to the acquisition of financing.

Financial liabilities are classified as short-term obligations unless the Group has the irrevocable right to defer payment of the obligations for more than twelve (12) months after the date of the consolidated statement of financial position.

De-recognition of financial liabilities -

A financial liability (or, where applicable, a part of a financial liability or part of a group of similar financial liabilities) is de-recognized when the obligation is paid, cancelled or expires. When an existing financial liability is replaced by another from the same lender, on substantially different conditions, or if the conditions of an existing liability are substantially modified, such exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting of financial instruments -

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where currently it has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of the business and in the event of default or insolvency of the Group or the counterparty.

(c.3) Offsetting of financial instruments -

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where currently it has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(e) Foreign currency translation -

Functional and presentation currency -

Items included in the consolidated financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The consolidated financial statements are presented in Peruvian Soles, which is the Company's functional currency and presentation currency.

For each subsidiary, the functional currency is determined and the items included in the financial statements of each entity are measured using that functional currency. The Group concluded in all its subsidiaries that the economic characteristics determine that the local currency of its country of origin is also its functional currency.

Transactions and balances in foreign currency -

Balances or transactions in foreign currency are considered to be those 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 on the dates of the transactions in which they initially qualified for its recognition.

Subsequently, monetary assets and liabilities denominated in foreign currency are converted at the exchange rate of their settlement or account at the closing date of the reporting period. Foreign exchange gains and losses are presented in the consolidated statement of income within "Exchange difference, net". Non-monetary assets and liabilities acquired in foreign currency are translated at the exchange rate at the date of the initial transactions.

Translation into presentation currency -

The consolidated financial statements have been prepared mainly to present in a jointly manner the activity of the Company and its subsidiaries, establishing the Peruvian Sol (functional currency of the Company) as the Group's presentation currency. In addition, the balances of the consolidated financial statements of subsidiaries operating in countries whose functional currency is different from the Peruvian Sol, were translated using the methodology established in IAS 21, "Effects of changes in foreign exchange rates", as mentioned below:

- (i) The balances of assets and liabilities have been translated using the closing exchange rates at the date of each consolidated statement of financial position reported. The differences resulting from the opening balances of the presentation currency at a different exchange rate than the year-end are presented as a movement in each of the items to which it corresponds.
- (ii) Revenues and expenses have been translated using the average monthly exchange rate that approximates the exchange rates on the date of registry of such transactions.
- (iii) All resulting differences have been recognized as other comprehensive income in "Exchange differences from translation of foreign currency".

(f) Cash and cash equivalents -

For purposes of presentation and preparation of the consolidated statement of cash flows, under direct method, cash and cash equivalents correspond to fixed fund, petty cash, bank deposits, cash in transit and deposits with original maturities less than 90 days, all recorded in the consolidated statement of financial position. These accounts do not have significant risks in their values.

(g) Inventories -

Inventories are valued at cost or net realizable value, whichever is lower, net of any impairment. The cost is determined using the specific identification method, except for spare parts that are recorded by the weighted average cost method. The net realizable value is the estimated selling price of an asset in the ordinary course of business, net of discounts and other costs and expenses incurred to put inventories on the market.

The provision for impairment is determined based on an analysis performed on the inventory's condition and turnover. In the case of damaged equipment and those that have no movement, a provision is made based on Technical Management's studies, which determines the impaired value of each item. The estimate for impairment of inventories is recorded affecting the results of the year in which it is determined.

(h) Property, plant and equipment -

Property, plant and equipment items, other than land, are stated at cost, net of accumulated depreciation and, if applicable, accumulated impairment losses. This cost includes the cost of replacing components of property, plant and equipment. For significant components of property, plant and equipment that must be replaced periodically, the replaced component is written off and the new component is recognized with its corresponding useful life and depreciation.

Likewise, when a major investment is made, the cost of the investment is recognized as a replacement to the extent that requirements for its recognition are met. All other routine repair and maintenance costs are recognized as expenses in the consolidated statement of income as they are incurred.

Land is measured at its revaluation value (fair value) using valuations made every two to three years by an independent expert appraiser to ensure that fair value does not differ significantly from its carrying amount. When changes in fair value are not significant, revaluations will be made every three or five years. At December 31, 2018, changes in fair value of land have not been significant and therefore, it has not been necessary to change the carrying amount, see note 10(b).

All revaluation increase is recognized in the consolidated statement of other comprehensive income and accumulated in the consolidated equity under "Other equity reserves" for revaluation of assets in equity, unless such increase corresponds to the reversal of a revaluation decrease of the same asset previously recognized in the consolidated statement of income, in which that increase is recognized in the mentioned statement. A revaluation decrease is recognized in the consolidated statement of income, except to the extent that said decrease compensates a revaluation increase of the same asset previously recognized in the asset revaluation reserve. At the time of sale of the revalued asset, any revaluation reserve related to that asset is transferred to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method over their estimated useful lives or as a function of the machine hours used, as follows:

	<u>Years</u>
Buildings and other constructions:	
Structural work	Between 78 and 80
Finishing and additional works	20
Installations	10
Machinery and equipment	Between 5 and 15
Machinery and rental equipment (*)	m/h used
Vehicles	5
Furniture and fixtures	4 and 10

(*) m/h: Based on machine-hours used.

Residual values, useful lives, and methods and impairment rates of assets are reviewed at each year-end date and are adjusted prospectively.

A component of property, plant and equipment or any significant part thereof initially recognized, is de-recognized at the time of sale or when no future economic benefits are expected to be obtained from its use or sale. Any resulting gain or loss at the time of de-recognition of the asset (calculated as the difference between net income from the sale and carrying amount of the asset) is included in the consolidated statement of income.

(i) Leases -

Determination of whether an arrangement contains or is a lease is based on the substance of the agreement at the signing date of the arrangement; if the agreement conveys the use of one or more specified assets or if the arrangement grants the right of use of the asset even if that right is not expressly stated in the arrangement.

Group as lessee -

Lease in which the risks and reward inherent to the ownership of the lease assets are substantially transferred to the Group are classified as finance leases and are capitalized at inception, at the lower of the fair value of the leased property or at the present value of the minimum lease payments. Lease payments are allocated between the finance charges and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Finance charges are recognized as financial expenses in the consolidated statement of income.

The leased asset is depreciated over its useful life. However, if there is no reasonable certainty that the Group will obtain ownership of the asset at the end of the lease term, the asset will continue to be depreciated over the lower of its estimated live or the term of the lease.

Group as lessor -

Leases in which the Group does not transfer all the risks and rewards of inherent to the ownership of the asset are classified as operating leases and records the collections on these contracts in the consolidated statement of financial position. The opening direct costs incurred in arranging an operating lease are added to the carrying amount of the leased asset and are recognized over the term of the lease on the same basis of the lease income.

Payments made under an operating lease are recognized as operating leases in the consolidated statement of income, on a straight-line basis over the term of the lease. Income obtained from operating leases are accounted for on a linear basis over the term of the lease.

(j) Intangible assets -

Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in business combinations is measured at fair value at the date of acquisition. After initial recognition, intangible assets are accounted at cost less accumulated amortization and, if applicable, any accumulated loss due to impairment.

The useful lives of intangible assets may be finite or indefinite. Intangible assets with finite useful lives are amortized using the straight-line method over their economic useful lives, which are four (4) and ten (10) years, and are reviewed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and 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 expected consumption of the asset are accounted for when the amortization period or method is modified, as appropriate, and are treated as changes in the accounting estimates. The amortization expense of intangible assets with finite useful lives is recognized in the consolidated statement of income in the item that is consistent with the function of the intangible asset.

Intangible assets that have an indefinite useful life are not subject to amortization but are tested annually for impairment, either individually or through a cash-generating unit to which they belong. An indefinite useful life is reviewed annually to determine if it is still appropriate. If not, the change in useful life from indefinite to finite is accounted for prospectively.

Amortization is calculated using the straight-line method over the estimated useful life of assets, as shown below:

	<u>Years</u>
Customer relationship	3 to 29
Right to use	2
Purchase order ("Order backlog")	1
Distribution agreement	10
Providers relationship	40
Non-competence agreement	5
Software licenses	4 to 10

Profits or losses arising from de-recognition of an intangible asset are measured as the difference between the net income from sale and the carrying amount of asset. They are recognized in the consolidated statement of income when the respective asset is de-recognized.

(k) Impairment of non-financial assets -

The net carrying amount of finite-lived property, plant and equipment and intangible assets are reviewed to determine if there is evidence of impairment at the end of each reporting period. If such indications exist, the Group estimates the recoverable amount of the asset, which is the higher of fair value, less costs to sell and value in use.

When the recoverable amount of an asset is below its carrying amount, the asset is considered to be impaired.

Fair value is the amount that can be obtained in the sale of an asset in a free market, while the value in use is the present value of net future cash flows estimated from the continuous use of an asset and disposal at the end of its useful life. In determining the value in use, future cash flows are discounted to their present value using a pre-tax discount rate that reflects the assessment of current market conditions, the value of money over time and the specific risks of the asset.

When there are new events or changes in existing conditions, which indicate that an impairment loss, recorded in an earlier period, may have disappeared or reduced, excluding goodwill, the Group makes a new estimate of the recoverable amount of the corresponding asset. The previously recognized impairment losses are reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset from the date on which the impairment loss was recognized for the last time. If this is the case, the carrying amount of the asset is increased to its recoverable amount.

This increase cannot exceed the carrying amount that had been determined, net of depreciation, if no impairment loss would have been determined in prior years. Such reversal is recognized in the consolidated statement for the year. Once reversal is completed, the depreciation charge is adjusted in future periods allocating the carrying amount of the asset over its remaining useful life.

Goodwill and indefinite life brands -

Goodwill represents the excess of the consideration transferred, over the fair value of Group's equity interest in the acquiree's identifiable net assets at the date of acquisition. The carrying amount of goodwill and indefinite life brands are tested for impairment (every December 31) and whenever the circumstances indicate that their carrying amount may not be recoverable.

The carrying amount of goodwill and long-lived brands are shown at cost less accumulated impairment losses. Any gains or losses on the disposal of subsidiaries includes the carrying amount of the related goodwill.

Impairment of goodwill and indefinite life brands is determined by evaluating the recoverable amount of each cash-generating unit (or group of cash-generating units) to which goodwill and indefinite life brands relate. When the recoverable amount of the cash-generating unit containing goodwill is lower than its carrying amount, an impairment loss is recognized. Goodwill impairment losses cannot be reversed in future periods.

(l) Borrowing costs -

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of the respective asset. All other borrowings costs are recognized in profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with funds obtained.

During 2018 and 2017, the Group did not maintain current assets that qualify for capitalization of borrowing costs.

(m) Employee benefits -

Workers' profit-sharing -

The Group recognizes a liability and an expense for workers' profit-sharing in the companies' profits, based on the legal provisions in force in each country in which the Group operates, if applicable. In the case of companies in Peru, workers' profit-sharing equals 8 percent of taxable income determined in accordance with current income tax legislation. According to Peruvian laws, there is a limit on the employees' profit-sharing that an employee can receive, equivalent to eighteen (18) monthly salaries.

The Group recognizes the current portion of employees' profit-sharing paid directly to them in accordance with IAS 19, "Employee benefits", as any benefit that the entity provides to employees in exchange for their services and recognizes as cost or expense, depending on the work of each of them.

Statutory bonuses -

The Group recognizes a liability and an expense for employees' statutory bonuses based on the legal provisions in force in each country in which the Company operates. For companies in Peru, statutory bonuses correspond to two (2) annual salaries paid in July and December of each year.

Workers' severance indemnities -

Workers' severance indemnities for time of service of the companies' staff comprise their indemnities rights, calculated in accordance with regulations in each country in which the Group operates, if applicable. In the case of companies in Peru, such indemnity has to be credited to the banks accounts designated by the workers in May and November every year. Workers' severance indemnities is equivalent to one current salary on the date of deposit. The Group does not have additional payment obligations once the annual deposits of the funds that the worker is entitled to are made.

Vacations period -

Workers' annual vacation periods and other paid absences are recognized on an accrual basis and based on regulations currently effective in each country in which the Group operates, if applicable. For companies in Peru, the provision for the estimated annual obligation for workers' vacation leave is determined based on an annual remuneration of twelve (12) months of services rendered by workers; this is recognized on the date of the consolidated statement of financial position.

The Group does not provide any benefits after the work relationship is terminated and it does not operate any share-based compensation plans.

(n) Income tax -

Income tax comprises current and deferred income tax and is recognized in the consolidated statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

Current income tax -

Income tax for the current period is calculated in accordance with the tax laws and regulations currently effective in each country based on the non-consolidated financial statements and for the amount expected to be payable to tax authorities. The tax regulations and tax rates to be used in calculating taxes payable are those in force at the date of the consolidated statement of financial position.

Management assesses periodically the tax standards and regulations subject interpretations and records provisions for the amounts expected to be payable to the tax authorities.

Deferred income tax -

Income tax for future periods is recognized under the liability method considering the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred income tax assets or liabilities are measured using the tax rates (and laws) that are expected to be applicable in the years in which these differences are recovered or eliminated.

Deferred income tax assets are recognized for all deductible differences and tax loss carryforwards to the extent that it is probable that future taxable profit will be available against which the temporary deductible differences and tax loss carryforwards can be utilized. The carrying amount of the deferred asset is reviewed at each date of the consolidated statement of financial position and is reduced to the extent that it is unlikely that there is sufficient taxable profit against which all or part of the deferred asset can be offset. Deferred income tax assets that have not been recognized are revalued at the date of each consolidated statement of financial position.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax and provided that deferred taxes relate to the same taxable entity and to the same tax authority.

(o) Revenues, costs and expenses recognition -

Revenues -

Revenues are recognized to the extent that economic benefits will flow to the Group. Revenue is measured at fair value of the consideration received or receivable, excluding discounts, taxes and other items related to the sales. The following criteria must be met to recognize revenue:

- Revenues from sale of machinery, vehicles, motors, motor vehicles and spare parts are recognized when all risks and benefits inherent in ownership are transferred to the buyer.
- Revenues from workshops, maintenance and repair and rental of machinery and equipment are recognized in profit or loss according to the progress degree of the service.
- Other Group's revenues are recognized as follows:
 - Revenue from rentals and interest on sales on credit: on an accrual basis.
 - Revenue from commissions on direct orders: when the foreign supplier serves order directly.
 - Revenue from financial income: under the effective interest method.
 - Revenue from income and expenses of construction contracts involving metal-mechanic work: under the percentage-of-completion method.
 - Revenue from warehousing service: recognized when the service is rendered.

Costs and expenses -

Cost of sale corresponds to the cost of products sold by the Group and is recorded when goods are delivered, simultaneously with the recognition of revenues from the corresponding sale.

Other costs and expenses are recognized as they accrue, regardless of when they are incurred, and are recorded in the periods to which they relate.

(p) Provisions -

General -

Provisions are recognized when the Group has a present (legal or constructive) obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are reviewed in each period and adjusted to reflect the best estimate at the reporting date of the consolidated statement of financial position. When the effect of the time value of money is significant, the amount of the provision is the present value of the expenses expected to be incurred to settle the obligation.

When the Group expects that a part or the total of the provision will be recovered, such recoveries are recognized as assets, provided that the recovery is certain. The provisioned amount is presented in the consolidated statement of income, net of recoveries.

Guarantees -

Provisions for costs related to guarantees are recognized when the product is sold or the service is provided. Initial recognition is based on historical experience. Initial estimate of costs related to guarantees is reviewed annually.

(q) Contingent liabilities and assets -

Possible contingencies are not recognized in the financial statements. These are disclosed in notes to the financial statements, except when the likelihood of cash outflows is considered remote. Contingent assets are not recognized in the financial statements and are only disclosed when it is probable that an income will be generated for the Group.

(r) Share capital -

Common shares are classified as equity.

Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. These own shares that are repurchased are classified as treasury shares and are presented as a deduction of equity. When treasury shares are subsequently sold or reissued, the consideration received is recognized as an issuance premium within "Additional capital".

(s) Earnings per share -

Basic and diluted earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding during the period, see note 23.

Shares arising from the capitalization of profits are considered share splits, and therefore, for determining the average number of shares outstanding; these shares are considered as if they had always been outstanding; and the calculation of earnings per basic or diluted shares is adjusted retrospectively.

(t) Fair value measurement -

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. Measurement at fair value is based on the assumption that the transaction to sell the asset or transfer the liability occurs 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 main or most advantageous market must be accessible by the Group. Likewise, the fair value of a liability reflects its default risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is considered active if transactions for the asset or liability are carried out with sufficient frequency and volume are to provide price information on an ongoing basis.

All assets and liabilities, for which fair values are determined or disclosed in the consolidated financial statements, are classified within the fair value hierarchy described below, based on the lowest level of the data used that are significant for the measurement at fair value as a whole:

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

For assets and liabilities that are recognized at fair value in the consolidated financial statements on a recurring basis, the Group determines whether there have been transfers between the different levels within the hierarchy by reviewing the categorization at the end of each reporting period.

Group Management determines the policies and procedures to measure recurrent and non-recurrent fair value. At each reporting date, Management analyzes the movements in the carrying amount of assets and liabilities that should be valued under the Group accounting policies.

For the purpose of fair value disclosures, the Group has determined the classes of assets and liabilities based on the nature, features and risks of the asset or liability of the fair value hierarchy as explained above.

(u) Segment information -

Operating segment information is stated in a manner consistent with the internal reports reviewed by the chief operating decision-maker. The chief operating decision maker, responsible for allocating resources and evaluate performance of each operating segments is General Management, charged with strategic decision-making.

An operating segment is a component of an entity that: i) engages in business activities from which it may earn revenues and incur expenses (including income and expenses related to transactions with other components of the same entity); ii) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and iii) for which discrete financial information is available, see note 29.

(v) Subsequent events -

Subsequent events at the end of the reporting period that provide additional information about the Group at the date of the consolidated statement of financial position (adjustment events) are included in the consolidated financial statements. Subsequent major events that are not adjustment events are disclosed in notes to the consolidated financial statements.

3.4 Critical accounting judgments, estimates and assumptions -

The preparation of the Company's consolidated financial statements requires that Management makes judgments, estimates and accounting assumptions that affect the amounts of income and expenses, assets and liabilities, and related disclosures, the disclosure of contingent liabilities at the date of the consolidated financial statements, as well as the income and expense amounts reported.

Management considers that the estimates included in the consolidated financial statements were made based on their best knowledge of the relevant facts and circumstances at the date of preparation of the consolidated financial statements; however, the final results may differ materially from the estimates included in the consolidated financial statements.

The significant judgments and estimates considered by Management in the preparation of the consolidated financial statements are as follows:

(a) Judgments -

In the application of the Group's accounting policies, Management has made the following judgments, which have a significant effect on the amounts recognized in these consolidated financial statements:

Operating leases, note 3.3(i) -

The Group as a lessor has leases agreements of machinery and rental fleet equipment. The Group assesses whether these agreements are operating or financial leases, based on an assessment of the terms and conditions of the agreements, such as whether or not the lease term constitutes a substantial portion of the economic life of the asset, whether substantially all risks and benefits inherent to the ownership of these assets have been retained or transferred, among others. The results of the analysis require Management to evaluate the result of all factors to define the classification of the lease.

(b) Estimates and assumptions -

Major assumptions relating to the future and other used to make estimates having a high risk of causing adjustments to the carrying amounts of assets and liabilities in the coming year are described below. These changes are considered in the estimates at the time they are known.

Revaluation of property, plant and equipment (land), note 3.3(h) -

The Group measures its land at its revalued amounts and changes in fair value are recognized as a "Revaluation surplus" in the consolidated statement of changes in equity and in the consolidated statement of other comprehensive income. The Group hired independent valuation experts to determine the fair values for revalued lands. For lands, the appraiser relies on objective market evidence, using comparable prices adjusted for specific factors, such as nature, location, and conditions.

Impairment of non-financial assets, note 3.3(k) -

Impairment exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value in use. Fair value less cost of disposal is determined based on information available for similar sales transactions of similar goods entered into under similar conditions between independent third parties or based on observable market prices, net of incremental costs of transaction.

The value in use is determined based on a discounted cash flow model. The expected future cash flows are projected for the next ten (10) years, excluding any restructuring to which the Group has not committed and future significant investments that are expected to increase the performance of the asset or cash-generating unit being tested.

The calculation of the recoverable amount is sensitive to changes in the discount rate used on the projected cash flows; changes in future expected cash flows and the long-term growth rate used in extrapolation. This information, including a sensitivity analysis, is disclosed and explained in note 11.

Provision for impairment of trade receivables, note 3.3(c.1) -

Management makes provisions for impairment of trade receivables based on the credit history of customers, the level of recovery and the delinquency of the customer portfolio, and other information available at the time of the evaluation. In this regard, the Company applies the simplified approach established under IFRS 9, which requires the expected credit loss to be estimated for the instrument lifetime and recognize it from initial recognition. In addition, to measure the expected credit losses, receivables have been grouped based on shared credit risk characteristics and the days past due.

Provision for impairment of inventories, note 3.3(g) -

The carrying amount of inventories may not be recoverable if the estimated costs to be incurred to bring them to sales condition and sell them increase. The practice to reduce the balance of inventories to make their carrying amount to be equal to their net realization value is consistent with the criteria that assets should not be valued above the amounts that are expected to be obtained from their disposal. The recoverable amount of inventories is determined by Management based on the sales prices and the estimated selling expenses to be incurred up to the date they are realized. Based on that evaluation, management concluded that there is no need to increase the provision for impairment of inventories.

In addition, Management performs a turnover analysis to determine whether inventories (machinery, engines and spare parts) require a provision for obsolescence and slow-moving items, which reduces the balance of inventories in the consolidated statement of financial position. The estimate for obsolescence of inventories in the warehouse and those in the hand of third parties is determined based on a specific assessment that Management conducts, on a quarterly basis, on machinery and engines and considering those items that are more than 24 months without movement for spare parts.

Current and deferred income tax, note 3.3(n) -

There are uncertainties regarding the interpretation of certain complex tax regulations, changes in tax laws and the amount and timing of future taxable profits.

The Group determines the provision based on reasonable estimates of the potential consequences of tax audits performed by the local tax authorities of the countries in which the Group operates. The amount of those provisions are based on factors such as the previous experience in tax audits and the differences in interpretations of tax laws made by the taxpayer from the interpretation of the tax authorities. Those differences in interpretation may arise in a large number of issues, depending on the circumstances and conditions existing in the jurisdiction in which the Group entities operate.

Fair value of financial instruments, note 3.3(c) -

In the event the fair value of financial assets and financial liabilities recognized in the consolidated statement of financial position cannot be measured based on market quoted prices, fair value is determined by the use of valuation techniques, mainly involving, discounted cash flow techniques and models.

When possible, the inputs fed into these models are based on observable data; otherwise, the use of professional judgment is used to determine fair values. These judgments include considering inputs related to the liquidity risk, credit risk, and volatility. Changes in the related assumptions may affect the fair value of the financial instruments. For further detail, see note 28(b).

3.5 New accounting policies -

New standards and amendments to current standards for the financial statements for the annual period beginning on January 1, 2018 -

- IFRS 9, "Financial Instruments" -

As part of the retrospective application of IFRS 9, the Company has opted not to restructure its comparative financial information. Major impacts resulting from the initial application of IFRS 9 are on the classification, measurement and impairment of financial assets, as follows:

- a) Classification and measurement of financial assets -

IFRS 9 includes three main categories of classification for financial assets:

- measured at amortized cost,
- measured at fair value through other comprehensive income (FVTOCI), and
- measured at fair value through profit or loss (FVTPL).

Classification of financial assets under IFRS 9 is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The categories under IAS 39 of held-to-maturity, loans and receivables and available-for-sales financial assets are removed.

The introduction of new concepts under IFRS 9 in terms of classification and measurement has an impact on:

	Prior classification and measurement under IAS 39				New classification and measurement under IFRS 9		
	Loans and receivables S/000	Available for sale S/000	Fair value through P&L S/000	Held to maturity S/000	At amortized cost S/000	FVTOCI S/000	FVTPL S/000
Current financial assets -							
Cash and cash equivalents	73,698	-	-	-	73,698	-	-
Investments in securities	-	-	-	2,500	-	-	2,500
Trade receivables	1,195,047	-	-	-	1,195,047	-	-
Other receivables	224,905	-	-	-	224,905	-	-
	<u>1,493,650</u>	<u>-</u>	<u>-</u>	<u>2,500</u>	<u>1,493,650</u>	<u>-</u>	<u>2,500</u>
Non-current financial assets -							
Trade receivables	25,501	-	-	-	25,501	-	-
Other receivables	272	-	-	-	272	-	-
	<u>25,773</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,773</u>	<u>-</u>	<u>-</u>

b) Impairment -

IFRS 9 replaces the model based on “incurred losses” under the IAS 39, “Financial instruments, recognition and measurement” to the “expected credit losses” model (hereinafter the ECL). The new ECL model will be applied to debt instruments, most loans and contractual financial assets under IFRS 15 “Revenue from contracts with customers” and receivables from leases under IAS 17 “Leases” or IFRS 16, “Leases”. Under the ECL model an entity should apply a “simplified approach” for which it has to recognize the estimated ECL for the following 12 months at initial recognition, unless the counterparty’s credit quality changes significantly, in which case, ECL should be recognized for the instrument lifetime.

The application of this ECL has the following impact on the Group's financial instruments:

- (i) The Group applies the simplified model in implementing the expected credit loss (ECL) model on its trade receivables from contracts with customers, recognizing expected credit losses over the term of receivables from the beginning of the recognition of trade receivables, based on a provision matrix, directly in profit or loss for the period.
- (ii) For loans/credits outstanding by related parties, the Group applies the general approach; that is, estimating the ECL for the first twelve months, but if the credit risk increases significantly, for the effective period (lifetime) of the loan. At the date of initial application, the Company considers that those credits qualify as low-risk loans and does not expect material defaults to occur over the next twelve months; no provisions for impairment was required, accordingly.

This accounting change has not had a material impact on the Company's equity at January 1, 2018 because there are no additional provision balances that are material to the financial statements, see note 6(e).

- IFRS 15, "Revenue from contracts with customers" -

In accordance with IFRS 15, the Company opted for the modified retroactive approach by which the cumulative effect of the initial adoption of this standard was recognized as an adjustment of the equity opening balances at January 1, 2018. Under this approach the comparative information would not be restated and would continue to be reported in accordance with IAS 18.

Additional performance obligations have been identified other than sales of the major products, including additional goods (spare parts and components), bonuses in spare parts, services and extended guarantees

IFRS 15 requires the revenue obtained from individual goods to be accounted for separately and allocate the individual transaction price to each performance obligation.

Sales of goods are accounted for at a point of time, when the transfer of control to the customers is completed as previously agreed. Conversely, services are recognize continuously over time to the extent the service is rendered to the customer.

This change in accounting approach has had no impact on the Group's equity at January 1, 2018 because there are not services promises that have not been satisfied at these dates involving amounts that are material to the financial statements.

The initial adoption of IFRS 15 has no significant impact on the gross profit at December 31, 2018 as compared to the profit or loss reported under previous accounting standards.

The table below summarizes the impact of the adoption of IFRS 15 and IFRS 9 on the financial statements of the Group at January 1, 2018 and for the year ended December 31, 2018.

Impacts on the Consolidated statement of financial position at December 31, 2018:

	<u>Balances without adoption S/000</u>	<u>Adjustments for IFRS 15 S/000</u>	<u>Adjustments for IFRS 9 S/000</u>	<u>Reported balances S/000</u>
Current assets:				
Trade receivables	1,204,265	-	(9,218)	1,195,047
Deferred income tax, net	194,721	1,088	2,719	198,528
Current liabilities:				
Other payables	(507,869)	(3,687)	-	(511,556)
Equity:				
Retained earnings	<u>551,245</u>	<u>(2,599)</u>	<u>(6,499)</u>	<u>542,147</u>

Impacts on Consolidated statement of income for the year ended December 31, 2018:

	<u>Balances without adoption S/000</u>	<u>Adjustments for IFRS 15 S/000</u>	<u>Adjustments for IFRS 9 S/000</u>	<u>Reported balances S/000</u>
Sales, net	5,212,853	(11,932)	-	5,200,921
Cost of sales	(3,955,301)	8,245	-	(3,947,056)
Gross profit	1,257,552	(3,687)	-	1,253,865
Selling expenses	(570,941)	-	(9,218)	(580,159)
Profit before income tax	369,020	(3,687)	(9,218)	356,115
Income tax	(134,894)	1,088	2,719	(131,087)
Net profit	<u>234,126</u>	<u>(2,599)</u>	<u>(6,499)</u>	<u>225,028</u>

- Other amendments to standards to become effective in future years that are not relevant to the Group's operations -
 - Amendments to IFRS 4, "Insurance contracts" regarding application the IFRS 9, "Financial instruments" with IFRS 4.
 - Amendments to IFRS 2, "Share-based payment" regarding classification and measurement of transactions with share-based payments.
 - Annual improvements, 2014 - 2016 cycle: IFRS 1, "First time adoption of International Financial Reporting Standards" and IAS 28, "Investments in associates and joint ventures" was amended in respect of an investment held by an entity that is a venture capital organization.
 - Amendments to IAS 40, "Investment property" regarding the transfers of investment property.
 - IFRIC 22, "Foreign currency transactions and advance consideration".

The other above-listed amendments to standards and interpretations have had no material impact on the Group's financial statements in prior years or in the current year. In addition, they are not expected to have a significant impact on the financial statements of future years.

New standards and amendments and interpretations effective for the financial statements for annual periods beginning on or after January 1, 2019 and have not been early adopted -

- IFRS 16, “Leases” -

IFRS 16 was issued in 2016 and is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. IFRS 16 introduces a new single lease standard by which assets and liabilities should be recognized for all leases effective for more than twelve months, unless these are low-value assets. Lessees are required to recognize an asset for the right of use of the leased asset and a liability for the obligation to make lease payments. A lessee shall measure the right-of-use asset same way as other non-financial assets are measured (such as items of property, plant and equipment) and a lease liability same way as other financial liabilities are measured.

The Company expects to adopt IFRS 16 using the modified retroactive approach, electing to use the practical expedient by which the same amount of assets and liabilities are stated which the same amount is recognized. Based on its impact assessment, the major effect of the adoption of IFRS 16 on the Company is stating in the consolidated statement of financial position those contracts by which the right of use assets is obtained, mostly comprising operating leases of property and vehicles. The initial adoption of IFRS 16 would result in an increase in assets and liabilities at January 1, 2019 of approximately S/87 million, which mostly consists of machinery and equipment for lease (operating fixed assets) for S/57 million and rentals of property for S/30 million

- IFRIC 23 “Uncertainty over Income Tax Treatments” -

IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12, “Income taxes” are applied, where there is uncertainty over income tax treatments. The IFRS Interpretation Committee had clarified previously that IAS 12, not IAS 37, “Provisions, contingent liabilities and contingent assets”, applies to accounting for uncertain income tax treatments.

IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

Management has not found transactions that are within the scope of this standard.

- Amendments to IAS 28, “Investments in Associates and Joint Ventures” -

This amendment clarifies that an entity applies IFRS 9, “Financial Instruments” to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. An entity has to apply those methods under IFRS prior to applying IAS 28 on the allocation of impairment losses on the asset.

The Group has not made transactions that are within the scope of this amendment to the standard.

- Other amendments to standards to become effective in future years that are not relevant to the Group's operations -
 - Amendment to IFRS 9, "Financial instruments" regarding instruments with an early payment feature.
 - Annual improvements, 2015 - 2017 cycle - amendments to IFRS 3, "Business combinations", IFRS 11, "Joint arrangements", IAS 12, "Income taxes", and IAS 23, "Borrowing costs".
 - IFRS 17, "Insurance contracts".
 - IAS 19, "Employee benefits", regarding amendment, reduction and liquidation of a plan.
 - Amendments of the Conceptual Framework.

These amendments are effective for periods beginning on or after January 1, 2019, except for the Conceptual Framework that applies from January 1, 2020 and IFRS 17, effective from January 1, 2021.

4 FINANCIAL INSTRUMENTS

4.1 Financial instruments by category -

The classification of financial instruments by category is as follows:

	At December 31,	
	2018	2017
	S/000	S/000
Assets according to consolidated statement of financial position -		
Financial assets at amortized cost:		
- Cash and cash equivalents	73,698	80,710
- Trade and other receivables (*)	1,445,725	1,193,473
Assets at fair value through profit or loss:		
- Investments in securities	2,500	-
	1,521,923	1,274,183
Liabilities as per consolidated statement of financial position -		
Other liabilities:		
- Borrowings	1,999,123	1,554,602
- Trade and other payables (*)	882,637	945,585
	2,881,760	2,500,187

(*) It does not include advances nor taxes.

4.2 Credit quality of financial assets -

The credit quality of financial assets that are either past due or impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The credit quality of financial assets is as follows:

	At December 31,	
	2018	2017
	S/000	S/000
Cash and cash equivalents (*)		
Banco de Crédito del Perú S.A. (A+)	20,483	32,189
BBVA Banco Continental S.A. (A+)	12,337	7,571
Banco de la Nación (A)	6,699	5,664
Banco Agrícola S.A. (B+)	5,396	3,142
Citibank N.A. (A+)	3,507	988
Banco Davivienda Salvadoreño, S.A. (A+)	3,125	2,348
Banco Internacional del Perú S.A.A. (A)	2,840	2,087
Scotiabank Perú S.A.A. (A)	2,746	2,577
Banco Industrial, S.A. (BB+)	1,417	2,840
Banco Inter Banco, S.A. (BB+)	1,358	-
Mercantil Commercebank, N.A. (BB+)	1,230	2,144
Banco de América Central S.A. (B+)	763	1,908
Citibank - El Salvador (B+)	721	189
Heritage Bank Plc. - Belize (A+)	516	966
Scotiabank Belize (A)	405	4,089
Scotianbank - El Salvador (B+)	341	860
Banco Santander Perú S.A. (A)	234	101
Banco Interamericano de Finanzas S.A. (A)	24	61
Citibank del Perú S.A. (A+)	17	35
Davivienda - Centroamérica (B+)	-	1,866
Other minors	8,867	8,061
	<u>73,026</u>	<u>79,686</u>
Investments in securities (**)		
Fondos Sura Saf S.A.C. (A)	<u>2,500</u>	<u>-</u>

Credit ratings in the previous chart, "A" and "A+", represent high quality ratings. For banks in Peru, this credit rating are obtained from credit rating agencies authorized by the Peruvian banking and insurance and pension plan regulator, Superintendencia de Banca, Seguros y AFP (SBS, the Spanish acronym).

(*) The remaining cash equivalents in the consolidated statement of financial position correspond to the cash held in "Fixed fund" and "In-transit remittances", see note 5.

(**) On December 31, 2018, an investment agreement was signed with Fondos Sura Saf S.A.C. for S/2,500,000 attached to Fondo SURA Ultra Cash Soles FMIV in local currency by which a number of 19,189.9014277 interest units was obtained in that financial instrument. Management considers that the fair value of that instrument will not result in significant changes to the balances stated in the consolidated financial statements.

The credit quality of customers is evaluated in three categories (internal credit rating):

- A: New customers/related parties (less than 6 months).
- B: Existing customers/related parties (more than 6 months) without no defaults in the past.
- C: Existing customers/related parties (more than 6 months) with some defaults in the past.

Of the accounts that are meeting the contractual terms, there are none that have been renegotiated.

	<u>2018</u> S/000	<u>2017</u> S/000
Trade receivables		
Counterparties with external risk ratings		
A	59,497	4,615
B	1,028,949	1,059,511
C	<u>132,102</u>	<u>46,867</u>
Total trade receivables not impaired	<u>1,220,548</u>	<u>1,110,993</u>
	<u>2018</u> S/000	<u>2017</u> S/000
Other receivables		
Counterparties with external risk ratings		
B	<u>208,219</u>	<u>82,480</u>
Total other receivables not impaired	<u>208,219</u>	<u>82,480</u>

5 CASH AND CASH EQUIVALENTS

(a) This item comprises:

	<u>2018</u> S/000	<u>2017</u> S/000
Fixed fund	594	557
Checking accounts (b)	67,619	57,884
Savings account (b)	1,188	2,199
Time deposit (c)	4,219	19,603
In-transit remittances	<u>78</u>	<u>467</u>
	<u>73,698</u>	<u>80,710</u>

(b) Checking accounts and savings accounts are held in local and foreign banks, in local and foreign currency, are freely available and do not generate interest, except for savings accounts that generate interest at market values.

(c) Time deposits are held in recognized local and foreign banks, are denominated in local and foreign currency, with a maturity of less than 30 days, are freely available and bear market interest rates.

6 TRADE RECEIVABLES, NET

(a) This item comprises:

	<u>2018</u> S/000	<u>2017</u> S/000
Invoices (b)	1,107,057	941,300
Bill of exchange (b)	265,092	312,369
Non-accrued interest	(9,700)	(14,586)
	1,362,449	1,239,083
Less - Estimate for doubtful accounts (d)	(141,901)	(128,090)
	1,220,548	1,110,993
Less:		
Non-current portion	(25,501)	(79,795)
Current portion	<u>1,195,047</u>	<u>1,031,198</u>

- (b) Trade receivable are denominated in local and foreign currency, do not earn interest, except for bills of exchange receivables that accrue an annual interest rate in US dollars at rates ranging from 8.00 and 18.00 percent and in soles at rates ranging from 17.00 and 22.00 percent.

Invoices and bills of exchange correspond mainly to receivables originating from sale of goods to various local and foreign companies. Invoices are usually of current maturity (status of past due and settled) and bills of exchange have original maturities from 30 to 360 days; except for some invoices with original maturities of 420 days that are classified as non-current, in consistency with the overall business strategy and in line with the Group's liquidity risk management, see note 3.3(c.1).

- (c) Ageing of the trade accounts receivable is as follows:

	<u>Unimpaired</u> S/000	<u>Impaired</u> S/000	<u>Total</u> S/000
At December 31, 2018 -			
Not past due:	894,410	5,176	899,586
Past due:			
- Up to 1 month	185,136	1,507	186,643
- From 1 to 3 months	66,967	1,764	68,731
- From 3 to 6 months	29,678	1,356	31,034
- More than 6 months	<u>54,057</u>	<u>132,098</u>	<u>186,155</u>
Total	<u><u>1,230,248</u></u>	<u><u>141,901</u></u>	<u><u>1,372,149</u></u>
At December 31, 2017 -			
Not past due:	860,573	-	860,573
Past due:			
- Up to 1 month	128,478	2,245	130,723
- From 1 to 3 months	55,703	3,864	59,567
- From 3 to 6 months	29,690	102	29,792
- More than 6 months	<u>51,135</u>	<u>121,879</u>	<u>173,014</u>
Total	<u><u>1,125,579</u></u>	<u><u>128,090</u></u>	<u><u>1,253,669</u></u>

- (d) Estimate for doubtful accounts:

The Company applies the IFRS 9 simplified approach to measure the expected credit losses using a expected credit loss allowance over the lifetime of the financial instrument for all accounts receivable.

In measuring the expected credit losses, accounts receivable were grouped considering their shared risk characteristics and the number of past-due days.

The rates of expected credit losses are based on the payment profiles of sales over a 48-month period before December 31, 2018 or January 1, 2018 and the historical credit losses that occur over that period. The historical credit loss rates are adjusted to reflect the current and prospective information about macroeconomic factors that affect customers' ability to settle the Company's trade accounts receivable.

(e) The annual movement of the estimate for doubtful accounts is as follows:

	<u>2018</u> <u>S/000</u>	<u>2017</u> <u>S/000</u>
Opening balance at January 1	128,090	105,229
Adjustment to the opening balance by adoption of IFRS 9, note 3.5	<u>16,854</u>	<u>-</u>
Opening balance at January 1 (re-expressed)	144,944	105,229
Estimate charged to income, note 18	31,014	37,063
Recoveries	(12,680)	(7,904)
Write-off	(24,177)	(3,679)
Effect of translation	<u>2,800</u>	<u>(2,619)</u>
Final balance at December 31	<u><u>141,901</u></u>	<u><u>128,090</u></u>

At December 31, 2018 and 2017, the Group shows approximately S/75 million and S/73 million, respectively (below a 6 percent of the total trade accounts receivable) of trade receivables from the construction industry customers that are part of prosecutorial investigations currently in progress; see note 27(c). During 2018 other companies were included in the above-mentioned investigation, including Group's customers, but which do not show significant past due amounts. Those customers that showed past due balances over 2017 have actually discharged their obligations, except for those balances that were provided for impairment.

Management considers that the provision for doubtful receivables adequately covers the credit risk of these items at December 31, 2018 and 2017.

7 OTHER RECEIVABLES, NET

(a) This item comprises:

	<u>2018</u> <u>S/000</u>	<u>2017</u> <u>S/000</u>
Receivables from sale of investments, net (b)	109,667	-
Income tax credit balance (c)	41,491	62,733
Receivables from Caterpillar (d)	37,664	35,557
Tax withholdings from tax administration	12,266	6,326
VAT credit balance (e)	27,286	27,198
Receivables from personnel	13,582	12,601
Receivables from program of work for taxes (f)	10,112	18,958
Claims to insurance companies and third parties	3,724	2,723
Claims to suppliers	3,274	1,566
Advances to suppliers	3,053	1,047
Security deposit	2,939	2,211
Reimbursement of customs duties and taxes (g)	2,497	4,163
Receivables from Marinazul S.A. (h)	1,704	1,637
Receivables from Fiansa S.A. (i)	-	4,774
Other receivables	<u>26,294</u>	<u>18,073</u>
	295,553	199,567
Less - Provision for doubtful accounts (k)	<u>(2,895)</u>	<u>(2,988)</u>
	292,658	196,579
Less: Non-current portion	<u>(272)</u>	<u>(459)</u>
Current portion	<u><u>292,386</u></u>	<u><u>196,120</u></u>

- (b) At December 31, 2018, this item consists of the balance receivable from third parties from the sale of equity shares of La Positiva Seguros y Reaseguros S.A. for S/102,533,000, see note 9(c) and Transacciones Plurales S.A. for S/7,134,000, see note 9(d). On January 2 and January 4, 2019, the Company received the corresponding sales documentation and cash flows.
- (c) This balance is the income tax on-account payments, which Management considers will be recovered in the normal course of the Group's business.
- (d) At December 31, 2018 and 2017, receivables from Caterpillar include balances related to the recognition of sales of Prime machinery and spare parts during 2018 and 2017. It also includes receivables related to refunds of guarantees agreed with Caterpillar on the sales of machinery. These receivables do not bear interest and are of current maturity.
- (e) The VAT credit balance mainly resulted from purchases of inventories, fixed assets and other expenditures relating to the Group's operations. Management considers the VAT (IGV in Peru) credit balance will be recovered in the normal course of the Group's business.
- (f) At December 31, 2018 and 2017, this balance includes the Group's tax credits resulting from expenses incurred in implementing the following projects in the framework of Law No.29230, which promotes regional and local public investment with participation of the private sector:
- In March 2014, Ferreyros S.A.A. signed an agreement with the Regional Government of Junín by which Ferreyros S.A.A. grants financing through cash contributions and implementation activities for the development of various projects in the region; through the consortium comprising Ferreyros S.A., Empresa Administradora Chungar S.A.C. and Minera Chinalco Perú S.A. with an interest of 45 percent, 45 percent and 10 percent, respectively, to finance a project called "Mejoramiento y ampliación de los servicios de agua potable, alcantarillado y tratamiento de aguas servidas de los Barrios Aguas Calientes, Santa Rosa, Bolognesi, Centro Yauli, Las Brisas, Manuel Montero y San Juan Bautista de Pachachaca, Distrito de Yauli - Junín" for S/3,873,000 (S/3,659,000 in 2017).
 - In April 2016, Ferreyros S.A.A. signed an agreement with the Regional Government of Cusco by which Ferreyros S.A.A. grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2018 this item includes the contributions made by the Company to finance a project called "Mejoramiento y Ampliación del Servicio de Agua Potable y Alcantarillado en la Capital del Distrito de Zurite - Anta - Cusco" for S/192,000 (S/4,592,000 in 2017); and a project called "Ampliación, Mejoramiento del Sistema de Agua Potable, Redes de Alcantarillado y Planta de Tratamiento en la Capital del Distrito de Sangarará, Province of Acomayo - Cusco" for S/456,000 (S/4,708,000 in 2017).
 - In April 2017, Ferreyros S.A.A. signed an agreement with the Regional Government of La Libertad, by which Ferreyros S.A.A. grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2018 this item includes the contributions made by the Company to finance a project called "Mejoramiento del Servicio de Educación Secundaria de la I.E N° 66 Cesar Abraham Vallejo Mendoza - Centro Poblado de Chequen - Distrito de Chepen - Provincia de Chepen - La Libertad" for S/825,000 (S/2,311,000 in 2017); and to finance a project called "Mejoramiento del Servicio Educativo en la I.E No.81605 San Idelfonso - Distrito de Laredo, Provincia de Trujillo - Región La Libertad" for S/1,631,000 (S/3,279,000 in 2017).

- In April 2017, Ferreyros S.A.A. signed an agreement with the Regional Government of Cusco, by which Ferreyros S.A.A. grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2018 this item includes the contributions made through the consortium comprising Ferreyros S.A. and Unión de Cervecerías Peruanas Backus y Johnston S.A. with an interest of 50 percent each to finance a project called “Mejoramiento, Ampliación de los Servicios de Agua Potable y Alcantarillado de la Microcuenca Piuray Corimanca - Distrito de Chinchero - Urubamba - Cusco” for S/504,000 (S/321,000 in 2017).
 - In September 2017, the Company signed an agreement with the Regional Government of Ica by which the Company grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2018 this item includes the contributions made through the consortium comprising Ferreyros S.A. and Fargoline S.A. with interest of 50 each one, to finance a project called “Mejoramiento del Servicio Educativo en AL I.E. Gabino Chacaltana Hernández, District of Pueblo Nuevo, Province and department of Ica” for S/32,000.
 - In March 2017, the Company signed an agreement with the Regional Government of La Libertad by which the Company grants financing through cash contributions and implementation activities for the development of various projects in the region. On May 17, 2018, an addendum was signed comprising S/6,996,000 and from that date, grants were started. At December 31, 2018 this item includes the contributions made through the consortium comprising Ferreyros S.A. and Unimaq S.A. with interest of 50 percent each one, to finance a project called “Mejoramiento de los servicios de educación inicial y primaria de la I.E. N° 80392 Andres Salvador Diaz Sagastegui, district and province of Chepen - La Libertad” for S/2,598,000.
- (g) They consist of refunds of tax and customs duties, for which an application will be presented to Tax Authorities to be actually obtained during the next first half year.
- (h) This receivable consists of a loan given to Domingo Rodas S.A. (a former subsidiary of the Group) for S/5,150,000 in 2008. In 2010, the Group signed an agreement to transfer the capital stock it held in Domingo Rodas S.A. to Marinazul S.A., a subsidiary of a leading business group in the Peru’s agro-industrial sector. As a result of this transaction, the new shareholders recognized the debt payable to the Company, which was refinanced at an annual interest rate of 7.55 percent secured with a mortgage lien. At December 31, 2018, a provision has been recorded for the total balance of that account receivable, which was estimated by Management based on the available information and which is considered reasonable to cover the collection risks.
- (i) On November 23, 2017 the Company sold its interest in Fiansa S.A. to a third party; see note 2(d), as a result, the balance of the receivable it had become a right receivable from a third party, which will be settled during the first quarter of 2018 and on which no specific guarantees were not obtained.
- (j) Ageing of other receivables, net is as follows:

	<u>2018</u> S/000	<u>2017</u> S/000
Current	291,315	192,627
Past due for up to 180 days	784	977
Past due for more than 180 days	<u>3,454</u>	<u>5,963</u>
	<u>295,553</u>	<u>199,567</u>

(k) The annual movement of the provision for doubtful other receivables is as follows:

	<u>2018</u> <u>S/000</u>	<u>2017</u> <u>S/000</u>
Opening balance at January 1	2,988	2,317
Estimate charge to income, note 18	13	64
Write-offs of the year	(198)	(19)
Effect of translation	92	622
Other minors	-	4
Final balance at December 31	<u>2,895</u>	<u>2,988</u>

Management considers that the provision for doubtful other receivables adequately covers the credit risk at December 31, 2018 and 2017, respectively.

8 INVENTORIES, NET

(a) This item comprises:

	<u>2018</u> <u>S/000</u>	<u>2017</u> <u>S/000</u>
Machinery, motors and vehicles	760,788	621,309
Spare parts (b)	681,783	443,695
Workshop services in progress (c)	106,458	103,984
Merchandise	86,927	92,195
Advances to suppliers	42,304	23,985
Other supplies	6,962	4,779
Raw material and packaging material	10	426
Finished products	455	328
Inventories in transit	<u>157,419</u>	<u>155,311</u>
	1,843,106	1,446,012
Less - Provision for impairment of inventories (d)	<u>(70,439)</u>	<u>(52,678)</u>
	<u>1,772,667</u>	<u>1,393,334</u>

(b) It mainly corresponds to spare parts of machines, engines and equipment Caterpillars as well as other as well as other well-known brands sold by the Group to customers; delivery is expected during the first quarter of the following year. At December 31, 2018, the spare parts balance increased by in line with the Group's strategy to keep inventory stocks in sufficient volumes to meet customer demand expected by Management.

(c) It mainly corresponds to the mechanical and repair workshop services that the Group provides to customers (inventories in progress) remaining to be completed on the date of the consolidated statement of financial position.

(d) The annual movement of the provision for impairment of inventories is as follows:

	<u>2018</u> <u>S/000</u>	<u>2017</u> <u>S/000</u>
Opening balance at January 1	52,678	60,131
Provision charged to income, note 17	38,480	28,671
Transfer from fixed assets	2,622	8,106
Destruction of spare parts and others	(8,827)	(7,013)
Transfer to fixed assets	(171)	(7,423)
Recoveries, note 17	(11,799)	(29,122)
Effect of translation	(2,544)	(672)
Final balance at December 31	<u>70,439</u>	<u>52,678</u>

The provision for impairment of inventories is determined based on levels of inventory turnover and other characteristics, based on periodic evaluations conducted by Management and the technical and financial areas. Group's Management considers the balance of this estimate adequately covers the risk of impairment of inventories at December 31, 2018 and 2017.

9 INVESTMENT IN ASSOCIATES AND JOINT VENTURE

(a) This item comprises:

	<u>Main activity</u>	<u>Percentage of interest in capital</u>		<u>Carrying amount</u>	
		<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
		<u>%</u>	<u>%</u>	<u>S/000</u>	<u>S/000</u>
Common shares in associates (b):					
La Positiva Seguros y Reaseguros S.A.(c)	Insurance	-	14.96	-	69,592
La Positiva Vida Seguros y Reaseguros S.A.	Insurance	2.10	2.10	10,465	10,465
Joint venture (b):					
Ferrenergy S.A.	Power generation and distribution	50.00	50.00	12,777	12,286
Other investments:					
Other minor investments (d)	Others			<u>559</u>	<u>854</u>
				<u>23,801</u>	<u>93,197</u>
Current portion				10,465	80,057
Non-current portion				<u>13,336</u>	<u>13,140</u>
				<u>23,801</u>	<u>93,197</u>

(b) The Group has recognized a total profit of approximately S/1,068,000 (S/7,708,000 at December 31, 2017), within the item "Share of the profit of associates and joint venture" in the consolidated statement of income, in accordance with the policy described in note 3.3(b).

(c) On November 27, 2018 a Board Meeting was held in which the decision was made for the Company to take part in the Tender Offer ("Oferta Pública de Adquisición - OPA", in Peru) directed to all holders of equity shares of La Positiva Seguros y Reaseguros S.A., by which, FID Perú S.A. ("the offering investors") would pay S/1.80 per share to be acquired this OPA. In December 2018, the Company served noticed of acceptance within the required period of time and submitted the respective acceptance letters, giving instructions to its stock brokers ("Sociedades Agentes de Bolsa", in Peru) to actually sell its shareholding of 56,962,727. As a result of this transaction, the Company reported gross revenue of S/102,533,000, see note 7(b), of which the related commissions and expenses for S/138,000 were discounted, for a net profit of S/31,002,000, as recognized in the consolidated statement of income within "Other income and expenses, net".

- (d) On December 28, 2018 the Company sold its interest in Transacciones Plurales S.A. for S/7,134,000 to a third party. This transaction resulted in pre-tax profits of S/6,282,000, as recognized in in the consolidated statement of income within "Other income and expenses, net"

These are the figures of the financial statements of La Positiva Seguros y Reaseguros S.A., La Positiva Vida Seguros y Reaseguros S.A. and Ferrenergy S.A. a December 31, 2018 and 2017:

	La Positiva Seguros y Reaseguros S.A.		La Positiva Vida Seguros y Reaseguros S.A.		Ferrenergy S.A.	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	S/000	S/000	S/000	S/000	S/000	S/000
	Unaudited		Unaudited		Unaudited	
Statement of financial position:						
Total assets	1,553,245	1,517,048	3,990,945	3,653,769	62,238	26,420
Total liabilities	1,089,959	1,050,581	3,468,881	3,154,469	36,683	2,615
Equity	463,286	466,467	522,064	499,300	25,555	23,805
Statement of income:						
Total income	631,269	505,534	335,309	326,691	12,076	8,799
Operating profit	25,423	60,122	34,060	52,542	2,515	2,944
Net profit	27,329	43,169	34,060	52,542	1,865	295

10 PROPERTY, PLANT AND EQUIPMENT, NET

(a) This item comprises:

Description	2018							2017	
	Land S/000	Buildings and other constructions S/000	Plant and equipment S/000	Plant and fleet equipment for rent S/000	Vehicles S/000	Furniture and fixtures S/000	Work in progress S/000	Total S/000	Total S/000
Cost -									
Balance at January 1	662,635	403,176	364,811	407,654	35,807	120,534	23,468	2,018,085	2,116,027
Additions	2,114	5,217	14,883	55,855	5,344	5,344	20,836	109,593	157,208
Withdrawals and/or sales	(24)	(19,521)	(6,910)	(10,544)	(5,262)	(410)	(78)	(42,749)	(116,241)
Sale of subsidiary, see note 2(d)	-	-	-	-	-	-	-	-	(56,276)
Revaluation reversal (b)	(35,689)	-	-	-	-	-	-	(35,689)	(15,319)
Transfer of inventories	-	-	49,060	135,486	189	2,039	-	186,774	188,473
Transfer to inventories	-	-	(28,940)	(179,261)	(256)	(367)	-	(208,824)	(252,310)
Other transfers	(72)	10,938	12,089	40,544	183	(45,515)	(18,575)	(408)	(558)
Effect of translation	533	471	(150)	(4,545)	52	1,099	(1)	(2,541)	(2,919)
Balance at December 31	<u>629,497</u>	<u>400,281</u>	<u>404,843</u>	<u>445,189</u>	<u>36,057</u>	<u>82,724</u>	<u>25,650</u>	<u>2,024,241</u>	<u>2,018,085</u>
Accumulated depreciation -									
Balance at January 1	-	111,441	218,576	105,406	17,856	96,130	-	549,409	586,564
Additions	-	16,642	35,682	53,245	4,092	5,851	-	115,512	110,174
Withdrawals and/or sales	-	(14,934)	(5,432)	(8,905)	(4,737)	(239)	-	(34,247)	(56,719)
Sale of subsidiary, see note 2(d)	-	-	-	-	-	-	-	-	(22,596)
Transfer of inventories	-	-	-	(28)	-	120	-	92	-
Transfer to inventories	-	87	(10,914)	(51,651)	(80)	-	-	(62,558)	(66,531)
Other transfers	-	(264)	(1,521)	40,972	40	(41,365)	-	(2,138)	(9)
Effect of translation	-	84	(96)	(887)	144	316	-	(439)	(1,474)
Balance at December 31	<u>-</u>	<u>113,056</u>	<u>236,295</u>	<u>138,152</u>	<u>17,315</u>	<u>60,813</u>	<u>-</u>	<u>565,631</u>	<u>549,409</u>
Provision for impairment -									
Balance at January 1	-	(17)	595	3,555	-	-	-	4,133	4,567
Additions	-	-	-	1,876	-	-	-	1,876	1,076
Sale of subsidiary	-	-	(22)	-	-	-	-	(22)	(827)
Transfer of inventories	-	-	-	171	-	-	-	171	7,423
Transfer to inventories	-	-	-	(2,622)	-	-	-	(2,622)	(8,106)
Balance at December 31	<u>-</u>	<u>(17)</u>	<u>573</u>	<u>2,980</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,536</u>	<u>4,133</u>
Net carrying amount	<u>629,497</u>	<u>287,242</u>	<u>167,975</u>	<u>304,057</u>	<u>18,742</u>	<u>21,911</u>	<u>25,650</u>	<u>1,455,074</u>	<u>1,464,543</u>

- (b) In 2018, the Group performed a review of the commercial value of its land properties, which were shown at the revalued cost in 2017 based on independent appraisals conducted in 2015, and concluded that it is significantly lower than their current carrying amounts. In this sense, the Group reduced the carrying amount of land in S/35,689,000, to present them at the revalued cost as per independent appraisals for fiscal 2018. In addition, it recognized the associated deferred income tax liability of S/10,528,000.
- (c) In 2018, the Group sold and write off fixed assets for a total carrying amount of S/2,983,000 and S/5,519,000, respectively (S/56,656,000 and S/2,866,000, respectively, in 2017). The Group obtained profits of S/3,332,000 (S/21,941,000 in 2017) from the disposal of fixed assets, as shown within "Other income and expenses, net" in the consolidated statement of income. In 2018, major sales consisted of machinery and equipment, furniture and laptops; and major write-offs consisted of machinery and equipment, and obsolete computer equipment. In 2017, major sales consisted of laptops, furniture and fixtures, and vehicles; and major write-offs consisted of obsolete technology equipment and missing items arising from the physical count.
- (d) At December 31, 2018, the balances of work in progress mainly consist of expenses incurred by subsidiary Ferreycorp S.A.A. in implementing the Project involving a warehouse attached to Fargoline located in Punta Negra for S/10,310,000 (S/11,871,000 in 2017); as well as other extension and general reconditioning work for S/8,564,000 (S/4,625,000 in 2017); at December 31, 2017 this item also included cash outflows incurred by subsidiary Ferreyros S.A. for the last facilities and equipment for the new workshop of the center to repair components (CRC, the Spanish acronym) located in La Joya - Arequipa for S/5,084,000 as well as work on the new premises in Ica for S/1,692,000.
- (e) At December 31, 2018 and 2017, the Group has insurance policies to cover all its assets. Management considers its insurance policies are consistent with the international practice in the industry, and therefore, the risk of eventual losses from the risks covered by the insurance policy is reasonable considering the kind of assets owned by the Group.
- (f) During 2018, rental income amounted to approximately S/181,703,000 (S/169,324,000 at December 31, 2017), which are related to the rental of machinery and fleet equipment. This rental income is included in "Net sales" in the consolidated statement of income.
- (g) For the years ended December 31 2018 and 2017, the depreciation expense was recorded in the following items of the consolidated statement of income:

	<u>2018</u> S/000	<u>2017</u> S/000
Cost of sales, note 17	54,387	56,205
Selling expenses, note 18	46,410	40,672
Administrative expenses, note 19	<u>14,715</u>	<u>13,297</u>
	<u>115,512</u>	<u>110,174</u>

- (h) At December 31, 2018 and 2017, Management evaluated the condition of its property, plant and equipment and found no indications of impairment of those assets.
- (i) At December 31, 2018 and 2017, the Group maintains mortgages on some of its properties for US\$8,420,000, given to financial entities to secure repayment of borrowings.

11 INTANGIBLE ASSETS, NET AND GOODWILL

(a) This item comprises:

	2018					2017				
	Relationship with customers S/000	Trademark right S/000	Distribution agreement S/000	Software S/000	Right to use S/000	Relationship with suppliers S/000	Non-competition agreement S/000	Others S/000	Total S/000	Total S/000
Cost -										
Opening balance at January 1	63,184	8,801	11,709	91,244	17,552	2,640	4,950	5,688	205,768	166,775
Additions (c)	-	-	-	73,016	-	-	-	348	73,364	40,259
Retirement and transfers	(5,591)	-	-	(195)	-	-	-	(270)	(6,056)	(912)
Effect of translation	177	47	474	(4)	-	(209)	(17)	10	478	(354)
Balance at December 31	<u>57,770</u>	<u>8,848</u>	<u>12,183</u>	<u>164,061</u>	<u>17,552</u>	<u>2,431</u>	<u>4,933</u>	<u>5,776</u>	<u>273,554</u>	<u>205,768</u>
Amortization -										
Opening balance at January 1	42,397	349	5,656	27,851	17,552	167	2,639	3,323	99,934	85,755
Additions (d)	8,049	145	1,218	7,022	-	62	1,005	159	17,660	16,019
Retirement and transfers	(5,591)	-	-	-	-	-	-	(270)	(5,861)	(294)
Effect of translation	138	14	229	1	-	(13)	(33)	10	346	(1,546)
Balance at December 31	<u>44,993</u>	<u>508</u>	<u>7,103</u>	<u>34,874</u>	<u>17,552</u>	<u>216</u>	<u>3,611</u>	<u>3,222</u>	<u>112,079</u>	<u>99,934</u>
Net carrying amount	<u>12,777</u>	<u>8,340</u>	<u>5,080</u>	<u>129,187</u>	<u>-</u>	<u>2,215</u>	<u>1,322</u>	<u>2,554</u>	<u>161,475</u>	<u>105,834</u>

(b) Relationships with customers, trademark rights, distribution agreement, purchase orders, rights of use, relationship with suppliers and non-competition agreement are the major intangible assets acquired through various business combinations, see note 2.

At December 31, 2018 and 2017, Management prepared and reviewed the projected cash flows expected from the cash-generating units to which these assets were allocated and verified that there is no evidence that the recoverable amounts of the intangible assets (trademark) are lower than their carrying amounts.

(c) At December 31, 2018, computer programs and business solutions (software) mainly consisted of the associated costs that are directly attributable to the design and testing of the project called "SAP Business Project" for S/69,225,000 (S/38,212,000 at December 31, 2017), which is expected to be completed in the second half of 2019; this balances also include licensing costs of computer programs acquired that are capitalized based on the costs incurred for S/3,180,000 (S/3,331,000 at December 31, 2017).

(d) Amortization expense for the year was recorded in the following items of the consolidated statement of income:

	<u>2018</u> <u>S/000</u>	<u>2017</u> <u>S/000</u>
Cost of sales, note 17	83	33
Selling expenses, note 18	7,956	6,950
Administrative expenses, note 19	<u>9,621</u>	<u>9,036</u>
	<u>17,660</u>	<u>16,019</u>

(e) A breakdown of "Goodwill" by cash-generating unit is as follows.

	<u>2018</u> <u>S/000</u>	<u>2017</u> <u>S/000</u>
Ferreyros S.A. (Bucyrus)	83,396	83,396
Inversiones Interamericanas Corp.	54,346	53,852
Trex Latinoamérica SpA	19,341	19,341
Soltrak S.A.	13,912	13,912
Ferreycorp S.A.A. (Soltrak S.A.)	<u>5,292</u>	<u>5,292</u>
Total	<u>176,287</u>	<u>175,793</u>

Impairment testing of goodwill and intangible assets -

For purposes of impairment test, goodwill acquired through business combinations and intangible assets with indefinite useful lives (trademarks) was allocated to the following cash-generating units:

- Trex Latinoamérica SpA (included in Ferreycorp S.A.A.)
- Business line "Bucyrus" (included in Ferreyros S.A.)
- Inversiones Interamericanas Corp. - INTI (include business line and companies acquired in Central América)
- Soltrak S.A.

The recoverable amount of each cash-generating unit (CGU) has been determined on the basis of its value in use or estimated fair value, using projections of cash flows obtained from the approved financial budgets by the senior Management, which cover a determined period.

At December 31, 2018 and 2017, the carrying amount of intangible assets and goodwill allocated to each CGU has been compared to the recoverable amount. Management has determined that it is not necessary to record an impairment provision for these assets at the date of the consolidated statement of financial position.

Major assumptions used in impairment testing by each CGU, at December 31, 2018 and 2017 is as follows:

CGU	Carrying amount of net assets S/000	Recoverable amount S/000	Discount rate %	Cash flow period (years)	Growth rate %
Year 2018:					
Bucyrus	88,846	286,090	9.5%	10	2.0%
Inti	54,892	414,938	10.6%	10	2.0%
Trex	24,846	148,643	10.0%	10	2.0%
Soltrak S.A.	17,727	146,247	9.4%	10	3.0%
Year 2017:					
Bucyrus	95,646	206,306	10.5%	10	2.0%
Inti	59,718	424,007	10.9%	10	2.0%
Trex	26,630	150,072	10.0%	10	2.0%
Soltrak S.A.	17,144	184,719	10.5%	10	3.0%

Key assumptions used in value-in-use calculations -

The calculation of value in use for the units evaluated is mainly sensitive to the following assumptions:

Gross margin -

This assumption is based on the average value obtained over the three years preceding the beginning of the budget period and future projects of each Group company, based on the projected revenue and expenses in relation with the historical budget base of each Group company. Also considered in this assumption are increases that occurred during the budget period resulting from expected efficiency improvements. Over the long term, the gross margin is reduced by 1 to 2 per cent, depending on the nature of the line of business or activities.

Discount rate -

The discount rate represents the current market assessments of the risks specific to each cash-generating unit, considering the time value of money and the risks associated with the underlying assets that were not included in the cash flow estimations. The calculation of the discount rate is based on the Group's specific circumstances and those of its operating segments and represents the weighted average cost of capital. This average cost considers both debt and equity. The cost of capital is based on the return on investment that Company's shareholders expect to obtain. The cost of debt consists of the borrowings bearing interest that are payable by the Group. The segment-specific risk is included by applying individual beta factors. Beta factors are assessed on an annual basis against the market information that is available to the public.

Long-term growth rate -

The long-term growth rate is based on published market research and depends on each CGU.

Key assumptions described above can change if market conditions and economy change. The Group estimates that changes in these assumptions that would be reasonable to expect, would not cause the recoverable amount of some CGUs to fall below their carrying amount.

At December 31, 2018 and 2017, the carrying amount of goodwill related to each CGU has been compared to the recoverable amount and Management has determined that it is not necessary to record a provision for impairment.

12 BORROWINGS

(a) This item comprises:

	<u>2018</u>			<u>2017</u>		
	<u>Current portion</u> S/000	<u>Non-current portion</u> S/000	<u>Total</u> S/000	<u>Current portion</u> S/000	<u>Non-current portion</u> S/000	<u>Total</u> S/000
Bank loans (b)	440,691	-	440,691	592,628	-	592,628
Bonds and long-term debt with banks (c)	<u>347,995</u>	<u>1,210,437</u>	<u>1,558,432</u>	<u>224,211</u>	<u>737,763</u>	<u>961,974</u>
	<u>788,686</u>	<u>1,210,437</u>	<u>1,999,123</u>	<u>816,839</u>	<u>737,763</u>	<u>1,554,602</u>

(b) Bank loans -

<u>Financial entity</u>	<u>Annual average effective fixed interest rate</u>		<u>Original currency</u>	<u>2018</u> S/000	<u>2017</u> S/000
	<u>2018</u> %	<u>2017</u> %			
Banco Crédito del Perú S.A.A. - BCP	Between 2.06 and 5.00	Between 1.10 and 2.50	US\$	94,761	234,667
Scotiabank Perú S.A.	Between 2.95 and 3.31	Between 1.35 and 2.00	US\$	89,662	28,432
Banco Crédito del Perú S.A.A. - BCP	Between 3.35 and 7.00	Between 3.80 and 3.95	S/	73,601	78,325
Banco Itau Corpbanca New York.	2.95	-	US\$	67,580	-
Banco Internacional del Perú - Interbank	Between 2.45 and 5.00	1.58	US\$	31,069	22,715
Banco Itau Chile.	Between 5.00 and 6.00	-	US\$	16,895	-
BCI	4.00	4.90	US\$	16,160	2,639
Banco ICBC Banc Perú	Between 3.26 and 3.53	-	US\$	13,516	-
Interbanco	Between 3.75 and 4.50	3.75	US\$	6,786	1,298
Banco de América Central - Guatemala y El Salvador	5.75	-	Quetzal	6,089	-
Banco de América Central - Guatemala y El Salvador	4.10	4.10	US\$	5,913	2,434
Banco Agromercantil	5.75	5.75	Quetzal	5,241	939
BCI	5.00	-	CLP	5,236	-
BBVA Banco Continental S.A.	4.15	-	S/	3,200	-
Banco Agrícola	4.00	4.00	US\$	2,534	4,868
Banco Santander del Perú	6.85	-	S/	2,391	-
BBVA Banco Continental S.A.	3.58	Between 0.90 and 1.95	US\$	57	185,776
Banco Interamericano de Finanzas - Banbif	2.85	Between 1.87 and 1.92	US\$	-	9,640
Scotiabank Perú S.A.	Between 3.35 and 4.13	3.95	S/	-	7,500
Bancolombia	2.06	2.06	US\$	-	6,977
GNB	Between 2.85 and 3.00	2.30	US\$	-	2,725
Banco Santander - Perú	6.85	6.85	S/	-	2,238
Banco Santander - Chile	7.00	7.00	CLP	-	805
Banco Lafinese Bancentro	8.00	8.00	US\$	-	650
				<u>440,691</u>	<u>592,628</u>

US\$ = US dollars

S/ = Peruvian sol

CLP = Chilean peso

Q = Quetzal

Interest expense accrued over the year ended December 31, 2018 on debts with banks, amounted to approximately S/35,079,000 (S/26,952,000 at December 31, 2017), and is presented in "Financial expenses" of the consolidated statement of income, see note 22. At December 31, 2018 accrued interest outstanding amounted to approximately S/9,655,000 (S/1,965,000 at December 31, 2017), see note 14.

At December 31, 2018 and 2017, foreign currency bank loans obtained from local and foreign financial institutions were used primarily for working capital; they expire between 6 and 360 days, and can be renewed at maturity date and up to 360 days. Interest rates on such bank loans fluctuate between 0.70 and 8.00 percent.

At December 31, 2018, the Group has credit lines for working capital for a total of up to S/3,270,872,000 (S/4,200,905,310 at December 31, 2017) with most banks in the Peruvian financial system, which are used for short-term financing. The Group is not subject to specific conditions to use such credit line.

(c) Bonds and long-term debts with banks -

Creditor	Maturity date	Original currency	Annual effective interest rate	2018			2017		
				Current portion	Non-current portion	Total	Current portion	Non-current portion	Total
		%		S/000	S/000	S/000	S/000	S/000	S/000
Ferreycorp S.A.A. bonds -									
Corporate bonds - Regla 144 A (i)	Until April 2020	US\$	4.934(*)	-	337,900	337,900	-	324,500	324,500
Promissory notes -									
Caterpillar Financial	Until August 2021	US\$	Between 5.08 and 5.25	20,787	38,937	59,724	19,259	56,811	76,070
Caterpillar Leasing Chile	Until June 2019	US\$	3.09	7,611		7,611	14,285	7,309	21,594
Caterpillar Crédito S.A. de C.V.	Until January 2023	US\$	Between 4.65 and 6.80 Libor 6 m +3.8%	23,827	60,019	83,846	19,656	56,724	76,380
Promissory notes with local and foreign institutions	Until July 2022	S/	Between 3.95 and 6.85	4,539	12,346	16,885	11,708	5,676	17,384
Promissory notes with local and foreign institutions (ii)	Until November 2024	US\$	Between 2.58 and 5.90	283,679	750,817	1,034,496	144,193	270,418	414,611
Promissory notes with local and foreign Institutions	Until April 2021	Q	Between 2.75 and 6.50	5,218	6,817	12,035	11,705	12,386	24,091
Financial leasing (iii)	Until April 2023	US\$	Between 3.50 and 11.50	2,334	3,601	5,935	3,405	3,939	7,344
				<u>347,995</u>	<u>1,210,437</u>	<u>1,558,432</u>	<u>224,211</u>	<u>737,763</u>	<u>961,974</u>

(*): Nominal rate of 4.875 percent.

US\$ = US dollars

S/ = Peruvian sol

Q = Quetzal

At December 31, 2018 the accrued interest expense related to the promissory notes and long-term debt obligations amounted to approximately S/32,829,000 (S/43,498,000 at December 31, 2017), which are shown in "Financial expenses" in the consolidated statement of income, see note 22.

At December 31, 2018 the accrued interest outstanding amounted to approximately S/6,997,000 (S/4,802,000 at December 31, 2017) and is presented in "Other payables" in the consolidated statement of financial position, see note 14.

- (i) On April 19, 2013, the first issuance of the Group's international corporate bonds was performed, with The Bank New York Mellon acting as trustee. The issuance of bonds was conducted under the provisions of Rule 144A and Regulation S of the U.S. Securities Act of 1933, and consisted of a public offering directed to institutional investors in Peru. Such bond issue was for a total of US\$300 million (equivalent to S/834,900,000 million at that date) at a nominal annual interest rate of 4.875 percent (equivalent to 4.934 percent effective annually) and a term of 7 years with maturity date on April 24, 2020. Total amortization of bonds will be on the maturity date. The capital raised was used to repay debt and for corporate general purposes.

Bonds are secured with a general guarantee on the equity of Ferreycorp S.A.A and the following covenants must be met:

- Maintain an indebtedness ratio (total consolidated debt / EBITDA) no greater than 3.5 times.
- Maintain a debt coverage service ratio (EBITDA / Interest) no less than 3.0 times.

Compliance with the above-described ratios are monitored by Management and validated by the representative of the bondholders. In the event of non-compliance, an early termination event will triggered. Management considers that Ferreycorp S.A.A. has complied with these covenants at December 31, 2018 and 2017.

On May 25, 2016, the Company announced the beginning of a private offering for the Repurchase of Bonds (tender offer) for a maximum nominal amount of US\$120,000,000 million (equivalent to S/403,200,000), together with a process to obtain consent of the bondholders for compliance with certain terms to carry out the financing of the repurchase. On June 23, 2016, the final results of the bond repurchase private offering were announced, and the consent was obtained to carry out the financing for US\$120,000,000 (equivalent to S/393,900,000) and the acceptance of the repurchase offering for US\$119,100,000 million, paying 99.25 percent of its nominal value, generating net profits of US\$900,000, which includes a total amount for the repurchase of bonds for US\$123,827,000, net of expenses incurred of US\$4,727,000 (equivalent to S/15,516,000), recognized in "Financial expenses", see note 22. In addition, during 2016, other bonds repurchases were completed for a total of US\$17,567,000, equivalent to S/60,260,000.

On October 11, 2017 the Company informed the Trustee of its intention to partially redeem the corporate bonds still outstanding (call option) as a way to reduce the Company's financial expenses and arrange its debt profile to more favorable terms, with higher financial flexibility and for the Company to be more adaptable to potential adverse changes in the global economic conditions. On November 28, 2017 a partial redemption was completed under the bond issuance contract terms at a total par value of US\$62,333,000 (approximately S/201,834,000 at that date) actually paying 102.438 percent of its nominal value, resulting in a net amount of US\$1,523,000 (equivalent to S/4,925,000).

At December 31, 2018 the principal balance of bonds for US\$100,000,000 equivalent to S/337,900,000 (US\$100,000,000 equivalent to S/324,500,000 at December 31, 2017) is presented net of directly related costs.

- (ii) On June 28, 2018, the Company signed a loan agreement with BBVA Banco Continental S.A.A. for up to US\$30,000,000, without specific guarantees and for an original term of three (3) years. On November 14, 2018 the first addendum to the agreement was signed to convert that financing into a loan known as "Préstamo Verde" (Green Loan) signed between the Company and some of its subsidiaries as Co-debtors and the financial institution as Sustainable Agent for a total amount of US\$50,000,000, and by which, the interest rate on the loans would be reduced or increased in proportion to sustainability scoring (ESG Performance). On November 21, 2018, a second addendum was signed to the agreement to extent the financing amount by US\$20,000,000.

- (iii) These are the lease agreements entered into by the Group with different financial institutions. Borrowings related to leases are secured with the ownership rights on the leased asset, which is returned to the lessor in the event of default by the Group.
- (iv) At December 31, 2018 and 2017, the amortization schedule for the non-current portion of the long-term debt is as follows:

	<u>2018</u> S/000	<u>2017</u> S/000
2019	-	128,006
2020	674,721	442,887
2021	287,413	92,806
2022	160,702	71,060
2023 onwards	87,601	3,004
	<u>1,210,437</u>	<u>737,763</u>

13 TRADE PAYABLES

- (a) This item comprises:

	<u>2018</u> S/000	<u>2017</u> S/000
Invoices (b)	507,821	526,116
Bill of exchange (b)	52,618	75,818
	<u>560,439</u>	<u>601,934</u>

- (b) At December 31, 2018, the invoice balances and bills of exchange payable mainly include payables to the Caterpillar Group for approximately S/167,495,000 and S/50,863,000, respectively (equivalent to US\$49,574,000 and US\$15,053,000, respectively). At December 31, 2017, invoices and bills of exchange payable amounted to approximately S/173,917,000 and S/69,428,000, respectively (equivalent to approximately US\$53,595,000 and US\$21,395,000, respectively). These payables have current maturity; no specific guarantees have been granted and they are not interest-bearing.

14 OTHER PAYABLES

- (a) This item comprises:

	<u>2018</u> S/000	<u>2017</u> S/000
Advances from clients (b)	155,339	70,861
Provision for other services (c)	62,724	45,572
Remunerations payable (d)	86,945	95,432
Liabilities from other expenses (e)	75,693	88,865
Workers' profit sharing	35,820	33,244
Taxes payable	34,053	12,171
Provision of guarantees (f)	13,122	15,884
Provision for contingencies, note 24(c)	14,426	14,459
Labor-related contributions payable	16,816	13,850
Interest payable, note 12(b) and (c)	16,652	6,767
	<u>511,590</u>	<u>397,105</u>
Less:		
Non-current portion	(34)	(369)
Current portion	<u>511,556</u>	<u>396,736</u>

Most of these items have current due dates, they are not interest-bearing and no specific guarantees have been given.

- (b) Advances from customers mainly consist of advances received for S/143,078,000 (S/70,861,000 in 2017) and new performance obligations identified under IFRS 15 "Revenue from contracts with customers" for S/12,261,000; in respect of sales of goods and services mainly from mining customers, which will be delivered during the first half of the following year.
- (c) This item mainly includes provisions for freight and rents related to the acquisition of machinery and spare parts.
- (d) Remunerations payable mainly include provisions for vacation periods, statutory bonuses, employees' severance indemnities and other staff indemnities.
- (e) This balance mainly comprises sundry provisions recognized by the Group in accordance with the practice described in note 3.3(p), based on its best estimates of the disbursement that would be required to settle general expenses at the date of the consolidated statement of financial position.
- (f) It relates to guarantees granted by the Group for sales of machinery and services, with an average of one year. Such provision is reviewed annually in accordance with the policy described in note 3.3(p).

15 DEFERRED INCOME TAX ASSETS AND LIABILITIES, NET

This item comprises:

	At December 31,	
	2018	2017
	S/000	S/000
Deferred tax assets:		
Expected reversal in the next 12 months	7,273	15,599
Expected reversal after 12 months	<u>191,255</u>	<u>174,520</u>
	<u>198,528</u>	<u>190,119</u>
Deferred tax liabilities:		
Expected reversal in the next 12 months	(6,571)	(8,818)
Expected reversal after 12 months	<u>(183,380)</u>	<u>(188,067)</u>
	<u>(189,951)</u>	<u>(196,885)</u>
Total deferred tax assets (liabilities), net	<u>8,577</u>	<u>(6,766)</u>

(a) Components that give rise to the deferred income tax asset and liability at December 31, 2018 and 2017:

	At January 1, 2017 S/000	(Charge)/payment to consolidated statement of income S/000	(Charge)/payment to consolidated statement of changes in equity S/000	At December 31, 2017 S/000	(Charge)/payment to consolidated statement of income S/000	(Charge)/payment to consolidated statement of changes in equity S/000	At December 31, 2018 S/000
Deferred assets:							
Non-deductible provisions	33,667	(998)	(3)	32,666	(4,791)	(5)	27,870
Differences in depreciation rates	67,628	5,577	-	73,205	4,516	-	77,721
Estimate for doubtful accounts	15,112	5,427	-	20,539	6,144	447	27,130
Provision for vacations	10,783	1,466	9	12,258	700	13	12,971
Tax credits for losses carry-forward	33,584	(20,729)	-	12,855	(2,602)	(1)	10,252
Estimate for impairment of investments and fixed assets	311	1,404	21	1,736	87	(558)	1,265
Estimate for impairment of inventories	19,007	(5,908)	(31)	13,068	6,376	(1,190)	18,254
Other provisions	5,888	3,189	(13)	9,064	2,122	-	11,186
Others	11,937	2,701	90	14,728	1,205	(4,054)	11,879
	<u>197,917</u>	<u>(7,871)</u>	<u>73</u>	<u>190,119</u>	<u>13,757</u>	<u>(5,348)</u>	<u>198,528</u>
Deferred liabilities:							
Change of useful life of fixed assets related with inventories and fixed assets	(3,068)	141	7	(2,920)	2,405	5	(510)
Sales deferred earnings, net	(336)	63	-	(273)	257	-	(16)
Leasing transactions	(1,501)	(105)	-	(1,606)	(347)	-	(1,953)
Provision for indemnities	(7,033)	706	(48)	(6,375)	(218)	1,925	(4,668)
Revaluation of property, plant and equipment	(1,554)	(141)	16	(1,679)	1,188	20	(471)
Fair value of lands	(7,592)	299	49	(7,244)	(2,571)	3	(9,812)
Differences in depreciation rates	(154,100)	19,836	20	(134,244)	13,411	(23)	(120,856)
Valuation by business acquisition, net	(29,676)	(2,604)	-	(32,280)	(5,748)	570	(37,458)
Others	(1,474)	-	1,126	(348)	728	-	380
	<u>(11,890)</u>	<u>(1,960)</u>	<u>14</u>	<u>(9,916)</u>	<u>(4,651)</u>	<u>(20)</u>	<u>(14,587)</u>
	<u>218,224</u>	<u>20,155</u>	<u>1,184</u>	<u>(196,885)</u>	<u>4,454</u>	<u>2,480</u>	<u>(189,951)</u>
Deferred liabilities, net	<u>(20,307)</u>	<u>12,284</u>	<u>1,257</u>	<u>(6,766)</u>	<u>18,211</u>	<u>(2,868)</u>	<u>8,577</u>

During 2018, the use of the tax loss carryforwards are mainly related to Ferreycorp S.A.A. that arose from the sales to a third party of shares held in associate La Positiva Seguros y Reaseguros S.A. for S/11,581,000, see note 9(c); amount that is calculated based on the tax cost of the investment. Also, the reduction in the income tax on the revaluation surplus of land properties in 2018 mainly relate to Ferreycorp S.A.A. and Fargoline S.A. as a result of a reversal of the surplus because of the evaluation of fair value.

During 2017, the use of the tax loss carryforwards are mainly related to Motored S.A. that arose from the profits obtained on the sale of certain sales stores facilities for a total S/8,980,000 and related to Ferreycorp S.A.A. arising from sales to a third party of shares held in subsidiary Fiansa S.A. for a total S/2,217,000, see note 2(d). Also, the reduction in the income tax on the revaluation surplus of land properties in 2017 mainly relate to Motored S.A. as a result of a reversal of the surplus because of the sale of certain sales stores, and to Trex Latinoamérica SpA, relating to prior-year adjustments and the above-mentioned sales of shares.

(b) Income tax expense stated in the consolidated statement of income comprises the following:

	<u>2018</u> <u>S/000</u>	<u>2017</u> <u>S/000</u>
Current	149,298	136,063
Deferred	(18,211)	(12,284)
Others (*)	-	(3,598)
Income tax expense	<u>131,087</u>	<u>120,181</u>

(*) At December 31, 2017, it comprise the adjustment for prior-year deferred and current income tax for S/3,040,000 and S/558,000, respectively.

(c) The table below shows the reconciliation of the income tax effective rate with tax rate:

	<u>At December 31, 2018</u>		<u>At December 31, 2017</u>	
	<u>S/000</u>	<u>%</u>	<u>S/000</u>	<u>%</u>
Accounting profit before income tax	356,115	100	387,194	100.00
Theoretical profit tax according to tax rate (*)	105,054	29.50	114,222	29.50
Tax-exempt income from interest in associates and joint venture	(1,068)	(0.30)	(7,708)	(1.99)
Non-deductible expenses, net	27,101	7.61	16,707	4.32
Net effect of non-deductible expenses: Adjustment of prior years	-	-	(3,040)	(0.79)
Income tax expense	<u>131,087</u>	<u>36.81</u>	<u>120,181</u>	<u>27.05</u>

16 EQUITY

(a) Share capital -

At December 31, 2018 and 2017, the Company's issued capital is represented for 975,683,000 common shares entirely subscribed and paid-in with at S/1.00 par value each.

Price per share and trade frequency were as follows:

	<u>Price per share</u> S/	<u>Trade frequency</u> %
At December 31, 2018	2.54	100.00
At December 31, 2017	2.55	100.00

At December 31, 2018 and 2017, the Company's shareholding structure is as follows:

<u>Percentage of individual interest in capital</u>	<u>Number of shareholders</u>		<u>Total percentage of interest in capital</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Up to 1.00	2,373	2,401	39.60	34.32
From 1.01 to 5.00	13	17	36.89	41.84
From 5.01 to 10.00	4	4	23.51	23.84
	<u>2,390</u>	<u>2,422</u>	<u>100.00</u>	<u>100.00</u>

(b) Treasury shares -

At the General Shareholders' Meeting held on November 24, 2017 the decision was made to amortize the balance of those shares by reducing the issued capital by S/38,643,000; the respective issuance premium of S/11,252,000 was transferred to retained earnings at the time of redemption of the own portfolio shares.

(c) Additional capital -

The debit balance reflects the higher amount paid in the repurchase of the Company's shares in relation with the par value of those shares.

During 2017 the Company sold 11,565,000 own shares in portfolio at a total S/23,504,000; the difference between the selling price of shares and their par value was recorded with a credit to the issuance premium for a total S/11,939,000.

(d) Legal reserve -

In accordance with the Peruvian corporate law (Ley General de Sociedades - LGS, in Peru), a reserve shall be appropriated at 10 percent of the distributable profits, after income tax, to a legal reserve up to reaching 20 percent of paid-in capital. The legal reserve can be used to offset losses or can be capitalized. In both cases, it has to be replenished with future taxable profits.

On March 28, 2018 and on March 29, 2017 the General Shareholders Meeting agreed to transfer S/26,702,000 and S/23,043,000, respectively, from retained earnings to legal reserve.

(e) Other equity reserves -

Revaluation surplus -

This item reflects the increase in fair value of fixed assets based on appraisals performed by independent expert appraisers. At December 31, 2018, the revaluation surplus, net of its corresponding deferred income tax, amounted to S/282,098,000 (S/313,019,000 at December 31, 2017). The revaluation surplus is transferred to retained earnings to the extent it is realized through impairment or when the underlying assets are sold or retired. In 2018, the Company has transferred to retained earnings the portion of the revaluation surplus by approximately S/5,003,000 (S/3,546,000 in 2017).

Foreign currency translation -

This is the exchange difference resulting from the translation of financial statements of foreign operations stated in other currencies into the Group's presentation currency.

Unrealized gains -

This is the equity adjustments of its joint venture and associates to their equity value. It also includes unrealized gains on available-for-sale investments measured at their net fair value, net of the deferred income tax.

(f) Dividend distribution -

Dividends distributed to shareholders other than resident legal entities are subject to an income tax rate of 5 percent to be assumed by these shareholders; this tax is withheld and paid by the Company. There are no restrictions on the remittance of dividends or repatriation of capital by foreign investors.

At General Shareholders' Meeting held on March 28, 2018 the payment of cash dividends was approved for S/132,171,000. At General Shareholders' Meeting held on March 29, 2017 the payment of cash dividends was approved for S/124,434,000.

17 SALES AND COST OF SALES

Sales and cost of sales for the years ended December 31 are as follows:

	<u>2018</u> S/000	<u>2017</u> S/000
Sales:		
Sales of machinery, engine, equipment and vehicles	1,907,559	1,873,568
Sale of spare parts	2,246,604	1,908,310
Rental services of machinery, engines, equipment and workshop	643,187	614,684
Other incomes	<u>401,971</u>	<u>443,138</u>
	<u>5,199,321</u>	<u>4,839,700</u>
Cost of sales:		
Opening balance of inventories, note 8	1,266,716	1,160,660
Purchase of inventories	3,667,108	3,213,151
Workforce, note 20(d)	209,182	191,069
Workshop expenses	154,679	128,182
Depreciation, note 10(g)	54,387	56,205
Amortization, note 11(d)	83	33
Impairment of inventories, note 8(d)	38,480	28,671
Recovery, note 8(d)	(11,799)	(29,122)
Operating expenses of fleet for rent	32,931	42,566
Rental fleet impairment	1,877	1,392
Services provided by third parties and other expenses	176,795	146,976
Final balance of inventories, note	(<u>1,643,383</u>)	(<u>1,266,716</u>)
	<u>3,947,056</u>	<u>3,673,067</u>

18 SELLING EXPENSES

(a) Selling expenses for the years ended December 31 are as follows:

	<u>2018</u> S/000	<u>2017</u> S/000
Personnel expenses, note 20(d)	292,451	275,418
Services provided by third parties (b)	121,583	115,147
Other management charges	76,410	61,791
Depreciation, note 10(g)	46,410	40,672
Provision for doubtful accounts, note 6(e) and 7(k)	31,027	37,127
Intangibles amortization, note 11(d)	7,956	6,950
Taxes	<u>4,322</u>	<u>5,194</u>
	<u>580,159</u>	<u>542,299</u>

(b) Comprising mainly other expenses in leases of properties and vehicles, maintenance of buildings, facilities and equipment, incurred by the Company's sales area.

19 ADMINISTRATIVE EXPENSES

(a) Administrative expenses for the years ended December 31 are as follows:

	<u>2018</u> S/000	<u>2017</u> S/000
Personnel expenses, note 20(d)	174,211	160,527
Services provided by third parties (b)	56,235	59,537
Depreciation, note 10(e)	14,715	13,297
Other management charges	14,420	16,104
Intangibles amortization, note 11(d)	9,621	9,036
Taxes	6,894	7,186
	<u>276,096</u>	<u>265,687</u>

(b) It mainly consists of other expenses for rental of buildings, maintenance of buildings and facilities, computer services, licenses for use of software and consultancy and advisory service.

20 PERSONNEL EXPENSES

(a) This item comprises:

	<u>2018</u> S/000	<u>2017</u> S/000
Remunerations and profit-sharing (b)	460,467	439,949
Statutory bonuses	95,053	71,715
Workers' contributions	49,494	51,789
Allowances to workers	25,159	22,024
Training	16,461	12,346
Vacations	8,921	8,249
Other minors	20,289	20,942
	<u>675,844</u>	<u>627,014</u>

(b) It mainly include remunerations and profit-sharing to Company's personnel and its subsidiaries. For Peru, under the regime of workers' profit-sharing governed by Legislative Decree 677, Peruvian company workers have the right to profit-sharing at 8 percent of the taxable income obtained by an entity, which is to be distributed proportionally among all employees based on the actual days worked; and the balance, is distributed in proportion to the basic remunerations received over the year. Workers' profit-sharing is stated within "Other payables".

(c) The average number of workers in the Group was of 6,544 in 2018 and 6,365 in 2017.

(d) Personnel expenses were stated in the following headings of the consolidated statement of income:

	<u>2018</u> S/000	<u>2017</u> S/000
Cost of sales, note 17	209,182	191,069
Selling expenses, note 18	292,451	275,418
Administrative expenses, note 19	174,211	160,527
	<u>675,844</u>	<u>627,014</u>

(e) Remunerations to key personnel -

The total remuneration received by Directors and key executives of Management during 2018 amounted to approximately S/57,720,000 (approximately S/53,422,000 in 2017), which includes short-term benefits and employees' severance indemnities

The Group does not provide post-employment benefits and does not operate a share-based compensation plan.

21 FINANCIAL INCOME

Financial income for the years ended December 31 comprise the following:

	<u>2018</u> S/000	<u>2017</u> S/000
Interest on bills of exchange receivable	15,863	13,981
Interest on arrears	2,901	1,131
Interest on bank deposits	1,019	1,935
Other financial income	<u>1,817</u>	<u>1,075</u>
	<u>21,600</u>	<u>18,122</u>

22 FINANCIAL EXPENSES

Financial expenses for the years ended December 31 comprise the following:

	<u>2018</u> S/000	<u>2017</u> S/000
Interest on overdrafts and loans, note 12(b)	35,079	26,952
Interest on corporate bonds and long-term loans, note 12(c)	32,829	43,498
Financial transactions tax	2,259	2,629
Interest on financing from foreign suppliers	3,009	1,855
Other financial expenses (*)	<u>29</u>	<u>10,173</u>
	<u>73,205</u>	<u>85,107</u>

(*): At December 31, 2017, "Other financial expenses" mainly correspond to expenses incurred for the repurchase of corporate bonds for US\$1,523,000, equivalent to approximately S/4,925,000; and other minor financial expenses for S/5,248,000.

23 EARNINGS PER SHARE

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

Calculation of basic and diluted earnings per share is shown as follows:

	<u>2018</u> S/000	<u>2017</u> S/000
Numerator:		
Net profits attributable to owners of the Company	<u>225,028</u>	<u>267,013</u>

	<u>Thousands of shares</u>	<u>Thousands of shares</u>
Denominator:		
Weighted average number of common shares	<u>975,683</u>	<u>977,407</u>
	<u>2018</u>	<u>2017</u>
	<u>S/000</u>	<u>S/000</u>
Basic and diluted earnings per share	<u>0.231</u>	<u>0.273</u>

The weighted average number of shares in 2017, takes into account the effect of the weighted average number of shares purchased and held in treasury, see note 16(b).

24 COMMITMENTS, CONTINGENCIES AND GUARANTEES GRANTED

(a) Commitments -

The contracted investment expense comprising commitments with third parties at the date of the consolidated statement of financial position is recognized as follows:

	<u>2018</u>	<u>2017</u>
	<u>S/000</u>	<u>S/000</u>
Property, plant and equipment	<u>91,424</u>	<u>51,176</u>

Future minimum non-cancellable operating lease payments at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
	<u>S/000</u>	<u>S/000</u>
Less than 1 year	30,619	17,972
Between 1 year and less than 3 years	<u>60,805</u>	<u>33,204</u>
Property, plant and equipment	<u>91,424</u>	<u>51,176</u>

(b) Guarantees granted -

The Group has the following guarantees granted:

Ferreycorp S.A.A:

- At December 31, 2018, the Company has signed guarantees for US\$144,124,000 (US\$144,662,000 at December 31, 2017) to secure credit transactions of its subsidiaries and associates and US\$149,000 (US\$171,000 at December 31, 2017) to secure purchase transactions with third parties with several due dates.
- At December 31, 2018 and 2017, the Company has given performance bonds to financial institutions for a total S/6,314,000 and S/5,956,000, respectively, to secure tax claims and appeals filed with Peruvian tax authorities.
- At December 31, 2018, the Company holds a commitment for a cross guarantee signed on June 28, 2018 by the Company and its subsidiaries as Co-debtors, see note 12(c).

Ferreyros S.A.:

- At December 31, 2018 this subsidiary has letters of guarantee for US\$3,593,200 (US\$14,843,309 in 2017) to secure purchase transactions with third parties.
- At December 31, 2018 the subsidiary has letters of guarantees signed with financial institutions for US\$28,653,902 (US\$14,106,000 in 2017) to secure the Company's firm commitment to deliver the products sold via public tenders and the payment of customs duties related to the import of the underlying goods.

Fargoline S.A.:

- At December 31, 2018, this subsidiary has signed a surety policy in favor of the Peruvian customs authorities ("Superintendencia Nacional de Aduanas") for the goods subject to customs regime amounting to US\$1,980,000 (US\$2,600,000 in 2017).

Soltrak S.A.:

- At December 31, 2018, this subsidiary has signed letters of guarantee for US\$4,665,693 and S/32,193,473 (US\$7,562,244 and S/34,641,000 in 2017) to secure purchase transactions with third parties and leases, respectively with different due dates.
- At December 31, 2018, the subsidiary has signed letters of guarantee signed with financial institutions for US\$5,454,567 and S/1,661,526 (US\$4,279,244 and S/2,358,301 in 2017), mainly to secure the firm commitment of the Company's proposal and delivery of the products sold via public tenders, and the payment of customs duties related to the import of the underlying goods respectively.

Motored S.A.:

- At December 31, 2018, this Subsidiary has letters of guarantee for US\$2,851,000 (US\$2,851,000 in 2017) to secure on-credit purchase transactions with third parties.
- At December 31, 2018, the Subsidiary has bank letters of guarantee in favor of third parties for US\$4,484,000 and S/16,000 (US\$4,484,000 and S/16,000 in 2017) mainly to secure the firm commitment of the Company's proposal and delivery of the products sold via public tenders.

Orvisa S.A.:

- At December 31, 2018, this Subsidiary has bank letters of guarantee in favor of third parties for US\$5,469,260 and S/903,609 (US\$5,585,933 and S/1,216,574 in 2017) mainly to secure on-credit purchase transactions of subsidiaries and affiliates with third parties.

(c) Contingencies -

At December 31, 2018, the Group maintains tax claims under appeal or administrative challenging proceedings under way for a total amount of approximately S/87,945,000 (S/118,809,000 at December 31, 2017); including fines and interest of S/13,198,000 and S/58,252,000, respectively (S/15,610,000 and S/68,506,000, respectively, at December 31, 2017). These court actions remain to be resolved via administrative or court decisions and relate to observations made by the Peruvian Tax Administration to tax returns as follows: (i) income tax (including on-account payments) for fiscal years 2001 to 2008 for S/68,219,000; (ii) VAT (IGV in Peru) for fiscal years 2001 to 2006 for S/3,118,000; and (iii) income tax on non-domiciled legal entities for fiscal years 2002, 2003, 2005, 2006 and 2015 totaling S/16,312,000 (S/6,708,000 at December 31, 2017).

For all the above cases, at December 31, 2018 and 2017, the Group has sought the advice of experts on these tax issues who have determined together with Management, that tax assessments totaled approximately S/9,085,923 (S/8,206,000 in 2017), in respect of which, losses have been classified as probable. The Group has recorded a provision for that amount, within "Other payables" in the consolidated statement of financial position, see note 14.

Management, together with its legal and tax advisors consider that the Group has sufficient technical grounds to believe the Tax Court in Peru will issue a decision that will be favorable to the Group. Accordingly, they consider that the future resolution of these proceedings will not result in significant liabilities; and, consequently, there is no need to record additional liabilities at December 31, 2018 and 2017.

25 TAX SITUATION

- (a) The Group is subject to tax regime of each country in which it operates and taxes are settled based on its non-consolidated profits. At December 31, 2018 and 2017, the income tax rate on taxable income in the major countries in which the Company and its subsidiaries operate are:

	Tax rates	
	2018	2017
	%	%
Peru	29.5	29.5
Ecuador	22	22
Colombia	24	24
Chile (*)	24	24
Guatemala	25	25
El Salvador	30	30
Belize	25	25
Nicaragua	30	30
United States of America	15 and 28	15 and 28

- (*) Based on to the tax reforms carried out in Chile, the income tax rate for the following years will be:

Year:	Regime of tax rate	
	Art. 14 Letter A	Art. 14 Letter B
2017	25.0%	25.5%
2018 and onwards	25.0%	27.0%

As long as the Companies do not express their intention to pay taxes under the regime contained in Art. 14 Letter "A" by means of an extraordinary shareholders' meeting, current laws state that, they should be considered, by default, under the regime of Art. 14 Letter "B".

In accordance with legal provisions in force in some countries at December 31, 2018 and 2017, cash dividends in favor of non-domiciled shareholders are levied at the following rates:

	Tax rates	
	2018	2017
	%	%
Peru	5	5
Colombia	10	10
Chile	35	35
El Salvador	5	5

(b) Regulatory framework - Amendments to Income Tax law -

In Peru, on September 13, 2018 Legislative Decree No.1422 was enacted, setting up changes in the form of new concept and/or definitions, such as: “non-cooperating country or territory” and “special preferred regime”, “permanent establishment”, “indirect disposal” of shares and the following most significant:

- Transfer pricing:

The scope of Transfer Pricing regulations is extended to transactions entered into to/from and through no-cooperating countries or territories or involving parties whose revenue or earnings benefit from a preferred tax treatment.

- Accrual:

A legal definition of accrual is set up for the recognition of income and expenses for income tax purposes. As per this definition, Peruvian third-category (corporate) income is considered accrued whenever the substantive income-generating events have occurred and the right to that income is not restricted by any suspensive condition.

- Deductibility of financial expenses:

New rules are established on interest deductibility and limit applicability for borrowings granted by related parties as well as borrowings granted by non-related parties.

- General Anti-Tax Avoidance Clause (Peruvian Tax Standard XVI):

A special procedure has been set up for the enforcement of Peruvian Tax Standard XVI, by which SUNAT will be entitled to enforce paragraphs second to fifth of Tax Standard XVI in the framework of a final tax examination, provided that a favorable opinion is obtained from a Reviewing Committee, comprising three (3) SUNAT auditors. In addition, boards of directors are now required to approve, ratify or amend the events, situations or economic relations to be implemented (or already implemented) as part of “tax planning”.

(c) For the purpose of determining the Income Tax and Value Added Tax, the transfer pricing rules in force in Peru, Nicaragua, Guatemala, El Salvador, Belize, Chile, Colombia, Ecuador and the United States of America set forth that transactions with local or foreign related parties and with those entities resident in tax havens shall be agreed at arm’s length and supported with the relevant documentation and information on the valuation methods used and criteria considered in their determination.

Tax authorities are authorized to request this information from taxpayers. Based on the analysis of the Group's transactions, Management and its legal advisors consider that no material contingencies are expected to arise from the application of these rules to the Group at December 31, 2018 and 2017.

- (d) Peruvian tax authorities have the right to review and, if necessary, amend the income tax determined by the Company in the last four years from January 1 of the year following the filing date of the related tax returns (years open to audit). Income tax and VAT tax returns for fiscal years 2014 to 2018 remain to be audited by the Peruvian tax authorities. Tax returns for fiscal years 2000 to 2013 have already been audited.

In addition, income tax and VAT tax returns of major subsidiaries are subject to audit by the Tax Authorities of each country for the following fiscal years:

	<u>Fiscal year subject to tax audit</u>
Foreign subsidiaries (Country):	
Guatemala	2013 to 2018
El Salvador	2006 to 2018
Belize	2009 to 2018
Nicaragua	2010 to 2018
United States of America, Chile, Colombia and Ecuador	2011 to 2018
Local subsidiaries:	
Ferreyros S.A.	2014 to 2018
Unimaq S.A.	2014 to 2018
Cresko S.A.	2014 to 2018
Fiansa S.A.	2014 to 2018
Soltrak S.A.	2014 to 2018
Fargoline S.A.	2014 to 2018
Orvisa S.A. and subsidiaries	2014 to 2018
Motored S.A.	2014 to 2018
Inmobiliaria CDR S.A.	2014 to 2018
Forbis Logistic S.A.	2014 to 2018
Soluciones Sitech Perú S.A.	2014 to 2018

Since certain differences may arise over the interpretation the tax authorities may have of current tax laws and regulations, it is not possible to anticipate, at the present date, whether any additional liabilities will arise for the Group; therefore, any additional tax or penalties that may arise from eventual tax audits would be applied against the profit or loss of the years in which the differences in interpretation with the tax authorities are resolved. Group Management and its legal advisors consider that any eventual additional taxes payable determined by the relevant tax authorities of each country would not be significant for the consolidated financial statements at December 31, 2018 and 2017.

- (e) In Peru, the temporary tax on net assets is applicable to third-category (corporate) income earners subject to the Income Tax General Regime. The tax rate is 0.4 percent on the amount of net assets exceeding S/ 1 million.

The amount actually paid may be used as a credit against on-account payments of income tax under the General Regime or against the income tax regularization payments for the related fiscal year.

26 CHANGES IN LIABILITIES RELATED TO FINANCING ACTIVITIES

Changes in liabilities related to financing activities for the year ended December 31 are as follows:

	<u>Note</u>	<u>January 1</u> S/000	<u>Cash flow</u>		<u>Non-cash changes</u>			<u>December 31</u> S/000
			<u>New loans</u> S/000	<u>Payment of loans</u> S/000	<u>Payment of interest</u> S/000	<u>Interest accrued</u> S/000	<u>Exchange difference</u> S/000	
Year 2018:								
Borrowings	12	1,554,602	3,718,781	(3,301,887)	-	-	27,628	1,999,123
Interest payable	14	6,767	-	-	(62,301)	72,186	-	16,652
		<u>1,561,369</u>	<u>3,718,781</u>	<u>(3,301,887)</u>	<u>(62,301)</u>	<u>72,186</u>	<u>27,628</u>	<u>2,015,775</u>
Year 2017:								
Borrowings	12	1,691,503	2,499,758	(2,595,045)	-	-	(41,614)	1,554,602
Interest payable	14	10,509	-	-	(83,197)	79,455	-	6,767
		<u>1,702,012</u>	<u>2,499,758</u>	<u>(2,595,045)</u>	<u>(83,197)</u>	<u>79,455</u>	<u>(41,614)</u>	<u>1,561,369</u>

27 FINANCIAL RISK MANAGEMENT

Given the nature of its activities, the Group is exposed to the credit risk, interest rate risk, liquidity risk, exchange rate risk, strategic and operational risks, which are managed through a process consisting of identification, assessment, treatment and continuous monitoring, subject to risk limits and other controls. This risk management process is critical to the Group's continuing profitability and each area is responsible for the risk exposures related to their duties.

The integrated risk management process includes business risks such as business continuity, focus on competition, workers' safety and health, changes in the environment, technology and industry, among others.

(a) Risk management structure -

Risk management structure is based on the Group's Board of Directors, which is the ultimate responsible party for identifying and controlling risks, in coordination with other areas as explained below:

(a.1) Board of Directors -

The Board of Directors is responsible for the overall risk management approach. The Board provides principles for risk management and the prepared policies for specific areas such as foreign-exchange risk, interest-rate risk, credit risk, use of derivative and non-derivatives financial instruments.

(a.2) Risk Committee -

Its mission is to attend the General Management and the Board of Director, through the Audit Committee, in overseeing the Group's risk management, monitor internal environment and provide guidelines on the action plans related to those risks that may adversely affect the achievement of the Group's objectives.

The Committee's function is to oversee that the Corporate Risk Division develops its annual work plan and that the operational areas actively participate. This supervision is carried out through periodic sessions where Risk Area reports the state of execution of the plan.

(a.3) Internal Audit -

It monitors the risk management processes in the Group and analyzes both the adequacy of procedures and the compliance with them. Internal Audit discusses the results of all assessments with Management, and reports its findings and recommendations to the Board of Directors.

(a.4) Administration and Finance Management -

It is responsible for managing the Group's assets and liabilities and the entire financial structure. It is mainly responsible for the management of the Group's funds and liquidity risks; assuming the related liquidity, interest rate and currency exchange risks, according to the policies and limits in force.

(a.5) Corporate Risk Division -

It is responsible for providing comprehensive risk management based on the methodology established, to define the work schedule with the operational areas of the entire corporation and to support them in the process to identify, assess, respond, control and monitor their most important risks. The operational areas of each subsidiary of the Company are responsible to implement and execute the work schedule, as well as the implementation of the approved action plans on risks that may have a material impact on each individual entity and on the Company.

Likewise, as part of the risks of the strategic planning process of the Group, action plans are established to mitigate them, considering risks of competition, recruitment, personnel retention, equipment availability, product failure, social conflict and global financial crisis.

(b) Risk mitigation -

As part of total risk management, the Group may use derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currency, capital risk and credit risks. The risk profile is assessed before performing hedging transactions, which are authorized by the competent level within the Group. The other critical business risks are addressed through action plans executed by each Management of the subsidiary companies.

(c) Risk concentration -

(c.1) Credit risk -

Credit risk is the risk that a counterparty is unable not meet its borrowings in relation to a financial instrument or sales contract, generating a financial loss. The Group is exposed to credit risk for its operating activities (mainly receivables) and for its financing activities, including bank deposits. Regarding banks deposits, the Group accounts for 99.09 percent (99.31 percent in 2017) of its cash and cash equivalents at financial institutions.

Credit risk related to receivables: Management manages credit risks of customers in accordance with policies, procedures and controls duly established. The outstanding balances of receivables are periodically reviewed to ensure their recovery. In addition, the Company has a larger customer base. At December 31, 2018, the Group's average collection period is 68 days on credit risk, which controls and monitors on an ongoing basis (70 days at December 31, 2017).

Credit risk related to financial instruments and banks deposits: Management manages credit risks of bank balances in accordance with the Group's policies. Investments of cash surpluses are made with leading financial institutions. The maximum exposure to credit risk at December 31, 2018 and 2017 is the carrying amount of cash balances and cash equivalents shown in note 4.

At December 31, 2018, Management has estimated that the maximum amount of credit risk to which the Group is exposed amounts to approximately S/1,521,923 (S/1,274,183 at December 31, 2017), which represents the carrying amount of financial assets, see note 4.

At December 31, 2018, the Group subsidiaries show a moderate exposure of approximately S/75 million and S/73 million, respectively (below 6 percent of the total trade accounts receivable) of trade receivables from construction industry customers that are part of prosecutorial investigations currently in progress that may result in these debtors being considered within the scope of Law No.30737, "Law that ensures the prompt payment of civil damages to the Peruvian Government in cases of corruption and related crimes" and its rules for application approved under Supreme Decree No.096-2018-EF (Urgency Decree No.003-2017 and its amendments, in 2017). At December 31, 2018, Management considers the Company does not show any other customer concentration that may indicate a significant credit risk.

Management considers that the allowance for doubtful trade receivables covers adequately the relevant collection risks at December 31, 2018 and 2017.

(c.2) Interest rate risk -

The operating cash flows of the Group are substantially independent of changes in market interest rate, due to individual credit rating of the Group, it could obtain competitive interest rates in local markets where it operates. It should be noted that the Group has not made significant financial transactions with variable interest rates; therefore, in opinion of Management the Group is not significantly exposed to the interest rate risk.

The Group's exposure to interest rate risk is summarized in the following table. The Group's financial instruments are shown at their carrying amount, classified according to their different contract terms:

	At December 31, 2018						Average fixed interest rate at 2018	Variable interest rate at 2017
	Fixed rate							
	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Variable rate (*)	Non-interest bearing	Total		
	S/000	S/000	S/000	S/000	S/000	S/000	%	%
Assets:								
Cash and cash equivalents	5,407	-	-	-	68,291	73,698	Between 1.5 and 1.9	-
Investment in securities	-	-	-	-	2,500	2,500	-	-
Trade receivables, net	84,104	117,671	25,501	-	993,272	1,220,548	Between 5 and 22	-
Other receivables, net (**)	-	-	-	-	208,219	208,219	-	-
Total assets	89,511	117,671	25,501	-	1,272,282	1,504,965		
Liabilities:								
Trade payables	31,204	21,247	-	-	507,988	560,439	4.07	-
Other payables (**)	-	-	-	-	322,198	322,198	-	-
Borrowings	428,977	359,709	1,210,437	-	-	1,999,123	Between 2.06 and 8.28	-
Total liabilities	460,181	380,956	1,210,437	-	830,186	2,881,760		
Margin gap	(370,670)	(263,285)	(1,184,936)	-	442,096	(1,376,795)		
Accumulated gap	(370,670)	(633,955)	(1,818,891)	-	(1,376,795)	-		

At December 31, 2017								
Fixed rate								
	Up to 3 months	From 3 to 12	From 1 to	Variable rate (*)	Non-interest	Total	Average fixed	Variable interest
	S/000	months	5 years	S/000	bearing	S/000	interest rate	rate at 2016
		S/000	S/000		S/000		at 2017	at 2016
							%	%
Assets:								
Cash and cash equivalents	19,603	-	-	-	61,107	80,710	1.67	-
Trade receivables, net	115,454	42,878	41,920	-	910,741	1,110,993	Between 8.00 and 12.7	-
Other receivables, net (**)	4,774	-	-	-	77,706	82,480	3.55	-
Total assets	139,831	42,878	41,920	-	1,049,554	1,274,183		
Liabilities:								
Trade payables	15,379	60,439	-	-	526,116	601,934	2.71	-
Other payables (**)	374	-	-	-	325,870	326,244	-	-
Borrowings	569,018	240,918	675,304	62,459	6,903	1,554,602	Between 0.90 and 6.95	Libor 3m + 4.40
Total liabilities	584,771	301,357	675,304	62,459	858,889	2,482,780		
Margin gap	(444,940)	(258,479)	(633,384)	(62,459)	190,665	(1,208,597)		
Accumulated gap	(444,940)	(703,419)	(1,336,803)	(1,399,262)	(1,208,597)	-		

(*) Borrowings with variable rate or bases are considered variable. The variable rate was only applicable to the debt held with Caterpillar Crédito S.A. de C.V. over 2017 which was fully repaid over 2018.

(**) At December 31, 2018 and 2017, "Other receivables, net" and "Other payables" included in this table do not consider amounts corresponding to VAT payable, tax refunds, income tax, advances and those that, according to IFRS, do not qualify as financial instruments, see note 4.

The following table shows the sensitivity to a possible change in interest rates, with all other variables held constant in the consolidated statement of income before income tax. The sensitivity in the consolidated statement of income is the effect of the estimated changes in interest rates on the net financial income for one year, based on financial assets and financial liabilities exposed to changes in interest rates at December 31, 2018 and 2017:

<u>Currency</u>	<u>2018</u>		<u>2017</u>	
	<u>Changes in basis point</u>	<u>Sensitivity in net income S/000</u>	<u>Changes in basis point</u>	<u>Sensitivity in net income S/000</u>
Soles	+/-50	4,992	+/-50	4,939
Soles	+/-100	9,984	+/-100	9,879
Soles	+/-200	19,967	+/-200	19,757
Soles	+/-300	29,951	+/-300	29,636

The interest rates sensitivities shown in the above tables are illustrative only and are based on simplified scenarios. The figures represent the effect of pro-forma movements on net financial income, based on the projected scenarios of the yield curve and the interest rate risk profile. However, this effect does not include actions that would be taken by Management to mitigate the impact of this risk on interest rates. The Group also seeks to proactively change the risk profile of interest rates to minimize losses and optimize net income. Previous projections also assume that the interest rate of all maturities moves by the same amount and therefore do not reflect the potential impact on the net financial income of some rates that change while others remain unchanged. The projections also include assumptions to facilitate calculations such as, for example, that all positions are held to maturity or, if they expire in the year, are renewed for the same amount.

(c.3) Liquidity risk -

Liquidity risk is the risk that the Group will not be able to meet its payment obligations related to financial liabilities at maturity and replace the funds when they are withdrawn. The consequence would be the default in the payment of its obligations towards third parties. The Group has adequate levels of cash and cash equivalents and available credit lines.

The Group controls the liquidity required by properly managing the maturities of its assets and liabilities, so that cash inflows match their future cash outflows, which enables it to carry out its activities normally.

The Group's main source of cash revenue is collections of local and imported merchandise sales. The average term of payment to its main suppliers was 53 days for 2018 and 54 days for 2017. The Group considers that management of collection and payment periods tends to improve due to the improvements made in its collection management policies.

In the event that the Group does not have, at a given time, the necessary resources to meet its short-term obligations, it has committed credit lines with financial institutions and considering its economic solvency it can obtain short-and medium-term loans at market rates.

The table below presents the cash flows payable by the Group in accordance with the contractual terms agreed on the dates of the consolidated statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows:

	<u>From 1 to 3 months</u> S/000	<u>From 3 to 12 months</u> S/000	<u>From 1 to 5 years</u> S/000	<u>Total</u> S/000
At December 31, 2018 -				
Other liabilities:				
- Amortization of capital	428,977	359,709	1,210,437	1,999,123
- Amortization of interests	8,843	22,672	77,853	109,368
- Trade payables	441,463	118,976	-	560,439
- Other payables	<u>384,488</u>	<u>127,068</u>	<u>34</u>	<u>511,590</u>
	<u><u>1,263,771</u></u>	<u><u>628,425</u></u>	<u><u>1,288,324</u></u>	<u><u>3,180,520</u></u>
At December 31, 2017 -				
Other liabilities:				
- Amortization of capital	346,680	470,159	737,763	1,554,602
- Amortization of interests	4,538	32,257	54,270	91,065
- Trade payables	526,436	75,498	-	601,934
- Other payables	<u>369,886</u>	<u>26,850</u>	<u>369</u>	<u>397,105</u>
	<u><u>1,247,540</u></u>	<u><u>604,764</u></u>	<u><u>792,402</u></u>	<u><u>2,644,706</u></u>

(c.4) Exchange rate risk -

The Group is exposed to the effects of fluctuations in the exchange foreign currency prevailing on its financial position and cash flows. Management sets limits on the levels of exposure by currency and total daily operations.

Assets and liabilities transactions are carried out basically in the functional currency (Peruvian Sol) of the controlling party, which the Group uses to measure its performance, so that if the position in foreign exchange (i.e. US dollar) is positive; any devaluation of the Sol would positively affect the Group's consolidated statements of financial position. Transactions in foreign currency are carried out supply-and-demand exchange rates.

The Group manages the foreign exchange risk by monitoring and controlling the amounts of the position maintained in a foreign currency and which are exposed to movements in exchange rates. The Group measures its performance in the currency of each country so that if the foreign exchange position is positive, any devaluation of the US dollar would negatively affect the Group's consolidated statement of financial position. Any devaluation/revaluation of foreign currency would affect the consolidated statements of income.

Transactions in foreign currency in Peru are made at the exchange rates of the free market published by the Superintendencia de Banca, Seguros y AFP (SBS, the Spanish acronym). At December 31, 2018 the exchange rates prevailing in the free market for transactions in US dollars, as published by this institution were S/3.369 and S/3.379 per US\$1 for assets and liabilities, respectively (S/3.238 and S/3.245 per US\$1 for assets and liabilities respectively, at December 31, 2017).

At December 31, 2018 and 2017, the Group had the following monetary assets and liabilities in foreign currencies presented in Peruvian Soles:

2018							
Soles	Dollars	Quetzal	Cordoba	Chilean Pesos	Belize Dollar	Total	
S/000	S/000	S/000	S/000	S/000	S/000	S/000	
Assets:							
Cash and cash equivalents	33,903	36,264	1,816	815	846	54	73,698
Trade receivables, net	187,468	988,545	34,333	2,938	7,264	-	1,220,548
Other receivables, net	<u>238,559</u>	<u>63,290</u>	<u>5,344</u>	<u>-</u>	<u>821</u>	<u>1,149</u>	<u>309,162</u>
	<u>459,930</u>	<u>1,088,099</u>	<u>41,493</u>	<u>3,753</u>	<u>8,931</u>	<u>1,203</u>	<u>1,603,408</u>
Liabilities:							
Other financial liabilities	(194,714)	(1,569,791)	(95,494)	(926)	(138,198)	-	(1,999,123)
Trade payables	(70,714)	(399,587)	(50,455)	(3,004)	(35,790)	(889)	(560,439)
Other payables	<u>(406,506)</u>	<u>(104,533)</u>	<u>-</u>	<u>-</u>	<u>(551)</u>	<u>-</u>	<u>(511,590)</u>
	<u>(671,934)</u>	<u>(2,073,911)</u>	<u>(145,949)</u>	<u>(3,930)</u>	<u>(174,539)</u>	<u>(889)</u>	<u>(3,071,152)</u>
Net liabilities position	<u>(212,004)</u>	<u>(985,812)</u>	<u>(104,457)</u>	<u>(177)</u>	<u>(165,608)</u>	<u>314</u>	<u>(1,467,744)</u>
2017							
Soles	Dollars	Quetzal	Cordoba	Chilean Pesos	Belize Dollar	Total	
S/000	S/000	S/000	S/000	S/000	S/000	S/000	
Assets:							
Cash and cash equivalents	37,421	39,215	2,286	1,056	667	65	80,710
Trade receivables, net	138,768	930,494	37,418	868	3,445	-	1,110,993
Other receivables, net	<u>130,382</u>	<u>58,983</u>	<u>5,401</u>	<u>-</u>	<u>738</u>	<u>1,075</u>	<u>196,579</u>
	<u>306,571</u>	<u>1,028,692</u>	<u>45,105</u>	<u>1,924</u>	<u>4,850</u>	<u>1,140</u>	<u>1,388,282</u>
Liabilities:							
Other financial liabilities	(181,808)	(1,205,793)	(63,758)	(1,266)	(101,977)	-	(1,554,602)
Trade payables	(69,518)	(446,648)	(71,909)	(4,050)	(8,745)	(1,064)	(601,934)
Other payables	<u>(285,078)</u>	<u>(111,790)</u>	<u>-</u>	<u>-</u>	<u>(237)</u>	<u>-</u>	<u>(397,105)</u>
	<u>(536,404)</u>	<u>(1,764,231)</u>	<u>(135,667)</u>	<u>(5,316)</u>	<u>(110,959)</u>	<u>(1,064)</u>	<u>(2,553,641)</u>
Net liabilities position	<u>(229,833)</u>	<u>(735,539)</u>	<u>(90,562)</u>	<u>(3,392)</u>	<u>(106,109)</u>	<u>76</u>	<u>(1,165,359)</u>

At December 31, 2018 and 2017, the Group's Management has decided to accept the exchange rate risk of this position, so it has not carried out transactions with derivative instruments for hedging. At December 31, 2018 the Group recorded a net exchange losses of approximately S/59,365,000 (net exchange gains of approximately S/25,079,000 in 2017), which is presented in "Exchange difference, net" of the consolidated statement of income.

The table below shows the sensitivity analysis of US dollars, currency to which the Group has a significant exposure at December 31, 2018 and 2017, of its monetary assets and liabilities and estimated cash flows. The analysis determines the effect of a reasonably possible change in the US dollar exchange rate, with all the other variables held constant in the consolidated statement of income before income tax.

A negative amount shows a net potential reduction in the consolidated statement of income before taxes, while a positive amount reflects a net potential increase:

<u>Sensitivity analysis</u>	<u>Change in rates</u>		<u>2018</u>	<u>2017</u>
	<u>US\$</u>	<u>%</u>	<u>S/000</u>	<u>S/000</u>
Devaluation -				
Soles		5	59,967	46,776
Soles		10	119,934	93,553
Revaluation -				
Soles		5	(59,967)	(46,776)
Soles		10	(119,934)	(93,553)

(d) Capital management -

The Group actively manages a capital base to cover the risks inherent in its activities. The capital adequacy of the Group is monitored using, among other measures, the ratios established by Management.

The Group's objectives when it managing s capital, which is a broader concept than "Equity" shown in the consolidated statement of financial position, are: (i) to safeguard the Group's ability to continue operating so that it continues to provide returns for shareholders and benefits for other stakeholders; and (ii) to maintain a strong capital structure to support its activities.

The Group also monitors its capital based on the gearing ratio. At December 31, 2018 and 2017, the gearing ratio was as follows:

	<u>2018</u>	<u>2017</u>
	<u>S/000</u>	<u>S/000</u>
Borrowings, note 12(a)	1,999,123	1,554,602
Less: Cash and cash equivalents, note 5	<u>73,698</u>	<u>80,710</u>
Net financial debt (A)	1,925,425	1,473,892
Equity (B)	<u>2,133,968</u>	<u>2,080,146</u>
Gearing ratio (A) / (B)	<u>0.902</u>	<u>0.709</u>

Gearing ratio calculated by Management in 2018 was higher than in 2017, given the increase in borrowings obtained by the Company to finance its investment plan and meet its working capital needs.

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Fair value -

Accounting standards define a financial instrument as cash, evidence of ownership in an entity, or a contract in which it is agreed or imposed on an entity the right or contractual obligation to receive or deliver cash or another financial instrument.

Based on the criteria described above, Management estimates that there are no material differences between carrying amount and fair value of the Group's financial instruments at December 31, 2018 and 2017.

(b) Measurement of fair value -

Instruments measured at fair value according to their hierarchy -

Level 1 -

- Cash and cash equivalents do not represent a significant credit risk or interest rate risk; therefore, its carrying amounts approximate their fair value.
- Due to the fact that receivables are net of their provision for bad debts and mainly have maturities of less than three months, Management has considered that its fair value is not significantly different from its carrying amount.
- Due to the current maturity of trade and other payables, Management estimates that its accounting balance approximates its fair value.

Level 2 -

For other financial liabilities, it has been determined fair values by comparing market interest rates at the time of its initial recognition with current market rates for similar financial instruments. This is a comparison of fair values of these financial instruments:

	<u>2018</u>		<u>2017</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>amount</u>	<u>value</u>	<u>amount</u>	<u>value</u>
	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>
Other current financial liabilities	788,686	788,686	816,839	816,839
Other non-current financial liabilities	1,210,437	1,142,797	737,763	689,903

The carrying amounts of other short-term financial liabilities (borrowings) approximate their fair value. At December 31, 2018 the fair values of bonds have been determined using an annual rate of 4.875 percent, those of medium-term and long-term notes and leases have been determined using annual rates ranging from 3 percent to 5.98 percent, respectively (4.875 percent on bonds, from 3 percent 6.75 percent medium-term and long-term notes, respectively, in 2017).

29 INFORMATION BY OPERATING SEGMENTS

For management purposes, the Group is organized into business units based on their products and activities and has five different segments organized as follows:

- Heavy machinery, including purchase and sale operations, with their respective spare parts, maintenance and repair services.
- Vehicles, including purchase and sale operations, with their respective spare parts, maintenance and repair services.
- Rental equipment.
- Agricultural equipment, including purchase and sale operations, with their respective spare parts, maintenance and repair services.
- Other business units.

No other operating segment has been formed to be part of the above-described operating segments.

Management monitors the pre-tax profit of each business unit separately to make decisions to allocate resources and evaluate performance. The financial performance of a segment is determined based on the pre-tax profit.

Transfer prices between operating segments are agreed at arm's length in a similar way as agreed with third parties.

At December 31, 2018 and 2017, the information by operating segments by business units is as follows:

	<u>Sales and services</u> S/000	<u>Other operating income</u> S/000	<u>Total income</u> S/000	<u>Gross margin</u> S/000	<u>Selling expenses</u> S/000	<u>Administrative expenses</u> S/000	<u>Other income and expenses, net</u> S/000	<u>Financial expenses</u> S/000	<u>Financial income</u> S/000	<u>Net exchange difference</u> S/000	<u>Share in net profits of associates and joint ventures</u> S/000	<u>Profit before income tax</u> S/000	<u>Income tax</u> S/000	<u>Net income</u> S/000
2018:														
Heavy equipment, spare parts and services	4,304,298	921	4,305,219	1,048,688	(443,163)	(211,029)	14,977	(58,779)	17,735	(49,466)	-	318,963	(115,740)	203,223
Vehicles, spare parts and services	240,679	150	240,829	44,790	(33,470)	(15,160)	125	(5,213)	1,146	(2,427)	-	(10,209)	2,087	(8,122)
Rental equipment	181,703	-	181,703	48,626	(28,904)	(14,278)	669	(2,558)	755	(2,075)	-	2,235	(823)	1,412
Agricultural equipment, spare parts and services	70,670	529	71,199	16,477	(10,902)	(5,213)	260	(995)	294	(807)	-	(886)	326	(560)
Others	401,971	-	401,971	95,284	(63,720)	(30,416)	52,376	(5,660)	1,670	(4,590)	1,068	46,012	(16,937)	29,075
Total consolidated	<u>5,199,321</u>	<u>1,600</u>	<u>5,200,921</u>	<u>1,253,865</u>	<u>(580,159)</u>	<u>(276,096)</u>	<u>68,407</u>	<u>(73,205)</u>	<u>21,600</u>	<u>(59,365)</u>	<u>1,068</u>	<u>356,115</u>	<u>(131,087)</u>	<u>225,028</u>
2017:														
Heavy equipment, spare parts and services	3,847,476	-	3,847,476	952,646	(413,218)	(204,623)	50,579	(68,506)	14,248	21,001	-	352,127	(109,296)	242,831
Vehicles, spare parts and services	261,641	-	261,641	49,198	(31,366)	(13,312)	2,434	(3,753)	1,139	293	-	4,633	(1,438)	3,195
Rental equipment	169,324	-	169,324	41,720	(24,786)	(12,022)	2,185	(2,978)	634	877	-	5,630	(1,748)	3,882
Agricultural equipment, spare parts and services	118,120	305	118,425	29,732	(10,016)	(4,907)	1,524	(2,077)	442	612	-	15,310	(4,752)	10,558
Others	443,139	-	443,139	93,642	(62,913)	(30,823)	5,718	(7,793)	1,659	2,296	7,708	9,494	(2,947)	6,547
Total consolidated	<u>4,839,700</u>	<u>305</u>	<u>4,840,005</u>	<u>1,166,938</u>	<u>(542,299)</u>	<u>(265,687)</u>	<u>62,440</u>	<u>(85,107)</u>	<u>18,122</u>	<u>25,079</u>	<u>7,708</u>	<u>387,194</u>	<u>(120,181)</u>	<u>267,013</u>

At December 31, 2018 and 2017, the information by operation segments by country is as follows:

	Sales and services S/000	Other operating income S/000	Total income S/000	Gross margin S/000	Selling expenses S/000	Administrative expenses S/000	Other income and expenses, net S/000	Financial expenses S/000	Financial income S/000	Net exchange difference S/000	Share in net profits of associates and joint ventures S/000	Profit before income tax S/000	Income tax S/000	Net income S/000
2018:														
Peru	4,688,977	1,262	4,690,239	1,115,056	(502,881)	(282,796)	116,140	(69,271)	32,219	(37,573)	1,010	371,962	(129,677)	242,285
Guatemala	210,565	201	210,766	34,876	(32,529)	(10,045)	505	(7,180)	1,659	(5,691)	-	(18,405)	2,204	(16,201)
El Salvador	167,710	137	167,847	44,121	(26,584)	(6,277)	743	(3,291)	610	-	-	9,322	(3,578)	5,744
Belize	14,988	-	14,988	4,244	(2,023)	(1,632)	297	-	107	230	-	1,223	(289)	934
United States of America	52,743	-	52,743	5,448	(894)	(2,691)	3	(3)	14	-	-	1,877	(433)	1,444
Nicaragua	20,084	-	20,084	4,854	(2,356)	(1,873)	172	(126)	9	(236)	-	444	(253)	191
Honduras	6,329	-	6,329	1,678	(1,355)	(33)	(27)	(202)	-	-	-	61	(44)	17
Panama	-	-	-	-	-	(3,895)	(2,445)	(239)	1	-	-	(6,578)	-	(6,578)
Chile	244,752	-	244,752	37,972	(9,888)	(10,869)	222	(6,094)	715	(16,095)	-	(4,037)	1,019	(3,018)
Ecuador	21,996	-	21,996	5,616	(1,649)	(3,188)	-	(745)	212	-	-	246	(36)	210
Intercompany transactions	(228,823)	-	(228,823)	-	-	47,203	(47,203)	13,946	(13,946)	-	-	-	-	-
Total consolidated	<u>5,199,321</u>	<u>1,600</u>	<u>5,200,921</u>	<u>1,253,865</u>	<u>(580,159)</u>	<u>(276,096)</u>	<u>68,407</u>	<u>(73,205)</u>	<u>21,600</u>	<u>(59,365)</u>	<u>1,010</u>	<u>356,115</u>	<u>(131,087)</u>	<u>225,028</u>
2017:														
Peru	4,334,642	305	4,334,947	1,024,451	(460,589)	(264,928)	54,336	(90,261)	43,230	18,721	7,708	332,668	(114,339)	218,329
Guatemala	261,435	-	261,435	53,817	(38,691)	(8,330)	691	(4,579)	379	677	-	3,964	(708)	3,256
El Salvador	158,929	-	158,929	43,791	(24,424)	(6,253)	808	(2,540)	808	-	-	12,190	(4,173)	8,017
Belize	12,739	-	12,739	2,679	(1,771)	(1,509)	1,316	(15)	63	181	-	944	(239)	705
United States of America	37,245	-	37,245	5,277	(1,724)	(3,515)	308	(163)	19	-	-	202	(42)	160
Nicaragua	21,548	-	21,548	5,679	(2,521)	(2,157)	217	(96)	13	(197)	-	938	(304)	634
Honduras	5,228	-	5,228	1,320	(1,413)	(43)	30	(186)	5	-	-	(287)	(35)	(322)
Panama	-	-	-	-	-	(5,674)	44,760	(7,271)	2	-	-	31,817	-	31,817
Chile	154,098	-	154,098	25,569	(9,824)	(10,047)	110	(5,901)	57	5,646	-	5,610	(540)	5,070
Ecuador	15,702	-	15,702	4,355	(1,342)	(3,304)	(63)	(697)	148	51	-	(852)	199	(653)
Intercompany transactions	(161,866)	-	(161,866)	-	-	40,073	(40,073)	26,602	(26,602)	-	-	-	-	-
Total consolidated	<u>4,839,700</u>	<u>305</u>	<u>4,840,005</u>	<u>1,166,938</u>	<u>(542,299)</u>	<u>(265,687)</u>	<u>62,440</u>	<u>(85,107)</u>	<u>18,122</u>	<u>25,079</u>	<u>7,708</u>	<u>387,194</u>	<u>(120,181)</u>	<u>267,013</u>

30 SUBSEQUENT EVENTS TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Between December 31, 2018 and the date of approval of the financial statements, there have been no significant subsequent events that Management considers that required any additional disclosure or any adjustment to the balances stated in the consolidated financial statements.