Unión Andina de Cementos S.A.A.

Separate financial statements as of December 31, 2016 and 2015 together with the Independent Auditor's report

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Content

Paredes, Burga & Asociados
Sociedad Civil de Responsabilidad Limitada

Independent Auditors' Report

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

We have audited the accompanying separate financial statements of Unión Andina de Cementos S.A.A. (a Peruvian entity), which comprise the separate statements of financial position as of December 31, 2016 and 2015, and the related separate statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other notes.

Management responsibility for the Separate Financial Statements

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

Auditor's Responsibility

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

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

Independent Auditors' Report (continued)

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

Opinion

In our opinion, the accompanying separated financial statements present fairly, in all material aspects, the separate financial position of Unión Andina de Cementos S.A.A. as of December 31, 2016 and 2015, and its separate financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards issue by the International Accounting Standards Board.

Emphasis over the separate information

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

Lima, Peru,
February 24, 2017

Countersigned by: Paredes, Burga & Asociados

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

Unión Andina de Cementos S.A.A.

Separate statement of financial position

For the years ended December 31, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Asset			
Current assets			
Cash and cash equivalents	6	54,481	131,043
Trade and other receivables, net	7	321,594	289,679
Inventories	8	685,629	666,608
Prepaid taxes and expenses		7,173	7,878
Total current assets		1,068,877	1,095,208
Non-current assets			
Trade and other receivables, net	7	53,546	47,069
Investments in subsidiaries and other	9	3,262,977	3,260,757
Mining concessions and property, plant and equipment, net	10	3,989,548	4,025,405
Deferred stripping cost	11	127,132	131,663
Intangible assets, net	12	79,168	79,935
Total noncurrent assets		7,512,371	7,544,829
Total asset		8,581,248	8,640,037
Liability and net equity			
Current liabilities			
Trade and other payables	13	230,140	252,790
Other financial liabilities	14	750,098	486,154
Deferred income	15	16,309	89,519
Provisions	16	16,356	1,562
Total current liabilities		1,012,903	830,025
Non-current liabilities			
Trade and other payables	13	4,200	7,679
Other financial liabilities	14	3,112,633	3,633,384
Derivative financial instruments	30.1(i)(b),(ii)	10,492	6,650
Deferred income tax liability, net	17	531,844	479,660
Provisions	16	13,023	13,044
Total non-current liabilities		3,672,192	4,140,417
Total liabilities		4,685,095	4,970,442
Net equity	18		
Issued capital		1,646,503	1,646,503
Legal reserve		329,301	312,273
Unrealized net profit (loss) on hedging financial derivative instruments		279	331
Retained earnings		1,920,070	1,710,488
Total net equity		3,896,153	3,669,595
Total liabilities and net equity		8,581,248	8,640,037

The accompanying notes are an integral part of this statement.

Unión Andina de Cementos S.A.A.

Separate statement of income

For the years ended December 31, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Net sales	19	1,865,100	1,949,355
Cost of sales	20	(1,083,335)	(1,109,774)
Gross profit		781,765	839,581
Operating income (expenses)			
Administrative expenses	21	(197,299)	(154,422)
Selling expenses	22	(96,859)	(93,629)
Other operating income (expenses), net	24	226,792	159,580
Total operating expenses, net		(67,366)	(88,471)
Operating profit		714,399	751,110
Other income (expenses)			
Finance income	25	2,550	9,359
Finance cost	26	(228,356)	(230,179)
Exchange difference, net	30.1(ii)	(17,639)	(379,372)
Total other income (expenses), net		(243,445)	(600,192)
Profit before income tax		470,954	150,918
Income tax	17(b)	(158,726)	(20,332)
Net profit		312,228	130,586
Basic and diluted earnings per share (stated in thousands of Soles)	28	0.189	0.079

The accompanying notes are an integral part of this statement.

Unión Andina de Cementos S.A.A.

Separate statement of comprehensive income

For the years ended December 31, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Net profit		312,228	130,586
Other comprehensive income			
Changes in the fair value of hedging derivative financial instruments		(70)	689
Income tax effect	17(a)	18	(194)
Other comprehensive income, net of income tax	30.1(i)(a)	(52)	495
Total comprehensive income, net of income tax		312,176	131,081

The accompanying notes are an integral part of this statement.

Unión Andina de Cementos S.A.A.

Separate statement of changes in net equity

For the years ended December 31, 2016 and 2015

	Issued capital S/(000)	Legal reserve S/(000)	Unrealized net profit (loss) on hedging financial derivative instruments S/(000)	Retained earnings S/(000)	Total S/(000)
Balance as of January 1, 2015	1,646,503	299,214	(164)	1,678,579	3,624,132
Net profit	-	-	-	130,586	130,586
Changes in the fair value of hedging derivative financial instruments, net, note 30.1(i)(a)	-	-	495	-	495
Total comprehensive income	-	-	495	130,586	131,081
Transfer to legal reserve, note 18(b)	-	13,059	-	(13,059)	-
Dividends distribution, note 18(d)	-	-	-	(85,618)	(85,618)
Balance as of December 31, 2015	1,646,503	312,273	331	1,710,488	3,669,595
Net profit	-	-	-	312,228	312,228
Changes in the fair value of hedging derivative financial instruments, net, note 30.1(i)(a)	-	-	(52)	-	(52)
Total comprehensive income	-	-	(52)	312,228	312,176
Transfer to legal reserve, note 18(b)	-	17,028	-	(17,028)	-
Dividends distribution, note 18(d)	-	-	-	(85,618)	(85,618)
Balance as of December 31, 2016	1,646,503	329,301	279	1,920,070	3,896,153

The accompanying notes are an integral part of this statement.

Unión Andina de Cementos S.A.A.

Separate statement of cash flows

For the years ended December 31, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Operating activities			
Collections from customers		2,138,279	2,309,906
Payments to suppliers		(1,272,264)	(1,295,624)
Payments to employees		(164,600)	(172,216)
Income tax paid		(28,281)	(56,928)
Taxes paid		(133,700)	(124,143)
Interest paid		(234,264)	(225,180)
Dividends received	24(b)	116,180	127,615
Other collections (payments), net		21,014	45,586
Net cash flows provided by operating activities		442,364	609,016
Investing activities			
Repayment of share purchase	9(a)	-	5,250
Capital to subsidiaries	9(a)	(2,220)	(8,013)
Disbursements for works in progress	10(a)	(141,577)	(195,719)
Purchase of property, plant and equipment	10(a)	(5,940)	(94,254)
Purchase of intangible assets	12(a)	(4,444)	(5,482)
Net cash flows used in investing activities		(154,181)	(298,218)
Financing activities			
Obtaining short-term bank loans		112,698	350,000
Obtaining bonds and debt to banks long-term	14(k) and (i)	240,000	159,182
Payment of short-term bank loans		(112,376)	(88,105)
Payment of bonds and debt to banks long-term		(514,227)	(564,642)
Dividends paid	18(d)	(85,618)	(85,506)
Net cash flows used in financing activities		(359,523)	(229,071)
(Net decrease) Net increase in cash and cash equivalents of the year		(71,340)	81,727
Net exchange difference		(5,222)	(11,635)
Cash and cash equivalents at the beginning of the year		131,043	60,951
Cash and cash equivalents at the end of year		54,481	131,043
Transactions that do not represent cash flows -			
Allowance for inventory obsolescence		6,593	7,885
Capitalized interest	10(f)	13,126	13,048

The accompanying notes are an integral part of this statement.

1. **Identification and economic activity**

Unión Andina de Cementos S.A.A. (hereinafter "the Company") was incorporated in December 1967. The Company is a subsidiary of Sindicato de Inversiones y Administración S.A. (hereinafter "the Principal") which holds 43.40 percent of the Company's issued capital, which in turn is a subsidiary of Inversiones JRPR S.A., ultimate parent of the consolidated economic group. On July 24, 2012, the General Shareholders' Meeting approved to change the Company's name from Cementos Lima S.A.A. to Unión Andina de Cementos S.A.A.

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

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

The separate financial statements as of December 31, 2015 were approved by General Shareholders Meeting held on March 29, 2016. The separate financial statements as of December 31, 2016 were approved by Management on February 9, 2017 and will be presented for the approval of the Board of Directors and the Shareholders within the terms established by law. In Management's opinion, the accompanying financial separate statements will be approved without changes.

2. **Summary of significant accounting policies**

2.1 Basis of preparation -

The separate financial statements have been prepared in accordance to International Financial Reporting Standards (hereinafter "IFRS"), issued by the International Accounting Standards Board (the "IASB"), prevailing as of December 31, 2016 and 2015, respectively. In accordance with IFRS prevailing as of December 31, 2016, it is not necessary to prepare separate financial statements; but in Peru, companies are required to prepare them in compliance with the prevailing Law. For that purpose, the Company has prepared separate financial statements according to IAS 27, Consolidated and Separate Financial Statements. The financial statements are made public within the term established by the Superintendence of Securities Market (SMV for its acronym in Spanish).

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

Certain standards and amendments were in force for the annual periods beginning on January 1, 2016; however, they had no impact on the separate financial statement of the Company and, therefore, have not been disclosed. The Company has not yet early adopted any standards, interpretations and amendments issued, which is not yet effective.

2.2 Summary of significant accounting policies -

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

(a) Cash and cash equivalents -

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

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

(i) Financial assets -

Initial recognition and measurement -

Financial assets are classified, at the moment of initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognized on the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents and trade and other receivables.

Subsequent measurement -

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

- Financial assets at fair value through profit or loss;
- Loans and trade receivables;
- Held-to-maturity investments; and
- Available-for-sale financial investments

Financial assets at fair value through profit or loss -
Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives are also classified as held for trading, unless they are designated as effective hedging instrument as defined by IAS 39.

Financial assets at fair value through profit and loss are carried in the separate statement of financial position at fair value, and the change in fair value are recognized as finance income or finance cost in the separate statements of income.

Loans and receivables -
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less any impairment. The amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The amortization is recognized as interest income in the separate statements of income. The losses arising from impairment are recognized as finance cost in the separate statements of income.

Held-to-maturity investments -
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold them to maturity, see detail in note 9(a).

Available-for-sale financial investments -
Are those designated as such, as they are kept indefinitely and may be sold due to liquidity needs or changes in interest rates, exchange rates or equity prices; or not qualified to be classified as at fair value through separate statements of income or held to maturity.

After initial recognition, available-for-sale financial investments are measured at fair value. The unrealized gains or losses are recognized directly in the equity, under item “unrealized gains or losses”, net of deferred income tax. When the financial investment is sold, the cumulative gain or loss previously recognized under net equity is now recognized in the separate statements of income under item “Finance costs” or “Finance income”, accordingly.

Dividends earned throughout the investment timeframe are recognized in the separate statements of income when the right to collect is established.

The Company has not classified any financial asset as an available-for-sale financial assets as of December 31, 2016 and 2015.

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

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

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

(ii) Impairment of financial assets -
At the end of each reporting date, the Company evaluates whether there is any objective evidence that a financial asset or a group of financial assets is impaired in value. A financial asset or a group of financial assets are considered in value only if there is objective evidence of impairment of the value as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. The evidence of impairment could include indications that the debtors or a group of debtors have significant financial difficulty, default or delinquency in payment of main debt or interest, the probability that go bankrupt or take other form of financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as adverse changes in the conditions of default, or economic conditions that correlate with defaults.

Financial assets carried at amortized cost -

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the separate statements of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of financial income in the separate statement of income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the separate statement of income. See detail in Note 14.

(iii) Financial liabilities -

Initial recognition and measurement -

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, carried at amortized cost. This includes directly attributable transaction costs.

As of December 31, 2016 and 2015, the Company's financial liabilities include trade and other payables, other financial liabilities and derivative financial instruments.

Subsequent measurement -

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

Financial liabilities at fair value through profit or loss -

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes financial derivative instruments which are not designated as hedge instruments as required by IAS 39. The embedded derivatives are also classified as negotiable, unless they are designated as effective hedge instruments. Gains or losses on liabilities held for trading are recognized in the separate statement of income.

Loans and borrowings -

After their initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and loss are recognized in the separate statement of income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the separate statement of income. See details in Note 14.

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

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

(v) Fair value of financial instruments -
The Company measures financial instruments, such as, derivatives at fair value at each separate statement of financial position date. Also, the fair value of financial instruments measured at amortized cost is disclosed in note 31.

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

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

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

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

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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

The Company's Management determines the policies and procedures for both recurring fair value measurement. At each reporting date, the valuation committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

In note 31 provided an analysis of fair values of financial instruments and further details as to how they are measured.

Derivative financial instruments -
Initial recognition and subsequent measurement
The Company uses derivative financial instruments, such as forward currency contracts and interest rate swaps contracts, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The purchase contracts that meet the definition of a derivative under IAS 39 are recognized in the separate statements of income as finance costs and finance income. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

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

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

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

The Company expects that such hedges are to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Fair value hedges -
The change in the fair value of a hedging derivative is recognized in the separate statements of income as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the separate statement of income as finance costs.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

Cash flow hedges -
The effective portion of the gain or loss on the hedging instrument is recognized as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the separate statements of income as finance costs.

The Company uses swaps contracts as hedges of its exposure to interest rate risks in transactions. The ineffective portion relating to swaps contracts is recognized in finance costs, see details in Note 30.1.

Amounts recognized as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged finance income or finance cost is recognized or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

Hedges of a net investment in a foreign operation -
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges.

As of December 31, 2016 and 2015, the Company has no hedging instruments of a net investment in a foreign operation.

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

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

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

- It is expected to be settled within a normal operating cycle
- It is held primarily for trading purposes
- It is due to be settled within 12 months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

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

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

Transactions and balances in foreign currency -
Are considered foreign currency transactions those made in a currency other than the functional currency. Transactions in foreign currencies are initially recorded at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the functional currency using the Exchange rate ruling at the separate statement of financial position date. The

differences between the closing rate at the date of each separate statement of financial position presented and the exchange rate initially used to record the transactions are recognized in the separate statements of income in the period in which they occur in the caption "Exchange difference, net". Non-monetary assets and liabilities acquired in foreign currencies are translated at the exchange rate at the date of the initial transaction.

(e) Inventories -

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

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

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

- Inventory in transit –
  At purchase cost, specifically.

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

Management periodically evaluates the impairment and obsolescence of these assets. The estimation, if any, is recognized with charge to the profit and loss.

(f) Investments in subsidiaries -

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

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

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

As of December 31, 2016 and 2015, the Company presents the detail of investments in subsidiaries in the note 9.

(g) Borrowing costs -

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

(h) Leases -

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

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

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

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

As of December 31, 2016 and 2015, the Company presents the detail of financial lease in the note 14(a).

(i) Property, plant and equipment -

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

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

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

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

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

As of December 31, 2016 and 2015, the Company presents the detail of Property, plant and equipment in the note 10.

(j) Mining concessions -

Mining concessions correspond to the exploration rights in areas of interest acquired in previous years. Mining concessions are stated at cost, net of accumulated amortization and/or accumulated impairment losses, if any, and are presented within the “Mining concessions and property, plant and equipment, net”. Those mining concessions are amortized starting from the production phase following the units-of-production method based on proved reserves to which they relate. In the event the Company abandons the concession, the costs associated are written-off in the separate statement of income.

As of December 31, 2016 and 2015, the Company presents the detail of Mining concessions in the note 10.

(k) Intangible assets -

Goodwill -

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

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

Software and Licenses -

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

(l) Deferred stripping costs -

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

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

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

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

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

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

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

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

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

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

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

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

(o) Provisions -

General -

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

Mine closure provision -

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

(p) Contingencies –
Contingent liabilities are disclosed when the existence of the liability is confirmed by future events or when the amount of the liability cannot be measured reasonably. Contingent assets are not recognized in the financial statements, but they are disclosed when it is probable that economic benefits flow to the Company.

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

(r) Revenue recognition –
Revenues of ordinary activities are recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

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

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

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

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

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

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

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

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

- Where the liabilities for deferred income taxes arises from the initial recognition of goodwill, or from an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, does not affects neither the accounting profit nor taxable profit or loss; or

- Where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- When the deferred tax asset relating to deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, or

- In respect of deductible temporary differences associated with investments in subsidiaries and associates, where deferred assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

Mining Royalties and Special Tax on Mining in Peru -
Mining royalties and special mining tax are accounted for in accordance with IAS 12 because they have the characteristics of an income tax.

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

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

- Receivables and payables are stated with the general sales tax included.

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

(t) Earnings per share -
Basic and diluted earnings per share have been calculated based on weighted average of common shares at the date of the separate statement of financial position. As of December 31, 2016 and 2015, the Company has no dilutive financial instruments; therefore the basic and diluted earnings per share are the same.

(u) Reclassifications -
There are some transactions were reclassified in the presentation of the current year and, in Management's opinion, they are not significant to the separate financial statements as of December 31, 2015.

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

3. **Significant accounting judgments, estimates and assumptions**

The preparation of the separate financial statements requires management to make judgments, estimates and assumptions to determine the reportable figures of assets and liabilities, the disclosure of contingent assets and liabilities as of the separate financial statements date, and also the income and expenses balances for the years ended as of December 31, 2016 and 2015.

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

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

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

4. **New accounting standards**

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

- *IFRS 9 "Financial Instruments"*

  In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments" which reflects all phases of the financial instruments project and replaces IAS 39 and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but the provision of comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of IFRS 9 would have not significant effect on the classification and measurement of the Company's financial assets and liabilities

- *IFRS 15 "Revenues from Contracts with Customers"*

  IFRS 15 was issued in May 2014 and established a five-step model to be applied to those revenue from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the contractual consideration which has been agreed with the customer. The accounting principles in IFRS 15 provides a more structured approach to measure and recognize revenue approach. This new IFRS on income will apply to all entities, and replace all the requirements of revenue recognition under IFRS. It required a full or modified retrospective application for those annual periods beginning on January 1, 2018, and its adoption is permitted in advance. The Company is currently assessing the impact of IFRS 15 on its financial statements and plans to adopt this new standard on the required effective date. The Company is currently assessing the impact of IFRS 15 on its separate financial statements and plans to adopt this new standard on the required effective date.

- *IFRS 16 "Leases"*

  IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. This new IFRS is required to apply for those annual periods beginning on January 1, 2019, and is allowed to be adopted in advance. The Company is currently assessing the impact of IFRS 16 on its separate financial statements and expects to adopt this new standard on the required effective date.

5. Foreign currency transactions

Foreign currency transactions are made at free market exchange rates published by the Superintendence of Banks, Insurance and Private Funds. As of December 31, 2016, the weighted average market exchange rate for transactions in Soles published by the Superintendence of Banks, Insurance and Private Pension Funds was S/3.352 for buying and S/3.360 for selling (S/3.408 for buying and S/3.413 for selling as of December 31, 2015), respectively.

As of December 31, 2016 and 2015, the Company had the following assets and liabilities in U.S. Dollars:

	2016		2015	
	US$(000)	Equivalent in S/(000)	US$(000)	Equivalent in S/(000)
Asset				
Cash and cash equivalents	10,138	33,984	15,040	51,255
Trade and other receivables, net	44,487	149,121	10,709	36,498
	54,625	183,105	25,749	87,753
Liabilities				
Trade and other payables	(15,824)	(53,169)	(24,283)	(82,876)
Other financial payables	(825,907)	(2,775,047)	(788,961)	(2,692,727)
	(841,731)	(2,828,216)	(813,244)	(2,775,603)
Derivative financial instruments of exchange rate	(3,123)	(10,492)	(1,977)	(6,743)
Net liability position	(790,229)	(2,655,603)	(789,472)	(2,694,593)

6. Cash and cash equivalents

(a) This item is made up as follows:

	2016 S/(000)	2015 S/(000)
Petty cash	847	761
Current accounts (b)	12,066	72,023
Time deposits (c)	41,568	58,259
	54,481	131,043

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

(c) Corresponds to time deposits in domestic banks, denominated in local and foreign currency which earn interest at market rates and have original maturities less than 3 months.

7. Trade and other receivable, net

(a) This item is made up as follows:

	Current		Non-current	
	2016 S/(000)	2015 S/(000)	2016 S/(000)	2015 S/(000)
Trade accounts receivable, (b)	64,509	72,198	-	85
Accounts receivable from related parties, note 27(c)	219,803	116,367	-	-
Claims to third parties	10,846	5,425	2,922	3,853
Advances to suppliers	8,147	14,905	-	-
Loans to employees (d)	4,092	6,560	12,225	5,663
Derivative financial instruments, note 30.1(i)	396	460	-	-
Other accounts receivable	15,702	13,524	-	-
	323,495	229,439	15,147	8,670
Advance payments of income tax (c)	1,469	62,211	-	-
Claims to Tax Authority (e)	-	-	38,399	38,399
	1,469	62,211	38,399	38,399
Less – Allowance for doubtful accounts (f)	(3,370)	(1,971)	-	-
	321,594	289,679	53,546	47,069

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

(c) As of December 31, 2016 and 2015, corresponds to advance payments of income tax, paid on those dates, in addition to payments of temporary tax on net assets, and credit from public works tax deduction.

In Management's opinion, the credit from income taxes will be applied to future taxes generated in the current period.

(d) As of December 31, 2016 and 2015 corresponds mainly to loans to employees, which will be collected within four years according to the agreements signed by the Company. On March 2016, the Company granted loans to the employees an amounting to S/4,295,000. As of December 31, 2016 and 2015, the current portion of the receivable to employees amounts to approximately S/4,092,000 and S/6,560,000, respectively.

(e) As of December 31, 2016 and 2015 corresponds mainly to claims submitted to the Tax Authority for the return of overpayments of income tax and selective excise of previous year, see note 29.4.

In Management´s opinion, these funds will be recovered in long term.

(f) The aging analysis of trade receivables and other as of December 31, 2016 and 2015 is as follows:

	As of December 31, 2016		
	Non-impaired S/(000)	**Impaired** S/(000)	**Total** S/(000)
Outstanding -	184,248	-	184,248
Past due -			
- Up to 1 month	39,250	-	39,250
- From 1 to 3 months	12,715	-	12,715
- From 3 to 6 months	121,218	-	121,218
- More than 6 months	16,240	3,370	19,610
Total (*)	373,671	3,370	377,041

	As of December 31, 2015		
	Non-impaired S/(000)	Impaired S/(000)	Total S/(000)
Outstanding -	199,871	-	199,871
Past due -			
- Up to 1 month	15,442	-	15,442
- From 1 to 3 months	17,236	-	17,236
- From 3 to 6 months	22,272	-	22,272
- More than 6 months	19,716	1,971	21,687
Total (*)	274,537	1,971	276,508

(*) The balance does not include payments of income tax by approximately S/1,469,000 and S/62,211,000 as of December 31, 2016 and 2015, respectively.

In the note 30.2, related to credit risk and accounts receivable, it is explained how the Company manages and measures the credit risk of the trade receivables that are neither expired nor impaired.

(g) The movement of the allowance for doubtful trade and other receivable for the years ended December 31, 2016 and 2015 was as follows:

	2016 S/(000)	2015 S/(000)
Opening balance	1,971	1,768
Provision	1,442	-
Exchange difference	(43)	203
Ending balance	3,370	1,971

In Management's opinion, the allowance for doubtful accounts adequately covers the credit risk as of December 31, 2016 and 2015.

8. Inventories

(a) This item is made up as follows:

	2016 S/(000)	2015 S/(000)
Finished goods	20,521	16,349
Work in progress (b)	252,634	257,182
Raw and auxiliary materials (c)	180,399	182,525
Packages and packing	30,316	24,891
Spare parts and supplies (d)	208,352	193,546
	692,222	674,493
Allowance for inventory obsolescence, note 20 and (e)	(6,593)	(7,885)
	685,629	666,608

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

(c) Raw and auxiliary materials mainly include imported and domestic coal. As of December 31, 2016, the Company has in stock coal for approximately S/66,261,0000 (S/49,607,000 as of December 31, 2015). In addition, as of December 31, 2016 and 2015, the Company has remained in the store Drake Cement LLC (Company´s subsidiary) Clinker for approximately S/58,920,000 and S/58,882,000, respectively.

(d) As of December 2016 and 2015, the Company maintains no significant and critical supplies parts to provide maintenance machinery and kiln of plants Atocongo and Condorcocha; these plants are evaluated through technical reviews, and comply with the provisions of quality and are in proper storage conditions.

(e) In opinion of Company's Management, the allowance for obsolescence of inventories covers appropriately its obsolescence risk as of December 31, 2016 and 2015.

9. Investments in subsidiaries and other

(a) This item is made up as follows:

	Economic activity	Country	Share participation		Carrying book value	
			2016	2015	2016	2015
			%	%	S/(000)	S/(000)
Investments in subsidiaries:						
Inversiones Imbabura S.A.	Holding	Peru (subsidiary in Ecuador)	99.99	99.99	1,516,724	1,516,724
Skanon Investments Inc.	Cement and Concrete	Unites States	85.05	85.05	1,025,145	1,025,145
Compañía Eléctrica El Platanal S.A.	Electrical Energy	Peru	90.00	90.00	567,829	567,829
Inversiones en Concreto y Afines S.A.	Holding	Peru	93.38	93.38	67,036	67,036
Transportes Lurín S.A.	Services	Peru	99.99	99.99	64,250	64,250
Prefabricados Andinos S.A.	Precast	Chile	51.00	51.00	20,021	20,021
Prefabricados Andinos Perú S.A.C.	Precast	Peru (subsidiary in Colombia)	50.02	50.02	17,537	17,537
Depósito Aduanero Conchán S.A.	Services	Peru	99.99	99.50	2,783	563
Minera Adelaida S.A.	Holding	Peru	99.99	99.99	2,461	2,461
Generación Eléctrica de Atocongo S.A.	Services	Peru	99.85	99.85	125	125
Other:						
Ferrocarril Central Andino S.A.	Services	Peru	16.49	16.49	7,567	7,567
Others					224	224
					3,291,702	3,289,482
Allowance for impairment of investments (b)					(28,725)	(28,725)
					3,262,977	3,260,757

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

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

- Inversiones Imbabura S.A. (IMBABURA)
  It is a company incorporated on July 2014. The main activity is the investment in values in companies established in Ecuador, mainly, dedicated to related activities with the cement industry, the supply of pre-mixed concrete, building materials and related activities.

  On November 25, 2014, Imbabura acquired 98.57 percent of the shares representing capital of UNACEM Ecuador S.A. ("UNACEM Ecuador") and subsidiaries and thereby acquired the control on it; whose economic activity is the production and sale of cement in Ecuador.

  On December 2014, IMBABURA acquired a 0.32 percent additional of the shares with right to vote of UNACEM Ecuador, increasing its participation to 98.89 percent.

In 2015, the Company made a capital contribution of approximately US$327,000 (equivalent to S/989,000), with which obtained 1,231 shares representing the capital of UNACEM Ecuador.

On March 9, 2015, the Company Finlatam Vermögensverwaltungs GmbH German, owned by Lafarge S.A., made a refund through IMBABURA by initial valuation adjustment of approximately US$ 1,693,000 (equivalent to S/5,250,000).

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

  During 2015, the Company made a capital contribution of approximately US$2,073,000 (equivalent to S/6,197,000), with which obtained 2,198,619 shares representing the capital of the subsidiary.

- Compañía Eléctrica El Platanal S.A. - CELEPSA
  It is a company incorporated in Lima in December 2005. It is dedicated to the generation and sale of electricity, using water resources, geothermal and thermal, as well as to the operation of its property and facilities in general. CELEPSA directly and indirectly the 100 percent of participations of the shares of capital Hidroeléctrica Marañón S.R.L. – HIDROMARAÑON, proprietary company of Hidroeléctrica Marañon project, located on the river whit the same name near the town Nuevas Flores, department of Huánuco. As of December 31, 2016, the project is in pre-operative stage and will begin its commercial operations in the year 2017.

- Inversiones en Concreto y Afines S.A. - INVECO
  It is a company incorporated in Lima in April 1996, dedicated to investing in companies principally engaged in supplying concrete ready-mix, building materials and related activities, through its subsidiary Unión Concreteras S.A.-UNICON, on which holds a participation of 99.90 percent, which is also the owner in 99.90 percent of Concremax S.A.-CONCREMAX, dedicated to the same activity.

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

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

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

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

In 2016, the Company performed new capital contribution of approximately S/2,220,000 in Depósito Aduanero Conchán S.A. (during 2015, the Company performed new capital contributions for approximately S/156,000, S/172,000 and S/500,000 in Transportes Lurín S.A., Minera Adelaida S.A. and Depósito Aduanero Conchán S.A., respectively).

(b) As of December 31, 2016 and 2015, the Company´s Management expect than the allowance for impairment of investments to S/28,725,000 mainly related to Transportes Lurín S.A.

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

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

	Mining concessions (b) S/(000)	Land S/(000)	Mine closure S/(000)	Buildings and constructions S/(000)	Other installations S/(000)	Machinery and equipment S/(000)	Transportation units S/(000)	Furniture and fixtures S/(000)	Other equipment S/(000)	Units in transit S/(000)	Work in progress (d) S/(000)	Total S/(000)
Cost -												
As of January 1, 2015	34,633	568,326	5,987	718,972	58,254	2,545,733	23,822	17,091	58,222	7,234	501,938	4,540,212
Additions	7,072	5,383	3,642	-	-	264	304	50	1,242	-	285,064	303,021
Transfers	-	12,514	-	20,340	1,753	34,765	-	-	1,723	(7,234)	(63,861)	-
Withdrawals	-	-	-	-	-	(434)	(93)	-	-	-	-	(527)
As of December 31, 2015	41,705	586,223	9,629	739,312	60,007	2,580,328	24,033	17,141	61,187	-	723,141	4,842,706
Additions (d)	1,836	-	575	-	1,852	-	1,012	81	584	-	154,703	160,643
Transfers	-	-	-	164,858	28,794	157,996	-	-	183	-	(351,831)	-
Withdrawals	-	-	-	-	-	-	(622)	-	-	-	38	(584)
As of December 31, 2016	43,541	586,223	10,204	904,170	90,653	2,738,324	24,423	17,222	61,954	-	526,051	5,002,765
Accumulated depreciation -												
As of January 1, 2015	9,993	-	3,012	108,794	43,292	402,990	14,157	14,325	38,468	-	-	635,031
Period depreciation (e)	267	-	368	28,802	1,467	144,145	3,031	586	3,688	-	-	182,354
Withdrawals	-	-	-	-	-	-	(84)	-	-	-	-	(84)
As of December 31, 2015	10,260	-	3,380	137,596	44,759	547,135	17,104	14,911	42,156	-	-	817,301
Period depreciation (e)	267	-	1,238	34,204	4,353	149,686	2,622	515	3,523	-	-	196,408
Withdrawals	-	-	(1)	-	-	(21)	(470)	-	-	-	-	(492)
As of December 31, 2016	10,527	-	4,617	171,800	49,112	696,800	19,256	15,426	45,679	-	-	1,013,217
Net book value -												
As of December 31, 2016	33,014	586,223	5,587	732,370	41,541	2,041,524	5,167	1,796	16,275	-	526,051	3,989,548
As of December 31, 2015	31,445	586,223	6,249	601,716	15,248	2,033,193	6,929	2,230	19,031	-	723,141	4,025,405

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

(b) As of December 31, 2016 and 2015, corresponds mainly to the concessions of the quarries of Atocongo, Atocongo Norte, Pucará and Oyón.

(c) As of December 31, 2016, the carrying value of fixed assets acquired through finance leases amounted to approximately S/474,207,000 (S/507,714,000 as of December 2015). The leased assets guaranteed financial lease liabilities, see note 14(d).

(d) The main additions during the years 2016 and 2015 correspond to the projects at the plant Condorcocha, related to Carpapata III hydroelectric plant, Cement Mill VIII and packing machine V for approximately S/94,177,000 and S/252,236,000, respectively.

On May 2016, the Company finished the construction and started the use of the projects Cement Mill VIII and packing machine V located at the plant Condorcocha by a cost of approximately S/322,996,000, which were transferred from work in progress a to its correspondent classification in the item "Mining concessions and property, plant and equipment, net".

(e) The depreciation for the years 2016 and 2015 was distributed as follows:

	2016 S/(000)	**2015** S/(000)
Cost of sales, note 20	188,801	175,307
Administrative expenses, note 21	5,469	5,738
Work-in-process	2,138	1,309
	196,408	182,354

(f) The amount of borrowing costs capitalized during the period ended December 31, 2016 was approximately S/13,126,000 (S/13,048,000 as of December 31, 2015), which are related to qualified assets. Interest rates used to determine the amount of borrowing costs eligible for capitalization were between 5.55 percent as of December 31, 2016 (5.56 percent as of December 31, 2015), see note 14(o).

(g) As of December 31, 2016 and 2015, the Company's Management in basis to its evaluation on the condition of use, the Company has not identified an impairment loss of value for assets for which, in its opinion, the net book value of the assets are recoverably with the futures profits that generate the Company.

(h) In Management's opinion, the Company has insurance policies to adequately cover all of its fixed assets.

11. Deferred stripping cost

(a) This item is made up as follows:

	S/(000)
Cost -	
As of January 1, 2015	164,502
Additions	410
As of December 31, 2015	164,912
Additions	-
As of December 31, 2016	164,912
Accumulate depreciation-	
As of January 1, 2015	(28,550)
Additions, note 20	(4,699)
As of December 31, 2015	(33,249)
Additions, note 20	(4,531)
As of December 31, 2016	(37,780)
Net book value -	
As of December 31,2016	127,132
As of December 31,2015	131,663

As of December 31, 2016 and 2015, the Company has three identifiable components that allow a specific volume of limestone quarries and waste. Atocongo quarry; North Atocongo and Pucará quarry.

As of December 31, 2016, the Company and its technical advisors determined 175,495,000 and 156,142,000 tons of limestone reserves and related waste limestone to be extracted in the future, respectively (179,729,000 and 157,375,000 tons at December 31, 2015, respectively), which are determined and controlled by identifiable component.

Limestone production and removal of waste during 2016 was 4,233,929 and 1,233,089 tons, respectively from quarries Atocongo; North Atocongo and Pucará. The cost for the preparation of quarries for waste removal 2016 amounts to approximate S/5,189,000 (S/6,486,000 as of December 31, 2015), see note 20.

12. Intangible assets, net

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

	Concession for electricity generation (b) S/(000)	Goodwill (c) S/(000)	Software S/(000)	Environmental protection program S/(000)	Others S/(000)	Total S/(000)
Cost -						
As of January 1, 2015	61,330	9,745	11,953	17,071	5,974	106,073
Additions	-	-	5,061	-	421	5,482
Withdrawals	-	-	-	-	(325)	(325)
As of December 31, 2015	61,330	9,745	17,014	17,071	6,070	111,230
Additions	-	-	2,358	-	2,086	4,444
As of December 31, 2016	61,330	9,745	19,372	17,071	8,156	115,674
Accumulated amortization -						
As of January 1, 2015	7,105	-	3,229	16,797	348	27,479
Amortization of the year, note 24	1,484	-	2,282	37	13	3,816
As of December 31, 2015	8,589	-	5,511	16,834	361	31,295
Amortization of the year, note 24	1,484	-	2,931	237	559	5,211
As of December 31, 2016	10,073	-	8,442	17,071	920	36,506
Net book value -						
As of December 31, 2016	51,257	9,745	10,930	-	7,236	79,168
As of December 31, 2015	52,741	9,745	11,503	237	5,709	79,935

(b) This amount corresponds to the expenditures to develop the overall project "El Platanal" consisting of the construction of two hydroelectric reservoirs and a system for the irrigation of uncultivated lands, and also to obtain the final concession to develop the activity of electricity generation, which was obtained by the Company, through Supreme Resolution N°130-2001-EM, dated July 25, 2001. On September 12, 2006, the transfer of the concession and the assignment of use of the "El Platanal" project to its subsidiary Compañía Eléctrica El Platanal S.A. (CELEPSA) was approved by Supreme Resolution N°053-2006-EM for a period of 25 years from March 30, 2011, whereby the Company receives royalties in exchange equivalent to 3.55 percent of net monthly income obtained by CELEPSA, on sales of energy and power to third parties. As of December 31, 2016 and 2015, the Company amortizes the cost incurred to develop the project, during the term of the contract (25 years).

(c) Effective 2003, the Company acquired 100 percent of the shares representing the capital stock of Lar Carbón S.A. The acquisition was recorded using the purchase method, by means of which the Company recorded adjustments to its separate financial statements to reflect the assets and liabilities acquired at their fair values at the acquisition date. As a result of this acquisition, the Company recognized goodwill of S/9,745,000 and later in 2011 such Company was merged by absorption.

The recoverable amount of coal grinding plant (generating unit) is established on the basis of calculation of value in use, which uses projections of cash flows on preliminary financial budgets prepared by Management covering a 5-year period, calculated on the resource base. As a result of this analysis, no impairment loss on this unit was found. Management believes that there will not be significant changes in estimated production volumes, which would produce that the book value of these assets exceeds its recoverable value. The Company has projected its operating costs in relation to their current cost of coal grinding. In relation to the assessment of value in use of the cash-generating unit, Management believes that no reasonable change in assumptions would cause the carrying amount of the unit exceeds its recoverable amount significantly.

13. Trade and other payable

(a) This item is made up as follows:

	Current		Non-current	
	2016 S/(000)	2015 S/(000)	2016 S/(000)	2015 S/(000)
Trade accounts payable (b)	90,304	126,591	-	-
Accounts payable from related parties, note 27(c)	70,890	46,320	4,200	7,679
Interest payable, note 14 (c) and (n)	35,095	39,211	-	-
Salaries and vacation payable	14,148	13,963	-	-
Value Added Tax payable	7,017	12,960	-	-
Dividends payable	246	246	-	-
Board compensation payable	2,587	172	-	-
Other accounts payable	9,853	13,327	-	-
	230,140	252,790	4,200	7,679

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

14. Other financial liabilities

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

	2016			2015		
	Short-term S/(000)	Long-term S/(000)	Total S/(000)	Short-term S/(000)	Long-term S/(000)	Total S/(000)
Bank loans (b) and (c)	368,309	335,894	704,203	134,030	652,786	786,816
Bonds and long-term debt (d)	381,789	2,776,739	3,158,528	352,124	2,980,598	3,332,722
	750,098	3,112,633	3,862,731	486,154	3,633,384	4,119,538

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

(b) Bank loans mainly correspond to loans for working capital at fixed annual rates that range from 3.65 to 5.85 percent, do not have specific guarantees and are renewed depending on the needs of working capital from the Company. As of December 31, 2016 and 2015, the balance per bank consists of:

	2016 S/(000)	2015 S/(000)
Creditor -		
Citibank N.A. New York	312,480	258,466
Banco Santander Uruguay	164,640	167,236
BBVA Banco Continental	133,333	200,000
Scotiabank Perú S.A.	93,750	131,250
ITAU UNIBANCO S.A.	-	29,864
	704,203	786,816

(c) As of December 31, 2016 and 2015, the interest payable amounts to approximately S/6,731,000 and S/8,214,000, respectively, and are recorded in the caption "Trade and other payable" of the separate statement of financial position, see note 13(a). As of December 31, 2016 and 2015, the interest expenses amounted to approximately S/39,159,000 and S/43,171,000, respectively, and are included in the caption "Financial costs" of the separate statement of income, see note 26.

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

	Annual interest rate %	Maturity	Guarantee	2016 S/(000)	2015 S/(000)
Bonds -					
International bonds (e) and (m)	5.875	October 2021	No guarantees	2,100,000	2,133,125
First and third issuance of the second program (f) y (l)	Between 4.93 and 5.16	March 2020 and 2023	No guarantees	120,000	180,000
First and third issuance programs (g) y (l)	6.25	January 2018	No guarantees	28,224	47,781
				2,248,224	2,360,906
Amortized cost				(21,837)	(25,617)
				2,226,387	2,335,289
Bank debt (l) -					
Banco Internacional del Perú	Between 5.25 and 6.24	July 2017 and March 2019	No guarantees	204,668	242,583
Banco de Crédito del Perú (i)	Between 5.90 and 6.60	April 2019 and February 2020	No guarantees	174,819	182,072
Bank of Nova Scotia	Between Libor 3 months plus 2.35 and 2.40	August and September 2018	No guarantees	124,180	183,591
BBVA Banco Continental (k)	6.25	November 2021	No guarantees	120,000	-
Scotiabank Perú S.A. (k)	6.25	December 2021	No guarantees	120,000	-
BBVA Banco Continental	4.35 and 5.40	June 2017 and July 2018	No guarantees	32,061	62,489
Banco de Crédito e Inversiones	2.45	July 2016	No guarantees	-	59,728
				775,728	730,463
Amortized cost				(3,986)	(4,893)
				771,742	725,570
Finance leases -					
Banco de Crédito del Perú (h) y (l)	6.52	February 2018	Leased goods	114,876	200,463
Banco Internacional del Perú (j) y (l)	5.80	October 2018	Leased goods	45,523	71,400
				160,399	271,863
Total				3,158,528	3,332,722
Less - Current portion				381,789	352,124
Non-current portion				2,776,739	2,980,598

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

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

On March and December 2013, the Company placed the First, Second and Third Issuance of the Second Program of Corporate Bonds for a total amount S/60,000,000 each. On December 2016, the Third Issuance of the Second Program was canceled in full.

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

On June 17, 2009, the Company signed, as Debtors' Representative, the agreement and prospect framework with Banco de Crédito del Perú for the "First Program of Corporative Bonds". On January 21, 2010 the Company placed the first and third issuance for US$$7,000,000 and US$28,000,000. In January 2013, the first issuance was canceled in full. As of December 31, 2016, the third issuance is partially canceled, outstanding of payment US$8,400,000.

(h) On December 17, 2008, the Company signed a financial leasing agreement with Banco de Crédito del Perú (BCP), by amount of US$187,000,000, for the construction of the kiln 4 at Condorcocha plant, located in Junin.

In March 13, 2015, the balance of financing amount to US$84,832,000, that initially was in foreign currency was modified by a financing in local currency with an interest rate of 6.52 percent and a term of three years with quarterly quotas.

As of December 31, 2016, the net book value of the kiln 4 assets is approximately S/491,552,000 (S/528,461,000 as of December 31, 2015), which guarantee the financing described.

(i) On August 12, 2015, the Company entered into with Banco de Crédito del Perú (BCP) a medium-term loan agreement of S/150,000,000 for construction, equipment, installation and commissioning of the hydroelectric plant Carpapata III. The term of the loan is four and a half years and accrues interest at an effective annual interest rate of 5.90 percent.

(j) On May 19, 2010, the General Shareholders Meeting agreed to approved the lease agreement to increase the production capacity with Banco Internacional del Perú (Interbank), this project increase the production capacity of kiln 1 plant from 3,200 to 7,500 tones clinker/daily, located in Atocongo. The Company completed the project in the year 2013.

As of December 31, 2016, the net book value of the assets of the extension of kiln 1 at the Condorcocha plant is approximately S/555,016,000 (S/584,891,000 as of December 31, 2015), which guarantee the described financing.

(k) On November 30, 2016, the Company signed two financing contracts, each by S/120,000,000, with Scotiabnk Perú and BBVA Continental, both for a term of five years with a grace period of eighteen months and fourteen write-offs quarterly, with the purpose of refinancing short-term financial debt.

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

As of December 31, 2016, the main financial safeguards that the Company maintains with each financial entity fluctuate between the following rates and indexes:

- Maintain an index debt minor or equal to 1.5 times.
- Maintain a rate of hedge of debt service major o equal between 1.2 to 1.25 times.
- Maintain a rate of hedge of interest major o equal between 3.0 to 4.0 times.
- Maintain an index of hedge of debt o financial debt/EBITDA minor or equal between 4.25 and 4.50.

In Management's opinion, the Company has complied with financial covenants requested for financial entities related to these obligations as of December 31, 2016 and 2015.

(m) Clauses of incurrences in issuance contracts of foreign bonds, note 14(e)
The contract contains certain clauses that restrict the capacity of the Company and of its subsidiaries, among other:

- Consolidate, merge or transfer substantially all the assets.
- Pay dividends or perform any other type of payment or restricted distribution.
- Sell assets, including share capital of its subsidiaries.
- Perform operations with related parties that are not restricted subsidiaries.
- Create limitations in the capacity of its restricted subsidiaries to pay dividends, perform loans.
- Transfer of the ownership of the Company.
- Incur charges.
- Participate in any business that is not an allowed business.
- Obtain additional debt, for which should:
  (i) Maintain a Consolidated Fixed Charge Coverage Ratio equal or greater than 2.5 to 1.0.

(ii) Maintain Consolidated Leverage Ratio (net Financial Debt/EBITDA) equal o minor of 4 until 1, in the case of the incurred debt before of December 2015, and 3.5 until 1 thereafter.

In Management's opinion, the Company has been fulfilling with the restricted includes in the contract of issuance of foreign bonds as of December 31, 2016 and 2015.

(n) As of December 31, 2016 and 2015, interests payable related to bonds and long-term debt are amounted to approximately S/28,364,000 and S/30,997,000, respectively and are recorded in the caption "Trade and other payable", of the separate statement of financial position, note 13(a).

(o) Interests generated by Bonds and long-term loans as of December 31, 2016 and 2015, amounting approximately S/168,016,000 and S/167,265,000, respectively are included in the caption "Financial costs" in the separate statement of income, note 26. From the total interests generated in the year 2016 and 2015 were capitalized approximately S/13,126,000 and S/13,048,000 and are included in the caption "Property, plant and equipment, net" of the separate statement of financial position, see note 10(f).

15. Deferred income

As of December 31, 2016, mainly correspond to sales of cement and clinker invoiced and not delivered, amounting to approximately S/16,309,000 which will be conducted in the first quarter of year 2017 (S/89,519,000 as of December 31, 2015 sales of cement delivered during first quarter of the 2016).

16. Provisions

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

	Current		Non-Current	
	2016 S/(000)	2015 S/(000)	2016 S/(000)	2015 S/(000)
Severance indemnities	1,467	1,318	-	-
Provision for mine closure (c)	201	244	13,023	13,044
Workers' profit sharing (b)	14,688	-	-	-
	16,356	1,562	13,023	13,044

(b) Workers' profit sharing –

In accordance with Peruvian legislation, the Company maintains an employee profit sharing plan of 10 percent of annual taxable income. Distributions to employees under the plan are based 50 percent on the number of days that each employee worked during the preceding year and 50 percent on proportionate annual salary levels. During the years 2016 and 2015, the Company recognized an expense approximately to S/33,005,000 y S/16,806,000, respectively, see note 23(a).

(c) Provision for mine closure -

As of December 31, 2016 and 2015, the Company maintains a provision for future closure costs of its mines to be occur between 12 and 38 years. The provision was created on the basis of studies conducted by internal specialists using a discount rate. Based on the current economic environment, Management adopted certain assumptions which are considered reasonable to make an estimation of future liabilities. These estimates are reviewed annually to take into account any significant change in the assumptions. However, the actual costs of mine closure finally depend on future market prices for the necessary works of abandonment that will reflect market conditions at the relevant time. In addition, the actual closing time depends on when the mines ceases to produce economically viable products.

17. Deferred income tax liability, net

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

	As of January 1, 2015 S/(000)	Statement of income S/(000)	Charge to equity S/(000)	Other S/(000)	As of December 31, 2015 S/(000)	Statement of income S/(000)	Charge to equity S/(000)	As of December 31, 2016 S/(000)
Deferred liability								
Differences on fixed assets tax bases	413,992	14,433	-	(243)	428,182	35,285	-	463,467
Stripping cost	36,708	(1,201)	-	-	35,507	1,997	-	37,504
Capitalized interests	30,536	1,969	-	-	32,505	4,470	-	36,975
Exchange difference on leasing's	4,704	(1,878)	-	-	2,826	(642)	-	2,184
Amortization of intangible assets	1,982	604	-	-	2,586	1,311	-	3,897
Amortization of software	2,282	(515)	-	20	1,787	(592)	-	1,195
Deferred commissions related to bonds and long-term debt with financial entities	8,721	-	-	(8,721)	-	-	-	-
	498,925	13,412	-	(8,944)	503,393	41,829	-	545,222
Deferred asset								
Deferred income (net)	(16,584)	3,713	-	1,148	(11,723)	10,216	-	(1,507)
Provision for vacation	(2,971)	454	-	226	(2,291)	(807)	-	(3,098)
Derivative financial instruments	(1,666)	(186)	194	125	(1,533)	(1,425)	(18)	(2,976)
Provision for mine closure	(2,865)	1,576	-	(14)	(1,303)	(773)	-	(2,076)
Depreciation charged to inventories	-	(1,211)	-	-	(1,211)	1,211	-	-
Workers' profit sharing charged to inventories	71	(750)	-	237	(442)	393	-	(49)
Other provisions	(2,374)	(1,384)	-	(1,472)	(5,230)	1,558	-	(3,672)
	(26,389)	2,212	194	250	(23,733)	10,373	(18)	(13,378)
Deferred income tax liability, net	472,536	15,624	194	(8,694)	479,660	52,202	(18)	531,844

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

(b) The current and deferred portions of income tax for the years ended 2016 and 2015 are comprised as follows:

	2016 S/(000)	2015 S/(000)
Current	(106,524)	(4,708)
Deferred	(52,202)	(15,624)
	(158,726)	(20,332)

(c) The table below presents the conciliation of the effective tax rate and the legal tax rate for the years 2016 and 2015:

	2016 S/(000)	%	2015 S/(000)	%
Profit before income tax	470,954	100.00	150,918	100.00
Income tax according tax rate	131,867	28.00	42,257	28.00
Tax effect on permanent items	(34,336)	(72.90)	(21,925)	(14.53)
Effect of exchange rate in the income tax, note 29.3(a)	61,195	13.00	-	-
Expense for income tax	158,726	(31.90)	20,332	13.47

In December 2016, the Peruvian Government approved a modification of the rate of income tax, see note 29.3(a).

18. Equity

(a) Capital issued–

As of December 31, 2016 and 2015, the capital stock is represented by 1,646,503,408 common shares totally subscribed and paid at a nominal value of S/1 per share. The common shares representing the Company's capital stock are traded on the Lima Stock Exchange.

Shareholders	Number of shares	Percent of participation %
Sindicato de Inversiones y Administración S.A.	714,311,308	43.38
Inversiones Andino S.A.	399,979,008	24.29
AFPs	356,994,802	21.68
Others	175,218,290	10.65
	1,646,503,408	100.00

As of December 31, 2016, the share price of each share has been S/2.56 (S/1.70 as of December 31, 2015).

(b) Legal reserve -

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

(c) Unrealized net profit (loss) on hedging financial instruments –
Corresponds to the fair value changes on hedging financial instruments, net of its corresponding tax effect.

(d) Dividend distributions –
The Board of Directors meetings held on January 29, April 29, July 22 and October 28, 2016, agreed to distribute dividends with charge to retained earnings for approximately S/85,618,000 (S/0.052 per common share), such payments were made on March 2, July 1, August 26 and December 5, 2016 respectively.

At the Board of Directors meetings held on January 23, April 17, July 17, October 23, 2015, the Company agreed to distribute dividends with charge to retained earnings for approximately S/85,618,000 (S/0.052 per common share), such payments were made on February 24, May 20, August 24 and November 25, 2015 respectively.

19. Net sales

(a) This item is made up as follows:

	2016 S/(000)	2015 S/(000)
Cement	1,783,212	1,846,731
Concrete blocks, bricks and pavers	52,477	55,794
Clinker	29,411	46,830
	1,865,100	1,949,355

20. Cost of sales

This item is made up as follows:

	2016 S/(000)	2015 S/(000)
Beginning balance of finished goods and work in process, note 8(a)	273,531	205,136
Cost of production:		
Fuel	209,446	237,829
Depreciation, note 10(e)	188,801	175,307
Power	93,812	120,779
Consumption of raw material	88,210	111,072
Personnel expenses, note 23(b)	114,203	96,356
Packaging	72,130	79,249
Stripping costs, note 11	5,189	6,486
Depreciation for stripping cost, note 11	4,531	4,699
Other manufacturing expenses	307,929	338,507
Ending balance of finished goods and work in process, note 8(a)	(273,155)	(273,531)
	1,084,627	1,101,889
Provision for inventory obsolescence– note 8(e)	(1,292)	7,885
	1,083,335	1,109,774

21. Administrative expenses

This item is made up as follows:

	2016 S/(000)	2015 S/(000)
Personnel expense, note 23(b)	62,603	47,201
Management services, note 27(b)	56,573	18,191
Services rendered by third parties	35,051	32,277
Grants	16,567	17,235
Taxes	10,618	20,604
Depreciation, note 10(e)	5,469	5,738
Mine royalty, note 29.5	3,222	3,966
Others	7,196	9,210
	197,299	154,422

22. Selling expenses

(a) This item is made up as follows:

	2016 S/(000)	2015 S/(000)
Sales commissions (b)	43,048	45,749
Advertising and marketing	36,317	35,051
Personnel expenses, note 23(b)	5,052	4,015
Warehouse managing services	1,756	3,075
Other	10,686	5,739
	96,859	93,629

(b) In 2016, the Company mainly had a decreased in the volume of dispatch over previous period, as a result the cement sales commissions declined.

23. Personnel expenses

(a) This item is made up as follows:

	2016 S/(000)	2015 S/(000)
Remunerations	93,146	86,429
Workers' profit sharing, note 16(b)	33,005	16,806
Bonuses	11,785	11,329
Vacations	11,587	8,428
Social contributions	10,272	9,775
Severance compensation	8,513	7,985
Medical aid	5,883	5,387
Fees and remunerations of the Board	5,657	1,819
Other	2,708	2,268
	182,556	150,226

(b) Personnel expenses are allocated as follows:

	2016 S/(000)	2015 S/(000)
Cost of sales, note 20	114,203	96,356
Administrative expenses, note 21	62,603	47,201
Selling expenses, note 22(a)	5,052	4,015
Other operating income (expenses), net, note 24(a)	698	2,654
	182,556	150,226

(c) The average number of employees during 2016 was 845 (904 in the year 2015).

24. Other operating income (expenses), net

(a) This item is made up as follows:

	2016 S/(000)	2015 S/(000)
Other income -		
Income of dividends, note 27(b) y (b)	213,330	134,114
Income from use of intellectual property, note 27(b)	18,459	20,743
Income from services	9,785	11,514
Income from royalties, note 27(b)	4,594	5,510
Rental income	2,876	2,864
Sale of goods and supplies	756	4,516
Others	7,113	2,103
	256,913	181,364
Other expenses -		
Administrative and fiscal sanctions	10,497	-
Cost of goods and supplies	6,074	5,161
Amortization of intangibles, note 12(a)	5,211	3,816
Cost from services	1,267	1,845
Personnel expenses, note 23(b)	698	2,654
Others	6,374	8,308
	30,121	21,784
	226,792	159,580

(b) The income by declared dividends in the 2016 correspond mainly to the declared dividends by Inversiones Imababura S.A. e Inversiones en Concreto y Afines S.A. for approximately S/210,807,000 (correspond a Inversiones Imbabura S.A. for approximately S/130,675,000 for the year 2015). See note 27(b).

25. Finance income

This item is made up as follows:

	2016 S/(000)	2015 S/(000)
Interest on deposits	2,426	3,181
Gain on re-measurement to fair value of liabilities	-	4,649
Others	124	1,529
	2,550	9,359

26. Finance cost

(a) This item is made up as follows:

	2016 S/(000)	2015 S/(000)
Interest on bonds and long-term debt, note 14(o)	168,016	167,265
Interests on bank loans, note 14(c)	39,159	43,171
Other	8,850	9,816
	216,025	220,252
Commissions for structuring other financial liabilities	6,367	6,583
	222,392	226,835
Change in fair value of trading derivatives, net, note 30.1(i) and (ii)	3,842	1,227
Interest on hedging derivative instruments, note 30.1(i)	1,623	2,117
Loss for actualization of the fair value of the liabilities.	499	-
	5,964	3,344
	228,356	230,179

27. Related parties transactions

(a) Nature of the relationship -

During the years 2016 and 2015, the Company has made transactions with the following related entities:

- Sindicato de Inversiones y Administración S.A. – SIA
  SIA's main activity is to provide management services to the Company, in exchange for an annual payment up to 10 percent of its profits before taxes. As of December 31, 2016 and 2015, Sindicato de Inversiones y Administración S.A. owned 43.4 percent of the share capital of the Company.

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

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

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

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

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

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

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

- La Viga S.A.
  It's the main supplier of cement of the Company in the city of Lima, representing approximately 20.5 and 20.7 percent of total cement sales of the Company in 2016 and 2015, respectively.

- Inversiones Imbabura S.A.
  Main activity is investment in securities in entities domiciled in Ecuador, mainly dedicated to the cement industry related activities, ready-mixed concrete, building materials and related activities.

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

(b) The main transactions with related during the years 2016 and 2015 were as follows:

	2016 S/(000)	2015 S/(000)
Cement sales –		
La Viga S.A.	392,300	379,242
Unión de Concreteras S.A.	181,322	192,243
Concremax S.A.	50,352	63,729
Prefabricados Andinos Perú S.A.C.	1,652	1,074
Asociación UNACEM	493	430
Blocks, bricks and paving sales –		
Concremax S.A.	27,370	24,379
Unión de Concreteras S.A.	25,109	31,180
Leases of plant, equipment and facility –		
Unión de Concreteras S.A.	753	548
Depósito Aduanero Conchán S.A.	326	328
Prefabricados Andinos Perú S.A.C.	187	166
La Viga S.A.	178	173
Other	64	73
Income from royalties –		
Compañía Eléctrica el Platanal S.A., nota 24	4,594	5,510
Licenses - Intellectual property and trademarks – Abroad		
UNACEM Ecuador S.A., nota 24 (a)	18,459	20,743
Dividends income, note 24(a) –		
Inversiones Imbabura S.A.	180,653	130,675
Inversiones en Concreto y Afines S.A.	30,154	-
Ferrocarril central Andino S.A.	2,523	2,041
Generación Eléctrica Atocongo S.A.	-	1,398
Administrative, technology and management support –		
Unacem Ecuador S.A.	2,446	-
Drake Cement LLC.	349	493
Prefabricados Andinos Perú S.A.C.	324	307
Generación Eléctrica Atocongo S.A.	246	195
Depósito Aduanero Conchán S.A.	200	189
Transportes Lurín S.A.	110	-
Compañía Eléctrica el Platanal S.A.	84	76
Vigilancia Andina S.A.	77	73
Prefabricados Andinos S.A.	48	-
Prefabricados Adinos Colombia	5	-

	2016 S/(000)	2015 S/(000)
Other income –		
Compañía Eléctrica el Platanal S.A.	1,120	1,101
Unión de Concreteras S.A.	185	120
Prefabricados Andinos Perú S.A.C.	96	84
Asociación Unacem	21	-
ARPL tecnología Industrial S.A.	14	-
Depósito Aduanero Conchán S.A.	13	7
Generación Eléctrica Atocongo S.A.	13	9
Purchases of electric energy –		
Compañía Eléctrica el Platanal S.A.	88,048	116,325
Management services, note 21 –		
Sindicato de Inversiones y Administración S.A.	40,733	13,098
Inversiones Andino S.A.A.	15,840	5,093
Management project services –		
ARPL Tecnología Industrial S.A.	6,438	27,714
Celepsa Renovables S.A.C.	1,594	2,718
Commissions and freight costs of cement sales -		
La Viga S.A.	19,155	17,934
Concremax S.A.	865	-
Unión de Concreteras S.A.	190	-
Technical assistance and engeniering services –		
ARPL Tecnología Industrial S.A.	19,702	18,065
Maquila Service –		
Concremax S.A.	15,221	12,832
Unión de Concreteras S.A.	6,554	7,464
Purchase of concrete –		
Unión de Concreteras S.A.	-	17,198
Warehouse management services–		
Depósito Aduanero Conchán S.A.	2,099	3,647
Purchases of additional material –		
Unión de Concreteras S.A.	4,001	5,524

	2016 S/(000)	2015 S/(000)
Expense reimbursements –		
Unión de Concreteras S.A.	5,997	8,316
ARPL Tecnología Industrial S.A.	202	942
Generación Eléctrica Atocongo S.A.	11	-
Expense reimbursements –		
Unión de Concreteras S.A.	17,167	-
ARPL Tecnología Industrial S.A.	1,853	-
Others –		
Vigilancia Andina S.A.	20,927	20,080
Generación Eléctrica Atocongo S.A.	3,183	2,964
Transportes Lurin S.A.	1,944	-
Inversiones Andino S.A.	1,005	880
Unión de Concreteras S.A.	489	-
Depósito Aduanero Conchán S.A.	404	361
Drake Cement	342	347
Prefabricados Andinos	209	18
Basf Constrution Chemical Perú S.A.	65	-
Concremax S.A.	-	2,164

(c) As a result of these and other minor transactions, as of December 31, 2016 and 2015, the Company had the following balances with its related entities:

	2016 S/(000)	2015 S/(000)
Trade receivable, note 7(a) –		
Inversiones Imbabura S.A.	103,546	6,000
Unión de Concreteras S.A.	41,326	33,994
La Viga S.A.	23,746	30,235
Drake Cement LLC	22,561	21,016
Concremax S.A.	12,149	13,800
Skanon Investments INC	5,798	-
UNACEM Ecuador S.A.	4,855	4,192
Compañía Eléctrica El Platanal S.A.	4,811	5,842
Prefabricados Andinos Perú S.A.C.	520	317
Sindicato de Inversiones y Administración S.A.	159	161
Inversiones en Concreto y Afines S.A.	103	50
Asociación UNACEM	137	6
Others	92	754
	219,803	116,367

	2016 S/(000)	2015 S/(000)
Trade payable –		
Sindicato de Inversiones y Administración S.A.	22,820	2,532
Unión de Concreteras S.A.	20,364	20,138
Compañía Eléctrica El Platanal S.A.	10,452	10,586
Inversiones Andino S.A.A.	7,876	1,096
Concremax S.A.	4,242	4,106
ARPL Tecnología Industrial S.A.	2,672	9,561
Vigilancia Andina S.A.A.	2,110	1,988
La Viga S.A.	2,017	1,799
Drake Cement LLC	1,173	846
Transporte Lurin S.A.	1,021	-
Other	343	1,347
	75,090	53,999
By term -		
Current portion, note 13(a)	70,890	46,320
Non-current portion, note 13(a)	4,200	7,679
	75,090	53,999

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

(d) The total remuneration paid to directors and key members of management as of December 31, 2016 is amounting to approximately S/23,774,000 (approximately S/21,247,000 in 2015), which include short-term benefits and compensation for time served.

28. Earnings per share

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

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

	2016 S/(000)	2015 S/(000)
Numerator		
Net income attributable to common shares	312,228	130,586
	Thousand	**Thousand**
Denominator		
Weighted average number of common shares	1,646,503	1,646,503
Basic and diluted earnings for common shares	0.189	0.079

29. Commitments and contingencies

29.1 Financial commitments -

As of December 31, 2016, the Company has the following commitments:

- Guarantee letter in favor of the National Institute for the Defense of Competition and the Protection of Intellectual Property (INDECOPI) issued by BBVA Banco Continental in an amount of S/5,878,000, with maturity May 2017, in order to ensure compliance with the payment of a fine imposed for defense of free competition of INDECOPI, see note 29.4.

- Guarantee letter to the Ministry of Energy and Mines (MEM), issued by Banco de Crédito del Perú, by a total approximate of US$2,417,000 (equivalent to S/8,101,000) in order to ensure compliance of the Mine Closure.

- Credit letter to Banco Bilbao Vizcava Argentaria New York issued issued by BBVA Banco Continental by a total of US$9,888,000 (equivalent to S/33,145,000) in order to ensure the operations of their subsidiary Sunshine Concrete and Materials Inc.

29.2 Financial leases -

The future minimum payments for leases are as follows:

	2016		2015	
	Minimum payments S/(000)	Present value of minimum lease payments S/(000)	Minimum payments S/(000)	Present value of minimum lease payments S/(000)
Between one to five years	168,876	154,647	294,948	245,949
Total payments	168,876	154,647	294,948	245,949
Less - finance costs	(8,477)	-	(23,085)	-
Present value of minimum lease payments	160,399	154,647	271,863	245,949

29.3 Tax situation -

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

Until as of December 31, 2016, through Law N°30296 enacted as December 31, 2014, the current income tax regime established the following:

- A gradual reduction of the corporate income tax rate from 30% to 28% in the years 2015 and 2016; to 27% in the years 2017 and 2018; and to 26% in 2019 and future.

- A progressive increase in the rate applicable to the dividend tax from 4.1% to 6.8% in 2015 and 2016; to 8.0% in the years 2017 and 2018; and to 9.3% in 2019 and futures. These rates would apply to the distribution of profits available in cash or in kind whichever occurs first, from 1 January 2015.

- Accumulated results or other items capable of generating dividends which were obtained up to 31 December 2014 and which form part of the dividends or any other form of distribution of profits, would be subject to a rate applicable to the dividend tax of 4.1%. It is important to note that it is assumed, without admitting evidence to the contrary, that the distributed dividends correspond to the oldest accumulated results.

- The Law No. 30296 did not modify the additional rate of 4.1 percent applicable to cases of indirect distribution of income not subject to subsequent tax control applicable to those disbursements whose destination can´t be reliably proven.

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

- An income tax rate of 29.5% is set.

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

(b) For purposes of determining the Income Tax, the transfer prices for transactions with related entities and entities domiciled in territories with little or no taxation must be supported by documentation and information on the valuation methods used and the criteria considered for their determination. Based on an analysis of the Company's operations, management and its legal advisors believe that the application of this rule would not result in material contingencies for the Company as of December 31, 2016 and 2015.

(c) The Tax Authority has the power to review and adjust the income tax calculated by the Company in the four years following the year the tax returns presentation. The tax returns of the Income Tax for the years 2012 to 2015 and 2016 and value added tax ("IGV" for its acronym in spanish) for the periods December 2011 to December 2016 are open to review by Tax Authority. Likewise, the tax returns of the income tax of the periods 2012 and the value added tax of the monthly periods between January and September of 2012 by Cemento Andino S.A. (entity absolved by merger in the 2012) are open to review by the Tax Authority.

As of to date of this report, the review referred to above, are in the process; however, in the opinion of management of the Company, any additional tax invoice will not be significant to the separate financial statements as of December 31, 2016 and 2015.

(d) Due to the interpretations likely to be given by the Tax Authority on current legal regulations, it is not possible to determine, as of this date, whether the reviews to be conducted will result or not in liabilities for the Company, therefore, any increased tax or surcharge that could arise from possible tax reviews will be applied to the results of the year in which it is determined. In the Management's and its legal advisors' opinion, any additional tax settlement would not be significant for the separate financial statements as of December 31, 2016 and 2015.

29.4 Contingencies –

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

As a result of audits for the years 2004 to 2006, the Company has been notified by the Superintendence of Tax Authority (SUNAT) with different resolutions for alleged omissions in income tax. In some cases, the Company has filed appeals for not finding the appropriate resolutions in accordance with the laws in force in Peru and in other cases it has proceeded to pay the assessments received. As of December 31, 2016 and 2015, the Company has recorded the necessary provisions, leaving as a possible contingency an amount of S/48,255,000 plus interest and costs.

Likewise, as of December 31, 2016, the Company holds claims to Tax Authority (SUNAT), corresponding to demands and requirements of refund of income tax paid in excess for the years 2004, 2005, 2006 and 2009, in which it requested the decisions of the Tax Court set aside and will return the money paid ascending approximately S/31,158,000 and other claims by approximately S/987,000, see note 7(e).

As result of the review the year 2010, the Company has been notified by the Superintendence of Tax Authority (SUNAT) with other resolutions for supposed omissions to the tax income. In some cases, the Company has filed appeals for not finding the appropriate resolutions in accordance with the laws in force in Peru and in other cases it has proceeded to pay the assessments received. As of December 31, 2016 and 2015, the Company has recorded the necessary provisions, leaving as a possible contingency an amount of S/19,912,000 plus interest and costs.

On the other hand, the Company has two additional claims for excise tax related to coal imports in 2006 and 2007 for a total amount of S/6,254,000, see Note 7(e). In December 2015, the Superior Court upheld the original ruling in 2014 declaring void the Tax Court Resolution N°14294-A-2013 by claims amounting to approximately S/5,023,000 and are pending collection.

Management and its legal advisors estimate that there are legal arguments to obtain a favorable outcome in these processes, in which case they will not have a significant impact on the financial statements of the Company.

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

29.5 Mining royalties –

On November 20, 2013, Peru's Constitutional Court, in a final and unappeasable decision stated that the new regulation of the Royalty Mining Law in the year 2011, violates the constitutional right of property, as well as, the principles of legal reservation and proportionality, consequently, this modification is rendered inapplicable to the Company. Accordingly, the Company will continue using as basis for the calculation of the mining royalty the value of the concentrate or mining component and not the value of the product obtained by the industrial and manufacturing process.

Mining royalty expense paid to the Peruvian Government for the years 2016 and 2015 amounted to S/3,222,000 and S/3,966,000, see note 21.

29.6 Environmental commitments -

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

(a) Industrial activities -

The Law N° 28271 regulates the environmental liabilities of mining, have as objective to regulate the identification of environmental liabilities of mining and funding for remediation of affected areas. Under said law, an environmental liability corresponding to the impact caused to the environment by mining operations abandoned or inactive.

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

Currently, the Company has an EIA for the modernization of its industrial plant facility approved by the Ministry of Production in May 2011, and has been executing environmental protection activities with an accumulated investment as of December 31, 2016 of US$54,967,000 (US$54,742,000 as of December 31, 2015) for implementation of the environmental management plan in the cement manufacturing process.

(b) Mining and port activities –

In relation to its mining and port activities, the Company in the environmental impact studies (EIA by its acronym in Spanish) mentioned in note 30.6(a), which are in compliance with the terms and amounts determined in such studies, and the accumulated investment in mining and port activities as of December 31, 2016 amounts to approximately US$20,768,000 (approximately US$20,228,000 as of December 31, 2015).

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

As of December 31, 2016 and 2015, the provision for mine closure amounts to approximately S/13,224,000 and S/13,288,000, respectively and it is included in the "Provisions" caption in the separate statement of financial position, see note 16(b). The Company believes that this liability is sufficient to meet environmental protection laws in force approved by the Ministry of Energy and Mines.

(c) Use of hydrocarbons –
Supreme Decree N° 046-93-EM Regulation for the Protection of Hydrocarbon Activities enacted on November 12, 1993 regulates the activities performed by the Company related to the use of hydrocarbons as final user. In compliance with this regulation, the Company has a PAMA that was approved by the Ministry of Energy and Mines in 1996. As of December 31, 2015, the Company has made an accumulated investment of approximately US$109,000 (US$107,000 as of December 31, 2015) in said PAMA.

(d) Special projects –
As of December 31, 2016, the main projects that the Company is executing is Carpapata III hydroelectric plant, this project consists the construction of the Carpapata III hydroelectric plant and it will have a capacity of approximately 12.8 MW feeding to Condorcocha plant. As of December 2016, the Company has a accumulate investment of approximately S/195,242,000 (S/123,810,000 as of December 31, 2015) and made commitments of approximately S/15,496,000.

(e) Carbon credits –
As of December 31, 2016 and 2015, the Company has the project "Fuel Switching at Atocongo Cement Plant and Natural Gas Pipeline Extension, Cementos Lima, Peru", registered with the Executive Board of the United Nations Framework Convention on Climate Change (UNFCCC) on November 10, 2008. As of to date the Company issued 316.306 CERs, which were sold according to a Trade Agreement with EDF Trading remained.

During the years 2016 and 2015, the Company does not made new issuances of CERs.

30. Financial risk management, objectives and policies

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

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

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

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

30.1 Market risk –

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

The sensitivity analyses shown in the following sections relate to the position as of December 31, 2016 and 2015.

The sensitivity analyses have been prepared on the basis that the amount of net debts, the ratio of fixed to floating interest rate of the debt and the proportion of financial instruments in foreign currencies are all constant as of December 31, 2016 and 2015.

(i) Interest rate risk –

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

(a) Derivative Financial instruments from hedge -

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

Counterparty	Reference value	Maturity	Receives variable rate at:	Pays fix rate at:	Fair value 2016	Fair value 2015
	US$(000)				S/(000)	S/(000)
Assets-						
Bank of Nova Scotia	14,583	August 2018	Libor to 3 months + 2.35%	0.825%	164	211
Bank of Nova Scotia	22,375	September 2018	Libor to 3 months + 2.40%	1.020%	232	249
					396	460

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

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

In 2016, the Company recognized an expense on these derivative financial instruments amounting to approximately S/1,623,000 (S/2,117,000 during the year 2015), whose amounts were actually paid during the year and are presented as "Finance costs" in the separate statement of income, see note 26.

The effective portion of changes in the fair value of financial instruments that qualify as hedges is recognized as assets or liabilities and with impact on equity. As of December 31, 2016 and 2015, the Company has recognized under "Unrealized net profit (loss) on hedging financial derivative instruments" in the statement of changes in equity, a positive and negative change in fair value of approximately S/279,000 and S/331,000, respectively, which is presented net of the income tax effect.

(b) Derivative Financial instruments from trading -

Counterparty	Reference value US$(000)	Maturity	Receives variable rate at:	Pays fix rate at:	Fair value 2016 S/(000)
Liabilities -					
Citibank N.A.	23,000	October 2017	Libor to 3 months + 2.70%	2..750%	1,309
Citibank N.A.	70,000	April 2019	Libor to 3 months + 2.90%	2.900%	7,324
					8,633

During 2016, the Company signed two contract of swap of the interest rate which were designated as derivate instruments from trading. The variation in the fair value of the derivate financial instruments that qualify as negotiation is recognized as expense or income and the effect in the year amount to approximately S/8,633,00 and are present as part of item "Financial costs" of the separate statement of income, see note 26.

Sensitivity to interest rate -

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

Increase / decrease in basis points	Impact on income before income taxes	
	2016	2015
%	S/(000)	S/(000)
+10	(556)	(136)
-10	556	136

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

(ii) Foreign currency risk -

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

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

The result of holding balances in foreign currency for the Company in years 2016 and 2015 was a loss in exchange difference amounting approximately S/17,639,000 (a earn approximately S/90,244,000 and a loss of approximately S/107,883,000) and a net loss of approximately S/379,372,000 (a earn of approximately S/132,793,000 and a loss of approximately S/512,165,000), respectively, which are presented in the caption "Exchange difference, net" in the separate statement of income.

As of December 31, 2016, the Company has one "Cross Currency Interest Rate Swap" amounting to S/1,859,000 on behalf of the bank (two "Cross Currency Interest Rate Swap" amounting to S/6,650,000 on behalf of the bank as of December 31, 2015). These instruments were designated as held for trading. The effect in 2016 is an income by approximately S/4,791,000, see nota 26.

Foreign currency sensitivity -

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

Change in US Dollars exchange rate	Effect on profit before tax	
	2016	2015
%	S/(000)	S/(000)
+5	(132,780)	(134,730)
+10	(265,561)	(269,460)
-5	132,780	134,730
-10	265,561	269,460

30.2 Credit risk –

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to a credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, and trade and other receivables. The maximum credit risk of the components of the financial statements as of December 31, 2016 and 2015 is represented by the amount of the captions cash and cash equivalents, trade and other accounts receivable.

Financial instruments and cash deposits -

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

Trade accounts receivable –

Customer credit risk is managed by management, subject to the Company's established policies, procedures and controls. Outstanding customer receivables are regularly monitored to assure the collection. The Company's sales are made in Peru and there is a client portfolio of approximately 50 customers as of December 31, 2016 and 2015. As of December 31, 2015, the Company had 4 significant customers that accounted for approximately 53.0 percent of sales (approximately 51.0 as of December 31, 2013). Likewise, the Company evaluates the accounts receivable whose collection is estimated as remote to determine the required allowance for no recoverability.

Other accounts receivable –

Accounts receivable correspond to balances pending of collection due to concepts not related to the main operation activities of the Company. As of December 31, 2016 and 2015, other accounts receivable correspond mainly to: advances to suppliers, claims to Tax Authority and claims to third parties. Company's Management made a continuous monitoring of the credit risk to such items and periodically, it assesses the balances that evidence an impairment to determine the required allowance for no recoverability.

30.3 Liquidity risk –

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

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

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

	As of December 31, 2016		
	From 3 to 12 months S/(000)	**From 1 to 8 years** S/(000)	**Total** S/(000)
Trade and other payable	230,140	4,200	234,340
Other financial liabilities			
Amortization of capital	750,098	3,112,633	3,862,731
Flow of interest payments	200,414	590,035	790,449
Total liabilities	1,180,652	3,706,868	4,887,520

	As of December 31, 2015		
	From 3 to 12 months S/(000)	**From 1 to 8 years** S/(000)	**Total** S/(000)
Trade and other payable	252,790	7,679	260,469
Other financial liabilities			
Amortization of capital	486,154	3,633,384	4,119,538
Flow of interest payments	163,756	796,104	959,860
Total liabilities	902,700	4,437,167	5,339,867

30.4 Capital management–

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

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

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

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2016 and 2015.

31. Fair values

Instruments recorded at fair value according to hierarchy –

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

	2016 S/(000)	2015 S/(000)
Assets for derivative financial instruments:		
Level 2	396	460
Total	396	460
Liability for derivative financial instruments:		
Level 2	10,492	6,650
Total	10,492	6,650

Level 1 -

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

Level 2 -

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

- Derivative financial instruments –

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

Level 3 -

As of December 31, 2016 and 2015, the Company does not maintain financial instruments in this category.

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

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

Level 1 –

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

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

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

Level 2 –

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

	2016		2015	
	Carrying value S/(000)	Fair value S/(000)	Carrying value S/(000)	Fair value S/(000)
Other financial liabilities (*)	3,158,528	2,739,316	3,332,722	2,651,625

(*) As of December 31, 2016 and 2015, the balance does not include bank notes, see note 14.

32. Subsequent events

In the Board Meeting dated on January 27, 2017, the Company agreed a medium-term financing with Banco International del Perú for S/260,000,000, whose purpose is refinance short-term debt.

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