

**Unión Andina de Cementos S.A.A.**

**UN-AUDITED Separated Interim Financial Statements  
As of December 2015 and 2014**

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As of December 2015 and 2014

### 1. Identification and Economic Activity of the Group

Unión Andina de Cementos S.A.A. (hereinafter "the Company" or "UNACEM") was incorporated in December 1967. The Company is a subsidiary of Sindicato de Inversiones y Administración S.A. (hereinafter "the Principal") which holds 43.38 percent of the Company's capital stock, which in turn is a subsidiary of Nuevas Inversiones S.A., ultimate parent of the consolidated economic group.

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, of cement and clinker. For this purpose, the Company owns two plants, one in Lima and the other one in Junín, whose annual production capacity is 6.7 million tons of clinker and 7.6 million tons of cement.

The separated financial statements as of the fourth quarter of 2015 have been issued by Management authorization and will be presented on January 29, 2016 to the Board of Directors for its approval. The separated financial statements of 2014 were approved by the Annual Shareholder meeting held on March 31, 2015

### 2. Acquisition of subsidiaries and bond issuance

#### (a) Acquisition of Prefabricados Andinos S.A. -

On January 2014, the Company acquired 51 percent of the voting shares of Prefabricados Andinos S.A. (hereinafter "PREANSA Chile") an unlisted company, dedicated in manufacturing and trade prestressed and precast concrete structures in Chile.

The Company acquired PREANSA Chile, because it significantly helps to form a group of companies in South America (Peru, Colombia and Chile), that generates synergies, optimizations of expenses and can share engineering expertise between countries.

#### (b) Acquisition of UNACEM Ecuador S.A. (formerly Lafarge Cementos S.A.) and Subsidiaries -

On July 16, 2014; the Company established Inversiones Imbabura S.A. (IMBABURA) with the purpose to be the vehicle to purchase shares of UNACEM Ecuador S.A. (Formerly Lafarge Cement S.A.).

On November 25, 2014, IMBABURA acquired 98.57 percent of total shares representing of UNACEM Ecuador's capital and took control of the operations thereof, whose economic activity is the production and sale of cement in Ecuador with a production capacity of 1.5 million tons of cement per year. At the date of acquisition, the subsidiaries of UNACEM Ecuador were:

- (i) Lafarge Cementos Services S.A., dedicated to the activity of advice in accounting, advertising, audit and legal; and
- (ii) Canteras y Voladuras S.A. which is dedicated to conducting mining activities, operations and sales of all kinds of mineral, smelting, refining and alloys of non-ferrous metals such as copper, lead, chromium, magnesium, zinc, aluminum, nickel, and tin.

## Notes to the separated financial statements (continued)

The Company, through IMBABURA acquired UNACEM Ecuador and Subsidiaries, as part of the strategy of consolidation and diversification of our cement in the region. It also seeks to generate synergies, cost of optimization and engineering experience sharing among countries.

### 3. Summary of significant accounting policies

The accounting policies adopted to prepare the separated financial statements are consistent with those applied on December 31, 2014, except when otherwise indicated.

#### 3.1 Basis of preparation -

The Company Separated interim financial Statements have been prepared according to the IAS 34 Interim financial information issued by the International Accounting Standards Board (IASB).

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

The interim separated financial statements provide comparative information for earlier periods, however, does not include all information and disclosures required in the annual financial statements and should, therefore, be read in conjunction with the consolidated audited report as of and for the year ended on December 31, 2014.

#### 3.2 New accounting standards, interpretations and amendments -

Some new accounting standards and amendments apply for the first time in 2015. For information purposes, a summary of the new rules that relate to the Company include:

- Amendments to IAS 19 "Defined Benefit Plans":  
"Employee Contributions" IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1st, 2014. It is not expected that this amendment would be relevant to the Company, since none of the entities within the Company has defined benefit plans with contributions from employees or third parties.

- Annual improvements 2010-2012 Cycle  
These improvements are effective from July 1st, 2014 and Management does not expected to have a material impact on the separated financial statements of the Company. They include:

#### *IAS 16 "Property, Plant and Equipment and IAS 38 Intangible Assets"*

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

Notes to the separated financial statements (continued)

*IAS 24 “Related Party Disclosures”*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

- Annual improvements 2011-2013 Cycle

These improvements are effective from July 1st, 2014 and Management does not expected to have a material impact on the separated financial statements of the Company. They include:

*IFRS 13 “Fair Value Measurement”*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

The Company has not yet adopted, in advance, any other standard, interpretation or amendment issued, but not yet effective.

**4. Cash and cash equivalent**

(a) This caption is made up as follows:

|                      | <b>As of December 31,2015</b> | <b>As of December 31,2014</b> |
|----------------------|-------------------------------|-------------------------------|
|                      | S/(000)                       | S/(000)                       |
| Petty cash           | 761                           | 779                           |
| Current accounts (b) | 72,023                        | 55,475                        |
| Time deposits (c)    | <u>58,259</u>                 | <u>4,697</u>                  |
|                      | <u>131,043</u>                | <u>60,951</u>                 |

(b) Current accounts are maintained in local banks and abroad, mainly in Soles and US dollars; they are free available and earn interest at market rates.

(c) Correspond to deposits held in local and foreign financial institutions, mainly in Soles and US dollars, which accrue interests at market rates and have original maturities of less than three months.

## Notes to the separated financial statements (continued)

### 5. Trade and other receivables, net

(a) This caption is made up as follows:

|  | Current                               |                                       | Non-Current                           |                                       |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
|  | As of December<br>31, 2015<br>S/(000) | As of December<br>31, 2014<br>S/(000) | As of December<br>31, 2015<br>S/(000) | As of December<br>31, 2014<br>S/(000) |
| Trade receivable (b)   | 72,198                                | 62,965                                | 85                                    | 222                                   |
| Related Accounts receivable, note 19 (b)                             | 116,367                               | 84,137                                | -                                     | -                                     |
| Different accounts receivable:                                       |                                       |                                       |                                       |                                       |
| Claims to third parties  | 5,425                                 | 75,797                                | -                                     | -                                     |
| Claims to Tax Administration (c)                                     | 2,978                                 | -                                     | 38,343                                | 38,343                                |
| Advances to suppliers (d)  | 12,472                                | 18,532                                | -                                     | 2,340                                 |
| Loans to employees (f)   | 6,560                                 | 8,191                                 | 5,663                                 | 7,551                                 |
| Derivative financial instruments, note 22.1 (i)                      | 460                                   | 718                                   | -                                     | -                                     |
| Other accounts receivable  | 4,446                                 | 4,867                                 | -                                     | -                                     |
|  | <u>220,906</u>                        | <u>255,207</u>                        | <u>44,091</u>                         | <u>48,456</u>                         |
| Payment on account of income tax and<br>temporary tax net assets (e) | <u>49,812</u>                         | <u>15,555</u>                         | <u>-</u>                              | <u>-</u>                              |
|  | <u>270,718</u>                        | <u>270,762</u>                        | <u>44,091</u>                         | <u>48,456</u>                         |
| Less - Estimation for doubtful accounts (i)                          | <u>(1,971)</u>                        | <u>(1,768)</u>                        | <u>-</u>                              | <u>-</u>                              |
|  | <u>268,747</u>                        | <u>268,994</u>                        | <u>44,091</u>                         | <u>48,456</u>                         |

(b) The trade accounts receivable are mainly denominated in soles, have current maturities, they do not earn interest, do not specific guarantees and do not have major expired documents

(c) As of December 31, 2015 and 2014, this balance corresponds to claims to Tax Authority mainly by excess paid income tax of prior years. In Management's opinion this balance will be recovered.

(d) Mainly corresponds to advances granted to San Martín Contratistas Generales S.A., on January 7, 2011, for stripping and exploitation services over limestone and pozzolan mines in the Cristina mining concession, which is to be collected in five years.

(e) As of December 31, 2015 and 2014, this balance corresponds to pre-paid income tax, paid on those dates, in addition to payments of temporary tax to net assets.

In the Company Management's opinion, such prepayments will be applied with future taxes generated in the current period.

(f) As of December 31, 2015 and 2014 correspond mainly to loans to employees which will be collected within four years according to the agreements signed by the Company.

## Notes to the separated financial statements (continued)

- (g) The aging analysis of the trade and other receivables diverse as of December 31, 2015 and 2014 is as follows:

|                    | As of December 31, 2015 |                     |                  |
|--------------------|-------------------------|---------------------|------------------|
|                    | Non impaired<br>S/(000) | Impaired<br>S/(000) | Total<br>S/(000) |
| <b>Unexpired</b>   | 143,648                 | -                   | 143,648          |
| <b>Expired -</b>   |                         |                     |                  |
| 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 | 64,428                  | 1,971               | 66,399           |
| <b>Total (*)</b>   | <u>263,026</u>          | <u>1,971</u>        | <u>264,997</u>   |

|                    | As of December 31, 2014 |                     |                  |
|--------------------|-------------------------|---------------------|------------------|
|                    | Non impaired<br>S/(000) | Impaired<br>S/(000) | Total<br>S/(000) |
| <b>Unexpired</b>   | 256,260                 | -                   | 256,260          |
| <b>Expired -</b>   |                         |                     |                  |
| Up to 1 month      | 18,617                  | -                   | 18,617           |
| From 1 to 3 months | 6,847                   | -                   | 6,847            |
| From 3 to 6 months | 13,301                  | -                   | 13,301           |
| More than 6 months | 6,870                   | 1,768               | 8,638            |
| <b>Total (*)</b>   | <u>301,895</u>          | <u>1,768</u>        | <u>303,663</u>   |

(\*) The balance does not include payments of income tax by approximately S/ 49,812,000 y S/15,555,000 as of December 31, 2015 and 2014.

- (j) The movement of the allowance for doubtful accounts was as follows:

|                        | As of December 31,<br>2015<br>S/(000) | As of December 31,<br>2014<br>S/(000) |
|------------------------|---------------------------------------|---------------------------------------|
| <b>Opening Balance</b> | 1,768                                 | 1,684                                 |
| Provision for the year | -                                     | -                                     |
| Exchange difference    | 203                                   | 84                                    |
| <b>Final Balance</b>   | <u>1,971</u>                          | <u>1,768</u>                          |

According to the Company's Management, the allowance for doubtful accounts covers satisfactorily the loan losses as of December 31, 2015 and 2014.

## Notes to the separated financial statements (continued)

### 6. Inventories

(a) This caption is made up as follows:

|   | As of December 31,<br>2015<br>S/(000) | As of December 31,<br>2014<br>S/(000) |
|---|---------------------------------------|---------------------------------------|
| Finished products                       | 12,205                                | 10,437                                |
| Work in progress (b)                    | 261,326                               | 194,699                               |
| Raw and auxiliary materials (c)         | 121,524                               | 114,773                               |
| Packages and packing                    | 24,891                                | 41,552                                |
| Parts and supplies (d)                  | 193,546                               | 176,178                               |
| Inventory in transit (e)                | <u>61,001</u>                         | <u>64,890</u>                         |
| Provision for impairment of inventories | <u>(2,135)</u>                        | <u>-</u>                              |
|   | <u>672,358</u>                        | <u>602,529</u>                        |

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

(c) Raw and auxiliary materials include mainly imported and domestic coal. As of December 31, 2015, the Company has in stock coal for approximately S / 49,607,000 (S/52,669,000 as of December 31, 2014).

(d) As of December 31, 2015 and 2014 the Company maintains no significant spare parts and necessary supplies parts to provide maintenance machinery and kilns from Atocongo and Condorcocha plant. These plants are evaluated through technical reviews, and comply with the provisions of quality and are in proper storage conditions.

(e) As of December 2015 and 2014 mainly relates to the purchase of Clinker to Drake Cement LLC (subsidiary of the Company) for approximately S/58,882,000, respectively.

(f) In Company Management's opinion, as of December 31, 2015, it is not necessary to establish an estimate for devaluation of inventories.

Notes to the separated financial statements (continued)

7. Investments in subsidiaries and others

(a) This caption is made up as follows:

|  | Economic activity     | Country of location | Percentage of Shares            |                                 | Carrying amounts                      |                                       |
|--|-----------------------|---------------------|---------------------------------|---------------------------------|---------------------------------------|---------------------------------------|
|  |                       |                     | Shareholder                     |                                 |                                       |                                       |
|  |                       |                     | As of December 31,<br>2015<br>% | As of December 31,<br>2014<br>% | As of December 31,<br>2015<br>S/(000) | As of December 31,<br>2014<br>S/(000) |
| Inversiones Andinos S.A.                   | Holding               | Peru                | 99.89                           | 99.89                           | 1,516,724                             | 1,520,983                             |
| Skanon Investments Inc.                    |                       | United States of    |                                 |                                 |                                       |                                       |
|  | Cement and concrete   | America             | 85.05                           | 86.85                           | 1,025,145                             | 1,018,948                             |
| Compañía Eléctrica el Platanal S.A.        | Energy                | Peru                | 90.00                           | 90.00                           | 567,828                               | 567,829                               |
| Inversiones en Concreto y Afines S.A.      | Holding               | Peru                | 93.38                           | 93.38                           | 67,036                                | 67,036                                |
| Transportes Lurín S.A.                     | Holding               | Peru                | 99.99                           | 99.99                           | 64,250                                | 64,094                                |
| Prefabricados Andinos S.A.                 | Prefabricated         | Chile               | 51.00                           | 51.00                           | 20,021                                | 20,021                                |
| Prefabricados Andinos Perú S.A.C.          | Prefabricated         | Peru                | 50.02                           | 50.02                           | 17,537                                | 17,537                                |
| Ferrocarril Central Andino S.A.            | Services              | Peru                | 16.49                           | 16.49                           | 7,567                                 | 7,567                                 |
| Minera Adelaida S.A.                       | Holding               | Peru                | 99.99                           | 99.99                           | 2,461                                 | 2,289                                 |
| Generación Eléctrica de Atocongo S.A.      | Services              | Peru                | 99.85                           | 99.85                           | 125                                   | 125                                   |
| Depósito Aduanero Conchán S.A.             | Storage<br>management | Peru                | 99.50                           | 99.50                           | 563                                   | 63                                    |
| Others                                     |                       |                     |                                 |                                 | 225                                   | 227                                   |
|  |                       |                     |                                 |                                 | 3,289,482                             | 3,286,719                             |
| Depreciation of investments assessment (b) |                       |                     |                                 |                                 | (28,725)                              | (28,725)                              |
|  |                       |                     |                                 |                                 | 3,260,757                             | 3,257,994                             |

A brief summary of the activities of the most significant subsidiaries of the company is as follows:

- Inversiones Imbabura S.A. - (IMBABURA)

On July 2014, the Company established IMBABURA and owns directly and indirectly a 100 percent of the shares capital. IMBABURA main activity is the investment in securities in entities domiciled in Ecuador; mainly dedicate to the cement industry related activities, ready-mix concrete, building materials and related activities.

IMBABURA's subsidiaries are entities that belong to the group UNACEM Ecuador S.A. (formerly Lafarge Cementos S.A.), whose main activity is the exploitation and industrialization of cement and its derivatives and related services.



## Notes to the separated financial statements (continued)

- Skanon Investments Inc. – SKANON

It is an entity incorporated in February 2007, in the state of Arizona, United States of America, in which the Company owns directly and indirectly 85.05 percent share of the capital stock as of Thursday, December 31, 2015 (86.85 percent as of December 31, 2014), whose main activity is the investment in securities.

As of December 31, 2015 and 2014, SKANON holds a share in the capital of Drake Cement LLC of 94.15 and 93.98 percent, respectively. DRAKE is an entity located in the United States of America, which main activity is the production and sale of cement in the states of Arizona and Nevada.

Additionally, SKANON holds a 100 percent share of the capital stock in Sunshine Concrete & Materials, Inc. ("Drake Materials"), a company located in the state of Arizona in the United States of America which main activity is the sale of ready-mix concrete, sand and gravel.

- Compañía Eléctrica El Platanal S.A. – CELEPSA

It is an entity incorporated in December 2005, a direct subsidiary of the Company who owns 90 percent share of the capital stock. CELEPSA's main activity is the generation and sale electricity using water resources.

On November 2014, CELEPSA acquired Hidroeléctrica Marañon S.C.R.L. ("HIDRO Marañon") with the purpose of implementing the project of the future Marañon's Hydroelectric Central. CELEPSA owns directly and indirectly 100 percent shares of the capital stock.

- Inversiones en Concreto y Afines S.A. - INVECO

It's an entity constituted in Lima in April 1996, is a direct subsidiary of the Company that owns 93.38 percent shares of the capital stock. It is dedicated to invest in companies mainly engaged in supplying concrete pre-mixed, building material and related activities through its subsidiary Unión de Concreteras S.A., which holds 99.99 percent stake, that in turn owns 99.99 percent of Firth Industries Peru S.A.C., dedicated to the same category.

- Transportes Lurín S.A. – LURIN

It is an entity constituted in June 1990, Company's direct subsidiary, which holds 99.99 percent share of the capital stock. LURIN's main activity is investment in securities, mainly in Skanon Investment Inc. (a US Corporation).

- Prefabricados Andinos S.A. – PREANSA Chile

It is an entity constituted in November 1996, Company's direct subsidiary since January 2014, which owns 51 percent share of the capital stock. PREANSA Chile's main activity is the manufacture and trade of prestressed and precast concrete structures in Chile.

- Prefabricados Andinos Perú S.A.C. – PREANSA Peru

It is an entity constituted in October 2007, Company's direct subsidiary, who holds 50.02 percent share of the capital stock. PREANSA Peru's main activity is the manufacture and trade of concrete structures (precast and prestressed) in Peru and abroad.

## Notes to the separated financial statements (continued)

On May 2013, PREANSA Peru incorporated Prefabricados Andinos Colombia S.A.S. (PREANSA Colombia), an indirect subsidiary of the Company that holds 100 percent of the capital stock. Preansa Colombia, is in pre-operational stage and its main activity will be the manufacture of prestressed and precast concrete structures as well as commercial activities in Colombia. In the second quarter of 2015, Preansa Colombia started the construction of the plant and will start operations in 2016.

- **Generación Eléctrica de Atocongo S.A. - GEA**

It is an entity constituted in May 1993, Company's direct subsidiary, which holds directly and indirectly 100 percent ownership of the shares of capital. GEA's main activity is the generation and sale of electricity to the Company.

As of February 15, 2013, the Ministry of Energy and Mines granted the authorization to UNACEM to perform activities of power generation directly, consequently, from that date; the Company signed a contract with GEA to take charge Operation of the power plant.

- **Depósito Aduanero Conchan S.A. - DAC**

It is an entity constituted in July 1990, Company's direct subsidiary, who owns 99.50 percent share of the capital stock. DAC's main activity is the provision of warehousing services, goods and merchandise authorized owned and third customs warehouse and promotion services, transportation, storage, management and delivery of cement manufactured by the Company.

As of December 31, 2015 and December 2014, The Management of the Company believes that the depreciation of investments amounts to S/28,725,000 for both years.

Notes to the separated financial statements (continued)

8. Mining Concessions, Property, plant and equipment, net

(a) This caption is made up as follows:

|   | Mining Concessions<br>S/(000) | Property<br>S/(000) | Closure of quarries<br>S/(000) | Buildings and other<br>Constructions<br>S/(000) | Installations and<br>others<br>S/(000) | Machinery and<br>Equipment<br>S/(000) | Transportations<br>Units<br>S/(000) | Furniture and<br>fixtures<br>S/(000) | Other equipments<br>S/(000) | Units in transit<br>S/(000) | Work in<br>Progress (d)<br>S/(000) | Total<br>S/(000) |
|---|-------------------------------|---------------------|--------------------------------|---|--|---------------------------------------|-------------------------------------|--------------------------------------|-----------------------------|-----------------------------|------------------------------------|------------------|
| <b>Cost -</b>                             |                               |                     |                                |   |  |                                       |                                     |                                      |                             |                             |                                    |                  |
| <b>As of January 1st, 2014</b>            | 34,575                        | 563,623             | 5,987                          | 717,682   | 55,942                                 | 2,504,196                             | 22,873                              | 16,810                               | 55,347                      | 7,234                       | 178,670                            | 4,162,939        |
| Additions                                 | 58                            | 4,705               | -                              | 945   | 883                                    | 23,163                                | 1,230                               | 167                                  | 2,875                       | -                           | 343,526                            | 377,552          |
| Transfers                                 | -                             | -                   | -                              | 344   | 1,428                                  | 18,375                                | -                                   | 116                                  | -                           | -                           | (20,263)                           | -                |
| Withdrawals                               | -                             | -                   | -                              | -   | -                                      | -                                     | (279)                               | -                                    | -                           | -                           | -                                  | (279)            |
| <b>As of December 31, 2014</b>            | <u>34,633</u>                 | <u>568,328</u>      | <u>5,987</u>                   | <u>718,971</u>                                  | <u>58,253</u>                          | <u>2,545,734</u>                      | <u>23,824</u>                       | <u>17,093</u>                        | <u>58,222</u>               | <u>7,234</u>                | <u>501,933</u>                     | <u>4,540,212</u> |
| Additions (d)                             | 7,072                         | 5,383               | 5,436                          | -   | 0                                      | 264                                   | 304                                 | 50                                   | 1,242                       | -                           | 284,761                            | 304,512          |
| Transfers                                 | -                             | 12,514              | -                              | 20,340  | 1,753                                  | 34,765                                | -                                   | -                                    | 1,723                       | (7,234)                     | (63,861)                           | -                |
| Withdrawals                               | -                             | -                   | -                              | -   | -                                      | (434)                                 | (93)                                | -                                    | -                           | -                           | -                                  | (527)            |
| <b>As of December 31, 2015</b>            | <u>41,707</u>                 | <u>586,225</u>      | <u>11,423</u>                  | <u>739,311</u>                                  | <u>60,006</u>                          | <u>2,580,329</u>                      | <u>24,035</u>                       | <u>17,143</u>                        | <u>61,187</u>               | <u>-</u>                    | <u>722,833</u>                     | <u>4,844,197</u> |
| <b>Accumulated depreciation -</b>         |                               |                     |                                |   |  |                                       |                                     |                                      |                             |                             |                                    |                  |
| <b>As of January 1<sup>st</sup>, 2014</b> | 9,726                         | -                   | 2,644                          | 80,622  | 42,081                                 | 261,590                               | 11,304                              | 13,688                               | 34,734                      | -                           | -                                  | 456,389          |
| Depreciation of the period                | 267                           | -                   | 368                            | 28,172  | 1,211                                  | 141,400                               | 3,055                               | 637                                  | 3,734                       | -                           | -                                  | 178,844          |
| Transfers                                 | -                             | -                   | -                              | -   | -                                      | -                                     | -                                   | -                                    | -                           | -                           | -                                  | -                |
| Withdrawals                               | -                             | -                   | -                              | -   | -                                      | -                                     | (202)                               | -                                    | -                           | -                           | -                                  | (202)            |
| <b>As of December 31, 2014</b>            | <u>9,993</u>                  | <u>-</u>            | <u>3,012</u>                   | <u>108,794</u>                                  | <u>43,292</u>                          | <u>402,990</u>                        | <u>14,157</u>                       | <u>14,325</u>                        | <u>38,468</u>               | <u>-</u>                    | <u>-</u>                           | <u>635,031</u>   |
| Depreciation of the period (e)            | 267                           | -                   | 368                            | 28,802  | 1,467                                  | 144,145                               | 3,031                               | 586                                  | 3,688                       | -                           | -                                  | 182,354          |
| Withdrawals                               | -                             | -                   | -                              | -   | -                                      | -                                     | (84)                                | -                                    | -                           | -                           | -                                  | (84)             |
| <b>As of December 31, 2015</b>            | <u>10,260</u>                 | <u>-</u>            | <u>3,380</u>                   | <u>137,596</u>                                  | <u>44,759</u>                          | <u>547,135</u>                        | <u>17,104</u>                       | <u>14,911</u>                        | <u>42,156</u>               | <u>-</u>                    | <u>-</u>                           | <u>817,301</u>   |
| <b>Net amount in books -</b>              |                               |                     |                                |   |  |                                       |                                     |                                      |                             |                             |                                    |                  |
| <b>As of December 31, 2015</b>            | <u>31,445</u>                 | <u>586,225</u>      | <u>8,043</u>                   | <u>601,715</u>                                  | <u>15,247</u>                          | <u>2,033,194</u>                      | <u>6,931</u>                        | <u>2,232</u>                         | <u>19,031</u>               | <u>-</u>                    | <u>722,839</u>                     | <u>4,026,896</u> |
| As of December 31, 2014                   | <u>24,640</u>                 | <u>568,328</u>      | <u>2,975</u>                   | <u>610,177</u>                                  | <u>14,961</u>                          | <u>2,142,744</u>                      | <u>9,667</u>                        | <u>2,768</u>                         | <u>19,754</u>               | <u>7,234</u>                | <u>501,938</u>                     | <u>3,905,181</u> |

## Notes to the separated financial statements (continued)

- (b) As of December 30, 2015 and 2014, mainly corresponds to the mining concessions of Atocongo, Atocongo Norte, Pucara and Oyon.
- (c) As of December 30, 2015, the carrying value of assets acquired through finance leases amounted to approximately S/ 507,713,564 (S/ 541,219,816 as of December 31, 2014). The leased assets guaranteed financial lease liabilities (see note 11).
- (d) The main additions during 2015 mostly are part of the work in progress due to related projects to the Carpatata III Hydroelectric Power Plant, Cement Mill VIII and Packing machine V perform in Condorcocha plant of the Company for approximately S/ 252,236,000.  
The main additions during 2014 are mostly part of the work in progress of UNACEM related to the expansion of production capacity of the second phase of Kiln 1 in Atocongo Plant and the Carpatata III Hydroelectric power plant and the construction of Cement Mill VIII and Packing machine V at Condorcocha Plant for approximately S/329,422,000.

- (e) Depreciation has been distributed as follows:

|                         | <b>As of December 31,<br/>2015<br/>S/(000)</b> | <b>As of December 31,<br/>2014<br/>S/(000)</b> |
|-------------------------|--|--|
| Cost of sale            | 175,307  | 172,022  |
| Administrative expenses | 5,738  | 5,690  |
| Inventories             | <u>1,309</u>                                   | <u>1,132</u>                                   |
|                         | <u>182,354</u>                                 | <u>178,844</u>                                 |

- (f) As of December 31, 2015 and 2014, the Company Management performed an evaluation of the state of use of their properties, plant and equipment, finding no evidence of impairment in such assets so that, in his opinion, the net value of properties, plant and equipment is recoverable with future profits generated by different cash-generating units of the Company.
- (g) According to management's opinion, the Company has insurance policies which cover satisfactorily all of its fixed assets.

## Notes to the separated financial statements (continued)

### 9. Deferred tripping assets

(a) The following represents the movements of deferred stripping assets:

|                                   | S/(000)         |
|-----------------------------------|-----------------|
| <b>Cost -</b>                     |                 |
| <b>As of January 1st, 2014</b>    | 164,502         |
| Additions                         | -               |
| <b>As of December 31, 2014</b>    | <u>164,502</u>  |
| Additions                         | 410             |
| <b>As of December 31, 2015</b>    | <u>164,912</u>  |
| <b>Accumulated depreciation -</b> |                 |
| <b>As of January 1st, 2014</b>    | (21,687)        |
| Additions                         | (6,863)         |
| <b>As of December 31, 2014</b>    | <u>(28,550)</u> |
| Additions                         | (4,699)         |
| <b>As of December 31, 2015</b>    | <u>(33,249)</u> |
| <b>Net amount in books -</b>      |                 |
| As of December 31, 2015           | <u>131,663</u>  |
| As of December 31, 2014           | <u>135,952</u>  |

As of December 31, 2015 and 2014, the Company has three identified components which allow a specific volume of limestone and waste in their plants. Atocongo plant, North Atocongo and Pucará quarries.

As of December 31, 2015, the Company and technical advisors established 179,729,307 and 150,560,440 tons of limestone reserve and waste related to limestone to be extracted in the future, respectively (148,428,584 y 91,323,415 tons as of December 31, 2014, respectively), which are determined and controlled by identified components.

Notes to the separated financial statements (continued)

10. Intangible assets, net

(a) The composition and movement of these account is as follows:

|                                   | Concession for electric power<br>generation (b)<br>S/(000) | Goodwill<br>(c)<br>S/(000) | Software<br>S/(000) | Environmental<br>Protection Programe<br>S/(000) | Exploration Cost<br>S/(000) | Others<br>S/(000) | Total<br>S/(000) |
|-----------------------------------|--|----------------------------|---------------------|---|-----------------------------|-------------------|------------------|
| <b>Cost -</b>                     |  |                            |                     |   |                             |                   |                  |
| As of January 1st, 2014           | 61,330   | 9,745                      | 10,712              | 17,071  | -                           | 2,676             | 101,534          |
| Additions                         | -  | -                          | 1,241               | -   | -                           | 3,298             | 4,539            |
| Withdrawals                       | -  | -                          | -                   | -   | -                           | -                 | -                |
| As of December 31, 2014           | 61,330   | 9,745                      | 11,953              | 17,071  | -                           | 5,974             | 106,073          |
| Additions                         | -  | -                          | 5,061               | -   | -                           | 421               | 5,482            |
| Withdrawals                       | -  | -                          | -                   | -   | -                           | (324)             | (324)            |
| As of December 31, 2015           | 61,330   | 9,745                      | 17,014              | 17,071  | -                           | 6,071             | 111,231          |
| <b>Accumulated amortization -</b> |  |                            |                     |   |                             |                   |                  |
| As of January 1st, 2014           | 5,621  | -                          | 1,074               | 16,674  | -                           | 348               | 23,717           |
| Amortization of the period        | 1,484  | -                          | 2,155               | 123   | -                           | -                 | 3,762            |
| Withdrawals                       | -  | -                          | -                   | -   | -                           | -                 | -                |
| As of December 31, 2014           | 7,105  | -                          | 3,229               | 16,797  | -                           | 348               | 27,479           |
| Amortization of the period        | 1,484  | -                          | 2,282               | 37  | -                           | 13                | 3,816            |
| As of December 31, 2015           | 8,589  | -                          | 5,511               | 16,834  | -                           | 361               | 31,295           |
| <b>Net amount in books -</b>      |  |                            |                     |   |                             |                   |                  |
| As of December 31, 2015           | 52,741   | 9,745                      | 11,503              | 237   | -                           | 5,710             | 79,936           |
| As of December 31, 2014           | 54,225   | 9,745                      | 8,724               | 274   | -                           | 5,626             | 78,594           |

(b) This amount corresponds to the expenditures to develop the overall "El Platana" project 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 Platana" project to its subsidiary Compañía Eléctrica El Platana 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, 2015 and 2014, the Company amortizes the cost incurred to develop the project, during the term of the contract (25 years).

## Notes to the separated financial statements (continued)

- (c) In 2003, the acquisition of 100 percent of shares representing the capital of Lar Carbon SA. became effective. It was registered following the purchase method, making adjustments to the separate financial statements of the Company 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 was subsequently absorbed.
  
- (d) As of December 31, 2015 and 2014, the Company Management performed an evaluation of the state of use of their intangible assets, finding no evidence of impairment in such assets so that, in his opinion, the net value of the intangible assets is recoverable with future profits generated by the Company.

Notes to the separated financial statements (continued)

11. Other Financial liabilities

(a) This caption is made up as follows:

|                               | As of December 31, 2015    |                                   |                  | As of December 31, 2014    |                                   |                  |
|-------------------------------|----------------------------|-----------------------------------|------------------|----------------------------|-----------------------------------|------------------|
|                               | Current Portion<br>S/(000) | Non current<br>portion<br>S/(000) | Total<br>S/(000) | Current Portion<br>S/(000) | Non current<br>portion<br>S/(000) | Total<br>S/(000) |
| Bank loans (b)                | 134,030                    | 652,786                           | 786,816          | 93,996                     | 431,080                           | 525,076          |
| Bonds and long-term loans (d) | 352,124                    | 2,980,598                         | 3,332,722        | 479,297                    | 2,882,293                         | 3,361,590        |
|                               | <u>486,154</u>             | <u>3,633,384</u>                  | <u>4,119,538</u> | <u>573,293</u>             | <u>3,313,373</u>                  | <u>3,886,666</u> |

(b) Bank loans mainly correspond to working capital loans at fixed annual rates that range between 2.88 and 5.90 percent annually, do not have specific guarantees and are renewed depending on the working capital needs of the Company. As of December 31, 2015 and 2014, the balance by bank is as follows:

|                         | 2015<br>S/(000) | 2014<br>S/(000) |
|-------------------------|-----------------|-----------------|
| <b>Creditor -</b>       |                 |                 |
| Citibank N.A. New York  | 258,466         | 258,466         |
| Banco Santander Uruguay | 167,236         | 146,461         |
| Scotianbank Peru S.A.A  | 131,250         | -               |
| ITAU UNIBANCO S.A.      | 29,864          | 78,461          |
| Banco ITAU BBA S.A.     | -               | 41,688          |
| BBVA Banco Continental  | 200,000         | -               |
|                         | <u>786,816</u>  | <u>525,076</u>  |

(c) As of December 31, 2015 and 2014, the interest outstanding of promissory notes amounted to S/ 8,214,000 and S/ 6,571,000, respectively and is recorded in the caption "Accounts Payable and Other Provisions" in the financial statement. As of December 30, 2015 and 2014, the expenses for interest outstanding of promissory notes amounted to S/ 43,171,000 and S/ 35,342,000, respectively; and are included in the category "Financial expenses" in the income statement (note 18).



Notes to the separated financial statements (continued)

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

|  | Annual<br>Interest Rate<br>%                       | Maturity  | Guarantee                | As of December 31,<br>2015<br>S/(000) | As of December 31,<br>2014<br>S/(000) |
|--|--|---|--------------------------|---------------------------------------|---------------------------------------|
| <b>Corporate Bonds -</b>                                   |  |   |                          |                                       |                                       |
| International bonds (e)                                    | 5.875  | October 2021<br>December 2016, March 2020 and<br>2023 | No guarantees            | 2,133,125                             | 1,868,125                             |
| First and third issuance of the second program (g) and (l) | Between 4.93 and 5.56                              |   | No guarantees            | 180,000                               | 180,000                               |
| First and eight issuance of the First program (f) and (l)  | Between 5.91 and 6.13                              | Between January and March 2015                        | No guarantees            | -                                     | 100,000                               |
| First and third issuance of the first program (h) and (l)  | 6.25   | January 2018  | No guarantees            | 47,781                                | 58,584                                |
|  |  |   |                          | <u>2,360,906</u>                      | <u>2,206,709</u>                      |
| Amortized costs  |  |   |                          | (25,617)                              | (28,219)                              |
|  |  |   |                          | <u>2,335,289</u>                      | <u>2,178,490</u>                      |
| <b>Bank loans (l) and (l)</b>                              |  |   |                          |                                       |                                       |
| Banco Internacional del Perú                               | Between 5.25 and 6.24<br>Between Libor to 3 months | July 2017 and March 2019                              | No guarantees            | 242,583                               | 271,216                               |
| Bank of Nova Scotia  | +2.35 and 2.40                                     | August 2018 and September 2018                        | No guarantees note (8 g) | 183,591                               | 237,999                               |
| Banco de Crédito e Inversiones                             | 2.45   | July 2016   | No guarantees            | 59,728                                | 156,923                               |
| BBVA Banco Continental                                     | 5.40 and 4.35                                      | July 2018 and June 2017                               | No guarantees note (8 g) | 62,489                                | 113,358                               |
| Banco de Crédito del Perú                                  | 5.90 and 6.60                                      | February 2020 and April 2019                          | No guarantees            | 182,072                               | 39,853                                |
|  |  |   |                          | <u>730,463</u>                        | <u>819,349</u>                        |
| Amortized costs  |  |   |                          | (4,893)                               | (5,160)                               |
|  |  |   |                          | <u>725,570</u>                        | <u>814,189</u>                        |
| <b>Financial leasing -</b>                                 |  |   |                          |                                       |                                       |
| Banco de Crédito del Perú (j) and (l)                      | 6.52   | February 2018   | Leased goods             | 200,463                               | 287,202                               |
| Banco Internacional del Perú (k) and (l)                   | 5.80   | October 2018  | Leased goods             | 71,400                                | 81,709                                |
|  |  |   |                          | <u>271,863</u>                        | <u>368,911</u>                        |
| <b>Total</b>   |  |   |                          | <u>3,332,722</u>                      | <u>3,361,590</u>                      |
| Less - Current Portion                                     |  |   |                          | <u>352,124</u>                        | <u>479,297</u>                        |
| Non- Current Portion                                       |  |   |                          | <u>2,980,598</u>                      | <u>2,882,293</u>                      |

## Notes to the separated financial statements (continued)

- (e) On May 26, 2014, the Board of Meeting of the Company approved the acquisition of 98.57 percent of the shares of UNACEM Ecuador S.A. (formerly Lafarge Cementos S.A.) Public company located in Quito, Ecuador, subsidiary of Lafarge S.A. of France. On October 20, 2014 the Board of Meeting agreed the international bond issue. Therefore, on October 31, 2014 the Company issues bonds ("Senior Notes") under the Rule 144A of the US Securities and under the regulation S of the US Securities Act of 1933, on the Luxembourg Stock Exchange for a nominal value of US\$625 million, at a nominal interest rate of 5.875 percent with maturity on October 2021, resulting a total net collection of fees and expenses of US\$615 million (approximately equivalent to S/1,839 million).

The Company used the funds to purchase the shares of UNACEM Ecuador S.A. (formerly Lafarge Cementos S.A.) and Subsidiaries through its subsidiary IMBABURA for a total amount of US\$517 million (equivalent to S/1,516 million), see note 2(b).

- (f) On May 9, 2006, the General Shareholders meeting approved the proposal for the issuance of the "First Program Debt Instruments of US\$150,000,000 or its equivalent in Soles".

On August 24, 2006 the Company signed with Banco Continental BBVA, as Representative of Bondholders, the framework contract for the bonds emission.

Altogether eight issues were placed for a total of S / 440 million, awarded using the method of Dutch auction and at June 30, 2015 have been fully paid.

- (g) On April 7, 2010, the General Meeting approved the "Second Program of Issuance of Corporate Bonds and Short-Term Debt Instruments of Unión Andina de Cementos S.A.A. up to a maximum outstanding amount of US\$150,000,000 or its equivalent in soles".

On September 15, 2010 the Company signed with Banco Scotiabank Peru, as Representative of Bondholders, the framework contract for the bonds emission. On November 8, 2012, the company transferred to Banco de Credito del Peru the obligations of the Representative of bondholders.

In March 2013, the Company placed the First and Second Issuance of the Corporate Bonds totaling S/60,000,000 each, and on December 2013, placed the Third Issuance of the same program for S/60,000,000.

- (h) During the General Shareholders and Board Meeting held in March 26 and June 19, 2009, respectively, the First Program of Corporate Bonds of Cemento Andino S.A. was approved (later transferred after the merger date of the Company) up to an issuance amount of US\$40,000,000 or its equivalent in soles (Peruvian currency).

## Notes to the separated financial statements (continued)

On June 17, 2009 the company signed with Banco de Crédito del Perú, as Representative of Bond Holders, the contract and framework prospect for the "First Program of Corporate Bonds". The first and third emission by US\$7,000,000 and US\$28,000,000, respectively, were granted under the Dutch auction on January 21, 2010. The first issuance of this program was paid in January 2013.

(i) As of December 30, 2015 and 2014, bank loans in local and foreign currency obtained from local and foreign financial institutions were used mainly for working capital.

(j) On December 17, 2008, the Company signed with BCP a contract of terms and conditions of financial leasing for a total of US\$ 187,000,000 for the installment of a new line of production (Kiln 4) in the plant of Condorcocha located in Junin.

On March 13, 2015 the balance of funding up to US\$ 84,832,000, which was initially in foreign currency, was changed for local currency financing under the following conditions:

- The current interest rate in soles for all sections is 6.52 percent.
- Availability term of financing is three years and the payments are quarterly.
- The financing is secured by the assets given in financial leasing.

(k) On May 19, 2010, the General Shareholders Meeting approved the leasing agreement signed with Banco Internacional del Peru (Interbank) to expand the production capacity of the kiln 1 from 3.200 to 7.500 tons of Clinker / day located on the Atocongo plant. The Company completed the project in 2013, whose assets guarantee the financing described.

(l) Financial ratios have a quarterly follow up and must be calculated on the basis of the separated financial information and the calculus methodology required by each financial entity.

The compliance of financial ratios described is oversight by the Management of the Company and the Representative of Bondholders. In case of breach of the above safeguards, an early termination will proceed. In Managements opinion, the Company has complied with financial covenants required by the financial institutions with which it has funding as December 31, 2015 and December 31, 2014, except for the debt service coverage ratio of related to the First Bond Program of Cemento Andino, for which has a waiver until September 30, 2016.

(m) As of December 31, 2015 and 2014, the interest outstanding of bonds and long-term debt with banks amounted to S/ 30,997,000 and S/ 30,903.000, respectively and is recorded in the caption "Accounts Payable and Other Provisions" in the financial statement (note 12).

(n) Interest on bonds and long-term debt with banks kept for the years ended on December 31, 2015 and 2014 amounted to approximately S / 175,926,000 and S / 86,981,000, respectively, and is recorded in the caption "Financial costs" in the income statement(note 18).

## Notes to the separated financial statements (continued)

### 12. Trade and other payables

(a) This caption is made up as follows:

|  | As of December 31,<br>2015 | As of December 31,<br>2014 |
|--|----------------------------|----------------------------|
|  | S/(000)                    | S/(000)                    |
| Trade payables (b)                       | 125,440                    | 93,135                     |
| Related Accounts receivable, note 19 (b) | 52,154                     | 74,241                     |
| Deferred income (c)                      | 93,508                     | 98,725                     |
| Remunerations and vacations payable      | 13,963                     | 15,067                     |
| Interest payable, note 11(c) and (m)     | 39,211                     | 34,669                     |
| Tax Payable                              | 12,960                     | 17,096                     |
| Director's remunerations payable         | 106                        | 2,076                      |
| Dividends Payables                       | 246                        | 134                        |
| Other accounts payable                   | 9,033                      | 7,124                      |
|  | <u>346,621</u>             | <u>342,267</u>             |
| <b>Term -</b>                            |                            |                            |
| Current Portion                          | 338,942                    | 332,553                    |
| Non- Current Portion                     | 7,679                      | 9,714                      |
|  | <u>346,621</u>             | <u>342,267</u>             |

(b) Trade payable are generated, mainly, by services of extraction of minerals and acquisition of supplies and additives for the Company's production, are nominated in local and foreign currencies, have current currency, do not yield interests and do not have guarantees.

(c) As of December 31, 2015 and 2014, the balance corresponds to sales of cement and clinker invoiced and not released which will be made in the next quarter.

## Notes to the separated financial statements (continued)

### 13. Provisions

(a) This caption is made up as follows:

|                              | Current                              |                                       | Non- Current                         |                                       |
|------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|
|                              | As of December<br>31,2015<br>S/(000) | As of December<br>31, 2014<br>S/(000) | As of December<br>31,2015<br>S/(000) | As of December<br>31, 2014<br>S/(000) |
| Workers' profit sharing (b)  | 38                                   | 19,069                                | -                                    | -                                     |
| Compensation for time served | 1,318                                | 1,244                                 | -                                    | -                                     |
| Mine closure provision (c)   | 244                                  | 358                                   | 13,044                               | 13,492                                |
|                              | <u>1,600</u>                         | <u>20,671</u>                         | <u>13,044</u>                        | <u>13,492</u>                         |

(b) Workers' profit sharing -

According to Peruvian law, the Company maintains a profit sharing plan for workers of 10 percent of the 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.

(c) Mine closure provision -

As of December 31, 2015 and 2014, the Company keeps a provision for future closure costs of its mines based on an estimated life 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. This estimate is reviewed annually to take into account any change in the assumptions. However, the actual costs of closing the mines finally depend on future market prices for the necessary works of abandonment that reflect market conditions at the relevant time. In addition, the actual closing time depends on when the mines ceases to produce economically viable products.

Notes to the separated financial statements (continued)

14. Income tax

(a) A breakdown of deferred income tax is presented according to the items that originated them:

|  | As of January 1st, |                   |                  | As of December 31, |                   |                  | As of December 31, |
|--|--------------------|-------------------|------------------|--------------------|-------------------|------------------|--------------------|
|  | 2014               | Income Statements | Charge to Equity | 2014               | Income Statements | Charge to Equity | 2015               |
|  | S/(000)            | S/(000)           | S/(000)          | S/(000)            | S/(000)           | S/(000)          | S/(000)            |
| <b>Deferred Liability</b>                        |                    |                   |                  |                    |                   |                  |                    |
| Difference in tax base for fixed assets          | 462,398            | (48,406)          | -                | 413,992            | (5,849)           | -                | 408,143            |
| Deferred tripping assets                         | 42,844             | (6,136)           | -                | 36,708             | (1,201)           | -                | 35,507             |
| Capitalized Interest                             | 33,691             | (3,155)           | -                | 30,536             | 1,969             | -                | 32,505             |
| Deferred bond commissions and long-term loans    | 1,493              | 7,228             | -                | 8,721              | (9,359)           | -                | (638)              |
| Difference in exchange rate of financial leasing | 6,271              | (1,567)           | -                | 4,704              | (1,878)           | -                | 2,826              |
| Amortization software                            | 2,784              | (502)             | -                | 2,282              | (495)             | -                | 1,787              |
| Amortization of intangibles                      | 1,980              | 2                 | -                | 1,982              | 604               | -                | 2,586              |
|  | <u>551,461</u>     | <u>(52,536)</u>   | <u>-</u>         | <u>498,925</u>     | <u>(16,209)</u>   | <u>-</u>         | <u>482,716</u>     |
| <b>Deferred asset</b>                            |                    |                   |                  |                    |                   |                  |                    |
| Deferred income (net)                            | (1,010)            | (15,574)          | -                | (16,584)           | 4,861             | -                | (11,723)           |
| Provision for vacations                          | (3,243)            | 272               | -                | (2,971)            | 680               | -                | (2,291)            |
| Mine closure provision                           | (3,459)            | 594               | -                | (2,865)            | (116)             | -                | (2,981)            |
| Derivative financial instruments                 | (1,436)            | (879)             | 649              | (1,666)            | (61)              | 194              | (1,532)            |
| Other provisions                                 | (4,739)            | 2,365             | -                | (2,374)            | (305)             | -                | (2,679)            |
| Participation charged to inventories             | (271)              | 342               | -                | 71                 | (512)             | -                | (442)              |
|  | <u>(14,158)</u>    | <u>(12,880)</u>   | <u>649</u>       | <u>(26,389)</u>    | <u>4,547</u>      | <u>194</u>       | <u>(21,649)</u>    |
| <b>Deferred income tax liability, net</b>        | <u>537,303</u>     | <u>(65,416)</u>   | <u>649</u>       | <u>472,536</u>     | <u>(11,662)</u>   | <u>194</u>       | <u>461,068</u>     |

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

(b) The current and deferred portions of the provision for income tax for the years ended as of December 30, 2015 and 2014 are comprised as follows:

|  | 2015            | 2014            |
|--|-----------------|-----------------|
|  | S/(000)         | S/(000)         |
| Current                                    | (10,804)        | (94,849)        |
| Impact of exchange rates on the income tax |                 | 72,395          |
| Deferred                                   | (11,662)        | (6,979)         |
|  | <u>(22,466)</u> | <u>(29,433)</u> |
| <b>Total</b>                               | <u>(22,466)</u> | <u>(29,433)</u> |

As of December 31, 2015 and 2014, the Company do not need to recognize a liability for deferred income tax for the tax that would be payable on the profits of its subsidiaries. The Company has determined that the temporary differences will reverse through dividends to be received in the future, according to current tax legislation in Peru, they are not subject to income tax.

## Notes to the separated financial statements (continued)

- (c) A reconciliation of the effective rate of income tax as of December 31, 2015 and 2014 is as follows:

|                                  | <b>2015</b><br>S/(000) | <b>2015</b><br>% | <b>2014</b><br>S/(000) | <b>2014</b><br>% |
|----------------------------------|------------------------|------------------|------------------------|------------------|
| <b>Profit before income tax</b>  | <u>158,304</u>         | <u>100.00</u>    | <u>319,546</u>         | <u>100.00</u>    |
| Income tax according to tax rate | 44,325                 | 28.00            | 95,864                 | 30.00            |
| Impact of exchange rate in the   |                        |                  |                        |                  |
| Income tax                       | -                      | -                | (72,395)               | (22.66)          |
| Tax impact of permanent record   | <u>(21,859)</u>        | <u>(13.81)</u>   | <u>5,964</u>           | <u>1.87</u>      |
| <b>Income tax expense</b>        | <u>22,466</u>          | <u>14.19</u>     | <u>29,433</u>          | <u>9.21</u>      |

In December 2014, the Peruvian Government approved a progressive reduction in the income tax rate, with a rate of 28 percent as of December 30, 2015 (30 percent as of December 31, 2014).

### 15. Equity

- (a) Issued Capital -

As of December 31, 2015 and 2014, 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.

| <b>Shareholders</b>                            | <b>Number of<br/>shares</b> | <b>Percentage<br/>Share<br/>%</b> |
|--|-----------------------------|-----------------------------------|
| 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                 | 21.45                             |
| Others   | <u>175,218,290</u>          | <u>10.88</u>                      |
|  | <u>1,646,503,408</u>        | <u>100.00</u>                     |

As of December 30, 2015, the share price of each share has been S/1.74 (S/2.93 as of December 31, 2014).

- (b) Legal reserve -

Under the terms of the Peruvian General Companies 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 result -

Corresponds to changes in the net fair value of tax effect of hedging instruments.

## Notes to the separated financial statements (continued)

(d) Dividend distributions –

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/0.013 per share), such payments were made on February 24, May 20, August 24 and November 25, 2015 respectively.

At the Board of Directors meetings held on January 17, April 28, July 18 and November 03, 2014, the Company agreed to distribute dividends with charge to retained earnings for approximately S/85,619,000 (S/0.013 per share), such payments were made on February 19, May 29, August 21 and December 03, 2014 respectively.

### 16. Net sales, cost of sales and gross profit

(a) A breakdown of this item for the periods ended on December 31 is presented:

|  | <b>2015</b><br>S/(000) | <b>2014</b><br>S/(000) |
|--|------------------------|------------------------|
| Cement   | 1,846,731              | 1,786,818              |
| Clinker  | 46,830                 | 53,102                 |
| Blocks, paving stones, concrete pavements and others | 55,794                 | 43,062                 |
|  | <u>1,949,355</u>       | <u>1,882,982</u>       |
| Cost of sale   | <u>(1,101,889)</u>     | <u>(1,052,473)</u>     |
| Gross profit   | <u>847,466</u>         | <u>830,509</u>         |

### 17. Other operating (expenses) income, net

As of December 31, 2015, this item is composed mainly of dividends received from subsidiaries:

- Inversiones IMBABURA S.A., which in turn received dividends from its subsidiary UNACEM Ecuador S.A., for approximately US \$ 42,056,246 (equivalent to S/ 130,675,000), which were paid S/124,675,000 on June, October and December, see Note 19 (a) and (b).
- Ferrocarril Central Andino SA, for approximately US \$ 659.706 (equivalent to S/ 2,041,131)
- Generación Eléctrica de Atocongo S.A. - for approximately S/ 1,398,683

### 18. Financial costs

As of December 31, 2015 and 2014, this item is mainly made up of interest on bonds and debts with banks by S/232,531,000 and 153,060,000, respectively. The increase in the item is mainly due to interest on foreign bonds ("Senior Notes") issued on October 31, 2014, see note 11 (e).



## Notes to the separated financial statements (continued)

### 19. Transactions with related parties

(a) The main transactions with related entities as of December 31, 2015 and 2014 were as follows:

|  | <b>2015</b><br>S/(000) | <b>2014</b><br>S/(000) |
|--|------------------------|------------------------|
| <b>Income for sale of cement -</b>                             |                        |                        |
| La Viga S.A.   | 379,242                | 370,265                |
| Unión de Concreteras S.A.                                      | 192,243                | 183,010                |
| Firth Industries Perú S.A. / Concremax S.A.                    | 63,729                 | 57,506                 |
| Prefabricados Andinos Perú S.A.C.                              | 1,074                  | 823                    |
| Asociación Unacem  | 430                    | -                      |
| <b>Blocks, pavers, paving and HCR sales income-</b>            |                        |                        |
| Unión de Concreteras S.A.                                      | 31,180                 | 29,159                 |
| Firth Industries Perú S.A.                                     | 24,379                 | 14,086                 |
| <b>Property, plant and equipment lease income</b>              |                        |                        |
| Unión de Concreteras S.A.                                      | 548                    | 453                    |
| Depósito Aduanero Conchán S.A.                                 | 328                    | 340                    |
| Prefabricados Andinos Perú S.A.C.                              | 166                    | 160                    |
| La Viga S.A.   | 173                    | 77                     |
| Others   | 73                     | 29                     |
| <b>Royalties income -</b>                                      |                        |                        |
| Compañía Eléctrica el Platanal S.A.                            | 5,505                  | 5,945                  |
| <b>Licenses - intellectual property and trademarks</b>         |                        |                        |
| Unacem Ecuador S.A.  | 20,743                 | 1,663                  |
| <b>Dividends income -</b>                                      |                        |                        |
| Inversiones Imbabura S.A., note 17                             | 130,675                | -                      |
| Ferrocarril Central Andino S.A.                                | 2,041                  | 486                    |
| Generación Eléctrica Atocongo S.A.                             | 1,398                  | 2,996                  |
| <b>Income from administrative, IT and management support -</b> |                        |                        |
| Drake Cement LLC   | 493                    | 919                    |
| Prefabricados Andinos Perú S.A.C.                              | 307                    | 273                    |
| Depósito Aduanero Conchán S.A.                                 | 189                    | 168                    |
| Generación Eléctrica Atocongo S.A.                             | 195                    | 92                     |
| Vigilancia Andina S.A.   | 73                     | 67                     |
| Compañía Eléctrica El Platanal S.A.                            | 76                     | 63                     |

## Notes to the separated financial statements (continued)

|  | <b>2015</b><br>S/(000) | <b>2014</b><br>S/(000) |
|--|------------------------|------------------------|
| <b>Clinker sales -</b>                                 |                        |                        |
| Drake Cement LLC                                       | 4,404                  | 82,822                 |
| <b>Other Income -</b>                                  |                        |                        |
| Compañía Eléctrica el Platana S.A.                     | 1,101                  | 1,201                  |
| Prefabricados Andinos Perú S.A.C.                      | 84                     | 59                     |
| Unión de Concreteras S.A.                              | 120                    | 190                    |
| Others   | 16                     | 84                     |
| <b>Purchase of energy</b>                              |                        |                        |
| Compañía Eléctrica El Platana S.A.                     | 116,325                | 104,735                |
| <b>Management service-</b>                             |                        |                        |
| Sindicato de Inversiones y Administración S.A.         | 12,622                 | 27,810                 |
| Inversiones Andino S.A.                                | 4909                   | 10,815                 |
| <b>Project Management Services -</b>                   |                        |                        |
| ARPL Tecnología Industrial S.A.                        | 27,714                 | 14,834                 |
| Celepsa Renovables S.A.C.                              | 2,718                  | 2,879                  |
| Compañía Eléctrica El Platana S.A.                     | -                      | 865                    |
| <b>Commission and freight for cement sales</b>         |                        |                        |
| La Viga S.A.   | 17,934                 | 23,414                 |
| <b>Engineering services and technical assistance -</b> |                        |                        |
| ARPL Tecnología Industrial S.A.                        | 18,065                 | 17,696                 |
| <b>Tolling service -</b>                               |                        |                        |
| Unión de Concreteras S.A.                              | 7,464                  | 7,793                  |
| Firth Industries Perú S.A.                             | 12,832                 | 7,714                  |
| <b>Concrete Purchase -</b>                             |                        |                        |
| Unión de Concreteras S.A.                              | 17,198                 | 19,821                 |
| <b>Storage Management Services -</b>                   |                        |                        |
| Depósito Aduanero Conchán S.A.                         | 3,647                  | 3,710                  |
| <b>Purchase of auxiliary material -</b>                |                        |                        |
| Unión de Concreteras S.A.                              | 5,524                  | 5,735                  |
| Generación Eléctrica Atocongo S.A.                     | -                      | 67                     |
| <b>Reimbursed expenses -</b>                           |                        |                        |
| Unión de Concreteras S.A.                              | 8,316                  | 7,582                  |
| ARPL Tecnología Industrial S.A.                        | 942                    | 689                    |

## Notes to the separated financial statements (continued)

|                                    | <b>2015</b><br>S/(000) | <b>2014</b><br>S/(000) |
|------------------------------------|------------------------|------------------------|
| <b>Others -</b>                    |                        |                        |
| Vigilancia Andina S.A.             | 20,080                 | 19,255                 |
| Generación Eléctrica Atocongo S.A. | 2,964                  | 3,572                  |
| Firth Industries Perú S.A.         | 2,164                  | 537                    |
| Drake Cement                       | 347                    | 82,822                 |
| Others                             | 1,259                  | 2,039                  |

(b) As a result of these and other minor transactions, the Company kept the following balances with its related entities as of December 31, 2015 and 2014:

|  | <b>2015</b><br>S/(000) | <b>2014</b><br>S/(000) |
|--|------------------------|------------------------|
| <b>Account receivables, note 5(a) -</b>        |                        |                        |
| Unión de Concreteras S.A.                      | 33,994                 | 25,926                 |
| Firth Industries Perú S.A. / Concremax S.A.    | 27,281                 | 23,907                 |
| La Viga S.A.                                   | 30,235                 | 19,664                 |
| Compañía Eléctrica El Platanal S.A.            | 5,842                  | 6,337                  |
| Asociación Unacem                              | 6                      | 3,740                  |
| Unacem Ecuador S.A.                            | 4,192                  | -                      |
| Inversiones Imbabura S.A.                      | 6,000                  | -                      |
| Drake Cement LLC                               | 7,535                  | 1,922                  |
| Lafarge Cementos S.A.                          | -                      | 1,297                  |
| Other minors                                   | 1,282                  | 1,344                  |
|  | <hr/>                  | <hr/>                  |
|  | 116,367                | 84,137                 |
|  | <hr/>                  | <hr/>                  |
| <b>Account payables, note 12(a) -</b>          |                        |                        |
| Compañía Eléctrica El Platanal S.A.            | 10,586                 | 22,325                 |
| Unión de Concreteras S.A.                      | 19,961                 | 16,945                 |
| Sindicato de Inversiones y Administración S.A. | 2,056                  | 16,285                 |
| ARPL Tecnología Industrial S.A.                | 8,903                  | 6,576                  |
| Inversiones Andino S.A.                        | 900                    | 6,333                  |
| Vigilancia Andina S.A.A.                       | 1,944                  | 2,243                  |
| La Viga S.A.                                   | 1,790                  | 1,288                  |
| Firth Industries Perú S.A.                     | 3,887                  | 1,021                  |
| Drake Cement LLC                               | 846                    | 338                    |
| Generación Eléctrica de Atocongo S.A.          | 579                    | 306                    |
| Depósito Aduanero Conchán S.A.                 | 102                    | 325                    |
| Transportes Lurin S.A.                         | -                      | 256                    |
| Celepsa Renovables                             | 600                    |                        |
| Inveco   |                        |                        |
|  | <hr/>                  | <hr/>                  |

## Notes to the separated financial statements (continued)

|                      | <b>2015</b><br>S/(000) | <b>2014</b><br>S/(000) |
|----------------------|------------------------|------------------------|
|                      | <u>52,154</u>          | <u>74,241</u>          |
| <b>Terms-</b>        |                        |                        |
| Current Portion      | 44,475                 | 64,527                 |
| Non- Current Portion | <u>7,679</u>           | <u>9,714</u>           |
|                      | <u>52,154</u>          | <u>74,241</u>          |

(c) 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.

### 20. Earnings per share

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

Calculation of the weighted average number of shares and the basic and diluted earnings per share as of December 31, 2015 and 2014 is presented below:

|  | <b>2015</b><br>S/(000) | <b>2014</b><br>S/(000) |
|--|------------------------|------------------------|
| <b>Numerator</b>                             |                        |                        |
| Earning attributable to common shares        | <u>135,838</u>         | <u>290,113</u>         |
|  | <b>In thousands</b>    | <b>In thousands</b>    |
| <b>Denominator</b>                           |                        |                        |
| Weighted average number of common shares     | <u>1,646,503</u>       | <u>1,646,503</u>       |
|  | <b>2015</b><br>S/(000) | <b>2014</b><br>S/(000) |
| Basic and diluted earnings for common shares | <u>0.083</u>           | <u>0.176</u>           |

## Notes to the separated financial statements (continued)

### 21. Commitments and contingencies

#### 21.1 Financial Commitments -

Company maintains a "Comfort Letter" with Scotiabank Peru SAA for Prefabricados Andinos Peru S.A.C., dated September 19, 2013, by ensuring a line of credit up to US\$4,500,000 (equivalent to approximately S/15,358,000), under which they will be held various credit operations.

#### 21.2 Finance leases -

The future minimum payments for financial leases are as follows:

|   | As of December 31, 2015     |   | As of December 31, 2014     |   |
|---|-----------------------------|---|-----------------------------|---|
|   | Minimum payments<br>S/(000) | Present value of<br>minimum payments<br>S/(000) | Minimum payments<br>S/(000) | Present value of<br>minimum payments<br>S/(000) |
| Between one and five years              | 271,864                     | 249,974   | 368,911                     | 342,742   |
| Total payments to be done               | 271,864                     | 249,974   | 368,911                     | 342,742   |
| Less - finance costs                    | -                           | -   | -                           | -   |
| Present value of minimum lease payments | 271,864                     | 249,974   | 368,911                     | 342,742   |

#### 21.3 Tax Situation -

(a) The tax rules relating to income tax are the same as those described in the notes to the annual separated financial statements as of December 31, 2015.

(b) The Tax Authority has the right to review and, if necessary, correct the corresponding income tax calculated by the Company in the four years after the filing of the tax return. Affidavits of Income tax for the fiscal years 2010 to 2015 and monthly affidavits General Sales Tax for the period from December 2011 to December 2015 are open to inspection by the Tax Authority. Also, the affidavits of the Income tax return for the fiscal years 2010 to 2012 and the affidavits of General Sales Tax of monthly periods ranging between December 2010 and September 2012 by Cemento Andino SA are open to inspection by the Tax Authority.

On the other hand, on November 27, 2014, the Company received a notice from the Tax Authority communicating that an income tax review for the fiscal year 2010 would take place on January 2015. On August 14, 2015, the Company received notice from the Tax Authority communicating that an income tax review for the fiscal years 2013 and 2014 would take place on September 2015.

At the date of this report, the review referred to above is in process; however, in Managements opinion, any additional tax settlement will not be significant to the separate financial statements as of December 31, 2015 and 2014.

## Notes to the separated financial statements (continued)

(c) Due to the interpretations likely to be given by the Tax Authority on current legal regulations, it is not possible to determine, as of this date, whether the reviews to be conducted will result in liabilities for the Company; 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 financial statements as of December 31, 2015 and 2014.

### 21.4 Contingencies -

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

The legal advisors of the Company believe that it is only possible, not probable tax, legal and regulatory matters. On the basis of the above and in the Group Management's opinion, no provision was recorded in the separated financial statements as of December 31, 2015 and 2014.

Likewise, as of December 31, 2015 and 2014, the Company has filed claims to the Tax Administration Office (SUNAT), corresponding to the demands and claims for reimbursement of income tax. 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 separated financial statements of the Company.

By means of Resolution No. 004-2010 / ST-CLC-INDECOPI dated March 25, 2010, the Technical Secretariat of the Committee for the Protection of Free Competition admitted the proceedings of the complaint filed by Ferreteria Malva SA, against the Company and others for committing anti-competitive conduct, and started an administrative sanction procedure against the defendant. On 2013, by means of Resolution No. 010-2013 / CLC, the Committee for the Protection of Free Competition sanctions the Company for the unjustified refusal to sale, imposing a sanction of 1488.20 UIT (taxation units) and absolve the Company the boycott offense. Given the resolution of the Commission, the Company filed an appeal before the Competition Court, regarding the sanction for the denial of unjustified sales, which confirms the appealed resolution. Whereupon, the Company has decided to bring contentious administrative proceedings before the Judiciary, for the annulment of INDECOPI resolution. The Company expects to obtain a favorable ruling in court.

### 21.5 Environmental commitments -

The activities of the Company are subject to environmental protection standards. This tax rules are the same as those described in the notes to the annual separated financial statements as of December 31, 2015.

### 21.6 Investment commitments -

As of December 31, 2015, the main projects that the Company is executing are:

#### (i) Central Hidroeléctrica Carpapata III -

The project consists on the construction of the hydroelectric plant Carpapata III and will generate 12.8 MW feeding the plant Cordorcocha. As of December 31, 2015, the Company has paid approximately S / . 110,493,000 and has made commitments for approximately S / . 38,362,000.

## Notes to the separated financial statements (continued)

(ii) Cement mill VIII and cement bagging V -

The project involves the construction of a cement mill that will have a capacity of 150 tons/hour and a bagger bags cement plant with a capacity of 2,800 bags per hour. As of December 31, 2015, the Company has paid approximately S/ 305,490,000 and has made commitments for approximately S /. 7,662,000.

### 22. Financial risk management, objectives and policies

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

The Company's Senior Management oversees the management of these risks. To do this, they have the support of the Financial Management who advises on financial risks and the appropriate corporate framework for managing the financial risk of the Company. The Board reviews and agrees policies for managing each of these risks, as summarized in the following sections:

#### 22.1 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 others prices risk. Financial instruments affected by market risk include loans and borrowings, deposits, other financial liabilities and derivative financial instruments.

The sensitivity analyses shown in the following sections are related to the financial situation as of December 31, 2015 and 2014.

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 derivatives instruments in foreign currencies are all constant as of December 31, 2015 and 2014.

(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.

Notes to the separated financial statements (continued)

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

| Counterparty                  | Reference value as      | Maturity       | Receives variable rate at: | Pays fix rate at: | Fair Value                 |                            |
|-------------------------------|-------------------------|----------------|----------------------------|-------------------|----------------------------|----------------------------|
|                               | of December 31,<br>2015 |                |                            |                   | As of December 31,<br>2015 | As of December 31,<br>2014 |
|                               | US\$(000)               |                |                            |                   | S/(000)                    | S/(000)                    |
| <b>Asset</b>                  |                         |                |                            |                   |                            |                            |
| Bank of Nova Scotia           | 25,000                  | August 2018    | Libor to 3 months + 2.35%  | 0.825%            | 211                        | 313                        |
| Bank of Nova Scotia           | 33,000                  | September 2018 | Libor to 3 months + 2.40%  | 1.020%            | 249                        | 405                        |
|                               |                         |                |                            |                   | <u>460</u>                 | <u>718</u>                 |
| <b>Liabilities</b>            |                         |                |                            |                   |                            |                            |
| Bank of Nova Scotia           | -                       | September 2015 | Libor to 3 months + 1.95%  | 3.680%            | -                          | 459                        |
| Bank of Nova Scotia           | 25,000                  | August 2018    | Libor to 3 months + 2.35%  | 0.825%            | -                          | -                          |
| Bank of Nova Scotia           | 33,000                  | September 2018 | Libor to 3 months + 2.40%  | 1.020%            | -                          | -                          |
| BBVA - Banco Continental S.A. | -                       | July 2015      | Libor to 3 months + 2.90%  | 4.455%            | -                          | 494                        |
|                               |                         |                |                            |                   | <u>460</u>                 | <u>953</u>                 |

Financial instruments are intended to reduce exposure to interest rate risk variable associated with the financial obligations set out in Note 11. These financings bear interest at a variable rate equal to Libor rate to 3 months.

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.

As of December 31, 2015, the Company recognized interest expense arising from these financial instruments up to approximately S / . 2,117,000 and (S/4,129,000 for the period ended on December 31, 2014), which amounts are actually paid during the year and presented as part of "Financial Costs" in the income statement.

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 and are presented as "Unrealised income" in the statement of the comprehensive income.



## Notes to the separated financial statements (continued)

### Sensitivity to interest rate -

The Company does not show the sensitivity to a reasonably possible change in interest rates on the portion of the loans, after the impact of hedge accounting.

### (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 maintaining balances in foreign currency for the Company for the period ended December 31, 2015 and 2014 was a loss of S / . 377,578,000 and S/122,393,000, respectively, which are presented in "Difference, net change" of the income statement.

As of December 31, 2015 and 2014, the Company has "Cross Currency Interest Rate Swap" amounting to S/6,650,000 and S/ 5,987,000 in favor of the bank, respectively, and hedging of risks associated with exchange rate fluctuations.

### Foreign currency sensitivity -

Foreign currency transactions made at free market exchange rates published by the Superintendence of Banks, Insurance and Private Funds Managers. As of December 31, 2015, the weighted average exchange rates for open market transactions in soles were of S / . 3,408 to buy and S/ 3,413 to sell (S/ 2,981 to buy and S/ 2,989 to sell as of December 31, 2014), respectively.

As of December 31, 2015 and 2014, the Company had the following assets and liabilities in American dollars:

|  | 2015             |                       | 2014               |                       |
|--|------------------|-----------------------|--------------------|-----------------------|
|  | US\$(000)        | Equivalent in S/(000) | US\$(000)          | Equivalent in S/(000) |
| <b>Assets</b>                                    |                  |                       |                    |                       |
| Cash and cash equivalent                         | 15,040           | 51,255                | 5,936              | 17,695                |
| Trade and other receivables, net                 | 10,709           | 36,498                | 24,774             | 73,850                |
|  | <u>25,749</u>    | <u>87,753</u>         | <u>30,710</u>      | <u>91,545</u>         |
| <b>Liabilities</b>                               |                  |                       |                    |                       |
| Trade and other payables                         | (24,283)         | (82,876)              | (23,110)           | (69,076)              |
| Other Financial liabilities                      | (788,962)        | (2,692,727)           | (1,006,388)        | (3,007,624)           |
| Derivative financial instruments                 | -                | -                     | (319)              | (953)                 |
|  | <u>(813,245)</u> | <u>(2,775,603)</u>    | <u>(1,029,817)</u> | <u>(3,077,653)</u>    |
| Derivative financial instrument of exchange rate | (1,977)          | (6,743)               | (2,013)            | (5,988)               |
|  | <u>(1,977)</u>   | <u>(6,743)</u>        | <u>(2,013)</u>     | <u>(5,988)</u>        |
| <b>Liabilities Position, net</b>                 | <u>(789,473)</u> | <u>(2,694,593)</u>    | <u>(1,001,120)</u> | <u>(2,992,096)</u>    |

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

## Notes to the separated financial statements (continued)

assets and liabilities, including derivative financial instruments in foreign currency do not classified as hedge) as of December 31, 2015 and 2014.

| Change in US Dollars rate<br>in American Dollars | Impact on profit before income tax |                 |
|--|------------------------------------|-----------------|
|  | 2015<br>S/(000)                    | 2014<br>S/(000) |
| %  |                                    |                 |
| +5   | (134,730)                          | (149,630)       |
| +10  | (269,460)                          | (299,259)       |
| -5   | 134,730                            | 149,630         |
| -10  | 269,460                            | 299,259         |

### 22.2 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, 2015 and 2014, is represented by the amount of the captions cash and cash equivalents, trade and other receivable.

The Company's Management made 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 un-collectability.

### 22.3 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 open use of bank accounts and other financial liabilities.

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

## Notes to the separated financial statements (continued)

|                             | <b>As of December 31, 2015</b> |                           |                  |
|-----------------------------|--------------------------------|---------------------------|------------------|
|                             | <b>From 1 to 12</b>            | <b>From 1 to 10 years</b> | <b>Total</b>     |
|                             | <b>months</b><br>S/(000)       | <b>S/(000)</b>            | <b>S/(000)</b>   |
| Trade and other payables    | 338,942                        | 7,679                     | 346,621          |
| Other Financial liabilities |                                |                           |                  |
| Amortization of capital     | 352,124                        | 2,980,598                 | 3,332,722        |
| Bank loans and overdraft    | 134,030                        | 652,786                   | 786,816          |
| Flow of interest payments   | 163,756                        | 796,104                   | 959,860          |
| <b>Total liabilities</b>    | <b>988,852</b>                 | <b>4,437,167</b>          | <b>5,426,019</b> |

|                             | <b>As of December 31, 2014</b> |                           |                  |
|-----------------------------|--------------------------------|---------------------------|------------------|
|                             | <b>From 1 to 12</b>            | <b>From 1 to 10 years</b> | <b>Total</b>     |
|                             | <b>months</b><br>S/(000)       | <b>S/(000)</b>            | <b>S/(000)</b>   |
| Trade and other payables    | 332,553                        | 9,714                     | 342,267          |
| Other Financial liabilities |                                |                           |                  |
| Amortization of capital     | 573,293                        | 3,313,373                 | 3,886,666        |
| Flow of interest payments   | 219,278                        | 806,177                   | 1,025,455        |
| <b>Total liabilities</b>    | <b>1,125,124</b>               | <b>4,129,264</b>          | <b>5,254,388</b> |

### 22.4 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 companies 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 financial statement position plus the net debt.

## Notes to the separated financial statements (continued)

As of December 30, 2015 and 2014 the leverage ratio is determine as follows:

|   | <b>2015</b><br>S/(000) | <b>2014</b><br>S/(000) |
|---|------------------------|------------------------|
| Other financial liabilities, note 11    | 4,119,538              | 3,886,666              |
| Trade and other payables, note 12       | 346,621                | 342,267                |
| Less: Cash and cash equivalents, note 4 | (131,043)              | (60,951)               |
| <b>Net debt (a)</b>                     | <b>4,335,116</b>       | <b>4,167,982</b>       |
| Equity                                  | 3,674,847              | 3,624,132              |
| <b>Total capital and net debt (b)</b>   | <b>8,009,961</b>       | <b>7,792,114</b>       |
| <b>Leverage ratio (a/b)</b>             | <b>0.541</b>           | <b>0.535</b>           |

No changes were made in the objectives, policies or processes for managing capital during the years ended on December 31, 2015 and 2014.

### 23. 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 as December 31, 2015 and 2014:

|   | <b>2015</b><br>S/(000) | <b>2014</b><br>S/(000) |
|---|------------------------|------------------------|
| Assets for derivative financial instruments:      |                        |                        |
| Level 2   | <u>460</u>             | <u>718</u>             |
| <b>Total</b>                                      | <b><u>460</u></b>      | <b><u>718</u></b>      |
| Liabilities for derivative financial instruments: |                        |                        |
| Level 2   | <u>6,650</u>           | <u>6,940</u>           |
| <b>Total</b>                                      | <b><u>6,650</u></b>    | <b><u>6,940</u></b>    |

#### 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 are from regular transactions in the market.

#### Level 2 -

Financial instruments included in the Level 2 category are measured based on market factors. This category includes instruments valued using market prices of similar instruments, whether or not active markets, and other valuation techniques (models) in which all significant inputs are directly or indirectly observable in the marketplace. A description of how the fair value of the Company's principal financial instruments is determined in this category is presented as follows:

**Notes to the separated financial statements** (continued)

- Derivative financial instruments -

The valuation technique most commonly used includes valuation of forwards and swaps, calculating the present value. The models incorporate various inputs, including the credit quality of counterparties, spot exchange rates and forward rates and interest rate curves.

Level 3 -

As of December 31, 2015 and 2014, the Company does not maintain financial instruments in this category.

The Company carries fair value derivate financial instruments, due to this it is considered in the Level 2 to hierarchy of fair value.

Other financial instruments carrying amortized cost and fair value estimated is present in this note, such the level in the hierarchy of fair value as describe below:

Level 1 -

- Cash and cash equivalents do not represent a credit risk or significant interest rate; therefore, their carrying amounts approximate their fair value.
- Accounts receivable because they are net of provision for loan losses and primarily have maturities of less than three months, and Management has seen its fair value is not materially different from its carrying value.
- Trade and other payables, due to its current maturity, the company's Management estimates that its accounting balances are at fair value

Level 2 -

- Other financial liabilities have been determined by comparing the fair value market interest rates at the time of initial recognition with current market rates offered for similar financial instruments. A comparison between the carrying amounts and fair values of these financial instruments:

|                              | As of December 31, 2015   |                        | As of December 31, 2014   |                        |
|------------------------------|---------------------------|------------------------|---------------------------|------------------------|
|                              | Carrying amounts<br>S/000 | Value<br>Fair<br>S/000 | Carrying amounts<br>S/000 | Value<br>Fair<br>S/000 |
| Other Financial payables (*) | 3,332,722                 | 2,651,625              | 3,361,590                 | 2,812,532              |

(\*) As of December 31, 2015 and 2014, the amount outstanding does not include promissory notes, see note 11.

**24. Subsequent events**

No events have been identified after December 31, 2015.