(Free translation from the original in Spanish)

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Gaveglio Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada.
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FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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S/ = Peruvian sol
US$ = United States dollars

(Free translation from the original in Spanish)

INDEPENDENT AUDITOR'S REPORT

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

February 26, 2018

We have audited the attached consolidated financial statements of **Ferreycorp S.A.A. and subsidiaries** (altogether "the Group"), which comprise the consolidated statements of financial position at December 31, 2017 and 2016, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information included in notes 1 to 29.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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Gaveglio Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada es una firma miembro de la red global de PricewaterhouseCoopers International Limited (PwCIL). Cada una de las firmas es una entidad legal separada e independiente que no actúa en nombre de PwCIL ni de cualquier otra firma miembro de la red.
Inscrita en la Partida No. 11028527, Registro de Personas Jurídicas de Lima y Callao.

February 26, 2018
Ferreycorp S.A.A.

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

Opinion

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of **Ferreycorp S.A.A. and subsidiaries** at December 31, 2017 and 2016, their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

Gaveglio Aparicio y Asociados

Countersigned by

--(partner)
Carlos González González
Peruvian Public Accountant
Registration No.50403

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

	Note	At December 31 2017 S/000	2016 S/000
Current assets			
Cash and cash equivalents	5	80,710	128,982
Trade receivables, net	6	1,031,198	1,080,058
Other receivables, net	7	196,120	188,651
Inventories, net	8	1,393,334	1,232,981
Investments in shares	9	80,057	-
Investments in property		14,599	-
Prepaid expenses		22,433	21,928
Total current assets		2,818,451	2,652,600
Non-current assets			
Long-term receivables, net	6	79,795	45,017
Other trade receivables in long-term, net	7	459	1,798
Investments in associates and joint venture	9	13,140	78,156
Property, plant and equipment, net	10	1,464,543	1,524,896
Intangible assets, net	11(a)	105,834	81,020
Goodwill	11(e)	175,793	187,866
Deferred income tax asset	15	190,119	197,917
Total non-current assets		2,029,683	2,116,670
Total assets		4,848,134	4,769,270

LIABILITIES AND EQUITY

	Note	At December 31 2017 S/000	2016 S/000
Current liabilities			
Borrowings	12	816,839	735,515
Trade payables	13	601,934	507,286
Other payables	14	396,736	421,980
Income tax liability		17,407	11,394
Total current liability		1,832,916	1,676,175
Non-current liabilities			
Other long-term financial liabilities	12	737,763	955,988
Other long-term payables		369	300
Deferred income tax liability	15	196,885	218,224
Deferred income		55	72
Non-controlling interests		-	3,929
Total non-current liabilities		935,072	1,178,513
Total liabilities		2,767,988	2,854,688
Equity	16		
Share capital		975,683	1,014,326
Treasury shares		-	(50,208)
Additional capital		73,536	50,345
Legal reserve		162,427	139,384
Other reserves		385,630	389,695
Retained earnings		482,870	371,040
Total equity		2,080,146	1,914,582
Total liabilities and equity		4,848,134	4,769,270

The notes attached from pages 8 to 77 are part of the consolidated financial statements.

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	Note	For the year ended December 31, 2017 S/000	2016 S/000
Net sales	17	4,839,700	4,846,557
Other operating income		305	610
Total operating income		4,840,005	4,847,167
Cost of sales	17	(3,673,067)	(3,666,304)
Gross profit		1,166,938	1,180,863
Selling expenses	18	(542,299)	(537,925)
Administrative expenses	19	(265,687)	(258,707)
Other income and expenses, net		62,440	41,002
Operating profit		421,392	425,233
Finance income	21	18,122	26,092
Share of the profit of associates and joint venture	9(b)	7,708	7,284
Finance expenses	22	(85,107)	(124,742)
Exchange difference, net	26(c)	25,079	484
Profit before income tax		387,194	334,351
Income tax	15	(120,181)	(103,916)
Net income		267,013	230,435
Basic and diluted earnings per share (expressed in soles)	23	0.273	0.234
Weighted average of shares outstanding (in thousands of units)	23	977,407	984,139

The notes attached from pages 8 to 77 are part of the consolidated financial statements.

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATE STATEMENT OF COMPREHENSIVE INCOME

	Note	For the year ended December 31, 2017 S/000	2016 S/000
Net income		267,013	230,435
Other comprehensive income to be reclassified to profits in subsequent periods:			
Exchange difference on translation of foreign operations	16(e)	(2,516)	(4,440)
Revaluation of investment property	10(i)	3,964	-
Impact of change in tax rate on deferred tax	15(a)	-	(2,549)
Others, net of the effect on income tax		-	(1,405)
		1,448	(8,394)
Other comprehensive income to be not reclassified to profits in subsequent periods:			
Revaluation of land	16(e)	(20,716)	(21,669)
Effect on income tax		6,111	6,392
		(14,605)	(15,277)
Other comprehensive income for the year		(13,157)	(23,671)
Net comprehensive income for the year		253,856	206,764

The notes attached from pages 8 to 77 are part of the consolidated financial statements.

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Note	Number of shares	Share capital	Treasury shares	Additional capital	Legal reserve	Other equity reserves				Retained earnings	Total
							Revaluation surplus	Unrealized profits	Foreign currency translation	Other reserves		
		En miles	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Balances at January 1, 2016		987,278	1,014,326	(27,048)	65,418	123,207	350,470	(1,229)	49,022	5,404	238,698	1,818,268
Net income		-	-	-	-	-	-	-	-	-	230,435	230,435
Other comprehensive income for the year:												
- Effect on current fair value of land, deferred income tax net	16(e)	-	-	-	-	-	(15,277)	-	-	-	-	(15,277)
- Realization of surplus from sale of land	16(e)	-	-	-	-	-	(5,438)	-	-	-	5,438	-
- Impact of change in tax rate on deferred income tax	15(a)	-	-	-	-	-	(2,549)	-	-	-	-	(2,549)
- Gain on valuation of available-for-sale investments	16(e)	-	-	-	-	-	-	(1,405)	-	-	-	(1,405)
- Exchange differences derived from foreign operations	16(e)	-	-	-	-	-	-	-	(4,440)	-	-	(4,440)
Comprehensive income for the year		-	-	-	-	-	(23,264)	(1,405)	(4,440)	-	235,873	206,764
Transactions with shareholders:												
- Transfer to legal reserve	16(d)	-	-	-	-	16,177	-	-	-	-	(16,177)	-
- Increase in equity investments	16(e)	-	-	-	-	-	-	-	-	15,137	-	15,137
- Dividends distribution	16(f)	-	-	-	-	-	-	-	-	-	(87,354)	(87,354)
- Share repurchase	16(c)	(23,160)	-	(23,160)	(15,073)	-	-	-	-	-	-	(38,233)
Balances at December 31, 2016		964,118	1,014,326	(50,208)	50,345	139,384	327,206	(2,634)	44,582	15,137	371,040	1,914,582
Balances at January 1, 2017		964,118	1,014,326	-50,208	50,345	139,384	327,206	(2,634)	44,582	20,541	371,040	1,914,582
Net income		-	-	-	-	-	-	-	-	-	267,013	267,013
Other comprehensive income for the year:												
- Effect on current fair value of land, deferred income tax net	16(e)	-	-	-	-	-	(14,605)	-	-	-	-	(14,605)
- Realization of surplus from sale of land	16(e)	-	-	-	-	-	(3,546)	-	-	-	3,546	-
- Revaluation of investment property	16(e)	-	-	-	-	-	3,964	-	-	-	-	3,964
- Exchange differences derived from foreign operations	16(e)	-	-	-	-	-	-	-	(2,516)	-	-	(2,516)
Comprehensive income for the year		-	-	-	-	-	(14,187)	-	(2,516)	-	270,559	253,856
Transactions with shareholders:												
- Transfer to legal reserve	16(d)	-	-	-	-	23,043	-	-	-	-	(23,043)	-
- Increase in equity investments	16(e)	-	-	-	-	-	-	-	-	12,638	-	12,638
- Dividend distribution	16(f)	-	-	-	-	-	-	-	-	-	(124,434)	(124,434)
- Redemption of own shares	16(b)	-	(38,643)	38,643	11,252	-	-	-	-	-	(11,252)	-
- Sale of own shares	16(c)	11,565	-	11,565	11,939	-	-	-	-	-	-	23,504
Balances at December 31, 2017		975,683	975,683	-	73,536	162,427	313,019	(2,634)	42,066	33,179	482,870	2,080,146

The notes attached from pages 8 to 77 are part of the consolidated financial statements.

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the year ended December 31, 2017 S/000	2016 S/000
OPERATING ACTIVITIES			
Collections from customers and third parties		5,009,628	4,826,102
Payments to suppliers		(4,098,865)	(3,762,735)
Payments to workers and others		(364,557)	(409,637)
Income tax payments		(116,738)	(150,646)
Other tax payments		(14,315)	(11,388)
Net cash provided by operating activities		415,153	491,696
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10(a)	(188,509)	(132,247)
Sale (repurchase) of own shares	16(c)	23,506	(38,233)
Purchase of intangibles assets	11(a)	(40,258)	(13,497)
Sale of investments		7,522	26,821
Sales of property, plant and equipment		78,597	2,871
Net cash used in investing activities		(119,142)	(154,285)
FINANCING ACTIVITIES			
Obtaining of borrowings		2,479,510	2,085,619
Payment of borrowings		(2,616,411)	(2,329,879)
Interests paid		(83,197)	(120,083)
Dividends paid	16(f)	(124,434)	(87,354)
Non-controlling interests		-	3,929
Net cash used in financing activities		(344,532)	(447,768)
Net decrease in cash and cash equivalents		(48,521)	(110,357)
Effect of exchange rate differences on cash and cash equivalents		249	6,017
Cash and cash equivalents balance at begining of the year		128,982	233,322
Cash and cash equivalents balance at end of the year		80,710	128,982

The notes attached from pages 8 to 77 are part of the consolidated financial statements.

(Free translation from the original in Spanish)

FERREYCORP S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1 ECONOMIC ACTIVITY

(a) General information -

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

(b) Distribution agreements -

On April 13, 2012, Ferreycorp Group through its subsidiary Ferreyros S.A. signed the update of two (2) non-exclusive distribution agreements for Caterpillar products in Peru with Caterpillar S.A.R.L. (Dutch Limited Partnership), represented by Caterpillar Americas C.V. (hereinafter "CAT"). The "Sales & Services Agreement" and "Distribution Agreement for Engine, Parts and Services" agreements, relating to the sale of "Prime" plant and engines, spare parts and services, respectively, are non-time restricted. Ferreycorp Group, for more than 70 years, sells machinery and spare parts, provides factory warranty and after-sales service (preventive maintenance and repair). Company's management estimates that agreements will be renewed during the normal course of business.

(c) Approval of the consolidated financial statements -

The consolidated financial statements at December 31, 2016 were approved at the Shareholders' Meeting held on March 29, 2017 and Board of Directors' meeting held on February 28, 2017. The consolidated financial statements at December 31, 2017 were authorized by Company's Management on January 31, 2018 and will be submitted for their approval by the Board of Directors and Shareholders' Meeting that will take place during the first quarter of 2018. Management considers these consolidated financial statements will be approved at the Board of Directors and Shareholders' Meeting without any changes.

2 GROUP'S STRUCTURE IDENTIFICATION

At December 31, 2017 and 2016, the consolidated financial statements include the financial statements of Ferreycorp S.A.A. and subsidiaries in which it has control and an investment in a joint venture. The Group owns 100 percent interest in subsidiaries, either through its parent company (Ferreycorp S.A.A.) or through other subsidiaries. Major data of the consolidating companies at December 31, 2017 and 2016, before eliminations for consolidation purposes, are as follows:

Entity	Core activity	Percentage of interest 2017	Percentage of interest 2016	Assets 2017	Assets 2016	Liabilities 2017	Liabilities 2016	Net equity 2017	Net equity 2016	Net profit (loss) 2017	Net profit (loss) 2016
		%	%	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Ferreyros S.A. (a)	Purchase and sale of plant, spare parts and workshop services	99.99	99.99	2,097,156	1,856,589	1,155,376	959,225	941,780	897,364	259,721	246,861
Inti Inversiones Interamericanas Corp. and subsidiaries (b)	Holding of the business in Central America	100.00	100.00	579,610	594,443	297,890	351,782	281,720	242,661	44,268	26,093
Unimaq S.A. and subsidiary (c)	Purchase and sale of plant, spare parts and workshop services	99.99	99.99	562,772	541,558	431,971	409,932	130,801	131,626	(8,411)	677
Maquicentro.S.A. (c)	Wholesale and retail of construction equipment, agricultural machinery and port equipment	99.00	99.00	27,644	27,297	23,300	21,995	4,344	5,302	(653)	(1,701)
Trex Latinoamerica SpA and subsidiaries (d)	Holding of the business in South America	100.00	100.00	195,200	188,095	144,805	145,614	50,395	42,481	5,070	(12,087)
Motriza S.A. (e)	Purchase, sale, distribution, Marketing and export of the Trex property line	99.00	99.00	76,951	94,882	61,525	79,995	15,426	14,887	528	15
Inmobiliaria CDR S.A.C. (f)	Real estate agency	-	99.99	-	99,759	-	24,817	-	74,942	-	3,441
Fiansa S.A. (common shares and investment) (g)	Metallurgical services	-	99.76	-	60,522	-	44,805	-	15,717	-	(17,609)
Fargoline S.A.	Storage services	99.91	99.91	112,212	109,477	48,350	46,301	63,862	63,176	2,654	3,382
Motored S.A.	Purchase and sale of automotive line, spare parts and automotive services	99.99	99.99	157,169	200,017	122,959	165,822	34,210	34,195	15	701
Orvisa S.A. and subsidiaries	Purchase and sale of plant, spare parts and workshop services	99.37	99.37	137,276	143,284	92,433	101,799	44,843	41,485	1,378	4,064
Soltrak S.A.	Representative and distributor of tires, lubricants and safety equipment	99.99	99.99	196,427	215,504	179,600	180,093	16,827	35,411	(18,763)	(4,919)
Cresko S.A.	Purchase and sale of plant, equipment and chemical supplies	99.99	99.99	22,240	26,596	167	3,715	22,073	22,881	(813)	(4,304)
Soluciones Sitech Perú S.A.	Software marketing and technology-related equipment	99.80	99.80	9,277	7,615	6,075	4,326	3,202	3,289	(68)	951
Forbis Logistics S.A.	Cargo agent	99.98	99.98	9,489	8,411	8,537	5,130	952	3,281	(192)	2,157
Xpedite Procurement Services S.A.C.	Non-specialized wholesale and retail	90.00	-	2,726	-	2,802	-	(76)	-	(93)	-

(a) On August 31, 2016, the Company sold to Ferreyros S.A. the shares held in Ferrenergy S.A. for S/11,440,000. Ferreynergy S.A. is a jointly controlled entity through an agreement signed by the Company with SoEnergy International Corporation and is dedicated to the generation and provision of electricity supply service.

(b) This holding entity mainly includes subsidiaries in Central America and North America: Compañía General de Equipos S.A. (El Salvador), Corporación General de Tractores S.A. (Guatemala), General Equipment Company (Belice), Mercado Centroamericano de Lubricantes S.A. (Nicaragua), Transportes Pesados S.A. (El Salvador) and Forbis Logistics Corp. (United States of America). The activities of the subsidiaries conforming Inti Group are purchase and sale of pant, spare parts and workshop services.

(c) On August 9, 2016, the Company acquired from Unimaq S.A. 99 percent voting shares of Maquicentro S.A. (Ecuador).

(d) This holding entity mainly includes subsidiaries in South America: Trex Latinoamerica SpA, which is the parent Company of Equipos y Servicios Trex SpA and Trex Overseas Investment S.A. (both based in Chile), the latter, in turn, has a subsidiary in Colombia.

(e) On January 14, 2016, Motriza S.A. was incorporated. This incorporation was made through a transfer of the TREX business lines of the subsidiaries Ferreyros S.A. and Cresko S.A. The economic activity of Motriza S.A. will be to buy, sell, distribute, market and export the TREX goods line.

(f) On March 29, 2017, at the General Shareholders' Meeting the decision was made to absorb subsidiary Inmobiliaria CDR S.A.C. as part of a merger by which the absorbed party extinguished without liquidation. The merger effective date is July 1, 2017. As a result of the absorption of this entity, the Company included assets for a total of S/87,812 thousand and liabilities for a total of S/23,115 thousand; as a result, the Company's total assets and liabilities are increased by those amounts.

(g) On November 23, 2017, the Company sold 100% its interest (24,645,676 common shares) it held in subsidiary Fiansa S.A., an entity based in Peru at S/17,500,000. This transaction result in profits for S/7,516,000 that was recognized within "Other income" in the statement of income.

3 BASIS OF PREPARATION AND SUMMARY OF CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

The accounting policies adopted by the Group are consistent with those applied in previous years, except for the new revised IFRS and IAS that are mandatory for periods beginning on or after January 1, 2017.

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

3.2 Basis of consolidation -

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

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

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

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

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

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

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

3.3 Summary of significant accounting policies -

(a) Business combination and goodwill -

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

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

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

Any contingent consideration arrangement to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

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

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

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

(b) Investment in associates and joint venture -

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

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

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

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

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

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

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

(c) Financial instruments: Recognition and measurement -

(c.1) Financial assets -

Initial recognition and measurement -

In accordance with IAS 39, "Financial Instruments: Recognition and Measurement", financial assets are classified as: (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) financial assets available for sale, (iv) investments to be held to maturity, and (v) derivatives designated as hedging instruments in an effective hedge, as appropriate. Management determines the classification of its financial instruments at the time of initial recognition and re-evaluates this classification at the date of the financial statements.

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

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

Subsequent measurement -

The subsequent measurement of financial assets depends on their classification. At December 31, 2017 and 2016, the Group only maintains financial assets classified only in the categories of loans and receivable, and the criteria for these categories are explained below.

Loans and receivables -

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

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

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

De-recognition of financial assets -

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

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

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

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

Impairment of financial assets -

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

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

Financial assets carried at amortized cost -

For the financial assets carried at amortized cost, the Group first assesses whether there is objective evidence of impairment on an individual basis for financial assets that are individually significant, or on a collective basis for financial assets that are not individually significant. If the Group determines that there is no objective evidence of impairment for an individually assessed financial asset, regardless its importance, it includes that asset in a group of financial assets with similar credit risk characteristics and evaluates them collectively in order to determine if there is an impairment. Assets that are individually assessed to determine if there is impairment and for which an impairment loss is recognized, are not included in the assessment of impairment collectively.

If there is objective evidence of impairment loss, the amount of loss is measured as the difference between the carrying amount of the asset and the value of the estimated future cash flows (excluding expected future credit losses and which have not yet been produced). The current value of the estimated future cash flows is discounted at the effective interest rate of the financial assets. If a loan accrues a variable interest rate, the discount rate to measure any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of a provision account and the amount of loss is recognized in the consolidated statement of income.

(c.2) Financial liabilities -

Initial recognition and measurement -

In accordance with IAS 39, "Financial Instruments: Recognition and Measurement", financial liabilities are classified as: (i) financial liabilities at fair value through profit or loss, (ii) loans and receivables, (ii) liabilities at amortized cost, and (iii) derivatives designed as hedging instruments in an effective hedge, as appropriate. Management determines the classification of its financial liabilities at initial recognition.

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

At December 31, 2017 and 2016, the Group has only liabilities at amortized cost that include borrowings, trade payables and other payables.

Subsequent measurement -

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

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

De-recognition of financial liabilities -

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

(c.3) Offsetting of financial instruments -

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

(d) Derivative financial instruments -

In accordance with IAS 39, "Financial Instruments: Recognition and Measurement", derivative financial instruments are classified as trading and hedging instruments. The Group only has derivatives that are identified as accounting hedges; which may be:

- Fair value when hedging the exposure to changes in fair value of recognized assets or liabilities or unrecognized firm commitments.

- Cash flow when hedging exposure to variations in cash flows attributed either to a particular risk associated with a recognized asset or liability or a highly probable transaction, or at risk of exchange rate in unrecognized commitment.

At the beginning of a hedge relationship, the Group formally designates and documents the hedge relationship. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of the hedge against changes in the fair value of the hedging instrument to offset changes in the fair value of the hedged item or changes in cash flows attributable to the hedged risk.

The Group expects hedges to be highly effective in offsetting changes in fair value or in cash flows. The Group continuously asses the coverages to determine if they have been highly effective over the periods for which they were designated.

The change in the fair value of the hedged item attributable to the hedged risk is recorded as part of the carrying amount of the hedged item and is also recognized as financial costs in the consolidated statement of income.

(e) Foreign currency translation -

Functional and presentation currency -

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

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

Transactions and balances in foreign currency -

Balances or transactions in foreign currency are considered to be those made in a currency other than the functional currency. Transactions in foreign currency are initially recorded in the functional currency using the exchange rates prevailing on the dates of the transactions in which they initially qualified for its recognition.

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

Translation into presentation currency -

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

(i) The balances of assets and liabilities have been translated using the closing exchange rates at the date of each consolidated statement of financial position reported. The differences resulting from the opening balances of the presentation currency at a different exchange rate than the year-end are presented as a movement in each of the items to which it corresponds.

(ii) Revenues and expenses have been translated using the average monthly exchange rate that approximates the exchange rates on the date of registry of such transactions.

(iii) All resulting differences have been recognized as other comprehensive income in "Exchange differences from translation of foreign currency".

(f) Cash and cash equivalents -

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

(g) Inventories -

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

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

(h) Property, plant and equipment -

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

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

Land is measured at its revaluation value (fair value) using valuations made every two to three years by an independent expert appraiser to ensure that fair value does not differ significantly from its carrying amount. When changes in fair value are not significant, revaluations will be made every three or five years. At December 31, 2017, changes in fair value of land have not been significant and therefore, it has not been necessary to change the carrying amount. The last land revaluation was in 2015.

All revaluation increase is recognized in the consolidated statement of comprehensive income and accumulated in the consolidated equity under "Other equity reserves" for revaluation of assets in equity, unless such increase corresponds to the reversal of a revaluation decrease of the same asset previously recognized in the consolidated statement of income, in which that increase is recognized in the mentioned statement.

A revaluation decrease is recognized in the consolidated statement of income, except to the extent that said decrease compensates a revaluation increase of the same asset previously recognized in the asset revaluation reserve. At the time of sale of the revalued asset, any revaluation reserve related to that asset is transferred to retained earnings.

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

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

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

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

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

(i) Leases -

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

Group as lessee -

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

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

Group as lessor -

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

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

(j) Intangible assets -

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

The useful lives of intangible assets may be finite or indefinite. Intangible assets with finite useful lives are amortized using the straight-line method over their economic useful lives, which are four (4) and ten (10) years, and are reviewed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or expected consumption of the asset are accounted for when the amortization period or method is modified, as appropriate, and are treated as changes in the accounting estimates. The amortization expense of intangible assets with finite useful lives is recognized in the consolidated statement of income in the item that is consistent with the intangible asset.

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

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

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

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

(k) Impairment of non-financial assets -

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

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

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

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

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

Goodwill and indefinite life brands -

Goodwill represents the excess of the consideration transferred, over the fair value of Group's equity interest in the acquiree's identifiable net assets at the date of acquisition. The carrying amount of goodwill and indefinite life brands are tested for impairment (every December 31) and whenever the circumstances indicate that their carrying amount may not be recoverable. The carrying amount of goodwill and long-lived brands are shown at cost less accumulated impairment losses. Any gains or losses on the disposal of subsidiaries includes the carrying amount of the related goodwill.

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

(l) Borrowing costs -

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

During 2017 and 2016, the Group did not maintain current assets that qualify for capitalization of borrowing costs.

(m) Employee benefits -

Workers' profit-sharing -

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

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

Statutory bonuses -

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

Workers' severance indemnities -

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

Vacations period -

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

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

(n) Income tax -

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

Current income tax -

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

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

Deferred income tax -

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

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

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

(o) Revenues, costs and expenses recognition -

Revenues -

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

- Revenues from sale of machinery, vehicles, motors, motor vehicles and spare parts are recognized when all risks and benefits inherent in ownership are transferred to the buyer.

- Revenues from workshops, maintenance and repair and rental of machinery and equipment are recognized in profit or loss according to the progress degree of the service.

- Other Group's revenues are recognized as follows:

  - Revenue from rentals and interest on sales on credit: on an accrual basis.
  - Revenue from commissions on direct orders: when the foreign supplier serves order directly.
  - Revenue from financial income: under the effective interest method.
  - Revenue from income and expenses of construction contracts involving metal-mechanic work: under the percentage-of-completion method.
  - Revenue from warehousing service: recognized when the service is rendered.

Costs and expenses -

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

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

(p) Provisions -

General -

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

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

Guarantees -

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

(q) Contingent liabilities and assets -

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

(r) Share capital -

Common shares are classified as equity.

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

(s) Earnings per share -

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

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

(t) Fair value measurement -

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

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

The main or most advantageous market must be accessible by the Group. Likewise, the fair value of a liability reflects its default risk.

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

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

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

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

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

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

(u) Segment information -

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

An operating segment is a component of an entity that: i) engages in business activities from which it may earn revenues and incur expenses (including income and expenses related to transactions with other components of the same entity); ii) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and iii) for which discrete financial information is available, see note 28.

(v) Subsequent events -

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

3.4 Critical accounting judgments, estimates and assumptions -

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

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

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

(a) Judgments -

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

Operating leases, note 3.3(i) -

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

(b) Estimates and assumptions -

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

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

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

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

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

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

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

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

Management makes provisions for impairment of trade receivables based on the credit history of customers, the level of recovery and the delinquency of the customer portfolio, and other information available at the time of the evaluation. In this regard, the Group recognizes a provision for those receivables that are aged for more than 365 days and for those that are not past due if there is any risk of collection.

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

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

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

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

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

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

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

When possible, the inputs fed into these models are based on observable data; otherwise, the use of professional judgment is used to determine fair values. These judgments include considering inputs related to the liquidity risk, credit risk, and volatility. Changes in the related assumptions may affect the fair value of the financial instruments. For further detail, see note 27(b).

3.5 New accounting policies -

New standards and amendments to current standards for the financial statements for the annual period beginning on January 1, 2017 -

- Disclosure initiative - Amendments to IAS 7, "Statement of Cash Flows" -

  This amendment requires an entity to provide new disclosures and a reconciliation of the changes in liabilities caused by changes in financing cash flows. This reconciliation comprises changes arising from cash flow transactions, such as cash outflows and loans; it also includes changes arising from transactions that do not result in cash flows, such as liabilities assumed from a business acquisition, debt extinction, interest accrual and unrealized exchange gains and losses. Also, an entity should include changes in financial assets in the new disclosures if such cash flows were, or will be, included in cash flows from financing activities; for example, assets that hedge liabilities arising from financing liabilities. The Group assessed the new requirements of this amendment to IAS 7 and considers either they are met with the information provided in the very statement of cash flows or no relevant changes have occurred in its financial liabilities that may require to be disclosed.

- Other amendments -

  Other amendments effective on or after January 1, 2017 on IAS 12, "Income tax" that clarifies the treatment of deferred income tax and IFRS 12, "Disclosure of interests in other entities" specifying certain disclosure requirements have had no significant impact on the Company's financial statements for 2017.

New standards, amendments and interpretations effective for the financial statements for annual periods beginning on or after January 1, 2018 and which have not been early adopted -

- IFRS 9, "Financial Instruments" -

  IFRS 9 replaces IAS 39, "Financial instruments: Recognition and measurement" mainly in the following areas:

  (i) Classification and measurement of financial instruments. Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt and equity instruments, including certain debt instruments, must be recognized at fair value through profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss) and whose business model is mixed (collect and sale), in which case changes in fair value are recognized in other comprehensive income (and subsequently reclassified to profit or loss).

  (ii) For financial liabilities that are measured under the fair value option entities will need to recognize the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than profit or loss.

  (iii) New standards are established to apply hedge accounting that aim to align the accounting treatment to the entity's risk management practices. The new standard also introduces expanded disclosure requirements and changes in presentation.

  (iv) IFRS 9 also establishes a new model for the recognition of impairment losses on financial assets, based on a new expected credit loss (ECL) model. Two models of application are introduced depending on the type of financial asset: "the general model", by which impairment of financial assets are measured over a three-stage lifespan of the instruments; and the "simplified model" applicable to short-term trade receivables. When applying the simplified model, a provision matrix is required to be used.

  (v) The treatment of renegotiations of financial liabilities measured at amortized cost that do not qualify to be written-off is modified. In these cases, a gain or loss should be recognized in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. Under the IAS 39 rules, the resulting difference was allocated over the remaining life of the instrument.

  The Group expects a low impact from the implementation of the IFRS 9 requirements. In general, financial assets that are held as debt instruments will continue to be measured at the amortized cost, except for certain specific factoring without recourse transactions that would be carried at fair value but these are not expected to have a material impact on profit or loss.

  With respect to impairment in trade accounts receivable, considering the credit quality of its customers, the Group expects a low impact from the application of ECL model. No significant changes in the current levels of provision are expected from this new impairment model. For loans outstanding, the Group applies the general model prescribed by IFRS 9; however, based on a credit risk analysis, the conclusion is reached that no relevant ECL are expected to be recognized.

The Group will be required to make changes in certain of its business processes to be able to obtain the information needed to meet the IFRS 9 requirements; mainly the provision matrix relating to the simplified model of impairment losses; it expects to complete the quantification of impacts over the second quarter of 2018. The other requirements of IFRS 9 are not expected to have any impact on the financial statements of the Group subsidiaries.

- IFRS 15, "Revenue from contracts with customers and associated amendments to various other standards" -

  This will replace IAS 18, "Revenue", which covers contracts for goods and services, and IAS 11, "Construction contracts", which covers construction contracts; and various interpretations related to the recognition of income. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognized: (i) identify contracts with customers, (ii) identify the separate performance obligation, (iii) Determine the transaction price of the contract, (iv) allocate the transaction price to each of the separate performance obligations, and (v) recognize the revenue as each performance obligation is satisfied.

  Key changes to current practice are:

  - Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
  - Revenue may be recognized earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome, etc.) - minimum amounts must be recognized if they are not at significant risk of reversal.
  - The point at which revenue is able to be recognized may shift: some revenue which is currently recognized at a point in time at the end of a contract may have to be recognized over the contract term and vice versa.
  - There are also increased disclosures.

  IFRS 15 is effective from fiscal years beginning on or after January 1, 2018. For transition, entities will have a choice of full retrospective application, with changes recognized in retained earnings at January 1, 2018 with additional disclosures.

  As a result of its assessment, the Group has identified certain qualitative differences in its current accounting treatment of certain items as compared to the IFRS 15 requirements. Certain additional performance obligations were identified that are supplementary to the principal item and which should be recognized separately, such as: the possibility to acquire spare parts at discounted prices, equipment setup services, technical assistance and training services, among others. Also, certain features were identified that may affect the total amount of revenue, such as certain variable considerations associated with volume sales discounts, rapid payment discounts and penalties; there are also certain cases in which in-kind items are obtained as partial payments and certain scenarios in which there is a significant financial component in sales of equipment, among others

  These situations are not expected to have a significant impact on the Groups' measurement of revenue; however, the Group is in the process of completing a quantification of impacts, which is expected to be completed by the second quarter of 2018. Based on the differences to be identified, the Group expects to apply the retroactive transition approach. The adoption of the new requirements of IFRS 15 may require changes in certain internal business processes.

- IFRS 16, "Leases" -

  IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

  The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

  Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

  The accounting by lessors will not significantly change.

  IFRS 16 is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted. The lessee may choose to apply the standard using a comprehensive or modified retrospective approach, in the latter case, the standard allows certain practical applications for the transition.

  The Group estimates an immaterial increase in its liabilities from recognizing lease liabilities resulting from those operating leases that under the new rules would need to be recognized as operating expenses over the effective term of the contract. No material impact is expected from the resulting variance in the respective financial indicator on the Group's compliance with its current contractual commitments (covenants). In addition, certain contracts were identified that may lead Management to conclude that are leases from the perspective of a Lessor; if this is so, a low impact would be expected in the presentation of the assets that are used to provide those services to certain customers since the asset will be replaced by measuring an account receivable that reflects the present value of those converted rents.

  Regarding the transition approaches permitted by IFRS 16, the Group expects to apply the modified retrospective approach. As a result of the adoption of the IFRS 16 requirements, the Group expects to make certain changes in its current business processes, most notably in the contract management process.

- Amendments to IFRS 2, "Share-based payment" referred to classification and measurement of shared-based payment transactions -

  These amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. They also introduce an exception to the classification principles in IFRS 2. Where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority, the whole award will be treated as if it was equity-settled provided it would have been equity-settled without the net settlement feature.

  Amendments to IFRS 2 are mandatory for periods beginning on or after January 1, 2018.

- Other amendments to standards to become effective in future years that are not relevant to the Company's operations -

    - Amendments to IFRS 4, "Insurance contracts" regarding application the IFRS 9, "Financial instruments" with IFRS 4.
    - Amendments to IAS 40, "Investment property" regarding the transfers of investment property.
    - Annual improvements, 2014 - 2016 cycle: IFRS 1, "First time adoption of International Financial Reporting Standards" and IAS 28, "Investments in associates and joint ventures" was amended in respect of an investment held by an entity that is a venture capital organization.
    - IFRIC 22, "Foreign currency transactions and advance consideration".
    - IFRIC 23, "Uncertainty over income tax treatments".
    - Amendments to IAS 28, "Investments in associates and joint ventures" regarding long-term interests in associates and joint ventures.
    - Amendment to IFRS 9, "Financial instruments" regarding prepayment features with negative compensation and modifications of financial liabilities.
    - Annual improvements, 2015 - 2017 cycle - amendments to IFRS 3, "Business combinations", IFRS 11, "Joint arrangements", IAS 12, "Income taxes", and IAS 23, "Borrowing costs".
    - IFRS 17, "Insurance contracts."

    These amendments are effective for periods beginning on or after January 1, 2019, except for IFRS 17, effective from January 1, 2021.

4 FINANCIAL INSTRUMENTS

4.1 Financial instruments by category -

The classification of financial instruments by category is as follows:

	At December 31,	
	2017	2016
	S/000	S/000
Assets according to consolidated statement of financial position -		
Loans and receivables:		
- Cash and cash equivalents	80,710	128,982
- Trade and other receivables (*)	1,193,473	1,204,995
	1,274,183	1,333,977
Liabilities as per consolidated statement of financial position -		
Other financial liabilities:		
- Borrowings	1,554,602	1,691,503
- Trade and other payables (*)	945,585	870,454
	2,500,187	2,561,957

(*) It does not include advances nor taxes.

4.2 Credit quality of financial assets -

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

The credit quality of financial assets is as follows:

	At December 31,	
	2017	2016
	S/000	S/000
Cash and cash equivalents (*)		
Banco de Crédito del Perú S.A. (A+)	32,189	57,648
BBVA Banco Continental S.A. (A+)	7,571	9,219
Banco de la Nación (A)	5,664	7,172
Scotiabank Belize (A)	4,089	3,670
Banco Agrícola S.A. (B+)	3,142	4,107
Banco Industrial, S.A. (BB+)	2,840	4,274
Scotiabank Perú S.A.A. (A)	2,577	2,922
Banco Davivienda Salvadoreño, S.A. (A+)	2,348	1,288
Mercantil Commercebank, N.A. (BB+)	2,144	3,094
Banco Internacional del Perú S.A.A. (A)	2,087	2,578
Banco de América Central S.A. (B+)	1,908	5,342
Davivienda - Centroamérica (B+)	1,866	2,958
Citibank N.A. (A+)	988	3,027
Heritage Bank Plc. - Belize (A+)	966	919
Scotianbank - El Salvador (B+)	860	691
Citibank - El Salvador (B+)	189	734
Banco Santander Perú S.A. (A)	101	315
Banco Interamericano de Finanzas S.A. (A)	61	457
Citibank del Perú S.A. (A+)	35	1,419
Banco Inter Banco, S.A. (BBB+)	-	2,317
Other minors	8,061	13,750
	79,686	127,901

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

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

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

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

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

	2017	2016
	S/000	S/000
Trade receivables		
Counterparties with external risk ratings		
A	4,615	3,422
B	1,059,511	1,082,567
C	46,867	39,086
Total receivables not impaired	1,110,993	1,125,075

	2017 S/000	2016 S/000
Other receivables		
Counterparties with external risk ratings		
B	196,579	190,449
Total other receivables not impaired	196,579	190,449

5 CASH AND CASH EQUIVALENTS

(a) This item comprises:

	2017 S/000	2016 S/000
Fixed fund	557	588
Checking accounts (b)	57,884	91,263
Savings account (b)	2,199	7
Time deposit (c)	19,603	36,631
In-transit remittances	467	493
	80,710	128,982

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

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

6 TRADE RECEIVABLES, NET

(a) This item comprises:

	2017 S/000	2016 S/000
Invoices (b)	941,300	932,022
Bill of exchange (b)	312,369	310,253
Accrued interest	(14,586)	(11,971)
	1,239,083	1,230,304
Less - Estimate for doubtful accounts (d)	(128,090)	(105,229)
	1,110,993	1,125,075
Less:		
Non-current portion	(79,795)	(45,017)
Current portion	1,031,198	1,080,058

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

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

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

	Unimpaired S/000	Impaired S/000	Total S/000
At December 31, 2017			
Not past due:	860,573	-	860,573
Past due:			
- Up to 1 month	128,478	2,245	130,723
- From 1 to 3 months	55,703	3,864	59,567
- From 3 to 6 months	29,690	102	29,792
- More than 6 months	51,135	121,879	173,014
Total	1,125,579	128,090	1,253,669
At December 31, 2016			
Not past due:	873,333	-	873,333
Past due:			
- Up to 1 month	109,296	2,180	111,476
- From 1 to 3 months	59,122	2,284	61,406
- From 3 to 6 months	26,325	3,490	29,815
- More than 6 months	68,970	97,275	166,245
Total	1,137,046	105,229	1,242,275

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

	2017 S/000	2016 S/000
Opening balance at January 1	105,229	106,353
Estimate charged to income, note 18	37,063	15,653
Recoveries	(7,904)	(12,281)
Write-off	(3,679)	(2,089)
Disposal of portfolio	-	(1,008)
Effect of translation	(2,691)	(1,399)
Final balance at December 31	128,090	105,229

At December 31, 2017, the Group shows approximately S/73 million (below a 6 percent of the total trade accounts receivable) of trade receivables from the construction industry customers that are part of prosecutorial investigations currently in progress; see note 26(c.1).

Management considers that the provision for doubtful receivables adequately covers the credit risk of these items at December 31, 2017 and 2016.

7 OTHER RECEIVABLES, NET

(a) This item comprises:

	2017 S/000	2016 S/000
Income tax credit balance (b)	62,733	71,053
Receivables from Caterpillar (c)	35,557	16,977
VAT credit balance (d)	27,198	28,395
Receivables from program of work for taxes (e)	18,958	3,984
Receivables from personnel	12,601	8,782
Tax withholdings from tax administration	6,326	6,208
Receivables from Fiansa S.A. (f)	4,774	-
Reimbursement of customs duties and taxes (g)	4,163	2,106
Claims to insurance companies and third parties	2,723	2,208
Security deposit	2,211	2,247
Receivables from Marinazul S.A. (h)	1,637	1,695
Claims to suppliers	1,566	1,527
Advances to suppliers	1,047	4,991
Receivables from sale of investments, net (i)	-	26,219
Other receivables	18,073	16,374
	199,567	192,766
Less - Provision for doubtful accounts (k)	(2,988)	(2,317)
	196,579	190,449
Less: Non-current portion	(459)	(1,798)
Current portion	196,120	188,651

(b) This balance is the income tax on-account payments, which Management considers will be recovered in the normal course of the Group's business.

(c) At December 31, 2017, receivables from Caterpillar include balances related to the recognition of sales of Prime machinery and spare parts during 2017. It also includes receivables related to refunds of guarantees agreed with Caterpillar on the sales of machinery. These receivables do not bear interest and are of current maturity.

(d) The VAT credit balance mainly resulted from purchases of inventories, fixed assets and other expenditures relating to the Group's operations. Management considers the VAT (IGV in Peru) credit balance will be recovered in the normal course of the Group's business.

(e) At December 31, 2017 and 2016, this balance includes the company's tax credits resulting from expenses incurred in implementing the following projects in the framework of Law No.29230, which promotes regional and local public investment with participation of the private sector:

- In March 2014, Ferreyros S.A.A. signed an agreement with the Regional Government of Junín by which Ferreyros S.A.A. grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2017, this item includes the contributions made through the consortium comprising Ferreyros S.A., Empresa Administradora Chungar S.A.C. and Unimaq S.A. with interest of 35 percent, 50 percent and 15 percent, respectively, to finance a project called "Ampliación y Mejoramiento del Sistema de Agua Potable en el C.P. San Agustín de Haychao, Distrito de Huayllay - Pasco" for S/88,000 (S/380,000 in 2016); through the consortium comprising Ferreyros S.A., Empresa Administradora Chungar S.A.C. and Minera Chinalco Perú S.A. with an interest of 45 percent, 45 percent and 10 percent, respectively, to finance a project called "Mejoramiento y ampliación de los servicios de agua potable, alcantarillado y tratamiento de aguas servidas de los Barrios Aguas Calientes, Santa Rosa, Bolognesi, Centro Yauli, Las Brisas, Manuel

Montero y San Juan Bautista de Pachachaca, Distrito de Yauli - Junín" for S/3,659,000 (S/3,604,000 in 2016).

- In April 2016, Ferreyros S.A.A. signed an agreement with the Regional Government of Cusco by which Ferreyros S.A.A. grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2017, this item includes the contributions made by the Company to finance a project called "Mejoramiento y Ampliación del Servicio de Agua Potable y Alcantarillado en la Capital del Distrito de Zurite - Anta - Cusco" for S/4,592,000; and a project called "Ampliación, Mejoramiento del Sistema de Agua Potable, Redes de Alcantarillado y Planta de Tratamiento en la Capital del Distrito de Sangarará, Provincia de Acomayo - Cusco" for S/4,708,000.

- In April 2017, Ferreyros S.A.A. signed an agreement with the Regional Government of La Libertad, by which Ferreyros S.A.A. grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2017, this item includes the contributions made by the Company to finance a project called "Mejoramiento del Servicio de Educación Secundaria de la I.E N° 66 Cesar Abraham Vallejo Mendoza - Centro Poblado de Chequen - Distrito de Chepen - Provincia de Chepen - La Libertad" for S/2,311,000; and to finance a project called "Mejoramiento del Servicio Educativo en la I.E No.81605 San Idelfonso - Distrito de Laredo, Provincia de Trujillo - Región La Libertad" for S/3,279,000.

- In April 2017, Ferreyros S.A.A. signed an agreement with the Regional Government of Cusco, by which Ferreyros S.A.A. grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2017, this item includes the contributions made through the consortium comprising Ferreyros S.A. and Unión de Cervecerías Peruanas Backus y Johnston S.A. with an interest of 50% percent each to finance a project called "Mejoramiento, Ampliación de los Servicios de Agua Potable y Alcantarillado de la Microcuenca Piuray Corimanca - Distrito de Chinchero - Urubamba - Cusco" for S/321,000.

All projects at December 31, 2017 are still in process of liquidation. Therefore under the provisions of that law, the Company is allowed to use as tax credits the expenses incurred and offset them against future settlements of income taxes.

(f) Dated November 23, 2017 the Company sold its interest in Fiansa S.A. to a third party; see note 2(g); as a result, the balance of the receivable it had become a right receivable from a third party, which will be settled during the first quarter of 2018 and on which no specific guarantees were not obtained.

(g) They consist of refunds of tax and customs duties, for which an application will be presented to Tax Authorities to be actually obtained during the next first half year.

(h) This receivable consists of a loan given to Domingo Rodas S.A. (a former subsidiary of the Group) for S/5,150,000 in 2008. In 2010, the Group signed an agreement to transfer the capital stock it held in Domingo Rodas S.A. to Marinazul S.A., a subsidiary of a leading business group in the Peru's agro-industrial sector. As a result of this transaction, the new shareholders recognized the debt payable to Ferreyros S.A., which was refinanced and is being collected on a quarterly basis. It bears interest at an annual rate of 7.55 percent. This receivable is being recovered according to the payment schedule agreed by Ferreyros S.A. and Domingo Rodas S.A.; in addition, it has mortgage guarantees.

(i) In December 2016 subsidiary Inti Inversiones Interamericanas Corp. sold to a third party a number of investments resulting in an account receivable of S/78,175,000 at December 31, 2016. This was considered a non-recurrent transaction with a non-traditional customer; and therefore, Management recorded a provision of S/51,956,000, which was estimated based on the available information and which is considered reasonable to cover the collection risks. This account balance was fully collected during 2017, and therefore, the estimated provision was reversed with a credit to comprehensive income within "Other income".

(j) Ageing of other receivables, net is as follows:

	2017 S/000	2016 S/000
Current	192,627	190,379
Past due for up to 180 days	977	70
Past due for more than 180 days	5,963	2,317
	199,567	192,766

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

	2017 S/000	2016 S/000
Opening balance at January 1	2,317	3,392
Estimate charge to income, note 18	64	-
Write-offs of the year	(19)	(1,039)
Effect of translation	622	(36)
Other minors	4	-
Final balance at December 31	2,988	2,317

Management considers that the provision for doubtful other receivables adequately covers the credit risk at December 31, 2017 and 2016, respectively.

8 INVENTORIES, NET

(a) This item comprises:

	2017 S/000	2016 S/000
Machinery, motors and vehicles	621,309	575,711
Spare parts (b)	443,695	382,478
Workshop services in progress (c)	103,984	86,554
Merchandise	92,195	104,052
Advances to suppliers	23,985	13,825
Other supplies	4,779	5,464
Raw material and packaging material	426	3,027
Finished products	328	175
Products in process	-	3,199
Inventories in transit	155,311	118,627
	1,446,012	1,293,112
Less - Provision for impairment of inventories (d)	(52,678)	(60,131)
	1,393,334	1,232,981

(b) It mainly corresponds to spare parts of machines, engines and equipment Caterpillars as well as other as well as other well-known brands sold by the Group to customers; delivery is expected during the first quarter of the following year. At December 31, 2017, the spare parts balance increased by in line with the Company's strategy to keep inventory stocks in sufficient volumes to meet customer demand expected by Management.

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

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

	2017 S/000	2016 S/000
Opening balance at January 1	60,131	68,029
Provision charged to income, note 17	28,671	31,479
Transfer from fixed assets	8,106	12,020
Destruction of spare parts and others	(8,357)	(3,478)
Transfer to fixed assets	(7,423)	(3,236)
Recoveries, note 17	(29,122)	(42,089)
Effect of translation	672	(590)
Other recoveries	-	(2,004)
Final balance at December 31	52,678	60,131

The provision for impairment of inventories is determined based on levels of inventory turnover and other characteristics, based on periodic evaluations conducted by Management and the technical and financial areas. Group Management considers the balance of this estimate adequately covers the risk of impairment of inventories at December 31, 2017 and 2016.

9 INVESTMENT IN ASSOCIATES AND JOINT VENTURE

(a) This item comprises:

	Main activity	Percentage of interest in capital		Carrying amount	
		2017	2016	2017	2016
		%	%	S/000	S/000
Common shares in associates (b):					
La Positiva Seguros y Reaseguros S.A.	Insurance	14.96	14.96	69,592	56,703
La Positiva Vida Seguros y Reaseguros S.A.	Insurance	2.10	2.10	10,465	8,413
Joint venture (b):					
Ferrenergy S.A.	Power generation and distribution	50.00	50.00	12,286	12,139
Other investments, note 7(i):					
Other minor investments	Others			854	901
				93,197	78,156
Current portion				80,057	-
Non-current portion				13,140	78,156
				93,197	78,156

(b) The Group has recognized a total profit of approximately S/7,708,000 (S/7,284,000 at December 31, 2016) within the item "Share of the profit of associates and joint venture" in the consolidated statement of income, in accordance with the policy described in note 3.3(b).

These are the figures of the financial statements of La Positiva Seguros y Reaseguros S.A., La Positiva Vida Seguros y Reaseguros S.A. and Ferrenergy S.A. a December 31, 2017 and 2016:

	La Positiva Seguros y Reaseguros S.A.		**La Positiva Vida Seguros y Reaseguros S.A.**		**Ferrenergy S.A.**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	S/000	**S/000**	**S/000**	**S/000**	**S/000**	**S/000**
	Unaudited		**Unaudited**		**Unaudited**	
Statement of financial position:						
Total assets	1,517,048	1,151,709	3,653,769	3,414,283	26,420	27,254
Total liabilities	1,050,581	771,111	3,154,469	3,013,678	2,615	4,129
Equity	466,467	380,598	499,300	400,605	23,805	23,125
Statement of income:						
Total income	505,534	574,656	326,691	196,733	8,799	7,347
Operating profit	60,122	52,840	52,542	28,228	2,944	2,235
Net profit	43,169	32,502	52,542	28,228	295	2,152

10 PROPERTY, PLANT AND EQUIPMENT, NET

	2017								2016
Description	Land	Buildings and other constructions	Plant and equipment	Plant and fleet equipment for rent	Vehicles	Furniture and fixtures	Work in progress	Total	Total
	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Cost -									
Balance at January 1	719,846	369,211	392,873	440,654	37,355	122,610	33,478	2,116,027	2,192,132
Additions	2,737	3,514	19,360	37,281	6,194	7,153	80,969	157,208	112,971
Withdrawals and/or sales	(45,365)	(16,368)	(41,109)	(835)	(6,447)	(5,816)	(301)	(116,241)	(32,299)
Sale of subsidiary, see note 2(g)	(11,667)	(18,905)	(20,911)	-	(1,467)	(3,326)	-	(56,276)	-
Revaluation	(1,799)	(13,520)	-	-	-	-	-	(15,319)	(21,669)
Transfer of inventories	-	-	27,454	159,817	833	-	369	188,473	148,554
Transfer to inventories	-	-	(22,450)	(229,530)	(330)	-	-	(252,310)	(274,142)
Other transfers	-	80,140	10,335	(316)	-	330	(91,047)	(558)	(1,646)
Effect of translation	(1,117)	(896)	(741)	583	(331)	(417)	-	(2,919)	(7,874)
Balance at December 31.	662,635	403,176	364,811	407,654	35,807	120,534	23,468	2,018,085	2,116,027
Accumulated depreciation -									
Balance at January 1	-	108,909	255,678	104,122	21,134	96,721	-	586,564	592,810
Additions	-	13,878	31,580	52,973	3,720	8,023	-	110,174	116,008
Withdrawals and/or sales	-	(6,003)	(39,164)	(580)	(5,720)	(5,252)	-	(56,719)	(19,665)
Sale of subsidiary, see note 2(g)	-	(5,182)	(13,895)	-	(809)	(2,710)	-	(22,596)	-
Transfer of inventories	-	-	-	-	-	-	-	-	(2,242)
Transfer to inventories	-	-	(15,123)	(50,894)	(220)	(294)	-	(66,531)	(88,521)
Other transfers	-	157	(208)	44	(3)	1	-	(9)	(2,255)
Effect of translation	-	(318)	(292)	(259)	(246)	(359)	-	(1,474)	(9,571)
Balance at December 31.	-	111,441	218,576	105,406	17,856	96,130	-	549,409	586,564
Provision for impairment -									
Balance at January 1	-	174	1,231	3,162	-	-	-	4,567	6,233
Additions	-	-	-	1,076	-	-	-	1,076	7,031
Sale of subsidiary	-	(191)	(636)	-	-	-	-	(827)	-
Transfer of inventories	-	-	-	7,423	-	-	-	7,423	3.323
Transfer to inventories	-	-	-	(8,106)	-	-	-	(8,106)	(12,020)
Balance at December 31	-	(17)	595	3,555	-	-	-	4,133	4,567
Net carrying amount	662,635	291,752	145,640	298,694	17,951	24,404	23,468	1,464,543	1,524,896

(b) At December 31, 2017, the balances of work in progress mainly consist of expenses incurred by subsidiary Ferreyros S.A. in the installations and equipment of the new workshop of the component repair center ("Centro de Reparación de Componentes - CRC") in La Joya - Arequipa for a total of S/6,972,000, whichare expected to be ready for use over the first half year 2018 by Ferreycorp S.A.A in a Project of implementing an complementary warehouse of Fargoline located in Punta Negra for S/11,871,000; and other extensions and general remodeling projects for a total of S/4,625,000. At December 31, 2016 the balances of work in progress mainly consisted of expenses incurred in the construction of the CRC workshop, referred to above, for a total S/15,849,000, which was completed over the last quarter of 2017; other extensions and general remodeling projects totaled S/1,461,000.

(c) In 2017 the Group sold and write off fixed assets for a total carrying amount of S/56,656,000 and S/2,866,000, respectively (S/2,532,000 y S/10,102,000, respectively, in 2016). The Group obtained profits of S/21,941,000 (S/1,037,000 in 2016) from the disposal of fixed assets, as shown within "Other income and expenses, net" in the statement of income. In 2017, the facilities of subsidiary Motored S.A., were sold at a carrying amount of S/44,157,000 and major write-offs consisted of fixed-asset inventory adjustments of S/2,823,000. In 2016 major sales consisted of the renewal of other equipment and major write-offs amounting to S/7,689,000 and comprising retirement of components, machinery and equipment resulting from missing, excess and obsolete items.

(d) At December 31, 2017 and 2016, the Group has insurance policies to cover all its assets. Management considers its insurance policies are consistent with the international practice in the industry, and therefore, the risk of eventual losses from the risks covered by the insurance policy is reasonable considering the kind of assets owned by the Group.

(e) During 2017, rental income amounted to approximately S/169,324,000 (S/111,192,000 during 2016), which are related to the rental of machinery and fleet equipment. This rental income is included in "Net sales" in the consolidated statement of income.

(f) For the years ended December 31 the depreciation expense was recorded in the following items of the consolidated statement of income:

	2017 S/000	2016 S/000
Cost of sales, note 17	56,205	59,789
Selling expenses, note 18	40,672	41,945
Administrative expenses, note 19	13,297	14,274
	110,174	116,008

(g) At December 31, 2017 and 2016, Management evaluated the condition of its property, plant and equipment and found no indications of impairment of those assets.

(h) At December 31, 2017 and 2016 the Group maintains mortgages on some of its properties for US$8,420,000, given to financial entities to secure repayment of borrowings.

11 INTANGIBLES ASSETS, NET AND GOODWILL

(a) This item comprises:

	2017									2016
	Relationship with customers	Trademark right	Distribution agreement	Software	Right to use	Relationship with suppliers	Non-competition agreement	Others	Total	Total
	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Cost -										
Opening balance at January 1	63,362	8,708	12,122	51,996	17,552	2,373	5,065	5,597	166,775	156,575
Additions (c)	-	-	-	39,866	-	-	-	393	40,259	13,497
Retirement and transfers	-	-	-	(621)	-	-	-	(291)	(912)	(2,640)
Effect of translation	(178)	93	(413)	3	-	267	(115)	(11)	(354)	(657)
Balance at December 31	63,184	8,801	11,709	91,244	17,552	2,640	4,950	5,688	205,768	166,775
Amortization -										
Opening balance at January 1	35,797	216	4,645	21,995	17,552	243	1,855	3,452	85,755	70,492
Additions (d)	6,958	139	1,171	5,900		61	977	813	16,019	15,784
Retirement and transfers	-	-	-	(40)-	-	-	-	(254)	(294)	(340)
Effect of translation	(358)	(6)	(160)	(4)	-	(137)	(193)	(688)	(1,546)	(181)
Balance at December 31	42,397	349	5,656	27,851	17,552	167	2,639	3,323	99,934	85,755
Net carrying amount	20,787	8,452	6,053	63,393	-	2,473	2,311	2,365	105,834	81,020

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

At December 31, 2017 and 2016, Management prepared and reviewed the projected cash flows expected from the cash-generating units to which these assets were allocated and verified that there is no evidence that the recoverable amounts of the intangible assets (trademark) are lower than their carrying amounts.

(c) At December 31, 2017, computer programs and business solutions (software) mainly consisted of the associated costs that are directly attributable to the design and testing of the project called "SAP Business Project" for S/38,212,000 (S/7,378,000 at December 31, 2016), which is expected to be completed in the second half of 2018; this balances also include licensing costs of computer programs acquired that are capitalized based on the costs incurred for S/3,331,000.

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

	2017 S/000	2016 S/000
Cost of sales, note 17	33	211
Selling expenses, note 18	6,950	6,372
Administrative expenses, note 19	9,036	9,201
	16,019	15,784

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

	2017 S/000	2016 S/000
Ferreyros S.A. (Bucyrus)	83,396	83,396
Inversiones Interamericanas Corp.	53,852	62,452
Trex Latinoamérica SpA	19,341	19,344
Soltrak S.A.	13,912	13,912
Ferreycorp S.A.A. (Soltrak S.A.)	5,292	5,289
Ferreycorp S.A.A. (Inmobiliaria CDR S.A.C.)	-	3,473
Total	175,793	187,866

Impairment testing of goodwill and intangible assets -

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

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

The recoverable amount of each cash-generating unit (CGU) has been determined on the basis of its value in use or estimated fair value, using projections of cash flows obtained from the approved financial budgets by the senior Management, which cover a determined period. At December 31, 2016 in the case of Inmobiliaria CDR S.A.C., the recoverable amount has been determined based on independent appraisals.

At December 31, 2017 and 2016, the carrying amount of intangible assets and goodwill allocated to each CGU has been compared to the recoverable amount. Management has determined that it is not necessary to record an impairment provision for these assets at the date of the consolidated statement of financial position.

Major assumptions used in impairment testing by each CGU, at December 31, 2017 and 2016 is as follows:

CGU	Carrying amount of net assets	Recoverable amount	Discount rate	Cash flow period	Growth rate
	S/000	S/000	%	(years)	%
Year 2017:					
Bucyrus	95,646	206,306	10.5%	10	2.0%
Inti	59,718	424,007	10.9%	10	2.0%
Trex	26,630	150,072	10.0%	10	2.0%
Soltrak S.A.	17,144	184,719	10.5%	10	3.0%
Year 2016:					
Bucyrus	101,478	204,742	10.5%	10	2.0%
Inti	71,062	425,631	10.5%	10	2.0%
Trex	25,741	132,176	10.5%	10	2.0%
Soltrak S.A.	18,374	170,707	10.0%	10	2.0%

Key assumptions used in value-in-use calculations -

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

Gross margin -

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

Discount rate -

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

Long-term growth rate -

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

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

At December 31, 2017 and 2016, the carrying amount of goodwill related to each CGU has been compared to the recoverable amount and Management has determined that it is not necessary to record a provision for impairment.

12 BORROWINGS

(a) This item comprises:

	2017			2016		
	Current portion	Non- current portion	Total	Current portion	Non- current portion	Total
	S/000	S/000	S/000	S/000	S/000	S/000
Bank loans (b)	592,628	-	592,628	527,403	-	527,403
Bonds and long-term debt with banks (c)	224,211	737,763	961,974	208,112	955,988	1,164,100
	816,839	737,763	1,554,602	735,515	955,988	1,691,503

(b) Bank loans -

Financial entity	Annual average effective fixed interest rate 2017 %	2016 %	Original currency	2017 S/000	2016 S/000
Banco Crédito del Perú S.A.A. - BCP	Between 1.10 and 2.50	Between 0.85 and 4.50	USD	234,667	62,259
BBVA Banco Continental S.A.	Between 0.90 and 1.95	Between 0.70 and 2.30	USD	185,776	146,454
Banco Crédito del Perú S.A.A. - BCP	Between 3.80 and 3.95	Between 5.55 and 6.57	S/	78,325	162,671
Scotiabank Perú S.A.	Between 1.35 and 2.00	Between 0.83 and 0.90	USD	28,432	41,328
Banco Internacional del Perú - Interbank	1.58	-	USD	22,715	-
Banco Interamericano de Finanzas - Banbif	Between 1.87 and 1.92	-	USD	9,640	-
Scotiabank Perú S.A.	3.95	5.75	S/	7,500	16,300
Bancolombia	2.06	-	USD	6,977	-
Banco Agrícola	4.00	4.25	USD	4,868	2,689
GNB	2.30	-	USD	2,725	-
BCI	4.90	-	CLP	2,639	-
Banco de América Central - Guatemala y El Salvador	4.10	4.75	USD	2,434	10,920
Banco Santander - Perú	6.85	Between 6.85 and 6.96	S/	2,238	14,432
Interbanco	3.75	-	USD	1,298	-
Banco Agromercantil	5.75	-	Q	939	-
Banco Santander - Chile	7.00	-	USD	805	-
Banco Lafise Bancentro	8.00	-	USD	650	-
BBVA Banco Continental S.A.	-	Between 4.78 and 6.10	S/	-	58,720
Interbanco	-	6.00	Q	-	5,878
Banco Latinoamericano de Comercio Exterior S.A. - Bladex	-	Libor 6 months + 3.45	USD	-	5,752
				592,628	527,403

USD = US Dollars S/ = Peruvian Sol CLP = Chilean peso Q = Quetzal

Interest expense accrued over the year ended December 31, 2017 on debts with banks, amounted to approximately S/26,952,000 (S/30,511,000 at December 31, 2016) and is presented in "Financial expenses" of the consolidated statement of income, see note 22. At December 31, 2017, accrued interest outstanding amounted to approximately S/1,965,000 (S/2,430,000 at December 31, 2016), see note 14.

At December 31, 2017 and 2016, foreign currency bank loans obtained from local and foreign financial institutions were used primarily for working capital; they expire between 6 and 360 days, and can be renewed at maturity date and up to 360 days. Interest rates on such bank loans fluctuate between 0.70 and 8.00 percent.

At December 31, 2017, the Group has credit lines for working capital for a total of up to S/4,200,905,310 (S/3,465,385,320 at December 31, 2016) with most banks in the Peruvian financial system, which are used for short-term financing. The Group is not subject to specific conditions to use such credit line.

(c) Bonds and debts with long-term banks

Creditor	Maturity date	Original currency	Annual effective interest rate	2017 Current portion	2017 Non-current portion	2017 Total	2016 Current portion	2016 Non-current portion	2016 Total
			%	S/000	S/000	S/000	S/000	S/000	S/000
Ferreycorp S.A.A. bonds -									
Corporate bonds - Regla 144 A (i)	Until April 2020	US$	4.934(*)	-	324,500	324,500	-	540,714	540,714
Promissory notes -									
Caterpillar Financial	Until August 2020	US$	Between 5.19 and 6.35	19,259	56,811	76,070	937	9,955	10,892
Caterpillar Leasing Chile	Until January 2021	US$	Between 3.45 and 7.80	14,285	7,309	21,594	35,602	54,492	90,094
Caterpillar Crédito S.A. de C.V.	Until February 2019	US$	Between 3.01 and 6.0	19,656	56,724	76,380	12,625	15,719	28,344
Promissory notes with local and foreign institutions	Until March 2019	S/	Between 3.53 and 7.00	11,708	5,676	17,384	46,979	31,218	78,197
Promissory notes with local and foreign institutions	Until December 2022	US$	Between 0.83 and 8.28 Libor 6 months +3.8%	144,193	270,418	414,611	86,814	273,741	360,555
Promissory notes with local and foreign institutions		Q	Between 6.00 and 6.50	11,705	12,386	24,091	11,292	25,121	36,413
Financial leasing (ii)	Until May 2019	US$	Between 3.50 and 6.80	3,405	3,939	7,344	13,863	5,028	18,891
				224,211	737,763	961,974	208,112	955,988	1,164,100

(*): Nominal rate of 4.875 percent.

USD = US Dollars S/ = Peruvian Sol Q = Quetzal

At December 31, 2017, the accrued interest expense related to the promissory notes and long-term debt obligations amounted to approximately S/43,498,000 (S/69,585,000 at December 31, 2016), which are shown in "Financial expenses" in the consolidated statement of income, see note 22. At December 31, 2017, the accrued interest outstanding amounted to approximately S/4,802,000 (S/8,079,000 at December 31, 2016) and is presented in "Other payables" in the consolidated statement of financial position, see note 14.

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

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

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

Compliance with the above-described ratios are monitored by Management and validated by the representative of the bondholders. In the event of non-compliance, an early termination event will triggered. Management considers that Ferreycorp S.A.A. has complied with these covenants at December 31, 2017 and 2016.

On May 25, 2016, the Company announced the beginning of a private offering for the Repurchase of Bonds (tender offer) for a maximum nominal amount of US$120,000,000 million (equivalent to S/403,200,000), together with a process to obtain consent of the bondholders for compliance with certain terms to carry out the financing of the repurchase. On June 23, 2016, the final results of the bond repurchase private offering were announced, and the consent was obtained to carry out the financing for US$120,000,000 (equivalent to S/393,900,000) and the acceptance of the repurchase offering for US$119.100,000 million, paying 99.25 percent of its nominal value, generating net profits of US$900,000, which includes a total amount for the repurchase of bonds for US$123,827,000, net of expenses incurred of US$4,727,000 (equivalent to S/15,516,000), recognized in "Financial expenses", see note 22. In addition, during 2016, other bonds repurchases were completed for a total of US$17,567,000, equivalent to S/60,260,000.

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

At December 31, 2017, the principal balance of bonds for US$100,000,000 equivalent to S/324,500,000 (US$160,927,000 equivalent to S/540,714,000 at December 31, 2016) is presented net of directly related costs.

(ii) These are the lease agreements entered into by the Group with different financial institutions. Borrowings related to leases are secured with the ownership rights on the leased asset, which is returned to the lessor in the event of default by the Group.

(iii) At December 31, 2017 and 2016, the amortization schedule for the non-current portion of the long-term debt is as follows:

	2017 S/000	2016 S/000
2018	-	140,885
2019	128,006	173,286
2020	442,887	621,967
2021	92,806	19,850
2022 onwards	74,064	-
	737,763	955,988

13 TRADE PAYABLES

(a) This item comprises:

	2017 S/000	2016 S/000
Invoices (b)	526,116	449,117
Bill of exchange (b)	75,818	58,169
	601,934	507,286

(b) At December 31, 2017, the invoice balances and bills of exchange payable mainly include payables to the Caterpillar Group for approximately S/173,917,000 and S/69,428,000, respectively (equivalent to US$53,595,000 and US$21,395,000, respectively). At December 31, 2016, invoices and bills of exchange payable amounted to approximately S/143,269,000 and S/48,762,000, respectively (equivalent to approximately US$42,639,000 and US$14,513,000, respectively). These payables have current maturity; no specific guarantees have been granted and they are not interest-bearing.

14 OTHER PAYABLES

(a) This item comprises:

	2017 S/000	2016 S/000
Remunerations payable (b)	95,432	84,551
Liabilities from other expenses (c)	88,865	99,047
Advances from clients (d)	70,861	59,112
Provision for other services (e)	45,572	51,143
Taxes payable	12,171	25,546
Workers' profit sharing	33,244	35,789
Provision of guarantees (f)	15,884	23,291
Provision for contingencies, note 24(c)	14,459	18,747
Labor-related contributions payable	13,850	14,545
Interest payable, note 12(b) and (c)	6,767	10,509
	397,105	422,280
Less:		
Non-current portion	(369)	(300)
Current portion	396,736	421,980

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

(b) Remunerations payable mainly include provisions for vacation periods, statutory bonuses, employees' severance indemnities and other staff indemnities.

(c) This balance mainly comprises sundry provisions recognized by the Group in accordance with the practice described in note 3.3(q), based on its best estimates of the disbursement that would be required to settle general expenses at the date of the consolidated statement of financial position.

(d) Advances from customers mainly consist of advances received in respect of sales of goods and services mainly from mining customers, which will be delivered during the first half of the following year.

(e) This item mainly includes provisions for freight and rents related to the acquisition of machinery and spare parts.

(f) It relates to guarantees granted by the Group for sales of machinery and services, with an average of one year. Such provision is reviewed annually in accordance with the policy described in note 3.3(p).

15 DEFERRED INCOME TAX ASSETS AND LIABILITIES, NET

This item comprises:

	At December 31	
	2017	2016
	S/000	S/000
Deferred tax assets:		
Expected reversal in the next 12 months	15,599	10,783
Expected reversal after 12 months	174,520	187,134
	190,119	197,917
Deferred tax liabilities:		
Expected reversal in the next 12 months	(8,818)	(9,775)
Expected reversal after 12 months	(188,067)	(208,449)
	(196,885)	(218,224)
Total deferred tax assets, net	(6,766)	(20,307)

(a) Components that give rise to the deferred income tax asset and liability at December 31, 2017 and 2016:

	At January 1, 2016	(Charge)/ payment to consolidated statement of profit or loss	(Charge)/ payment to consolidated statement of changes in equity	(Charge)/ payment to consolidated statement of financial position	At December 31, 2016	(Charge)/ payment to consolidated statement of profit or loss	(Charge)/ payment to consolidated statement of changes in equity	At December 31, 2017
	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Deferred assets:								
Non-deductible provisions	32,296	1,371	-	-	33,667	(998)	(3)	32,666
Differences in depreciation rates	56,140	11,189	299	-	67,628	5,577	-	73,205
Estimate for doubtful accounts	12,189	2,042	881	-	15,112	5,427	-	20,539
Provision for vacations	10,567	169	47	-	10,783	1,466	9	12,258
Tax credits for losses carry-forward	40,702	2,646	(4,472)	-	33,584	(20,729)	-	12,855
Estimate for impairment of inventories and fixed assets	272	24	15	-	311	1,404	21	1,736
Estimate for impairment of inventories	14,313	4,668	26	-	19,007	(5,908)	(31)	13,068
Other provisions	7,622	(1,815)	81	-	5,888	3,189	(13)	9,064
Others	5,927	9,358	(3,348)	-	11,937	2,701	90	14,728
	180,028	24,360	(6,471)	-	197,917	(7,871)	73	190,119
Deferred liabilities:								
Change of useful life of fixed assets	(3,294)	226	-	-	(3,068)	141	7	(2,920)
related with inventories and fixed assets	(626)	290	-	-	(336)	63	-	(273)
Sales deferred earnings, net	(1,377)	(124)	-	-	(1,501)	(105)	-	(1,606)
Leasing transactions	(5,520)	(2,315)	802	-	(7,033)	706	(48)	(6,375)
Provision for indemnities	(1,675)	121	-	-	(1,554)	(141)	16	(1,679)
Revaluation of property, plant and equipment	(7,324)	(485)	217	-	(7,592)	299	49	(7,243)
Fair value of lands	(146,384)	1,670	(9,386)	-	(154,100)	19,836	20	(134,244)
Differences in depreciation rates	(22,386)	(7,870)	580	-	(29,676)	(2,604)	-	(32,280)
Valuation by business acquisition, net	(6,155)	4,681	-	-	(1,474)	-	1,126	(348)
Others	(12,580)	286	404	-	(11,890)	(1,960)	13	(9,917)
	(207,321)	(3,520)	(7,383)	-	(218,224)	20,155	1,183	(196,885)
Deferred liabilities, net	(27,293)	20,840	(13,854)	-	(20,307)	12,284	1,256	(6,766)

Due to the reduction in the income tax rate showed in note 25(a), there was an increase in net assets of approximately S/7,261,000, recorded under "income tax" of the statement of income in 2016.

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

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

	2017 S/000	2016 S/000
Current	136,063	124,472
Deferred	(12,284)	(20,840)
Others (*)	(3,598)	284
Income tax expense	120,181	103,916

(*) At December 31, 2017 it comprise the adjustment for prior-year deferred and current income tax for S/3,040,000 and S/558,000 (S/284,000 in 2016), respectively.

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

	At December 31, 2017		At December 31, 2016	
	S/000	%	S/000	%
Accounting profit before income tax	387,194	100.00	334,351	100.00
Income tax according to tax rate (*)	114,222	29.50	93,618	28.00
Tax-exempt income from interest in associates and joint venture	7,708	1.99	7,284	2.18
Non-deductible expenses, nets	1,291	0.33	10,275	3.07
Net effect of non-deductible expenses:				
Adjustment of prior years	(3,040)	(0.79)	-	-
Effect in change of rates, note 3.3(m) and 25	-	-	(7,261)	(2.17)
Income tax expense	120,181	31.04	103,916	31.08

(*) Weighted average tax rate of the Group.

16 NET EQUITY

(a) Share capital -

At December 31, 2017 and 2016, the Company's issued capital is represented for 975,683,000 and S/1,014,326,000 common shares entirely subscribed and paid-in with at S/1.00 par value each.

Price per share and trade frequency were as follows:

	Price per share S/	Trade frequency %
At December 31, 2017	2.55	100.00
At December 31, 2016	1.69	100.00

At December 31, 2017 and 2016, the Company's shareholding structure is as follows:

Percentage of individual interest in capital	Number of shareholders		Total percentage of interest in capital	
	2017	2016	2017	2016
Up to 1.00	2,401	2,305	34.32	25.86
From 1.01 to 5.00	17	18	41.84	39.07
From 5.01 to 10.00	4	5	23.84	35.07
	2,422	2,328	100.00	100.00

(b) Treasury shares -

At December 31, 2016 the Company had 50,208,000 own shares in portfolio at S/1.00 par value each. At the General Shareholders' Meeting held on November 24, 2017 the decision was made to amortize the balance of those shares by reducing the issued capital by S/38,643,000; the respective issuance premium of S/11,252,000 was transferred to retained earnings at the time of redemption of the own portfolio shares.

(c) Additional capital -

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

During 2017 the Company sold 11,565,000 own shares in portfolio at a total S/23,504,000; the difference between the selling price of shares and their par value was recorded with a credit to the issuance premium for a total S/11,939,000. During the course of 2016 the Company repurchased 23,160,000 own shares in portfolio at a total S/38,233,000; the difference between the purchase price of shares and their par value was recorded with a charge to the issuance premium S/15,073,000.

(d) Legal reserve -

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

On March 29, 2017 and on March 30, 2016 the General Shareholders Meeting agreed to transfer S/23,043,000 and S/16,177,000, respectively, from retained earnings to legal reserve.

(e) Other equity reserves -

Revaluation surplus -

This item reflects the increase in fair value of fixed assets based on appraisals performed by independent expert appraisers. At December 31, 2017, the revaluation surplus, net of its corresponding deferred income tax, amounted to S/313,019,000 (S/327,206,000 at December 31, 2016). The revaluation surplus is transferred to retained earnings to the extent it is realized through impairment or when the underlying assets are sold or retired. In 2017 and 2016 the Company has transferred to retained earnings the portion of the revaluation surplus by approximately S/3,546,000 and S/5,438,000, respectively.

Foreign currency translation -

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

Unrealized gains -

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

(f) Dividend distribution -

Dividends distributed to shareholders other than resident legal entities are subject to an income tax rate of 5 percent (6.8 percent in 2016) to be assumed by these shareholders; this tax is withheld and paid by the Company. There are no restrictions on the remittance of dividends or repatriation of capital by foreign investors. In 2016, amendments were made to the Peruvian Income Tax Law, applicable from 2017 onwards, note 25.

At General Shareholders' Meeting held on March 29, 2017 the payment of cash dividends was approved for S/124,434,000. At General Shareholders' Meeting held on March 30, 2016 the payment of cash dividends was approved for S/87,354,000.

17 SALES AND COST OF SALES

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

	2017 S/000	2016 S/000
Sales:		
Sales of machinery, engine, equipment and vehicles	1,873,568	1,930,302
Sale of spare parts	1,908,310	1,770,236
Rental services of machinery, engines, equipment and workshop	614,684	804,918
Other incomes	443,138	341,101
	4,839,700	4,846,557
Cost of sales:		
Opening balance of inventories, note 8	1,160,660	1,293,772
Purchase of inventories	3,213,151	2,914,251
Workforce, note 20(d)	191,069	178,166
Workshop expenses	128,182	128,794
Depreciation, note 10(f)	56,205	59,789
Amortization, note 11(d)	33	211
Impairment of inventories, note 8(d)	28,671	31,479
Recovery, note 8(d)	(29,122)	(42,089)
Operating expenses of fleet for rent	42,566	126,993
Rental fleet impairment	1,392	7,031
Services provided by third parties and other expenses	146,976	128,567
Final balance of inventories, note 8	(1,266,716)	(1,160,660)
	3,673,067	3,666,304

18 SELLING EXPENSES

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

	2017	2016
	S/000	S/000
Personnel expenses, note 20(d)	275,418	278,797
Services provided by third parties	115,147	120,888
Other management charges	61,791	70,300
Depreciation, note 10(f)	40,672	41,945
Provision for doubtful accounts, note 6(d) and 7(k)	37,127	15,653
Intangibles amortization, note 11(d)	6,950	6,372
Taxes	5,194	3,970
	542,299	537,925

19 ADMINISTRATIVE EXPENSES

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

	2017	2016
	S/000	S/000
Personnel expenses, note 20(d)	160,527	162,643
Services provided by third parties (b)	59,537	55,777
Depreciation, note 10(f)	13,297	14,274
Other management charges	16,104	12,333
Intangibles amortization, note 11(d)	9,036	9,201
Taxes	7,186	4,109
Provisions for the year	-	370
	265,687	258,707

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

20 PERSONNEL EXPENSES

(a) This item comprises:

	2017	2016
	S/000	S/000
Remunerations and profit-sharing (b)	439,949	412,734
Statutory bonuses	71,715	99,178
Workers' contributions	51,789	47,521
Allowances to workers	22,024	23,360
Training	12,346	14,060
Vacations	8,249	5,978
Other minors	20,942	16,775
	627,014	619,606

(b) It mainly include remunerations and profit-sharing to Company's personnel and its subsidiaries. For Peru, under the regime of workers' profit-sharing governed by Legislative Decree 677, Peruvian company workers have the right to profit-sharing at 8 percent of the taxable income obtained by an entity, which is to be distributed proportionally among all employees based on the

actual days worked; and the balance, is distributed in proportion to the basic remunerations received over the year. Workers' profit-sharing is stated within "Other payables".

(c) The average number of workers in the Group was of 6,365 in 2017 and 6,534 in 2016.

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

	2017 S/000	2016 S/000
Cost of sales, note 17	191,069	178,166
Selling expenses, note 18	275,418	278,797
Administrative expenses, note 19	160,527	162,643
	627,014	619,606

(e) Remunerations to key personnel -

The total remuneration received by Directors and key executives of Management during 2017 amounted to approximately S/53,422,000 (approximately S/50,833,000 in 2016), which includes short-term benefits and employees' severance indemnities.

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

21 FINANCIAL INCOME

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

	2017 S/000	2016 S/000
Interest on bills of exchange receivable	13,981	15,441
Interest on arrears	1,131	1,516
Interest on bank deposits	1,935	1,026
Other financial income	1,075	8,109
	18,122	26,092

22 FINANCIAL EXPENSES

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

	2017 S/000	2016 S/000
Interest on corporate bonds and long-term loans, note 12(c)	43,498	69,585
Interest on overdrafts and loans, note 12(b)	26,952	30,511
Financial transactions tax	2,629	4,585
Interest on financing from foreign suppliers	1,855	1,894
Other financial expenses (*)	10,173	18,167
	85,107	124,742

(*) At December 31, 2017, "other financial expenses" mainly correspond to expenses incurred for the repurchase of corporate bonds for US$1,523,000, equivalent to approximately S/4,925,000 (US$4,727,000, equivalent to approximately S/15,883,000 at December 31, 2016); and other minor financial expenses for S/5,248,000 (S/2,284,000 at December 31, 2016).

23 EARNINGS PER SHARE

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

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

	2017	2016
	S/000	S/000
Numerator:		
Net profits attributable to owners of the Company	267,013	230,435
	Thousands of shares	**Thousands of shares**
Denominator		
Weighted average number of common shares	977,407	984,139
	2017	**2016**
	S/000	**S/000**
Basic and diluted earnings per share	0.273	0.234

The weighted average number of shares in 2017 and 2016, takes into account the effect of the weighted average number of shares purchased and held in treasury, see note 16(b).

24 COMMITMENTS, CONTINGENCIES AND GUARANTEES GRANTED

(a) Commitments -

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

	2017	2016
	S/000	S/000
Property, plant and equipment	38,469	22,749

(b) Guarantees granted -

The Group has the following guarantees granted:

Ferreycorp S.A.A:

- At December 31, 2017 and 2016, the Company has signed guarantees for US$144,662,432 (US$94,152,000 in 2016) to secure credit transactions of its subsidiaries and associates and US$170,564 (US$650,641 in 2016) to secure purchase transactions with third parties with several due dates.

- At December 31, 2017 and 2016, the Company has given performance bonds to financial institutions for a total S/5,956,283 and S/8,081,000, respectively to secure tax claims and appeals filed with Peruvian tax authorities.

Ferreyros S.A.:

- At December 31, 2017 this subsidiary has letters of guarantee for US$14,843,309 (US$39,490,860 in 2016) to secure purchase transactions with third parties.
- At December 31, 2017 the subsidiary has letters of guarantees signed with financial institutions for US$21,020,346 (US$20,710,376 in 2016) to secure the Company's firm commitment to deliver the products sold via public tenders and the payment of customs duties related to the import of the underlying goods.

Fargoline S.A.:

- At December 31, 2017, this subsidiary has signed a surety policy in favor of the Peruvian customs authorities ("Superintendencia Nacional de Aduanas") for the goods subject to customs regime amounting to US$2,600,000 (US$2,600,000 in 2016).

Cresko S.A.:

- At December 31, 2017, this subsidiary does not hold any sureties or guarantees given to third parties that are currently effective. At December 31, 2016 the subsidiary has signed letters of guarantee in favor of the Peruvian housing and construction ministry ("Ministerio de Vivienda, Construcción y Saneamiento") for S/34,920,000 and E.P.S. Sede Juliaca for S/35,980,000 to secure the firm commitment of the proposal of Cresko S.A. and delivery of the products sold through public tenders as well as indemnifications for damages under decision of a Pacasmayo court ("Juzgado de Paz Letrado de Pacasmayo") for S/16,670,000.

Soltrak S.A.:

- At December 31, 2017, this subsidiary has signed letters of guarantee for US$7,562,244 and S/34,641,000 (US$291,574 and S/58,491,409 in 2016) to secure purchase transactions with third parties and leases, respectively with different due dates.
- At December 31, 2017, the subsidiary has signed letters of guarantee signed with financial institutions for US$4,279,244 and S/2,358,301 (US$3,851,170 and S/2,233,519 in 2016), mainly to secure the firm commitment of the Company's proposal and delivery of the products sold via public tenders, and the payment of customs duties related to the import of the underlying goods respectively.

Motored S.A.:

- At December 31, 2017, this Subsidiary has letters of guarantee for US$2,851,000 (US$13,070,185 in 2016) to secure on-credit purchase transactions with third parties.
- At December 31, 2017, the Subsidiary has bank letters of guarantee in favor of third parties for US$4,484,000 and S/16,000 (US$83,700 and S/16,142 in 2016) mainly to secure the firm commitment of the Company's proposal and delivery of the products sold via public tenders.

Orvisa S.A.:

- At December 31, 2017, this Subsidiary has bank letters of guarantee in favor of third parties for US$6,237,170 and S/1,216,574 mainly to secure on-credit purchase transactions of subsidiaries and affiliates with third parties. At December 31, 2016, the Subsidiary has letters of guarantee for US$5,500,000 to secure on-credit purchase transactions of subsidiaries and affiliates with third parties.

(c) Contingencies -

At December 31, 2017, the Group maintains tax clams under appeal or administrative challenging proceedings under way for a total amount of approximately S/118,809,000 (S/111,227,000 at December 31, 2016); including fines and interest of S/15,610,000 and S/68,506,000, respectively (S/13,901,000 and S/75,051,000, respectively, at December 31, 2016). These court actions remain to be resolved via administrative or court decisions and relate to observations made by the Peruvian Tax Administration to tax returns as follows: (i) income tax (including on-account payments) for fiscal years 2001 to 2008 for S/109,971,000; (ii) VAT (IGV in Peru) for fiscal years 2001 to 2006 for S/3,088,000; and (iii) income tax on non-domiciled legal entities for fiscal years 2002, 2003, 2005, 2006 and 2015 totaling S/5,749,000 (S/5,708,000 at December 31, 2016).

For all the above cases, at December 31, 2017 and 2016, the Group has sought the advice of experts on these tax issues who have determined together with Management, that tax assessments totaled approximately S/8,206,000 (S/18,747,000 in 2016), in respect of which, losses have been classified as probable. The Group has recorded a provision for that amount, within "Other payables" in the consolidated statement of financial position, see note 14.

Management, together with its legal and tax advisors consider that the Group has sufficient technical grounds to believe the Tax Court in Peru will issue a decision that will be favorable to the Group. Accordingly, they consider that the future resolution of these proceedings will not result in significant liabilities; and, consequently, there is no need to record additional liabilities at December 31, 2017 and 2016.

25 TAX SITUATION

(a) The Group is subject to tax regime of each country in which it operates and taxes are settled based on its non-consolidated profits. At December 31, 2017 and 2016, the income tax rate on taxable income in the major countries in which the Company and its subsidiaries operate are:

	Tax rates	
	2017	2016
	%	%
Peru (*)	29.50	28
Ecuador	22	22
Colombia	24	24
Chile (**)	24	24
Guatemala	25	25
El Salvador	30	30
Belize	25	25
Nicaragua	30	30
United States of America	15 y 28	15 y 28

(*) By means of Legislative Decree No.1261 published on December 10, 2016, the amendments to the Income Tax Law were set forth effective from fiscal year 2017 onward. Among major amendments, it should be noted the increase in the third-category (corporate) income tax rate from 27% (established for 2017 in Law No. 30296) to 29.5%.

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

	Regime of tax rate	
	Art. 14 Letter A	Art. 14 Letter B
Year:		
2016	24.0%	24.0%
2017	25.0%	25.5%
2018 and onwards	25.0%	27.0%

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

In accordance with legal provisions in force in some countries at December 31, 2017 and 2016, cash dividends in favor of non-domiciled shareholders are levied at the following rates:

	Tax rates	
	2017	2016
	%	%
Peru (*)	6.8	6.8
Colombia	10	10
Chile	35	30
El Salvador	5	5

(*) In Peru income tax on dividends and any other forms of profit distribution that is agreed by legal entities in favor of non-domiciled individuals or legal entities was increased from 8.8 to 5 per cent, from fiscal 2017 onward. Distribution of profits up to 2016 was subject to 6.8 percent income tax rate even if the distribution is made in subsequent years.

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

Tax authorities are authorized to request this information from taxpayers. Based on the analysis of the Group's transactions, Management and its legal advisors consider that no material contingencies are expected to arise from the application of these rules to the Group at December 31, 2017 and 2016.

(c) Peruvian tax authorities have the right to review and, if necessary, amend the income tax determined by the Company in the last four years from January 1 of the year following the filing date of the related tax returns (years open to audit). Income tax and VAT tax returns for fiscal years 2013 to 2017 remain to be audited by the Peruvian tax authorities. Tax returns for fiscal years 2000 to 2010 have already been audited; the audit of fiscal year 2011 is currently in progress.

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

	Fiscal year subject to tax audit
Foreign subsidiaries (Country):	
Guatemala	2013 to 2017
El Salvador	2006 to 2017
Belize	2009 to 2017
Nicaragua	2010 to 2017
United States of America, Chile, Colombia and Ecuador	2011 to 2017
Local subsidiaries:	
Ferreyros S.A.	2013 to 2017
Unimaq S.A.	2012 to 2017
Cresko S.A.	2012 to 2017
Fiansa S.A.	2012 to 2017
Soltrak S.A.	2013 to 2017
Fargoline S.A.	2012 to 2017
Orvisa S.A. y subsidiarias	2012 to 2017
Motored S.A.	2012 to 2017
Inmobiliaria CDR S.A.	2013 to 2017
Forbis Logistic S.A.	2012 to 2017
Soluciones Sitech Perú S.A.	2013 to 2017

Since certain differences may arise over the interpretation the tax authorities may have of current tax laws and regulations, it is not possible to anticipate, at the present date, whether any additional liabilities will arise for the Group; therefore, any additional tax or penalties that may arise from eventual tax audits would be applied against the profit or loss of the years in which the differences in interpretation with the tax authorities are resolved. Group Management and its legal advisors consider that any eventual additional taxes payable determined by the relevant tax authorities of each country would not be significant for the consolidated financial statements at December 31, 2017 and 2016.

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

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

26 FINANCIAL RISK MANAGEMENT

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

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

(a) Risk management structure -

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

(a.1) Board of Directors -

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

(a.2) Risk Committee -

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

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

(a.3) Internal Audit -

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

(a.4) Administration and Finance Management -

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

(a.5) Corporate Risk Division -

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

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

(b) Risk mitigation -

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

(c) Risk concentration -

Credit risk -

Credit risk is the risk that a counterparty is unable not meet its borrowings in relation to a financial instrument or sales contract, generating a financial loss. The Group is exposed to credit risk for its operating activities (mainly receivables) and for its financing activities, including bank deposits. Regarding banks deposits, the Group accounts for 99.31 percent (99.54 percent in 2016) of its cash and cash equivalents at financial institutions at December 31, 2017.

Credit risk related to receivables: Management manages credit risks of customers in accordance with policies, procedures and controls duly established. The outstanding balances of receivables are periodically reviewed to ensure their recovery. In addition, the Company has a larger customer base. At December 31, 2017, the Group's average collection period is 70 days on credit risk, which controls and monitors on an ongoing basis (67 days at December 31, 2016).

Credit risk related to financial instruments and banks deposits: Management manages credit risks of bank balances in accordance with the Group's policies. Investments of cash surpluses are made with leading financial institutions. The maximum exposure to credit risk at December 31, 2017 and 2016 is the carrying amount of cash balances and cash equivalents shown in note 4.

At December 31, 2017, Management has estimated that the maximum amount of credit risk to which the Group is exposed amounts to approximately S/1,274,183 (S/1,333,977 at December 31, 2016), which represents the carrying amount of financial assets.

At December 31, 2017, the Group subsidiaries show a moderate exposure of approximately S/73 million (below 6 percent of the total trade accounts receivable) of trade receivables from construction industry customers that are part of prosecutorial investigations currently in progress that may result in these debtors being considered within the scope of the Urgency Decree No.003-2017 and its amendments. At December 31, 2017, Management considers the Company does not show any other customer concentration that may indicate a significant credit risk.

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

Interest rate risk -

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

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

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

	At December 31, 2016							
	Fixed rate							
	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Variable rate (*)	Non-interest bearing	Total	Average fixed interest rate at 2016	Variable interest rate at 2016
	S/000	S/000	S/000	S/000	S/000	S/000	%	%
Assets:								
Cash and cash equivalents	36,631	-	-	-	92,351	128,982	0.02 - 4.00	-
Trade receivables, net	136,604	96,363	49,180	-	842,892	1,125,039	10.90 - 17.50	-
Other receivables, net (**)	2,885	4,571	48	-	72,416	79,920	16.14	-
Total assets	176,120	100,934	49,228	-	1,007,659	1,333,941		
Liabilities:								
Trade payables	3,508	41,166	-	-	462,612	507,286	-	-
Other payables	2,059	1,096	32,641	-	327,372	363,168	-	-
Borrowings	403,751	215,811	1,047,147	5,752	19,242	1,691,703	Between 1.37 and 6.25	-
Total liabilities	409,318	258,073	1,079,788	5,752	809,226	2,562,157		
Margin gap	(233,198)	(157,139)	(1,030,560)	(5,752)	198,433	(1,228,016)		
Accumulated gap	(233,198)	(390,337)	(1,420,897)	(1,426,649)	(1,228,216)	-		

(*) Borrowings with variable rate or bases are considered variable.

(**) At December 31, 2017, "Other receivables, net" included in this table do not consider an increase by S/114,099,000 (S/110,529,000 at December 31, 2016), corresponding to VAT payable, tax refunds and income tax, which, according to IFRS, do not qualify as financial instruments.

The following table shows the sensitivity to a possible change in interest rates, with all other variables held constant in the consolidated statement of income before income tax. The sensitivity in the consolidated statement of income is the effect of the estimated changes in interest rates on the net financial income for one year, based on financial assets and financial liabilities exposed to changes in interest rates at December 31, 2017 and 2016:

	2017		2016	
Currency	Changes in basis point	Sensitivity in net income S/000	Changes in basis points	Sensitivity in net income S/000
Soles	+/-50	3,520	+/-50	2,937
Soles	+/-100	7,041	+/-100	5,873
Soles	+/-200	14,082	+/-200	11,747
Soles	+/-300	21,122	+/-300	17,620

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

Liquidity risk -

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

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

The Group's main source of cash revenue is collections of local and imported merchandise sales. The average term of payment to its main suppliers was 54 days for 2017 and 47 days for 2016. The Group considers that management of collection and payment periods tends to improve due to the improvements made in its collection management policies.

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

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

	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	5 years onwards	Total
	S/000	S/000	S/000	S/000	S/000
At December 31, 2017 -					
Other financial liabilities:					
- Amortization of capital	346,680	470,159	737,763	-	1,554,602
- Amortization of interests	4,538	32,257	54,270	-	91,065
- Trade payables	526,436	75,498	-	-	601,934
- Other payables	369,886	26,850	369	-	397,105
	1,247,540	604,764	792,402	-	2,644,706
At December 31, 2016 -					
Other financial liabilities:					
- Amortization of capital	417,693	317,822	955,988	-	1,691,503
- Amortization of interests	39,937	19,272	31,648	-	90,857
- Trade payables	440,604	47,263	19,419	-	507,286
- Other payables	333,508	9,828	80,700	-	424,036
	1,231,742	394,185	1,087,755	-	2,713,682

Exchange rate risk -

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

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

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

Transactions in foreign currency in Peru are made at the exchange rates of the free market published by the Peruvian banking, insurance and pension plan regulator (SBS). At December 31, 2017, the exchange rates prevailing in the free market for transactions in US dollars, as published by this institution were S/3.238 and S/3.245 per US$1 for assets and liabilities, respectively (S/3.352 y S/3.360 per US$1 for assets and liabilities respectively, at December 31, 2016).

At December 31, 2017 and 2016 the Group had the following monetary assets and liabilities in foreign currencies presented in Peruvian Soles:

2017	Soles S/000	Dollars S/000	Quetzal S/000	Cordoba S/000	Chilean Pesos S/000	Belize Dollar S/000	Total S/000
Assets:							
Cash and cash equivalents	37,421	39,215	2,286	1,056	667	65	80,710
Trade receivables, net	138,768	930,494	37,418	868	3,445	-	1,110,993
Other receivables, net	130,382	58,983	5,401	-	738	1,075	196,579
	306,571	1,028,692	45,105	1,924	4,850	1,140	1,388,282
Liabilities:							
Other financial liabilities	(181,808)	(1,205,793)	(63,758)	(1,266)	(101,977)	-	(1,554,602)
Trade payables	(69,518)	(446,648)	(71,909)	(4,050)	(8,745)	(1,064)	(601,934)
Other payables	(285,078)	(111,790)	-	-	(237)	-	(397,105)
	(536,404)	(1,764,231)	(135,667)	(5,316)	(110,959)	(1,064)	(2,553,641)
Net liabilities position	(229,833)	(735,539)	(90,562)	(3,392)	(106,109)	76	(1,165,359)

2016	Soles S/000	Dollars S/000	Quetzal S/000	Cordoba S/000	Chilean Pesos S/000	Belize Dollar S/000	Total S/000
Assets:							
Cash and cash equivalents	51,423	72,156	3,268	177	1,659	298	128,981
Trade receivables, net	146,338	972,698	318	46	5,675	-	1,125,075
Other receivables, net	154,043	31,276	4,473	-	499	157	190,448
	351,804	1,076,130	8,059	223	7,833	455	1,444,504
Liabilities:							
Other financial liabilities	(478,555)	(1,178,052)	(25,736)	(411)	(8,749)	-	(1,691,503)
Trade payables	(64,956)	(382,359)	(49,453)	(4,250)	(5,977)	(292)	(507,287)
Other payables	(324,261)	(97,848)	-	-	(171)	-	(422,280)
	(867,772)	(1,658,259)	(75,189)	(4,661)	(14,897)	(292)	(2,621,070)
Net liabilities position	(515,968)	(582,129)	(67,130)	(4,438)	(7,064)	163	(1,176,566)

At December 31, 2017 and 2016, the Group's Management has decided to accept the exchange rate risk of this position, so it has not carried out transactions with derivative instruments for hedging. At December 31, 2017, the Group recorded a net exchange gains of approximately S/25,079,000 (approximately S/484,000 in 2016), which is presented in "Exchange difference, net" of the consolidated statement of income.

The table below shows the sensitivity analysis of US dollars, currency to which the Group has a significant exposure at December 31, 2017 and 2016, of its monetary assets and liabilities and estimated cash flows. The analysis determines the effect of a reasonably possible change in the US dollar exchange rate, with all the other variables held constant in the consolidated statement of comprehensive income before income tax.

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

Sensitivity analysis	**Change in rates US$**	**2017**	**2016**
	%	**S/000**	**S/000**
Devaluation -			
Soles	5	46,776	33,239
Soles	10	93,553	66,478
Revaluation -			
Soles	5	(46,776)	(33,239)
Soles	10	(93,553)	(66,478)

(d) Capital management -

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

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

The Group also monitors its capital based on the gearing ratio. At December 31, 2017 and 2016, the gearing ratio was as follows:

	2017	**2016**
	S/000	**S/000**
Borrowings, note 12(a)	1,554,602	1,691,503
Less: Cash and cash equivalents, note 5	80,710	128,982
Net financial debt (A)	1,473,892	1,562,521
Equity (B)	2,080,146	1,914,582
Gearing ratio (A) / (B)	0.709	0.816

Gearing ratio calculated by Management in 2017 was lower than in 2016, considering the repayment of borrowings and equity increase.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Fair value -

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

Based on the criteria described above, Management estimates that there are no material differences between carrying amount and fair value of the Group's financial instruments at December 31, 2017 and 2016.

a) Measurement of fair value -

Instruments measured at fair value according to their hierarchy -

Level 1 -

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

Level 2 -

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

This is a comparison of fair values of these financial instruments:

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	S/000	S/000	S/000	S/000
Other current financial liabilities	816,839	816,839	735,515	735,515
Other non-current financial liabilities	737,763	689,903	955,988	863,060

The carrying amounts of other short-term financial liabilities (borrowings) approximate their fair value. At December 31, 2017, the fair values of non-current borrowings (long-term and medium-term bonuses and notes and leases) were determined applying an annual average discount rate of 3.18 percent (4.12 percent in 2016).

28 INFORMATION BY OPERATING SEGMENTS

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

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

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

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

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

	Sales and services S/000	Other operating income S/000	Total income S/000	Gross margin S/000	Selling expenses S/000	Adminis-trative expenses S/000	Other income and expenses, net S/000	Financial expenses S/000	Financial income S/000	Net exchange difference S/000	Share in net profits of associates and joint ventures S/000	Profit before income tax S/000	Income tax S/000	Net income S/000
2017:														
Heavy equipment, spare parts and services	3,847,476	-	3,847,476	952,646	(413,218)	(204,623)	50,579	(68,506)	14,248	21,001	-	352,127	(109,296)	242,831
Vehicles, spare parts and services	261,641	-	261,641	49,198	(31,366)	(13,312)	2,434	(3,753)	1,139	293	-	4,633	(1,438)	3,195
Rental equipment	169,324	-	169,324	41,720	(24,786)	(12,022)	2,185	(2,978)	634	877	-	5,630	(1,748)	3,882
Agricultural equipment, spare parts and services	118,120	305	118,425	29,732	(10,016)	(4,907)	1,524	(2,077)	442	612	-	15,310	(4,752)	10,558
Others	443,139	-	443,139	93,642	(62,913)	(30,823)	5,718	(7,793)	1,659	2,296	7,708	9,494	(2,947)	6,547
Total consolidated	4,839,700	305	4,840,005	1,166,938	(542,299)	(265,687)	62,440	(85,107)	18,122	25,079	7,708	387,194	(120,181)	267,013
2016:														
Heavy equipment, spare parts and services	4,126,636	539	4,127,175	1,029,861	(458,602)	(220,279)	35,733	(106,213)	22,217	(410)	-	303,127	(94,127)	209,000
Vehicles, spare parts and services	193,131	-	193,131	34,697	(21,460)	(10,308)	1,413	(4,970)	1,040	(19)	-	431	(138)	293
Rental equipment	111,192	-	111,192	20,238	(12,355)	(5,935)	814	(2,862)	599	(10)	-	509	(163)	346
Agricultural equipment, spare parts and services	74,497	71	74,568	21,246	(8,286)	(3,980)	546	(1,919)	401	(8)	-	8,016	(2,569)	5,447
Others	341,101	-	341,101	74,821	(37,222)	(18,205)	2,496	(8,778)	1,835	(37)	7,284	22,268	(6,919)	15,349
Total consolidated	4,846,557	610	4,847,167	1,180,863	(537,925)	(258,707)	41,002	(124,742)	26,092	(484)	7,284	334,351	(103,916)	230,435

	Sales and services S/000	Other operating income S/000	Total income S/000	Gross margin S/000	Selling expenses S/000	Adminis-trative expenses S/000	Other income and expenses, net S/000	Financial expenses S/000	Financial income S/000	Net exchange difference S/000	Share in net profits in associates and joint ventures S/000	Profit before income tax S/000	Income tax S/000	Net income S/000
2017:														
Peru	4,334,642	305	4,334,947	1,024,451	(460,589)	(264,928)	54,336	(90,261)	43,230	18,721	7,708	332,668	(114,339)	218,329
Guatemala	261,435	-	261,435	53,817	(38,691)	(8,330)	691	(4,579)	379	677	-	3,964	(708)	3,256
El Salvador	158,929	-	158,929	43,791	(24,424)	(6,253)	808	(2,540)	808	-	-	12,190	(4,173)	8,017
Belize	12,739	-	12,739	2,679	(1,771)	(1,509)	1,316	(15)	63	181	-	944	(239)	705
United States of America	37,245	-	37,245	5,277	(1,724)	(3,515)	308	(163)	19	-	-	202	(42)	160
Nicaragua	21,548	-	21,548	5,679	(2,521)	(2,157)	217	(96)	13	(197)	-	938	(304)	634
Honduras	5,228	-	5,228	1,320	(1,413)	(43)	30	(186)	5	-	-	(287)	(35)	(322)
Panamá	-	-	-	-	-	(5,674)	44,760	(7,271)	2	-	-	31,817	-	31,817
Chile	154,098	-	154,098	25,569	(9,824)	(10,047)	110	(5,901)	57	5,646	-	5,610	(540)	5,070
Ecuador	15,702	-	15,702	4,355	(1,342)	(3,304)	(63)	(697)	148	51	-	(852)	199	(653)
Intercompany transactions	(161,866)	-	(161,866)	-	-	40,073	(40,073)	26,602	(26,602)	-	-	-	-	-
Total consolidated	4,839,700	305	4,840,005	1,166,938	(542,299)	(265,687)	62,440	(85,107)	18,122	25,079	7,708	387,194	(120,181)	267,013
2016:														
Peru	4,559,577	445	4,560,022	1,060,845	(460,898)	(273,401)	76,380	(145,714)	61,822	(26)	7,284	326,293	(98,193)	228,099
Guatemala	253,778	-	253,778	58,996	(40,583)	(8,446)	(19)	(5,355)	721	524	-	5,838	(1,448)	4,390
El Salvador	156,630	165	156,795	44,053	(26,526)	(7,398)	1,451	(2,681)	862	-	-	9,761	(3,431)	6,330
Belize	15,343	-	15,343	3,830	(1,385)	(1,537)	99	(23)	37	219	-	1,240	(287)	953
United States of America	38,062	-	38,062	6,104	(5,120)	(235)	29	(1)	14	-	-	791	(254)	537
Nicaragua	24,443	-	24,443	5,889	(2,396)	(2,310)	38	(68)	21	(233)	-	941	(268)	673
Honduras	4,453	-	4,453	1,146	(1,017)	(46)	(10)	(105)	12	-	-	(20)	(35)	(55)
Panamá	-	-	-	-	-	(4,729)	25,999	(10,467)	2,275	-	-	13,078	-	13,078
Chile	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany transactions	(205,729)	-	(205,729)	-	-	39,395	(62,965)	39,672	(39,672)	-	-	(23,571)	-	(23,570)
Total consolidated	4,846,557	610	4,847,167	1,180,863	(537,925)	(258,707)	41,002	(124,742)	26,092	484	7,284	334,351	(103,916)	230,435

29 SUBSEQUENT EVENTS TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Between December 31, 2017 and the date of approval of the financial statements, there have been no significant subsequent events that Management considers that required any additional disclosure or any adjustment to the balances stated in the consolidated financial statements.