(Free translation from the original in Spanish)

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Gaveglio Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada.
Av. Santo Toribio 143, Piso 7, San Isidro, Lima, Perú T: +51 (1) 211 6500, F: +51 (1) 211-6565
www.pwc.pe

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S/ = Peruvian sol
US$ = United States dollar

(Free translation from the original in Spanish)

INDEPENDENT AUDITORS' REPORT

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

February 26, 2020

We have audited the accompanying consolidated financial statements of **Ferreycorp S.A.A. and subsidiaries**, which comprise the consolidated statements of financial position at December 31, 2019 and 2018, 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 31.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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February 26, 2020
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, 2019 and 2018, and their financial performance and their 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)
Daniel Oliva
Peruvian Public Accountant
Registration No.01-27882

(Free translation from the original in Spanish)

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

	Note	At December 31, 2019	2018
		S/000	S/000
Current assets			
Cash and cash equivalents	5	84,433	73,698
Trade receivables	6	1,114,857	1,195,047
Other receivables	7	231,165	302,038
Inventories	8	1,944,428	1,772,667
Investments in shares	9	-	10,465
Investments in funds	4.2	9,303	2,500
Prepaid expenses		29,394	31,581
		3,413,580	3,387,996
Non-current held-for-sale asset		13,863	-
Total current assets		3,427,443	3,387,996
Non-current assets			
Long-term trade receivables	6	31,788	25,501
Long-term other receivables	7	32,148	5,028
Investments in associates and joint venture	9	16,654	13,336
Property, plant and equipment	10	1,631,312	1,455,074
Intangible assets	11(a)	223,045	161,475
Goodwill	11(e)	170,382	176,287
Deferred income tax asset	16	198,392	198,528
Total non-current assets		2,303,721	2,035,229
Total assets		5,731,164	5,423,225

LIABILITIES AND EQUITY

	Note	At December 31, 2019	2018
		S/000	S/000
Current liabilities			
Borrowings	12	1,243,096	788,686
Lease liability	13	47,103	-
Trade payables	14	617,837	560,439
Other payables	15	483,973	511,556
Income tax liability		7,648	13,642
Total current liability		2,399,657	1,874,323
Non-current liabilities			
Borrowings	12	909,584	1,210,437
Lease liability	13	79,581	-
Other payables	15	1,434	34
Deferred income tax liability	16	186,900	189,951
Deferred income		139	104
Total non-current liabilities		1,177,638	1,400,526
Total liabilities		3,577,295	3,274,849
Equity	17		
Share capital		975,683	975,683
Treasury shares		(5,731)	-
Additional capital		67,030	73,536
Legal reserve		211,632	189,129
Other reserves		316,184	353,474
Retained earnings		580,773	556,554
Total equity attributable to Company's shareholders		2,145,571	2,148,376
Non-controlling interest		8,298	-
Total equity		2,153,869	2,148,376
Total liabilities and equity		5,731,164	5,423,225

The notes attached from pages 8 to 82 are part of the consolidated financial statements.

(Free translation from the original in Spanish)

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	Note	For the year ended December 31, 2019	2018
		S/000	S/000
Sales	18	5,821,061	5,199,321
Other operating income		2,090	1,600
Total operating income		5,823,151	5,200,921
Cost of sales	18	(4,447,504)	(3,947,056)
Gross profit		1,375,647	1,253,865
Selling expenses	19	(602,833)	(580,159)
Administrative expenses	20	(312,084)	(276,096)
Other income and expenses, net	9 and 2(d)	6	68,407
Operating profit		460,736	466,017
Finance income	22	21,765	21,600
Share in net profit of associates and joint venture	9(b)	3,336	1,068
Finance expenses	23	(95,976)	(73,205)
Exchange difference, net	28(c)	(1,822)	(59,365)
Profit before income tax		388,039	356,115
Income tax	16	(141,603)	(131,087)
Profit for the year		246,436	225,028
Basic and diluted earnings per share (expressed in soles)	24	0.251	0.231
Weighted average of shares outstanding (in thousands of units)	24	975,274	975,683

The notes attached from pages 8 to 82 are part of the consolidated financial statements.

(Free translation from the original in Spanish)

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the year ended December 31, 2019 S/000	2018 S/000
Profit for the year		246,436	225,028
Other comprehensive income to be reclassified to profits in subsequent periods:			
- Exchange difference on translation of foreign operations	17(e)	(8,186)	710
- Others, net of the effect on income tax		-	(7)
		(8,186)	703
Other comprehensive income to be not reclassified to profits in subsequent periods:			
- Devaluation of land	17(e)	(9,796)	(36,753)
- Effect on income tax		2,890	10,842
		(6,906)	(25,911)
Other comprehensive income for the year		(15,092)	(25,208)
Comprehensive income for the year		231,344	199,820
Attributable to:			
Company's shareholders		231,344	199,820
Non-controlling interest		-	-
		231,344	199,820

The notes attached from pages 8 to 82 are part of the consolidated financial statements.

(Free translation from the original in Spanish)

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

			Equity attributable to the Company's shareholders												
							Other equity reserves								
	Note	Number of shares	Share capital	Treasury shares	Additional capital	Legal reserve	Revaluation surplus	Unrealized profits	Foreign currency translation	Other reserves	Total other equity reserves	Retained earnings	Total equity attributable to the Company's shareholders	Non-controlling interest	Total equity
		En miles	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000		S/000		S/000	S/000
Balances at January 1, 2018		975,683	975,683	-	73,536	162,427	313,019	(2,634)	42,066	33,179	385,630	485,396	2,082,672	-	2,082,672
Profit for the year		-	-	-	-	-	-	-	-	-	-	225,028	225,028	-	225,028
Other comprehensive income for the year:															
- Effect on current fair value of land, net															
of deferred income tax	17(e)	-	-	-	-	-	(25,911)	-	-	-	(25,911)	-	(25,911)	-	(25,911)
- Realization of surplus from sale of land	17(e)	-	-	-	-	-	(5,003)	-	-	-	(5,003)	5,003	-	-	-
- Exchange differences derived from															
foreign operations	17(e)	-	-	-	-	-	-	-	710	-	710	-	710	-	710
- Others, net of the effect on income tax		-	-	-	-	-	(7)	-	-	-	(7)	-	(7)	-	(7)
Comprehensive income for the year		-	-	-	-	-	(30,921)	-	710	-	(30,211)	230,031	199,820	-	199,820
Transactions with shareholders:															
- Transfer to legal reserve	17(d)	-	-	-	-	26,702	-	-	-	-	-	(26,702)	-	-	-
- Decrease in equity investments	17(e)	-	-	-	-	-	-	-	-	(1,945)	(1,945)	-	(1,945)	-	(1,945)
- Dividend distribution	17(f)	-	-	-	-	-	-	-	-	-	-	(132,171)	(132,171)	-	(132,171)
Balances at December 31, 2018		975,683	975,683	-	73,536	189,129	282,098	(2,634)	42,776	31,234	353,474	556,554	2,148,376	-	2,148,376
Balances at January 1, 2019		975,683	975,683	-	73,536	189,129	282,098	(2,634)	42,776	31,234	353,474	556,554	2,148,376	-	2,148,376
Profit for the year		-	-	-	-	-	-	-	-	-	-	246,436	246,436	-	246,436
Other comprehensive income for the year:															
- Effect on current fair value of land, net															
of deferred income tax	17(e)	-	-	-	-	-	(6,906)	-	-	-	(6,906)	-	(6,906)	-	(6,906)
- Realization of surplus from sale of land	17(e)	-	-	-	-	-	(21,801)	-	-	-	(21,801)	21,801	-	-	-
- Exchange differences derived from											-				
foreign operations	17(e)	-	-	-	-	-	-	-	(8,186)	-	(8,186)	-	(8,186)	-	(8,186)
Comprehensive income for the year		-	-	-	-	-	(28,707)	-	(8,186)	-	(36,893)	268,237	231,344	-	231,344
Transactions with shareholders:															
- Capital contribution by minority shareholder	2(d)	-	-	-	-	-	-	-	-	-	-	-	-	8,298	8,298
- Repurchase of shares	17(c)	(5,731)	-	(5,731)	(6,506)	-	-	-	-	-	-	-	(12,237)	-	-
- Transfer to legal reserve	17(d)	-	-	-	-	22,503	-	-	-	-	-	(22,503)	-	-	(12,237)
- Decrease in equity investments	17(e)	-	-	-	-	-	-	-	-	(397)	(397)	-	(397)	-	(397)
- Dividend distribution	17(f)	-	-	-	-	-	-	-	-	-	-	(221,515)	(221,515)	-	(221,515)
Balances at December 31, 2019		969,952	975,683	(5,731)	67,030	211,632	253,391	(2,634)	34,590	30,837	316,184	580,773	2,145,571	8,298	2,153,869

The notes attached from pages 8 to 82 are part of the consolidated financial statements.

(Free translation from the original in Spanish)

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the year ended December 31, 2019 S/000	2018 S/000
OPERATING ACTIVITIES			
Collections from customers and third parties		5,970,690	5,076,163
Payments to suppliers		(4,864,296)	(4,585,940)
Payments to workers and others		(453,880)	(434,108)
Income tax payments		(138,262)	(115,580)
Tax payments		(13,604)	(12,235)
Net cash provided by (used in) operating activities		500,648	(71,700)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10(a)	(186,132)	(109,593)
Purchase of intangibles assets	11(a)	(78,507)	(73,364)
Purchase of investments in securities (mutual fund)	4.2	(9,303)	(2,500)
Liquidation of investment funds		2,500	-
Sale of investments	2(d)	16,388	10,074
Sale of investment in property		-	15,159
Sales of property, plant and equipment		-	6,315
Net cash used in investing activities		(255,054)	(153,909)
FINANCING ACTIVITIES			
Obtaining of borrowings	27	3,843,208	3,718,781
Payment of borrowings	27	(3,696,158)	(3,301,887)
Payment of lease liability	27	(66,834)	-
Interests paid	27	(83,688)	(62,301)
Dividends paid	17(f)	(221,515)	(132,171)
Repurchase of shares	17(c)	(12,237)	-
Net cash (used in) provided by financing activities		(237,224)	222,422
(Net decrease) net increase in cash and cash equivalents		8,370	(3,187)
Effect of exchange rate differences on cash and cash equivalents		2,375	(3,825)
Cash and cash equivalents balance at begining of the year		73,698	80,710
Cash and cash equivalents balance at end of the year		84,443	73,698
TRANSACTIONS THAT DO NOT GENERATE CASH AND CASH EQUIVALENTS FLOWS			
Sale of investments	9	-	109,667
Right-of-use assets - IFRS 16	10	164,979	-
Transfer of inventories to fixed assets	10	171,698	186,774
Devaluation of land	17(e)	6,906	25,911

The notes attached from pages 8 to 82 are part of the consolidated financial statements.

(Free translation from the original in Spanish)

FERREYCORP S.A.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

1 ECONOMIC ACTIVITY

(a) General information -

Ferreycorp S.A.A. (hereinafter, “the Parent Company” or “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. Ferreycorp Group (“the Group”), through its subsidiaries engages in distribution of machinery, engines, equipment, spare parts, lubricants and other goods as well as rendering related services.

The Company’s legal address and administrative office is at Cristóbal de Peralta Norte Avenue No.820, Surco, Lima, Peru.

(b) Distribution agreements -

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

(c) Approval of the consolidated financial statements -

The consolidated financial statements at December 31, 2019 were authorized by Company’s Management and the Audit Committee on February 24, 2020 and were approved by the Board of Directors held on February 26, 2020 and will be submitted for their approval by the General Shareholders’ Meeting that will take place during the first quarter of 2020. Management considers these consolidated financial statements will be approved at the General Shareholders’ Meeting without any changes.

The consolidated financial statements at December 31, 2018 were approved by the Board of Directors on February 25, 2019 and the General Shareholders’ Meeting on March 27, 2019.

2 GROUP STRUCTURE IDENTIFICATION

At December 31, 2019 and 2018 the consolidated financial statements include the financial statements of Ferreycorp S.A.A., subsidiaries in which it has control and an investment in a joint venture. The Group owns 100 percent interest in subsidiaries, either through the parent company or other subsidiaries, except in the case of Soluciones Sitech Perú S.A., see note 2(d). Major data of the companies that are part of the consolidated financial statements at December 31, 2019 and 2018, before eliminations for consolidation purposes, are as follows:

Entity	Core activity	Percentage of interest		Assets		Liabilities		Net equity		Net profit (loss)	
		31.12.2019 %	31.12.2018 %	31.12.2019 S/000	31.12.2018 S/000	31.12.2019 S/000	31.12.2018 S/000	31.12.2019 S/000	31.12.2018 S/000	31.12.2019 S/000	31.12.2018 S/000
Ferreyros S.A.	Purchase and sale of plant, spare parts and workshop services	99.99	99.99	2,903,669	2,676,209	1,824,867	1,577,059	1,078,802	1,099,150	284,802	261,278
Inti Inversiones Interamericanas Corp. and subsidiaries (a)	Holding of the business in Central America	100.00	100.00	541,992	585,703	268,081	314,395	273,911	271,308	7,235	(12,767)
Unimaq S.A.	Purchase and sale of plant, spare parts and workshop services	99.99	99.99	461,598	465,882	364,013	358,512	97,585	107,370	(9,785)	(11,548)
Maquicentro S.A.	Wholesale and retail of construction equipment, agricultural machinery and port equipment	99.00	99.00	39,955	33,149	35,897	28,947	4,058	4,652	(653)	210
Trex Latinoamerica SpA and subsidiaries (b)	Holding of the business in South America	100.00	100.00	458,105	258,218	419,590	214,456	38,515	43,762	(1,157)	(3,018)
Motriza S.A.	Purchase, sale, distribution, Marketing and export of the Trex property line	99.00	99.00	158,690	96,877	139,597	81,282	19,093	15,695	3,242	252
Fargoline S.A. (c)	Storage services	99.91	99.91	136,383	111,557	95,314	51,766	41,069	59,791	1,352	2,460
Motored S.A.	Purchase and sale of automotive line, spare parts and automotive services	99.99	99.99	225,261	214,084	193,778	190,192	31,483	23,892	(7,010)	(10,317)
Orvisa S.A. and subsidiaries	Purchase and sale of plant, spare parts and workshop services	99.37	99.37	143,741	127,438	102,696	82,766	41,045	44,672	(2,728)	1,027
Soltrak S.A.	Representative and distributor of tires, lubricants and safety equipment	99.99	99.99	163,282	168,506	112,930	131,733	50,352	36,773	(2,421)	(14,649)
Cresko S.A.	Purchase and sale of plant, equipment and chemical supplies	99.99	99.99	2,854	3,157	579	710	2,275	2,447	(172)	(108)
Soluciones Sitech Perú S.A.(d)	Software marketing and technology-related equipment	56.92	99.80	15,693	13,745	1,736	11,925	13,957	1,820	(4,765)	(1,250)
Forbis Logistics S.A.	Cargo agent	99.98	99.98	14,500	15,874	11,132	12,369	3,368	3,505	3,927	2,837
Xpedite Procurement Services S.A.C.	Non-specialized wholesale and retail sales	90.00	90.00	1,376	2,634	1,050	2,536	326	100	323	179

(a) This holding entity mainly includes subsidiaries in Central America and North America: Compañía General de Equipos S.A. (El Salvador), Corporación General de Tractores S.A. (Guatemala), General Equipment Company (Belice), Mercado Centroamericano de Lubricantes S.A. (Nicaragua), Forbis Logistics Corp. (United States of America) and Transportes Pesados S.A. de C.V. (El Salvador). These subsidiaries engage in purchasing and selling machinery, motor vehicles, spare parts and workshop services.

(b) This holding entity mainly includes subsidiaries in South America: Trex Latinoamérica SpA and its subsidiary Equipos y Servicios Trex SpA (both based in Chile) and Trex Overseas Investments S.A. (based in Chile) and its subsidiary based in Colombia.

(c) On December 4, 2018 at the Extraordinary General Shareholders' Meeting of Fargoline S.A. a capital reduction of S/19,982,660 was approved in the form of cash delivered to shareholders. This reduction was recognized at the time of registration with the Public Records dated March 20, 2019.

(d) On September 2, 2019 at the General Shareholders' Meeting of Soluciones Sitech Perú S.A. the decision was made to approve an increase in capital stock by S/8,604,056, by means of a capitalization of loans payable to the Company. On December 30, 2019, at General Shareholders' Meeting of Soluciones de Sitech Perú S.A. another capital increase was approved from the entrance of a new shareholder, Digital Solutions for Business Inc.; as a result, the Company's interest diluted from 99.80 percent to 56.82 percent.

3 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The information included in these consolidated 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 land, which is measured at fair value, see note 3.3(h). The consolidated financial statements are presented in thousands of Peruvian soles (under the heading S/000), unless otherwise indicated.

The accounting policies adopted by the Group are consistent with those applied in previous years, except for the application of IFRS 16, described in Note 3.4.

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.

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 Parent Company and the non-controlling interest holders (minority interest), even if this results in minority interest 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. Business combinations can occur from buying a separate entity or a group of assets and liabilities that qualify as a business. In this sense, the cost of purchase is the consideration transferred as measured at fair value at the date of acquisition. Acquisition transaction costs are charged to expenses as they are incurred and are shown within administrative expenses in the consolidated statement of income.

Goodwill is initially measured at cost and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired.

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 CGU and a portion of the assets used by that unit in operations is sold or disposed of, goodwill and the disposed assets are included in the carrying amount of the transaction in determining any gains or losses on that transaction. 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 over the activity undertaken, which is referred to as 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 their changes occur that are recognized directly in the equity of its associates and joint venture, the Group would recognize its interest in any of those changes, as applicable, in the consolidated statement of changes in equity. When the interest in these investments exceeds the total investment, the Group ceases to recognize these losses unless it has the obligation to assume those losses.

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

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

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

(c) Financial instruments: Recognition and measurement -

(c.1) Financial assets -

Classification and initial measurement -

The Group classifies its financial assets in the following categories:

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

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

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

Subsequent measurement of debt instruments -

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

(i) Assets at amortized cost -

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

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

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

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

Financial assets that do not qualify to be recognized at the amortized cost or FVTOCI are recognized at fair value though profit or loss. Changes in the fair value of debt instruments in this category are recognized within “Other income and expenses, net”.

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

Impairment of financial assets -

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

For trade receivables, the major account balance measured at the amortized cost, the Group applies the simplified approach established under IFRS 9, which requires the expected credit loss to be estimated for the instrument lifetime and recognize it from initial recognition, based on a provision matrix, directly in the income of the period (see note 28(c.1) regarding financial risk management for more details). In addition, to measure the expected credit losses, the trade receivables have been grouped based on shared credit risk characteristics and the days past due.

(c.2) Financial liabilities -

Initial recognition and measurement -

The Group classifies its financial liabilities, for measurement purpose, at the amortized cost. Except for those cases that qualify to be measured at fair value through profit or loss. 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 accounted at amortized cost, incremental costs that are attributed directly to the purchase or issue of the liability.

At December 31, 2019 and 2018 the Group has only liabilities measured at amortized cost that include borrowings, lease liabilities, trade payables, payables to related parties and other payables.

Subsequent measurement -

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

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

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) Foreign currency translation -

Functional and presentation currency -

Items included in the consolidated financial statements of the Group 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 Group's functional currency and presentation currency.

Each subsidiary determines its functional currency and prepares its financial statements based on 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. The financial statements of subsidiaries with a functional currency that is different from that of the Parent Company are converted under the criteria to be described further below.

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, and if outstanding at due date, the exchange rate prevailing at the closing date. Foreign exchange gains and losses are presented in the consolidated statement of income within "Exchange difference, net". Non-monetary assets and liabilities acquired in foreign currency are translated at the exchange rate at the date of the initial transactions and are not remeasured.

Translation into presentation currency -

The consolidated financial statements have been prepared mainly to present in a jointly manner the activity of the Parent Company and its subsidiaries, establishing the Peruvian sol (functional currency of the Parent Company) as the Group's presentation currency. 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.

(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 and shown in the consolidated statement of financial position within “Other equity reserves”.

(e) Cash and cash equivalents -

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

(f) Inventories -

Inventories are valued at cost or net realizable value, whichever is lower. The cost is determined using the specific identification method, except for spare parts that are recorded by the weighted average cost method. Cost of the work in progress at workshop consists of costs of mechanic and repair services. 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.

In estimating the net realizable value, consideration is given to possible impairment of inventories. The Company analyzes, at each year-end, the conditions and turnover ratio of inventories. In the case of spare parts and components that have no movement, a provision is made based on Management’s Supply Chain Analysis, which determines the impaired value. This loss is directly recorded within profit or loss within “Cost of sales” and “Selling expenses”.

(g) 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.

Subsequent costs are included in the carrying amount of the asset or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group, and cost of these assets can be measured reliably. Expenses in regular maintenance and repair are recognized in profit or loss 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, 2019 changes in fair value of land have not been significant and therefore, it has not been necessary to change the carrying amount. At December 31, 2018 changes in fair value of land have been significant and therefore, it has been necessary to change the carrying amount, see note 10(d).

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 30 and 80
- Finishing and additional works	Between 15 and 20
- Installations	Between 5 and 10
Machinery and equipment	Between 1 and 15
Machinery and rental equipment (*)	m/h used
Vehicles	5
Furniture and fixtures	3 and 10

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, in the item “Other income and expenses, net”.

(h) 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.

The Group as a lessee -

Accounting policy applicable from January 1, 2019 -

Effective January 1, 2019 leases are recognized as a right-of-use assets and a lease liability at the date the leased asset is ready for use by the Group.

Assets and liabilities arising from a lease contract are initially measured at present value. Lease liabilities are stated at the present value of the following payments:

- Fixed payments (including payments, which regardless of their form, are “in-substance” payments), less any balance receivable from incentives received to begin the lease;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- The amounts expected to be payable under a residual value guarantee;
- The exercise price of a purchase option if the lessee is reasonably expected to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

If the lessee is reasonably certain to exercise a renewal option, then it includes in the lease liability the relevant lease payments payable in the period covered by the renewal option.

Lease payments are discounted using an interest rate implicit in the lease contract. If the rate cannot be easily determined, the lessee’s incremental borrowing rate shall be used, that is, the rate a lessee would have to pay on borrowings to obtain the required cash to obtain a similar right-of-use asset in an similar economic environment under similar terms and conditions.

In determining the incremental borrowing rate, the Company considers the following criteria:

- To the extent possible, as a point of reference, the company uses the rates of recent borrowings obtained and adjust it to reflect changes in circumstances from the date those borrowings were obtained.
- If no recent borrowings were obtained, it considers a risk-free rate that is adjusted for the credit risk of the Group; and
- Applying specific adjustments to the calculated rate to reflect the specific conditions of the lease; for example, term, country, currency and kind of guarantees.

Each lease payment is allocated between the liability and the finance charges. The finance cost is recognized in profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Rights-of-use assets are measured at cost including the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct cost incurred by the lessee; and
- An estimate of costs to be incurred in dismantling, removing the underlying asset, and restoring the site.

Rights-of-use assets are usually depreciated under the straight-line basis over the shorter of the asset’s useful life and lease term. If the Group has reasonable certainty that a purchase option will be exercised, the right-of-use asset is depreciated over the useful life of the underlying leased asset.

Short-term lease payments associated with equipment or vehicles and all low-value leases are recognized under the straight-line method. Short-term leases are leases of 12 months or less. Low-value assets consists of IT equipment and other equipment.

Accounting policy until December 31, 2018 -

Until December 31, 2018 lease in which the risks and reward inherent to the ownership of the lease assets were substantially transferred to the Group were classified as finance leases and were 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 were 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 were recognized as financial expenses in the consolidated statement of income.

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

Lease in which the risks and reward inherent to the ownership of the lease assets are not substantially transferred to the Group are classified as operating lease, which were recognized in profit or loss as an expense over the contract term.

The Company as a lessor (policy applicable for 2019 and 2018) -

As a lessor, the Group determines at lease contract inception whether each of those contracts classifies as a finance lease or an operating lease.

In classifying each lease contract, the Company evaluates whether the risks and rewards inherent to ownership of the underlying asset are substantially transferred to the lessee. If so, the contract is a finance lease; otherwise, it is an operating lease. As part of this evaluation, the Company considers certain indicators such as whether the lease contract cover most of the economic life of an asset.

Revenue from operating leases are accounted for on a linear basis over the lease term.

When the Group subleases an asset, it has to state what role it plays in the major lease contract and in the sub-lease contract separately. An evaluation is performed of the sublease with reference to the right-of-use asset that arises from the principal lease contract, rather than with reference to the underlying asset. If a principal lease contract is a short-term lease, for the Group to be able to apply the above exemption, the sub-lease is classified as an operating lease.

If a contract contains lease and non-lease components, the Group allocates the contract price to all the different components as required under IFRS 15.

(i) 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 useful lives, which are between two and thirty and nine years, and are reviewed for impairment whenever there is an indication that the intangible asset may be impaired.

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

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

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

	Years
Customer relationship	2 to 28
Right to use	2
Distribution agreement	10
Providers relationship	39
Non-competence agreement	4 to 5
Software licenses	3 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, in the item “Other income (expenses), net”.

(j) 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, 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 of income. 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 arises from the purchase of a group of assets that qualify as a business. Goodwill represents the excess of the consideration transferred over the fair value of the net assets acquired at the date control is obtained. 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 is shown at cost less accumulated impairment losses. In the event the business that gave rise to goodwill is sold in part or in full, the gains or losses on that sale will include the carrying amount of goodwill.

Impairment of goodwill is determined by evaluating the recoverable amount of each cash-generating unit (or group of cash-generating units) to which goodwill relates. When the recoverable amount of the cash-generating unit containing goodwill is lower than its carrying amount, including the carrying amount of goodwill, an impairment loss is recognized.

Goodwill impairment losses cannot be reversed in future periods.

(k) Borrowing costs -

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily take a substantial period 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.

In 2019 and 2018, no costs have been incurred by the Group in constructing assets that qualify for capitalization of borrowing costs.

(l) 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 between five and eight 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 monthly salaries.

The Group recognizes workers’ profit-sharing in accordance with IAS 19, "Employee benefits", as a short-term 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 annual salaries paid in July and December of each year.

Workers’ severance indemnities -

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

Vacations period -

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

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

(m) Income tax -

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

Current income tax -

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

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 closing date of the financial statements 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 financial statement.

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 tax authority.

Uncertain tax treatment -

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. Recognition and measurement of current and deferred income tax can be affected in those cases in which an entity has uncertain tax positions associated with income tax, which it is probable that the tax administration does not accept the Group's tax treatment. The existence of uncertain tax position may have an impact on determining taxable profits or tax loss, the tax base of assets and liabilities, tax credits or the tax rates to be used.

(n) Revenues, costs and expenses recognition -

Revenues -

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Revenue is show net of VAT (IGV in Peru), reimbursements, discounts, rebates and other sales-related items.

At contract inception, Management determines whether the Group engages to provide multiple goods or services and identifies which of those qualify as a separate performance obligation and the related revenue is required to be recognize on a stand-alone basis. This leads to allocating the agreed price among several promises to deliver goods to services to a customer, all of which might lead different timing in recognizing revenue.

In the event different stand-alone performance obligations are identified, the Group allocates the transaction price proportionally to each performance obligation based on their individual stand-alone prices; estimation is made based on cost plus a reasonable market-based margin.

Performance obligations that are not satisfied at the date of the financial statements, but for which the Group has already received from customer the consideration/payment, in part or in full, are shown within "Other accounts payable" in the separate statement of financial position, within "Customer advances" (note 15).

Revenue from sale of machinery, motors, equipment and spare parts are recognized when control of goods is transferred, which occurs, when the product is delivered to the customer, customer has total control over the asset and the Group assumes no obligations that remain to be satisfied and that may affect the acceptance of the product by customer. A product is considered to be delivered when products have been sent to the locations specified by the customer, the risk of obsolescence and loss have been transferred to the customer and customer has accepted the products under the contractual terms.

Revenue from workshop services are recognized in profit or loss ass the time of service is completed on a linear basis.

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.

Cost of service is capitalized as incurred and recognized simultaneously as the associated revenue is recognized. For presentation purposes, the Group includes all capitalized costs within Inventories.

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.

(o) 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 or year-end. 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.

Guarantees -

Provisions for costs related to guarantees given to customers as part of sales of products or services, are recognized when the product is sold, or the service is provided. Initial recognition is based on historical experience of the frequency and amount of these events in the past. Initial estimate of costs related to guarantees is reviewed annually.

(p) Contingent liabilities and assets -

Contingent liabilities 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.

(q) Share capital -

Common shares are classified as equity.

Where any Group company purchases the company's equity share capital (treasury shares), either by Parent Company or a subsidiary, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's shareholders 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. Any excess amounts paid in repurchase in relation with the nominal value are shown with a charge to Additional capital. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects is included in equity attributable to the Company's shareholders.

(r) Earnings per share -

Basic and diluted earnings per share are calculated by dividing profit for the year by the weighted average number of common shares outstanding during the period, see note 24.

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.

(s) 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.

(t) 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 30.

(u) 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:

Lease term -

In determining the lease term, Management considers all facts and circumstances that lead the Company to exercise the option to renew the lease contract. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of machinery and fleet equipment for rent, the following are the most relevant factors:

- Whether there are significant penalties to terminate the lease (or not to extend the lease), the Group is typically reasonably certain not to extend (or not to terminate).

- Whether any leasehold improvement is expected to have a significant residual value, the Group is typically reasonably certain to extent the lease (or not to terminate the lease).

- Otherwise, the Group considers other factors including the historical effective period of leases and the costs of disrupting the business that would be necessary to be able to replace the leased asset.

Most of the options to extend the lease of fleet machinery and equipment rentals were not included in the lease liability since the Group may replace assets without significant costs or business disruption.

(b) Estimates and assumptions -

Most significant Management’s estimates used in preparing the consolidated financial statements are:

Revaluation of property, plant and equipment (land) -

The Group measures its land at fair value. For this purpose, the Group hired independent valuation experts to determine the fair values of these assets. For land, the appraiser relies on objective market evidence, using comparable prices adjusted for specific factors, such as nature, location, and conditions. Management considers that performing sensitivity calculations on this estimate would not be relevant given that these estimates are based on objective information provided by third-party independent parties.

Impairment of non-financial assets -

The Group determines the recoverable amount of the CGU for impairment testing based on the value in use. The value in use is determined based in a discounted cash flow model. The expected future cash flows are projected for the next ten 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. Management considered that performing a sensitivity analysis of this estimate would not be relevant given the width of the gap resulting from comparing the recoverable amount and the carrying amount of the non-financial assets. see note 11.

Provision for impairment of trade receivables -

In measuring the expected credit losses, accounts receivable were grouped considering their shared risk characteristics and the number of past-due days. The rates of expected credit losses are based on the payment profiles of sales over a 48-month period, the historical credit losses that occur que over that period (recovery trend), and aging of trade receivables. The historical credit loss rates are adjusted to reflect the current and prospective information about macroeconomic factors that affect customers' ability to settle the Company's trade accounts receivable. Management considered that performing a sensitivity analysis of this estimate would be not relevant given that this information is based on objective and historical information.

Provision for impairment of inventories -

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

In addition, Management performs a turnover analysis to determine whether inventories (machinery, engines and spare parts) require a provision for obsolescence and slow-moving items, which reduces the balance of inventories in the consolidated statement of financial position. The estimate for obsolescence of inventories in the warehouse is determined based on a specific assessment that Management conducts, on a quarterly basis, on machinery and engines and considering those items that are more than 24 months without movement for spare parts. Management considered that performing a sensitivity analysis of this estimate would be not relevant given that this information is based on objective and historical information that is reviewed at each date of the consolidated financial statements.

Current and deferred income tax -

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. 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 Company and its subsidiaries operate.

3.5 New accounting policies -

New standards and amendments to current standards for the financial statements for the annual period beginning on January 1, 2019 -

- IFRS 16, “Leases” -

  IFRS 16 “Leases” (IFRS 16) is effective for the annual period beginning January 1, 2019. For the purpose of initial adoption of IFRS 16, the Company has opted for the modified retroactive approach, under which, the cumulative effect of initial adoption is recognized January 1, 2019, with no need to restate the prior-period comparative figures.

  In adopting IFRS 16, the Group recognized a lease liability under the provisions of IAS 17 “Leases” effective until December 31, 2018 which were classified as "operating leases". At initial application, the lease liability is measured at amount that equals the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate, estimated at January 1, 2019. The weighted average incremental borrowing rate of the lessee used on lease liabilities at January 1, 2019 was 6.2 percent.

  In adopting IFRS 16 for the first time, the Company has used the following practical expedient contained in that standard:

  - Using a single discount rate on a portfolio of leases with comparable characteristics;
  - For operating leases with a remaining term of less than twelve months at January 1, 2019, the lessee may choose to apply the short-term lease exemption.

  Impact of IFRS 16, both on the right-of-use asset and lease liability is presented below.

  Lease liability measurement -

  Reconciliation of the operating leases held by the Group at December 31, 2018 to the lease liability recognized at January 1, 2019 is shown below:

	S/000
Operating leases commitments at December 31, 2018	91,424
(+) Other leases identified at December 31, 2018	124,371
Total commitments at January 1, 2019	215,795
Discount using the incremental borrowing rate	194,474
(-) Short-term leases	(25,027)
(-) Low-value leases	(2,475)
Lease liability recognized at January 1, 2019, note 10	166,972

Current and non-current lease liability is broken down as follows:

	S/000
Current portion	62,083
Non-current portion	104,889
Lease liability recognized at January 1, 2019, see note 13	166,972

Measurement of right-of-use asset -

Right-of-use assets were measured at the present value of the lease liability.

Right-of-use assets recognized consist of the following kinds of assets:

	Balances at December 31, 2019 S/000	Balances at January 1, 2019 S/000
Buildings and other constructions	59,449	68,888
Machinery and equipment	44,531	68,315
Vehicles	5,313	13,246
Total right-of-use assets	109,293	150,449

Adjustments recognized in the balance sheet at January 1, 2019 -

As a result of the criteria applied by the Group, changes in accounting policy resulting from adoption of IFRS 16 did not impact equity. The change only resulted in an increase in Lease liabilities for S/166,972,000 and an increase in the following items: (i) Property, plant and equipment, where the right-of-use assets for S/150,449,000 and (ii) Other receivables, where the accounts receivable from sub-lease contracts are shown. They have classified as lease liability for S/16,523,000.

- IFRIC 23, “Uncertainty over Income Tax Treatments” -

  IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 Income taxes are applied where there is uncertainty over income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. Adoption of IFRIC 23 had no material impact on the Group’s consolidated financial statements.

- Other amendments -

  - Amendment to IFRS 9, “Financial instruments” regarding instruments with an early payment feature.
  - Amendment to IAS 28, “Investments in Associates and Joint Ventures”, regarding long-term investments in associates and joint ventures.
  - Annual improvements, 2015 - 2017 cycle - amendments to IFRS 3, “Business combinations”, IFRS 11, “Joint arrangements”, IAS 12, “Income taxes”, and IAS 23, “Borrowing costs”.
  - IAS 19, “Employee benefits”, regarding amendment, reduction and liquidation of a plan.

These changes in standards have had no impact on the Group's consolidated financial statements for the current year or prior years; and they are not expected to have a material impact on the financial statements in the future.

New standards, amendments to standards and interpretations that will be valid for the financial statements of annual periods beginning on or after January 1, 2020 and that have not been early adopted -

- Revised Conceptual Framework -

  The Revised Conceptual Framework was published in March 2018 and amends some items of the prior conceptual framework. Major changes relate to: (i) clarification that one of the major objectives of the financial statements is evaluating performance of those who manage an entity's resources, (ii) clarification of the concept of prudence, (iii) updated definition of assets and liabilities and recognition criteria, and (iv) it is expressly stated that the statement of income is the principal source of information on the performance of an entity.

  The Revised Conceptual Framework is effective from the date of publication and can be used in the analysis underlying the publication of new IFRS. The Revised Conceptual Framework does not modify any of the existing IFRS; however, if an entity developed an accounting practice based on the previous Conceptual Framework, it will need to apply the new concepts from January 1, 2020 and confirm whether its policy continues to be appropriate.

  Given the nature of its activities, the Company considers that the Revised Conceptual Framework will not result in changes in its accounting policies.

- Other amendments -

  The following new standards and amendments to standards will be applied in future years and the Company considers that, based on the current condition of its activities, the amendments of these standards will not apply to it. Nevertheless, the Group will evaluate in the future if circumstances arise that result in these accounting changes acquiring relevance:

  - Definition of Material - Amendments to IAS 1 and IAS 8.
  - Definition of a Business - Amendments to IFRS 3.
  - Reform of IBOR - Amendments to IFRS 9, IAS 39 and IFRS 7.
  - IFRS 17, "Insurance Contracts".
  - Sale or contribution of assets between an investor and its associate or joint venture - Amendments to IFRS 10 and IAS 28.

  These amendments are effective for periods beginning on or after January 1, 2020, except for IFRS 17 effective January 1, 2021 and amendments to IFRS 10 and NIC 28 with an effective date still unknown.

4 FINANCIAL INSTRUMENTS

4.1 Financial instruments by category -

The classification of financial instruments by category is as follows:

	At December 31,	
	2019	2018
	S/000	S/000
Assets according to consolidated statement of financial position -		
Financial assets at amortized cost:		
- Cash and cash equivalents	84,433	73,698
- Trade and other receivables (*)	1,318,026	1,445,725
Assets at fair value through profit or loss:		
- Investments in securities	9,303	2,500
	1,411,762	1,521,923
Liabilities as per consolidated statement of financial position -		
Other liabilities:		
- Borrowings	2,152,680	1,999,123
- Trade and other payables (*)	878,518	882,637
	3,031,198	2,881,760

(*) 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,	
	2019	2018
	S/000	S/000
Cash and cash equivalents (*)		
Banco de Crédito del Perú S.A. (A+)	34,338	20,483
BBVA Banco Continental S.A. (A+)	1,759	12,337
Banco de la Nación (A)	12,006	6,699
Banco Agrícola S.A. (B+)	943	5,396
Citibank N.A. (A+)	4,002	3,507
Banco Davivienda Salvadoreño S.A. (A+)	2,912	3,125
Banco Internacional del Perú S.A.A. (A)	3,213	2,840
Scotiabank Perú S.A.A. (A)	190	2,746
Banco Industrial, S.A. (BB+)	829	1,417
Banco Inter Banco, S.A. (BBB+)	814	1,358
Mercantil Commercebank, N.A. (BB+)	2,138	1,230
Banco de América Central S.A. (B+)	1,967	763
Citibank - El Salvador (B+)	-	721
Heritage Bank Plc. - Belize (A+)	1,167	516
Carried forward:	66,278	63,138

	At December 31,	
	2019	2018
	S/000	S/000
Brought forward:	66,278	63,138
Scotiabank Belize (A)	1,440	405
Scotiabank - El Salvador (B+)	430	341
Banco Santander Perú S.A. (A)	3,903	234
Banco Interamericano de Finanzas S.A. (A)	56	24
Citibank del Perú S.A. (A+)	151	17
Other minors	11,108	8,867
	83,366	73,026
Investments in securities (**)		
Fondos Sura Saf S.A.C. (A)	4,303	2,500
Credifondo S.A. (AAA)	5,000	-
	9,303	2,500

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

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

(**) On December 31, 2019 an investment agreement was signed with Credifondo S.A. for S/5,000,000 attached to Fondo Conservador Liquidez Soles FMIV in local currency by which a number of 17,915.5796 interest units was obtained in that financial instrument and an investment agreement was signed with Fondos Sura Saf S.A.C. for US$1,300,000 (equivalent to S/4,303,000) attached to Fondo SURA Ultra Cash Soles FMIV in US dollars by which a number of 11,876.53472065 interest units was obtained in that financial instrument. On December 31, 2018, an investment agreement was signed with Fondos Sura Saf S.A.C. for S/2,500,000 attached to Fondo SURA Ultra Cash Soles FMIV in local currency by which a number of 19,189.9014277 interest units was obtained in that financial instrument. Management considers that the fair value of that instrument will not result in significant changes to the balances stated in the consolidated financial statements.

	2019	2018
	S/000	S/000
Trade receivables -		
Counterparties with internal risk ratings:		
A	81,645	59,497
B	937,357	1,028,949
C	127,643	132,102
Total trade receivables not impaired	1,146,645	1,220,548
Other receivables -		
Counterparties with internal risk ratings:		
A	3,047	-
B	168,334	208,219
Total other receivables not impaired	171,381	208,219

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.

At December 31, 2019 and 2018 the Group's majority portfolio was classified in the second risk category "B". Additionally, of the accounts complying with their contractual terms, none have been renegotiated.

5 CASH AND CASH EQUIVALENTS

(a) This item comprises:

	2019 S/000	2018 S/000
Fixed fund	545	594
Checking accounts (b)	70,653	67,619
Savings account (b)	2,526	1,188
Time deposit (c)	10,187	4,219
In-transit remittances	522	78
	84,433	73,698

(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

(a) This item comprises:

	2019 S/000	2018 S/000
Invoices (b)	1,002,718	1,107,057
Bill of exchange (b)	309,743	265,092
Non-accrued interest	(15,466)	(9,700)
	1,296,995	1,362,449
Less - Estimate for doubtful accounts (d)	(150,350)	(141,901)
Total trade receivables	1,146,645	1,220,548
(-) Non-current portion	(31,788)	(25,501)
Current portion	1,114,857	1,195,047

(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 and 18 percent and in soles at rates ranging from 17 and 22 percent.

Invoices and bills of exchange correspond mainly to receivables originating from sales 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, with some exceptions that are classified as non-current.

(c) Ageing of the trade accounts receivable, without offsetting unaccrued interest, is as follows:

	Unimpaired S/000	Impaired S/000	Total S/000
At December 31, 2019			
Not past due:	978,337	5,035	983,372
Past due:			
- Up to 1 month	80,611	779	81,390
- From 1 to 3 months	56,749	1,131	57,880
- From 3 to 6 months	20,628	3,507	24,135
- More than 6 months	25,786	139,898	165,684
Total	1,162,111	150,350	1,312,461
At December 31, 2018			
Not past due:	894,410	5,176	899,586
Past due:			
- Up to 1 month	185,136	1,507	186,643
- From 1 to 3 months	66,967	1,764	68,731
- From 3 to 6 months	29,678	1,356	31,034
- More than 6 months	54,057	132,098	186,155
Total	1,230,248	141,901	1,372,149

(d) Estimate for doubtful accounts:

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

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

The rates of expected credit losses are based on the payment profiles of sales over a 48-month period before December 31, 2019 and 2018 and the historical credit losses that occur que over that period (recovery trend), and aging of trade receivables. The historical credit loss rates are adjusted to reflect the current and prospective information about macroeconomic factors that affect customers' ability to settle the Company's trade accounts receivable.

Under the provisions of IFRS 9, regarding "prospective information", macroeconomic factors that have a significant impact on customers credit behavior were considered, including macroeconomic variables that are considered to have an impact on Peruvian GDP (Gross Domestic Product), inflation, fixed private investment, public investment and selling exchange rate. In this sense, a correlation analysis was performed to determine the relation between the historical loss ratio and each macroeconomic indicator per portfolio. As a result of this analysis, a correlation of higher than 50 percent was found; in respect of the other variables, the correlation found was low; that is, below 50 percent. Therefore, since there is significant correlation between the historical loss ratio and the behavior of Peruvian GDP, there was need to adjust that loss variable.

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

	2019 S/000	2018 S/000
Opening balance at January 1	141,901	144,944
Estimate charged to income, note 19	21,478	31,014
Recoveries	(4,213)	(12,680)
Write-off	(7,236)	(24,177)
Effect of translation	(1,580)	2,800
Final balance at December 31	150,350	141,901

At December 31, 2019 and 2018 the Group shows approximately S/63 million and S/75 million, respectively (below a 5 and 6 percent of the total trade accounts receivable at Group level, respectively, before the estimate for doubtful accounts) of trade receivables from the construction industry customers that are part of prosecutorial investigations currently in progress; see note 28(c). During 2019 and 2018, other companies were included in the above-mentioned investigation, including Group's customers, but which do not show significant past due amounts. From 2019 y 2018, most of these companies are meeting their payment obligations. For default cases, provisions have been made for the full amount of the defaulted amounts.

Management considers that the provision for impairment of trade receivables adequately covers the credit risk of these items at December 31, 2019 and 2018.

7 OTHER RECEIVABLES

(a) This item comprises:

	2019 S/000	2018 S/000
Income tax credit balance (b)	48,597	41,491
Tax withholdings from tax administration (c)	46,385	26,674
Receivables from Caterpillar (d)	43,469	37,664
VAT credit balance (e)	32,786	27,286
Receivables from program of work for taxes (f)	15,797	10,112
Receivables from personnel	12,319	13,582
Claims to insurance companies and third parties	9,067	3,724
Accounts receivable from sub-leases - IFRS 16 (g)	8,792	-
Advances to suppliers	7,113	3,053
Accounts receivable from sale of investments, net (h)	4,966	109,667
Reimbursement of customs duties and taxes (i)	3,436	2,497
Claims to suppliers	3,006	3,274
Security deposit	2,403	2,939
Receivables from Marinazul S.A.	-	1,704
Other receivables	28,526	26,294
	266,662	309,961
Less - Provision for doubtful accounts (l)	(3,349)	(2,895)
	263,313	307,066
Less: Non-current portion	(32,148)	(5,208)
Current portion	231,165	302,038

(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, 2019 this item includes the following:

- Payments under protest made by the Company to the Peruvian Tax Authorities (SUNAT), in connection with a tax resolution that included challenges and tax assessments to the 2002 income tax of S/30,035,000. Management and its legal counsel consider this amount, plus interest, would be refunded to the Company over time when all court and/or administrative proceedings are completed.

- During 2019, SUNAT audited subsidiary Ferreyros S.A. on its compliance with 2014 income tax obligations. As part of that process, SUNAT requested for evidence supporting the deduction made as per 2014 Annual Income Tax Returns involving "an adjustment to the cost of disposal of fixed assets sold" amounting to S/3,997,201. In this respect, in meeting SUNAT's request, Ferreyros S.A. validated the deduction; however, it noted that the deducted amount should have been higher, which gave rise to a tax credit, in respect of which, SUNAT has already recognized the 2014 amount; SUNAT's recognition and validation of the amounts for 2015 and 2017 remain to be performed.

  Ferreyros S.A. has the right to use the entire cost of the fixed asset, either via depreciation or cost of sales at the time of disposal. Nevertheless, in its 2014 Income Tax Returns, Ferreyros S.A. did not include regarding the tax cost of fixed asset disposal, the correct income tax deduction, but rather it understated the tax deduction; and therefore, a tax deduction of S/33,699,456 remained to be recognized; that amount was included as part of the tax audit in the form of an amendment to the respective tax returns (PDT 692 No.750628782-27). It should be noted that the amounts stated in the amended tax returns dated November 26, 2019, were accepted and validated by SUNAT under Tax Determination Resolution No.012-003-0108524, confirming the existence of excess tax payments of S/10,076,226. The tax determination resolution contains the results of the tax audit began by SUNAT on fiscal 2014, which also validated, among other things, a tax credit on a cost of disposal of fixed assets considered in the amended income tax returns (Result of Requirement No.0122190001718).

  A request has been made by Ferreyros S.A. for a refund of the above-mentioned excess payment in December 2019 by means of Form No.4949 (Files No.6692797 and No.6692798).

(d) At December 31, 2019 and 2018 receivables from Caterpillar include balances related to rebates obtained in buying Prime machinery and spare parts. It also includes receivables related to refunds of guarantees agreed with Caterpillar on the sales of machinery. These receivables do not bear interest and have no significant financing components.

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

(f) At December 31, 2019 and 2018 this balance includes the Group's tax credits resulting from disbursements made 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. 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, 2019 this item includes the contributions made 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/236,000 (S/3,873,000 in 2018).

- In April 2016, Ferreyros S.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, 2019 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/699,000 (S/192,000 in 2018); and a project called "Ampliación, Mejoramiento del Sistema de Agua Potable, Redes de Alcantarillado y Planta de Tratamiento en la Capital del Distrito de Sangarará, Province of Acomayo - Cusco" for S/468,000 (S/456,000 in 2018).

- In April 2017, Ferreyros S.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, 2019 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/79,000 (S/825,000 in 2018); 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/533,000 (S/1,631,000 in 2018).

- In April 2017, Ferreyros S.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, 2019 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 one, 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/670,000 (S/504,000 in 2018).

- In September 2017, Ferreyros S.A. signed an agreement with the Regional Government of Ica by which the Company grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2019 this item includes the contributions made through the consortium comprising Ferreyros S.A. and Fargoline S.A. with an interest of 50 percent each one, to finance a project called "Mejoramiento del Servicio Educativo en AL I.E. Gabino Chacaltana Hernández, District of Pueblo Nuevo, Province and department of Ica" for S/1,120,000 (S/32,000 in 2018).

- In March 2017, Ferreyros S.A. signed an agreement with the Regional Government of La Libertad by which the Company grants financing through cash contributions and implementation activities for the development of various projects in the region. On May 17, 2018 an addendum was signed comprising S/6,996,000 and from that date, grants were started. At December 31, 2019 this item includes the contributions made through the consortium comprising Ferreyros S.A. and Unimaq S.A. with interest of 50 percent each one, to finance a project called "Mejoramiento de los servicios de educación inicial y primaria de la I.E. N°80392 Andres Salvador Diaz Sagastegui, district and province of Chepen - La Libertad" for S/1,058,000 (S/2,598,000 in 2018).

- In June 2018, Ferreyros S.A. signed an agreement with the Regional Government of Cusco by which the Company grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2019 this item includes the contributions made by Ferreyros S.A., to finance a project called "Mejoramiento y Ampliación del Sistema de Agua Potable, Alcantarillado y Planta de Tratamiento de la Capital de Colquepata, Distrito de Colquepata - Paucartambo - Cusco" for S/10,836,000 (no contributions in 2018).

At December 31, 2019 there are projects initiated since 2016 under liquidation and others are in progress. In this respect and under that piece of legislation, the Group can use as tax credit the disbursements made and apply them against future income taxes payable.

(g) At December 31, 2019 this item consists of the balance receivable from third parties from the sublease contracts involving subsidiaries Unimaq S.A. and Motriza S.A., which were classified as finance leases.

(h) At December 31, 2019 this item consists of the balance receivable from third parties from the sale of equity of Transacciones Plurales S.A. made in 2018. At December 31, 2018 this item consists of the balance receivable from third parties from the sale of shares of La Positiva Seguros y Reaseguros S.A. for S/102,533,000 and Transacciones Plurales S.A. for S/7,134,000, which are described as follows:

- On March 8, 2018 the Board ratified the decision to sell the entire interest the Company held with La Positiva Seguros y Reaseguros S.A. ("La Positiva") and on November 27, 2018 the Board of Directors approved that the Company takes part in the Tender Offer ("Oferta Pública de Adquisición - OPA", in Peru) directed to all holders of equity shares of La Positiva, by which, FID Perú S.A. ("the offering investors") would pay S/1.80 per share to be acquired this OPA. In December 2018, the Company served noticed of acceptance within the required period of time and submitted the respective acceptance letters, giving instructions to its stock brokers ("Sociedades Agentes de Bolsa", in Peru) to actually sell its shareholding of 56,962,727. Selling price was S/102,533,000, of which the related commissions and expenses for S/138,000, and is shown within "Other income". The transactions resulted in gains of S/31,002,000, given that the cost of investments increased to S/69,592,000, and recognized in profit or loss within "Other expenses". On January 2, 2019 the Company received the corresponding sales documentation and cash flows.

- On December 28, 2018 the Company sold its interest in Transacciones Plurales S.A. for S/7,134,000 to a third party, as shown in profit or loss within "Other income"; collection was agreed in semi-annual installments over a period of 3 years, without interest and no specific guarantees. This transaction resulted in pre-tax profits of S/6,282,000, given that the cost of investments was S/852,000, as recognized in the profit or loss within "Other expenses".

(i) 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 first half year of the next year.

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

	2019 S/000	2018 S/000
Current	264,200	305,723
Past due for up to 180 days	1,355	784
Past due for more than 180 days	1,107	3,454
	266,662	309,961

(l) The movement in 2019 and 2018 of the provision for doubtful other receivables is as follows:

	2019 S/000	2018 S/000
Opening balance at January 1	2,895	2,988
Estimate charge to income, note 19	534	13
Recovery of provision	(18)	
Write-offs of the year	(19)	(198)
Effect of translation	(43)	92
Final balance	3,349	2,895

Management considers that the provision for doubtful other receivables adequately covers the credit risk at December 31, 2019 and 2018, respectively.

8 INVENTORIES

(a) This item comprises:

	2019 S/000	2018 S/000
Machinery, motors and vehicles (b)	892,316	760,788
Spare parts for sale (b)	652,074	681,783
Workshop service costs in progress (c)	101,628	106,458
Merchandise	84,869	86,927
Advances to suppliers	57,828	42,304
Other supplies	7,911	6,962
Inventories in transit (d)	203,228	157,419
Finished products	-	455
Raw material and packaging material	-	10
	1,999,854	1,843,106
Less - Provision for impairment of inventories (f)	(55,426)	(70,439)
	1,944,428	1,772,667

(b) This item mainly corresponds to items the Company earmarks for sales; that is, machinery engines, and equipment, both Caterpillar and other brands and the related parts. These items are expected to be sold over the first quarter of the next year.

(c) This item mainly reflects costs incurred in mechanic and repair workshop services rendered by the Group to customers (in-processes inventories), that were remaining to be completed at the date of the consolidated statement of financial position.

(d) It mainly corresponds to spare parts of Caterpillar machines, engines and equipment as well as other brands imported by the Company to resell mostly to its mining and agricultural customers. These items are expected to be sold over the first quarter of the next year.

(e) The amount of inventories recognized in profit of 2019 and 2018 has substantially affected “Cost of sales” and is broken down by item in Note 18.

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

	2019 S/000	2018 S/000
Opening balance at January 1	70,439	52,678
Provision charged to cost of sales, note 18	26,863	38,480
Provision charged to selling expenses, note 19	10,569	-
Transfer from fixed assets	1,396	2,622
Destruction of spare parts and others	(13,852)	(8,827)
Transfer to fixed assets	(1,256)	(171)
Recoveries, note 18	(38,643)	(11,799)
Effect of translation	(90)	(2,544)
Final balance at December 31	55,426	70,439

The provision for impairment of inventories is determined based on levels of inventory turnover and other characteristics, based on periodic evaluations conducted by Management and the technical and financial areas. Group’s Management considers the balance of this estimate adequately covers the risk of impairment of inventories at December 31, 2019 and 2018.

9 INVESTMENT IN ASSOCIATES AND JOINT VENTURE

(a) This item comprises:

	Main activity	Percentage of interest in capital		Carrying amount	
		2019	2018	2019	2018
		%	%	S/000	S/000
Common shares in associates:					
La Positiva Vida Seguros y Reaseguros S.A.(c)	Insurance	-	2.10	-	10,465
Joint venture (b):					
Ferrenergy S.A.	Power generation and distribution	50.00	50.00	16,114	12,777
Other investments:					
Other minor investments	Others			540	559
				16,654	23,801
Current portion				-	10,465
Non-current portion				16,654	13,336
				16,654	23,801

(b) In 2019, the Group has recognized a total profit of approximately S/3,336,000 (S/1,068,000 at December 31, 2018), within the item "Share in net profits of associates and joint venture" in the consolidated statement of income.

(c) At the Board Meeting held in March 2019 the decision was made to allow the Company to offer its interest in La Positiva Vida Seguros y Reaseguros S.A. as part of the share public offering (“OPA”, the Spanish acronym) put forward by FID Perú (“the offering party”). Offering stated S/1.91 per share. In May 2019, a total 8,580,290 shares owned by the Company were sold at S/16,388,354, from which, commissions and expenses of S/27,546 were deducted. This transaction resulted in gains of S/5,923,702, as shown within “Other income and expenses, net”.

These are the figures of the financial statements of La Positiva Vida Seguros y Reaseguros S.A. at December 31, 2018 and Ferrenergy S.A. at December 31, 2019 and 2018:

	La Positiva Vida Seguros y Reaseguros S.A.	Ferrenergy S.A.	
	2018	2019	2018
	S/000	S/000	S/000
	Unaudited	Unaudited	
Statement of financial position:			
Total assets	3,990,945	99,561	62,238
Total liabilities	3,468,881	67,333	36,683
Equity	522,064	32,228	25,555
Statement of income:			
Total income	335,309	27,756	12,076
Operating profit	34,060	10,095	2,515
Net profit	34,060	6,700	1,865

10 PROPERTY, PLANT AND EQUIPMENT

(a) The composition and movement of this item for 2019 and 2018 is as follows:

	2019							
Description	**Land**	**Buildings and other constructions**	**Plant and equipment**	**Plant and fleet equipment for rent**	**Vehicles**	**Furniture and fixtures**	**Work in progress/In-transit units**	**Total**
	S/000	**S/000**	**S/000**	**S/000**	**S/000**	**S/000**	**S/000**	**S/000**
Cost -								
Balance at January 1	629,497	400,281	404,843	445,189	36,057	82,724	25,650	2,024,241
Right-of-use assets - IFRS 16 (j)	-	83,697	68,036	-	13,246	-	-	164,979
Additions	2,690	7,405	25,751	95,423	5,411	7,430	42,022	186,132
Withdrawals and/or sales (b)	(13,973)	(853)	(7,389)	(219)	(2,977)	(34,966)	(3,544)	(63,921)
Revaluation reversal	(9,796)	-	-	-	-	-	-	(9,796)
Transfer of inventories	-	-	9,986	160,785	924	-	3	171,698
Transfer to inventories	-	-	(48,870)	(168,915)	(303)	-	-	(218,088)
Other transfers	-	28,409	(153)	(615)	1	(121)	(28,067)	(546)
Effect of translation	(824)	(1,090)	(513)	3,276	(379)	(493)	(3)	(26)
Balance at December 31	607,594	517,849	451,691	534,924	51,980	54,574	36,061	2,254,673
Accumulated depreciation -								
Balance at January 1	-	113,056	236,295	138,152	17,315	60,813	-	565,631
Right-of-use assets - IFRS 16 (j)	-	24,248	23,505	-	7,933	-	-	55,686
Additions	-	17,379)	37,411)	62,315)	4,175)	8,933	-	130,213
Withdrawals and/or sales	-	(408)	(5,772)	(1,846)	(2,629)	(34,692)	-	(45,347)
Transfer to inventories	-	-	(30,540)	(55,105)	(72)	-	-	(85,717)
Other transfers	-	(419)	41)	(54)	38)	14	-	(380)
Effect of translation	-	(650)	(384)	(1,698)	(205)	(470)	-	(3,407)
Balance at December 31	-	153,206	260,556	141,764	26,555	34,598	-	616,679
Provision for impairment -								
Balance at January 1	-	-	556	2,980	-	-	-	3,536
Additions	-	-	-	3,416	-	-	-	3,416
Transfer of inventories	-	-	-	1,256	-	-	-	1,256
Withdrawals and/or sales	-	-	57	(178)	-	-	-	(121)
Transfer to inventories	-	-	-	(1,396)	-	-	-	(1,396)
Effect of translation	-	-	-	(9)	-	-	-	(9)
Balance at December 31	-	-	613	6,069	-	-	-	6,682
Net carrying amount	607,594	364,643	190,522	387,091	25,425	19,976	36,061	1,631,312

2018

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

(b) In 2019, the Group sold and wrote off fixed assets for a total carrying amount of S/584,000 and S/17,990,000, respectively (S/2,983,000 and S/5,519,000, respectively, in 2018). The Group obtained profits of S/1,826,000 (S/3,332,000 in 2018) from the disposal of fixed assets, as shown within "Other income and expenses, net" in the consolidated statement of income. In 2019, major sales consisted of vehicles; and major write-offs consisted of machinery and equipment, obsolete computer equipment and furniture and fixtures. In 2018, major sales consisted of machinery and equipment, furniture and laptops; and major write-offs consisted of machinery and equipment, and obsolete computer equipment. On the other hand, over 2019, Management decided to sell the piece of land at Av. Industrial No.504-508, Cercado de Lima, and transferred its carrying amount of S/13,887,000 to "non-current assets held for sale". The Company expects sale to be completed over a period no longer than one year.

(c) At December 31, 2019, the balances of work in progress mainly consist of expenses in implementing the work at the facility in Punta Negra for S/10,375,000, as well as other extension and general reconditioning work for S/11,650,000, which are expected to be ready for use over the first half of 2020; and advances to suppliers (in-transit units) relating to workshop machinery at the Lima sites for S/10,344,000 and La Joya for S/5,280,000, among other tools for S/763,000. At December 31, 2018, the balances of work in progress mainly consist of expenses incurred by the Company in implementing the Project involving a warehoused attached to Fargoline S.A., located in Punta Negra for S/10,310,000; as well as other extension and general reconditioning work for S/8,564,000.

(d) In 2018, the Group performed a review of the commercial value of its land properties, which were shown at the revalued cost in 2017 based on independent appraisals conducted in 2015 and concluded that it is significantly lower that their current carrying amounts. In this sense, the Group reduced the carrying amount of land in S/35,689,000, to present them at the revalued cost as per independent appraisals for fiscal 2018. In addition, it recognized the associated deferred income tax liability of S/10,528,000.

(e) At December 31, 2019 and 2018 the Group has insurance policies to cover all its assets. Management considers its insurance policies are consistent with the international practice in the industry, and therefore, the risk of eventual losses from the risks covered by the insurance policy is reasonable considering the kind of assets owned by the Group.

(f) In 2019, rental income amounted to approximately S/184,242,000 (S/181,703,000, in 2018), which are related to the rental of machinery and fleet equipment. This rental income is included in "Sales" in the consolidated statement of income.

(g) For the years ended December 31, 2019 and 2018, the depreciation expense was recorded in the following items of the consolidated statement of income:

	2019	**2018**
	S/000	**S/000**
Cost of sales, note 18	69,492	54,387
Selling expenses, note 19	44,608	46,410
Administrative expenses, note 20	16,113	14,715
	130,213	115,512

(h) At December 31, 2019 and 2018 Management evaluated the condition of its property, plant and equipment and found no indications of impairment of those assets.

(i) At December 31, 2019 and 2018 the Group maintains mortgages on some of its properties for US$8,420,000, given to financial entities to secure repayment of borrowings.

(j) The movement of the right-of-use asset and its accumulated amortization is described as follows:

	Buildings and other construction S/000	Plant and equipment S/000	Vehicles S/000	Total S/000
Cost -				
Opening balance at January 1, 2019	68,888	68,315	13,246	150,449
Additions	16,355	-	-	16,355
Adjustments	9	-	-	9
Disposals/write-offs	(1,555)	(279)	-	(1,834)
Balance at December 31, 2019	83,697	68,036)	13,246	164,979
Accumulated amortization -				
Opening balance at January 1, 2019	-	-	-	-
Additions	24,236	23,579	7,933	55,748
Adjustments	12	-	-	12
Disposals/write-offs	-	(74)	-	(74)
Balance at December 31, 2019	24,248	23,505	7,933	55,686

In 2018, the Group recognized lease assets related to leases that are classified as “finance leases” in accordance with IAS 17, “Leases”. For adjustments recognized on adoption of IFRS 16 at January 1, 2019, see note 3.5.

In 2019, the expense resulting from depreciation of the right-of use asset was allocated as follows:

	S/000
Cost of sales, note 18	28,614
Selling expenses, note 19	18,679
Administrative expenses, note 20	8,455
	55,748

In 2019, the Group has not signed any contracts comprising variable consideration that depended or not on an index or rate.

In 2019, expenses of lease contracts with maturity of twelve months or less and low-value leases, for which the Company applied the practical expedient allowed by IFRS 16, exception of recognizing as lease liabilities, amounted to S/29,751,000 and are shown in “Selling expenses” and “Administrative expenses” within the consolidated statement of income.

11 INTANGIBLE ASSETS AND GOODWILL

(a) Intangible assets -

For years 2019 and 2018, this item comprises:

	Relationship with customers	Trademark right	Distribution agreement	Computer programs	Right to use	Relationship with suppliers	Non-competition agreement	Others	Total
	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Year 2019:									
Cost -									
Opening balance at January 1	57,770	8,848	12,183	164,061	17,552	2,431	4,933	5,776	273,554
Additions (ii)	-	-	-	76,548	-	-	-	1,959	78,507
Disposals and transfers	-	-	-	(31)	-	-	-	(280)	(311)
Effect of translation	(406)	(190)	(210)	(6)	-	(214)	(203)	-	(1,230)
Balance at December 31	57,364	8,658	11,973	240,572	17,552	2,217	4,730	7,455	350,521
Amortization -									
Opening balance at January 1	44,993	508	7,103	34,874	17,552	216	3,611	3,222	112,079
Additions (iii)	6,667	142	1,197	6,425	-	60	977	395	15,863
Effect of translation	(132)	(9)	(122)	(3)	-	(23)	(177)	-	(466)
Balance at December 31	51,528	641	8,178	41,296	17,552	253	4,411	3,617	127,476
Net carrying amount	5,836	8,017	3,795	199,276	-	1,964	319	3,838	223,045
Year 2018:									
Cost -									
Opening balance at January 1	63,184	8,801	11,709	91,244	17,552	2,640	4,950	5,688	205,768
Additions (ii)	-	-	-	73,016	-	-	-	348	73,364
Disposals and transfers	(5,591)	-	-	(195)	-	-	-	(270)	(6,056)
Effect of translation	177	47	474	(4)	-	(209)	(17)	10	478
Balance at December 31	57,770	8,848	12,183	164,061	17,552	2,431	4,933	5,776	273,554
Amortization -									
Opening balance at January 1	42,397	349	5,656	27,851	17,552	167	2,639	3,323	99,934
Additions (iii)	8,049	145	1,218	7,022	-	62	1,005	159	17,660
Disposals and transfers	(5,591)	-	-	-	-	-	-	(270)	(5,861)
Effect of translation	138	14	229	1	-	(13)	(33)	10	346
Balance at December 31	44,993	508	7,103	34,874	17,552	216	3,611	3,222	112,079
Net carrying amount	12,777	8,340	5,080	129,187	-	2,215	1,322	2,554	161,475

(i) Intangible assets concerning relationships with customers, trademark rights, distribution agreement, purchase orders, rights of use, relationship with suppliers and non-competition agreement were acquired through various business combinations. At December 31, 2019 and 2018, based on the projected cash flows expected from the cash-generating units to which these intangible assets were allocated, Management concluded that there are no indications that the carrying amounts of these intangible assets (including goodwill to be described further below in this note) would not be recovered.

(ii) Computer programs mainly consisted of the associated costs of "SAP Business Project" that is being implemented at the Parent Company and major Group subsidiaries; and expected to become operational gradually at each different subsidiary. At December 31, 2019 software was already operational at certain subsidiaries, but not in all of them. Project is expected to be fully completed for the Group over the second half of 2020. In 2019 the annual investment in the Project was S/75,412,000 (S/69,226,000 incurred in 2018).

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

	2019 S/000	2018 S/000
Cost of sales, note 18	-	83
Selling expenses, note 19	7,118	7,956
Administrative expenses, note20	8,745	9,621
	15,863	17,660

(b) Goodwill -

A breakdown of "goodwill" by cash-generating unit is as follows:

	2019 S/000	2018 S/000
Ferreyros S.A. (Bucyrus)	83,396	83,396
Inversiones Interamericanas Corp.	48,444	54,346
Trex Latinoamérica SpA	19,340	19,341
Soltrak S.A.	13,912	13,912
Ferreycorp S.A.A. (Soltrak S.A.)	5,290	5,292
	170,382	176,287

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 that which the standards define as "value in use". To determine the value in use of the assets comprising each CGU, cash flow projections obtained from financial budgets approved by senior management and which cover a determined period.

At December 31, 2019 and 2018 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, 2019 and 2018 is as follows:

CGU	Carrying amount of net assets	Recoverable amount	Discount rate	Cash flow period	Growth rate
	S/000	S/000	%	Years	%
Year 2019:					
Bucyrus	83,396	403,411	9.9%	10	2.0%
Inti	49,507	396,058	10.1%	10	2.0%
Trex	24,402	305,383	10.0%	10	2.0%
Soltrak S.A.	17,568	133,742	10.0%	10	3.0%
Year 2018:					
Bucyrus	88,842	286,090	9.5%	10	2.0%
Inti	54,892	414,938	10.6%	10	2.0%
Trex	24,846	148,643	10.0%	10	2.0%
Soltrak S.A.	17,727	146,247	9.4%	10	3.0%

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 percent, 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, 2019 and 2018 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:

	At December 31, 2019			At December 31, 2018		
	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)	833,669	-	833,669	440,691	-	440,691
Bonds and long-term debt with banks (c)	409,427	909,584	1,319,011	347,995	1,210,437	1,558,432
	1,243,096	909,584	2,152,680	788,686	1,210,437	1,999,123

(b) Bank loans -

Financial entity	Annual average effective fixed interest rate 2019	2018	Original currency	At December 31, 2019	2018
	%	%		S/000	S/000
BBVA Banco Continental S.A.	Between 1.60 and 2.90	3.58	US$	229,868	57
Banco Crédito del Perú S.A.A. - BCP	Between 1.70 and 5.50	Between 2.06 and 5.00	US$	183,026	94,761
Scotiabank Perú S.A.	Between 1.78 and 3.20	Between 1.35 and 2.00	US$	145,616	89,662
Banco Bladex	Between 2.50 and 3.20	-	US$	93,878	-
Banco Crédito del Perú S.A.A. - BCP	Between 3.00 and 3.90	Between 3.35 and 7.00	S/	48,180	73,601
Banco Itau Corpbanca New York.	Between 2.86 and 4.70	2.95	US$	40,136	67,58
Banco Santander del Perú	Between 3.50 and 3.70	6.85	S/	16,160	2,391
Banco de Crédito e Inversiones - BCI	Between 4.10 and 4.20	4.00	US$	15,865	16,160
Banco Internacional del Perú - Interbank	Between 2.70 and 3.00	Between 2.45 and 5.00	US$	13,268	31,069
Banco ICBC Banco Perú	Between 2.70 and 2.90	Between 3.26 and 3.53	US$	13,268	13,516
Banco Interamericano de Finanzas - BanBif	Between 3.00 and 3.20	-	US$	8,293	-
Banco de América Central - Guatemala y El Salvador	Between 4.5 and 5.50	4.10	US$	6,634	5,913
BBVA Banco Continental S.A.	Between 3.00 and 3.50	4.15	S/	5,500	3,200
Banco Davivienda	Between 4.80 and 5.25	4.00	US$	4,312	2,534
Banco Intebanco	Between 5.50 and 5.75	-	Q	3,874	-
American Express	0%	0%	US$	3,450	-
Banco de América Central - Guatemala y El Salvador	Between 5.5 and 6.00	5.75	Q	2,169	6,089
Banco Occidente	4.6	-	US$	172	-
Banco Itau Chile.	Between 5.50 and 5.90	Between 5.00 and 6.00	US$		16,895
Interbanco	-	Between 3.75 and 4.50	US$	-	6,786
Banco Agromercantil	-	5.75	Q	-	5,241
Banco de Crédito e Inversiones - BCI	-	5.00	CLP	-	5,236
				833,669	440,691

US$ = US dollars S/ = Peruvian sol CLP = Chilean peso Q = Quetzal

Interest expense accrued in 2019, on debts with banks, amounted to approximately S/60,693,000 (S/35,079,000, in 2018) and is presented in "Financial expenses" of the consolidated statement of income (note 23). At December 31, 2019 accrued interest outstanding amounted to approximately S/5,423,000 (S/9,655,000, at December 31, 2018) (note 15).

At December 31, 2019 and 2018 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 0.7 and 8 percent.

At December 31, 2019 the Group has credit lines for working capital for a total of up to S/6,093,727,000 (S/3,270,872,000, at December 31, 2018) with most banks in the Peruvian financial system, which are used for short-term financing. The Group is not subject to specific conditions to use such credit line.

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

Creditor	Maturity date	Original currency	Annual effective interest rate	At December 31, 2019 Current portion	Non-current portion	Total	At December 31, 2018 Current portion	Non-current portion	Total
			%	S/000	S/000	S/000	S/000	S/000	S/000
Ferreycorp S.A.A. bonds -									
Corporate bonds - Rule 144A (i)	Until April 2020	US$	4.934(*)	-	-	-	-	337,900	337,900
Promissory notes -									
Caterpillar Financial	Until April 2021	US$	Between 3.52 and 5.25	27,890	10,332	38,222	20,787	38,937	59,724
Caterpillar Leasing Chile	Until June 2019	US$	3.09	-	-	-	7,611	-	7,611
Caterpillar Crédito S.A. de C.V.	Until July 2023	US$	Between 4.65 and 6.30	18,395	38,615	57,010	23,827	60,019	83,846
Promissory notes with local and foreign institutions	Until April 2021	Q	Between 6.00 and 6.50	3,413	1,791	5,204	5,218	6,817	12,035
Promissory notes with local and foreign institutions	Until December 2024	US$	Between 2.50 and 5.90	349,135	839,040	1,188,175	283,679	750,817	1,034,496
Promissory notes with local and foreign institutions	Until November 2022	S/	Between 3.80 and 6.85	9,131	17,697	26,828	4,539	12,346	16,885
Financial leasing (iii)	Until June 2022	UF	5.00	163	484	647	-	-	-
Financial leasing (iii)	Until April 2023	US$	Between 3.50 and 4.80	1,300	1,625	2,925	2,334	3,601	5,935
				409,427	909,584	1,319,011	347,995	1,210,437	1,558,432

(*): Nominal rate of 4.875 percent.

US$ = US dollars S/ = Peruvian sol Q = Quetzal UF = Unidad de fomento (Chile)

In 2019, the accrued interest expense related to the promissory notes and long-term debt obligations amounted to approximately S/19,671,000 (S/32,829,000, in 2018), which are shown in "Financial expenses" in the consolidated statement of income (note 23).

At December 31, 2019 the accrued interest outstanding amounted to approximately S/1,820,000 (S/6,997,000, at December 31, 2018) and is presented in "Other payables" in the consolidated statement of financial position (note 15).

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

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

- Indebtedness ratio (total consolidated debt / EBITDA) no greater than 3.5 times.
- 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 be triggered.

The Company completed the repurchase of these bonds in 2019 before their original maturity, after a number of recurrent purchases since 2016, which are summarized as follows:

- 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 (equivalent to S/403,200,000 at that date), 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, 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/15,883,000).

- 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) paying 102.438 percent of its nominal value, resulting in a net amount of US$1,523,000 (equivalent to S/4,925,000).

- Finally, dated May 6, 2019, the Company settled the total repurchase of corporate bonds at US$100,148,958 to the holders of corporate bonds, which included a principal of US$100,000,000 and interest accrued at the date of US$148,958 (equivalent to S/331,500,000 and S/493,796, respectively, at that date); the Company being authorized to exercise the right of prepayment with no penalty as stipulated in the bond issue contract.

(ii) On June 28, 2018 the Company signed a loan agreement with BBVA Banco Continental S.A.A. for up to US$30,000,000, without specific guarantees and for an original term of three years. On November 14, 2018 the first addendum to the agreement was signed to convert that financing into a loan known as “Préstamo Verde” (Green Loan) signed between the Company and some of its subsidiaries as Co-debtors and the financial institution as Sustainable Agent for a total amount of US$50,000,000, and by which, the interest rate on the loans would be reduced or increased in proportion to sustainability scoring (ESG Performance). On November 21, 2018, a second addendum was signed to the agreement to extent the financing amount by US$20,000,000. Under the terms of the above-mentioned contract, the amount disbursed to the Company was US$3,000,000; and the remaining balance is US$1,750,000 equivalent to S/5,805,000, at December 31, 2019 (US$2,750,000, equivalent to S/9,292,000, at December 31, 2018).

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

(iv) At December 31, 2019 and 2018 the amortization schedule for the non-current portion of the long-term debt is as follows:

	2019 S/000	2018 S/000
2020	-	674,721
2021	329,640	287,413
2022	271,263	160,702
2023	200,885	87,601
2024 onwards	107,796	-
	909,584	1,210,437

13 LEASE LIABILITY

(a) At December 31, 2019 this item comprises:

	S/000
Current portion	47,103
Non-current portion	79,581
Total lease liability	126,684

The liability comprises leases of property for the Group’s transaction.

Lease contracts have maturities of up to 5 years and accrue interest at annual rates, in U.S. dollar, ranging between 3.40 and 8.84 percent.

(b) The movement of the right-of-use liability for 2019 is as follows:

	2019 S/000
Balance at January 1	166,972
Lease additions	16,355
Lease adjustments	(1,654)
Expenses for financial interest (Note 23)	7,700
Lease payments	(68,834)
Exchange difference	6,345
Balance at December 31	126,884

14 TRADE PAYABLES

(a) This item comprises:

	2019 S/000	2018 S/000
Invoices (b)	563,479	507,821
Bill of exchange (b)	54,358	52,618
	617,837	560,439

(b) At December 31, 2019 the invoice balances and bills of exchange payable mainly include payables to the Caterpillar Group for approximately S/151,975,000 and S/53,904,000, respectively (equivalent to US$45,817,000 and US$16,327,000, respectively) for the purchase of products to be sold. At December 31, 2018 invoices and bills of exchange payable amounted to approximately S/167,495,000 and S/50,863,000, respectively (equivalent to US$49,574,000 and US$15,053,000, respectively). These payables have current maturity; no specific guarantees have been granted and they are not interest-bearing.

15 OTHER PAYABLES

(a) This item comprises:

	2019 S/000	2018 S/000
Advances from clients (b)	204,827	155,339
Accrual of other services (c)	22,907	62,724
Remunerations payable (d)	80,664	86,945
Liabilities from other expenses (e)	61,858	75,693
Workers' profit sharing	39,532	35,820
Taxes payable	19,899	34,053
Provision of guarantees (f)	15,633	13,122
Provision for contingencies, note 25(c)	17,203	14,426
Labor-related contributions payable	15,641	16,816
Interest payable, note 12(b) and (c)	7,243	16,652
	485,407	511,590
Less:		
Non-current portion	(1,434)	(34)
Current portion	483,973	511,556

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

(b) Advances from customers mainly consist of advances received for S/184,937,000 (S/143,078,000 in 2018) and new performance obligations identified under IFRS 15 "Revenue from contracts with customers" for S/19,890,000 (S/12,261,000 in 2018); in respect of sales of goods and services mainly from mining customers, which will be delivered during the first half of the following year.

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

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

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

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

16 DEFERRED INCOME TAX ASSET AND LIABILITY

(a) This item comprises:

	At December 31,	
	2019	**2018**
	S/000	**S/000**
Deferred income tax asset:		
Expected reversal in the next 12 months	48,902	7,273
Expected reversal after 12 months	149,490	191,255
	198,392	198,528
Deferred income tax liability:		
Expected reversal in the next 12 months	(11,762)	(6,571)
Expected reversal after 12 months	(175,138)	(183,380)
	(186,900)	(189,951)
Total deferred income tax asset (liability), net	11,492	8,577

(b) Components that give rise to the deferred income tax asset and liability at December 31, 2019 and 2018:

	At January 1, 2018 S/000	(Credit)/charge to consolidated statement of income S/000	(Credit)/charge to consolidated statement of changes in equity S/000	At December 31, 2018 S/000	(Credit)/charge to consolidated statement of income S/000	(Credit)/charge to consolidated statement of changes in equity S/000	At December 31, 2019 S/000
Deferred assets:							
Non-deductible provisions	32,666	(4,791)	(5)	27,870	(1,396)	(3)	26,471
Differences in depreciation rates	73,205	4,516	-	77,721	(8,801)	-	68,920
Estimate for doubtful accounts	20,539	6,144	447	27,130	1,786	(4)	28,912
Provision for vacations	12,258	700	13	12,971	(55)	-	12,916
Tax credits for losses carry-forward	12,855	(2,602)	(1)	10,252	(4,437)	7,316	13,131
Estimate for impairment of investments and fixed assets	1,736	87	(558)	1,265	503	(4)	1,764
Estimate for impairment of inventories	13,068	6,376	(1,190)	18,254	(3,708)	(19)	14,527
Other provisions	9,064	2,122	-	11,186	7,414	(693)	17,907
Differences in lease payment instalments IFRS 16	-	-	-	-	224	(1)	223
Others	14,728	1,205	(4,054)	11,879	1,752	(10)	13,621
	190,119	13,757	(5,348)	198,528	(6,718)	6,582	198,392
Deferred liabilities:							
Change of useful life of fixed assets	(2,920)	2,405	5	(510)	(3)	7	(506)
Exchange difference for liabilities related to Inventories and fixed assets	(273)	257	-	(16)	3	-	(13)
Sales deferred earnings, net	(1,606)	(347)	-	(1,953)	(49)	-	(2,002)
Leasing transactions	(6,375)	(218)	1,925	(4,668)	501	-	(4,167)
Provision for indemnities	(1,679)	1,188	20	(471)	(312)	8	(775)
Revaluation of property, plant and equipment	(7,243)	(2,571)	3	(9,811)	2,224	40	(7,547)
Fair value of lands	(134,244)	13,411	(23)	(120,856)	20,821	2,936	(97,099)
Differences in depreciation rates	(32,280)	(5,748)	570	(37,458)	(14,767)	613	(51,612)
Valuation by business acquisition, net	(5,322)	728	-	(4,594)	-	1,006	(3,588)
Others	(4,943)	(4,651)	(20)	(9,614)	(9,992)	15	(19,591)
	(196,885)	4,454	2,467	(189,951)	(1,574)	4,625	(186,900)
Deferred income tax asset (liability), net	(6,766)	18,211	(2,868)	8,577	(8,292)	11,207	11,492

During 2019, the use of the tax loss carryforwards are mainly related to Ferreycorp S.A.A. that arose from the sales to a third party of shares held in associate La Positiva Vida Seguros y Reaseguros S.A. for S/16,388,354, see note 9(c); amount that is calculated based on the tax cost of the investment.

During 2018, the use of the tax loss carryforwards are mainly related to Ferreycorp S.A.A. that arose from the sales to a third party of shares held in associate La Positiva Seguros y Reaseguros S.A. for S/11,581,000, see note 7(h); amount that is calculated based on the tax cost of the investment.

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

	2019 S/000	2018 S/000
Current	133,310	149,298
Deferred	8,292	(18,211)
Income tax expense	141,603	131,087

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

	2019		2018	
	S/000	%	S/000	%
Accounting profit before income tax	388,039	100	356,115	100
Theoretical profit tax according to tax rate (*)	114,472	29.50	105,054	29.50
Tax-exempt income from interest in associates and joint venture	(3,336)	(0.86)	(1,068)	(0.30)
Non-deductible expenses, net	30,467	7.85	27,101	7.61
Income tax expense	141,603	36.49	131,087	36.81

17 EQUITY

(a) Share capital -

At December 31, 2019 and 2018 the Company's issued capital is represented for 975,683,000 common shares entirely subscribed and paid-in with at S/1.00 par value each.

Price per share and trade frequency were as follows:

	Price per share S/	Trade frequency %
At December 31, 2019	2.19	100.00
At December 31, 2018	2.54	100.00

At December 31, 2019 and 2018 the Company's shareholding structure is as follows:

Percentage of individual interest in capital	Number of shareholders		Total percentage of interest in capital	
	2019	2018	2019	2018
Up to 1.00	2,494	2,373	38.86	39.60
From 1.01 to 5.00	12	13	36.85	36.89
From 5.01 to 10.00	4	4	24.29	23.51
	2,510	2,390	100.00	100.00

(b) Treasury shares -

In 2019, the Company repurchased 5,731,000 own shares at S/12,237,000. The par value of these shares of S/5,731,000 is stated in this account and the excess paid, in relation with the par value of S/6,506,000 is shown as a debit balance within additional capital. These share repurchase was approved at the Board Meeting held on October 30, 2019.

(c) Additional capital -

The credit balance of this item reflects the difference between the amount received, once the preferred signing trades by shareholders were completed, and the par value of the shares issued by the Company in 2012, which is held net of partial capitalizations in prior years and purchases of own shares.

(d) Legal reserve -

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

On March 27, 2019 and March 29, 2018 the General Shareholders Meeting agreed to transfer S/22,503,000 and S/26,702,000, respectively, from retained earnings to legal reserve. At December 31, 2019 the legal reserve set by the Company exceeds S/16,495,000 the amount required by the Peruvian corporate law.

(e) Other equity reserves -

Revaluation surplus -

This item reflects the increase in fair value of fixed assets determined by independent expert appraisers. At December 31, 2019 the revaluation surplus, net of its corresponding deferred income tax, amounted to S/253,391,000 (S/282,098,000, at December 31, 2018). 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 2019 and 2018, the Company has transferred to retained earnings the portion of the revaluation surplus by approximately S/21,801,000 and S/5,003,000, 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.

(f) Dividend distribution -

Dividends distributed to shareholders other than resident legal entities are subject to an income tax rate 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. Dividends to be distributed or paid on 2018 and 2019 profits will be subject to an income tax rate of 5 percent.

At General Shareholders' Meeting held on March 27, 2019 the payment of cash dividends was approved for S/121,515,000, on May 15, 2019 and extraordinary dividend distribution of S/50,000,000 was approved; and on October 30, 2019 another extraordinary dividend payment of S/50,000,000 was approved.

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

(g) Other equity movements -

In 2019 the Company reviewed the cost allocated to an investment in a subsidiary sold in 2017 for income tax purpose; and found that cost was underestimated by S/14,408,000. As a result, the Company modified its financial statements for 2018 to recognize the impact of this income tax credit that resulted from the amendment of the 2017 income tax return, which resulted in an increase in the retained earnings balance at January 1, 2018, see note 7(c).

18 SALES AND COST OF SALES

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

	2019 S/000	2018 S/000
Sales:		
Sales of machinery, engine, equipment and vehicles	2,326,919	1,907,559
Sale of spare parts	2,421,516	2,246,604
Rental services of machinery, engines, equipment and workshop	662,176	643,187
Other incomes	410,450	401,971
	5,821,061	5,199,321
Cost of sales:		
Opening balance of inventories, note 8	1,643,383	1,266,716
Purchase of inventories	3,789,175	3,667,108
Workforce, note 21(d)	231,948	209,182
Workshop expenses	152,128	154,679
Depreciation, note 10(g) and 10(j)	98,106	54,387
Intangibles amortization, note 11(a)	-	83
Impairment of inventories, note 8(d)	26,863	38,480
Recovery, note 8(d)	(30,322)	(11,799)
Operating expenses of fleet for rent	42,640	32,931
Rental fleet impairment	(8,281)	1,877
Services provided by third parties and other expenses	240,662	176,795
Final balance of inventories, note 8	(1,738,798)	(1,643,383)
	4,447,504	3,947,056

19 SELLING EXPENSES

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

	2019 S/000	2018 S/000
Personnel expenses, note 21(d)	303,226	292,451
Services provided by third parties (b)	113,950	121,583
Other management charges	78,220	76,410
Depreciation, note 10(g) and 10(j)	63,287	46,410
Provision for doubtful accounts, note 6(e) and 7(l)	22,012	31,027
Carried forward:	580,695	567,881

	2019 S/000	2018 S/000
Carried forward:	580,695	567,881
Impairment of inventories, note 8(d)	10,569	-
Intangibles amortization, note 11(a)	7,118	7,956
Taxes	4,451	4,322
	602,833	580,159

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

20 ADMINISTRATIVE EXPENSES

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

	2019 S/000	2018 S/000
Personnel expenses, note 21(d)	184,943	174,211
Services provided by third parties (b)	76,479	56,235
Depreciation, note 10(g) and 10(j)	24,506	14,715
Other management charges	11,142	14,420
Intangibles amortization, note 11(a)	8,745	9,621
Taxes	6,269	6,894
	312,084	276,096

(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 incurred by the Group's administrative areas.

21 PERSONNEL EXPENSES

(a) A This item comprises:

	2019 S/000	2018 S/000
Remunerations and profit-sharing (b)	502,345	460,467
Statutory bonuses	93,242	95,053
Workers' contributions	52,199	49,494
Allowances to workers	25,810	25,159
Training	20,293	16,461
Vacations	9,821	8,921
Other minors	16,407	20,289
	720,117	675,844

(b) It mainly includes 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 between 5 and 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 6,649 in 2019 and 6,544 in 2018.

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

	2019	**2018**
	S/000	**S/000**
Cost of sales, note 18	231,948	209,182
Selling expenses, note 19	303,226	292,451
Administrative expenses, note 20	184,943	174,211
	720,117	675,844

(e) Remunerations to key personnel -

The total remuneration received by Directors and key executives of Management during 2019 amounted to approximately S/56,102,000 (S/57,720,000, in 2018), 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.

22 FINANCIAL INCOME

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

	2019	**2018**
	S/000	**S/000**
Interest on bills of exchange receivable	9,681	15,863
Interest on arrears	4,153	2,901
Interest on bank deposits	2,879	1,019
Other financial income	5,052	1,817
	21,765	21,600

23 FINANCIAL EXPENSES

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

	2019	**2018**
	S/000	**S/000**
Interest on overdrafts and loans, note 12(b)	60,693	35,079
Interest on corporate bonds and long-term loans, note 12(c)	19,671	32,829
Interest on lease liabilities - IFRS 16, note 13(b)	7,700	-
Interest on financing from foreign suppliers	2,982	3,009
Financial transactions tax	2,561	2,259
Other financial expenses	2,369	29
	95,976	73,205

24 EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing profit for the year 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:

	2019 S/000	2018 S/000
Numerator:		
Profits attributable to owners of the Company	246,436	225,028
	Thousands of shares	**Thousands of shares**
Denominator:		
Weighted average number of common shares	975,274	975,683
	2019 S/000	**2018 S/000**
Basic and diluted earnings per share	0.251	0.231

The weighted average number of shares in 2017, takes into account the effect of the weighted average number of the repurchase of shares and held in treasury, see note 17(c). The weighted average number of shares in 2018 is the same as the number of shares outstanding since no movements were reported, as described in note 17(a).

At December 31, 2019 and 2018 the Company does not have financial instruments with diluting effect, and therefore, the basic and diluted earnings per share are the same.

25 COMMITMENTS, CONTINGENCIES AND GUARANTEES GRANTED

(a) Commitments -

The Company leases assets such as property and vehicles under non-cancellable operating leases with maturities ranging between 2 and 3 years. Terms and conditions of leases are agreed on a lease-by-lease basis.

Effective January 1, 2019 the Company has recognized right-of-use assets for these leases, except for those of short-term and low-value assets (see note 3.5 and note 10). The total expense balance in this item was S/65,992,000 and was recognized within “Selling expenses” and “Administrative expenses” in the consolidated statement of income.

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

	S/000
Less than 1 year	30,619
Between 1 year and less than 3 years	60,805
Property, plant and equipment	91,424

(b) Guarantees granted -

The Group has the following guarantees granted:

Ferreycorp S.A.A:

- At December 31, 2019 the Company has signed guarantees for US$211,118,368 (US$144,124,000 at December 31, 2018) and US$34,543,626 (US$149,000 at December 31, 2018) to secure purchase transactions with third parties with several due dates.
- At December 31, 2019 the Company has given performance bonds to financial institutions for a total US$14,965,928 (US$5,000,000 and S/5,956,283 at December 31, 2018, to secure tax claims and appeals filed with Peruvian tax authorities.
- At December 31, 2019 and 2018 the Company holds a commitment for a cross guarantee signed on June 28, 2018 by the Company and its subsidiaries as Co-debtors, see note 12(c).

Ferreyros S.A.:

- At December 31, 2019 this subsidiary has letters of guarantee for US$26,066,743 (US$3,593,200 in 2018) to secure purchase transactions with third parties.
- At December 31, 2019 the subsidiary has letters of guarantees signed with financial institutions for US$56,517,824 (US$28,653,902 in 2018), 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, 2019 this subsidiary has signed a surety policy in favor of the Peruvian customs authorities ("Superintendencia Nacional de Aduanas") for the goods subject to customs regime amounting to US$1,722,000 (US$1,980,000 in 2018).

Soltrak S.A.:

- At December 31, 2019 this subsidiary has signed letters of guarantee for US$7,500,000 and S/18,057,119 (US$4,665,693 and S/32,193,473 in 2018), to secure purchase transactions with third parties and leases, respectively with different due dates.
- At December 31, 2019 the subsidiary has signed letters of guarantee signed with financial institutions for US$6,070,045 and S/545,828 (US$5,454,567 and S/1,661,526 in 2018), 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, 2019 this Subsidiary has letters of guarantee for US$15,854,859 (US$2,851,000 in 2018) to secure on-credit purchase transactions with third parties.
- At December 31, 2019 the Subsidiary has bank letters of guarantee in favor of third parties for US$3,232,027 and S/171,266 (US$4,484,000 and S/16,000 in 2018) 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, 2019 this Subsidiary has bank letters of guarantee in favor of third parties for US$6,373,793 and S/3,350,417 (US$5,469,260 and S/903,609 in 2018), mainly to secure on-credit purchase transactions of subsidiaries and affiliates with third parties.

(c) Contingencies -

At December 31, 2019 the Group maintains tax clams under appeal or administrative challenging proceedings under way for a total amount of approximately S/49,314,000 (S/87,945,000, at December 31, 2018); including fines and interest of S/9,310,000 and S/23,541,000, respectively (S/13,198,000 y S/58,252,000, respectively, at December 31, 2018). 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/44,884,000; (ii) VAT (IGV in Peru) for fiscal years 2001 to 2006 for S/3,234,000; and (iii) income tax on non-domiciled legal entities for fiscal years 2002, 2003, 2005, 2006 and 2015 totaling S/1,196,000 (S/16,312,000 at December 31, 2018).

For all the above cases, at December 31, 2019 and 2018 the Group has sought the advice of experts on these tax issues who have determined together with Management, that tax assessments totaled approximately S/11,926,000 (S/9,085,923, at December 31, 2018), 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 (note 15).

Management, together with its legal and tax advisors consider that the Group has 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, 2019 and 2018.

26 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, 2019 and 2018 the income tax rate on taxable income in the major countries in which the Company and its subsidiaries operate are:

	Tax rates	
	2019	2018
	%	%
Peru	29.5	29.5
Ecuador	22	22
Colombia	24	24
Chile (*)	25	25
Guatemala	25	25
El Salvador	30	30
Belize	25	25
Nicaragua	30	30
United States of America	15 and 28	15 and 28

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

	Regime of tax rate	
	Art. 14 Letter A Tax rate	Art. 14 Letter B
Year:		
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, 2019 and 2018, cash dividends in favor of non-domiciled shareholders are levied at the following rates:

	Tax rates	
	2019	2018
	%	%
Peru	5	5
Colombia	10	10
Chile	35	35
El Salvador	5	5

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

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

- Transfer pricing:

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

- Accrual:

  A legal definition of accrual is established for the recognition of income and expenses for income tax purposes, under which, Peruvian third-category income (corporate) is considered accrued whenever the income-earning events have substantially occurred and the right to that income is not subject to any precedent condition.

- Deductibility of financial expenses:

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

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

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

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

Tax authorities are authorized to request this information from taxpayers. Based on the analysis of the Group's transactions, Management and its legal advisors consider that no material contingencies are expected to arise from the application of these rules to the Group at December 31, 2019 and 2018.

(d) Peruvian tax authorities have the right to review and, if necessary, amend the income tax determined by the Company in the last four years from January 1 of the year following the filing date of the related tax returns (years open to audit). Income tax and VAT tax returns for fiscal years 2016 to 2019 remain to be audited by the Peruvian tax authorities. Tax returns for fiscal years 2000 to 2015 have already been audited.

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

	Fiscal year subject to tax audit
Foreign subsidiaries (Country):	
Guatemala	2015 to 2019
El Salvador	2016 to 2019
Belize	2009 to 2019
Nicaragua	2010 to 2019
United States of America, Chile, Colombia and Ecuador	2011 to 2019
Local subsidiaries:	
Ferreyros S.A.	2015 to 2019
Unimaq S.A.	2015 to 2019
Cresko S.A.	2007 to 2019
Motriza S.A.	2016 to 2019
Soltrak S.A.	2017 to 2019
Fargoline S.A.	2017 to 2019
Orvisa S.A. and subsidiaries	2016 to 2019
Motored S.A.	2015 to 2019
Forbis Logistic S.A.	2014 to 2019
Soluciones Sitech Perú S.A.	2014 to 2019

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, 2019 and 2018.

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

The amount effectively paid may be used as a tax credit against on-account payments made under the Peruvian Income Tax General Regime or against the payment of regularization of Income tax in the taxable period to which it relates.

27 CHANGES IN LIABILITIES RELATED TO FINANCING ACTIVITIES

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

			Cash flow		Non-cash changes			
	Note	January 1	New loans	Payment of loans	Payment of interest	Interest accrued	Exchange difference	December 31
		S/000	S/000	S/000	S/000	S/000	S/000	S/000
Year 2019:								
Borrowings	12	1,999,123	3,843,208	(3,696,158)	-	-	6,507	2,152,680
Lease liability	13	-	-	(66,834)	-	-	-	(66,834)
Interest on borrowings	15	16,652	-	-	(83,688)	74,279	-	7,243
		2,015,775	3,843,208	(3,762,992)	(83,688)	74,279	6,507	2,093,089
Year 2018:								
Borrowings	12	1,554,602	3,718,781	(3,301,887)	-	-	27,628	1,999,123
Interest on borrowings	15	6,767	-	-	(62,301)	72,186	-	16,652
		1,561,369	3,718,781	(3,301,887)	(62,301)	72,186	27,628	2,015,775

28 FINANCIAL RISK MANAGEMENT AND OTHER ASPECTS

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

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

(a) Risk management structure -

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

(a.1) Board of Directors -

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

(a.2) Risk Committee -

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

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

(a.3) Internal Audit -

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

(a.4) Administration and Finance Management -

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

(a.5) Corporate Risk Division -

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

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

(b) Risk mitigation -

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

(c) Risk concentration -

(c.1) Credit risk -

Credit risk is the risk that a counterparty is unable not meet its borrowings in relation to a financial instrument or sales contract, generating a financial loss. The Group is exposed to credit risk for its operating activities (mainly receivables) and for its financing activities, including bank deposits. Regarding banks deposits, the Group accounts for 88.98 percent (96.61 percent in 2018) of its cash and cash equivalents at financial institutions.

Credit risk related to receivables: Management manages credit risks of customers in accordance with policies, procedures and controls duly established. The outstanding balances of receivables are periodically reviewed to ensure their recovery. In addition, the Company has a larger customer base. At December 31, 2019, the Group's average collection period is 62 days on credit risk, which controls and monitors on an ongoing basis (68 days at December 31, 2018).

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, 2019 and 2018 is the carrying amount of cash balances and cash equivalents shown in note 4.

At December 31, 2019 Management has estimated that the maximum amount of credit risk to which the Group is exposed amounts to approximately S/1,411,762 (S/1,521,923 at December 31, 2018), which represents the carrying amount of financial assets, see note 4.

At December 31, 2019 and 2018 the Group subsidiaries show a moderate exposure of approximately S/63.4 million and S/75 million, respectively (below 5 and 6 percent, respectively, of the total trade accounts receivable, before the estimate for doubtful accounts, see note 6) of trade receivables from construction industry customers that are part of prosecutorial investigations currently in progress that may result in these debtors being considered within the scope of Law No.30737, “Law that ensures the prompt payment of civil damages to the Peruvian Government in cases of corruption and related crimes” and its rules for application approved under Supreme Decree No.096-2018-EF. At December 31, 2019 and 2018, Management considers the Group 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, 2019 and 2018.

(c.2) Interest rate risk -

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

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

	At December 31, 2019					
	Fixed rate					
	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Non-interest bearing	Total	Average fixed interest rate at 2019
	S/000	S/000	S/000	S/000	S/000	%
Assets:						
Cash and cash equivalents	9,152	-	-	75,281	84,433	1.66%
Investment in funds	-	-	-	9,303	9,303	-
Trade receivables	77,883	36,741	46,062	985,959	1,146,645	Between 8% and 22%
Other receivables (*)	-	-	-	171,381	171,381	-
Total assets	87,035	36,741	46,962	1,241,924	1,411,762	
Liabilities:						
Borrowings	710,917	532,179	909,584	-	2,152,680	Between 1.68% and 3.96%
Lease liability	19,963	27,140	79,581	-	126,684	6.4%
Trade payables	9,665	50,085		558,087	617,837	Between 4.65% and 6.3%
Other payables (*)	-	-	-	260,681	260,681	-
Total liabilities	740,545	609,404	989,165	818,768	3,157,882	
Margin gap	(653,510)	(572,663)	(943,103)	423,156	(1,746,120)	
Accumulated gap	(653,510)	(1,226,173)	(2,169,276)	(1,746,120)	-	

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

(*) At December 31, 2019 and 2018 "Other receivables" and “Other payables” included in this table do not consider amounts corresponding to VAT payable, tax refunds, income tax, advances and those that do not qualify as financial instruments, see note 4.

Borrowings at variable rates expose the Group to the cash flow interest rate risk. Borrowings at fixed rates expose the Group to the fair value interest rate risk of its liabilities. At December 31, 2019 and 2018, the Group only showed short-term and long-term borrowings relating to financial obligations and lease liabilities, which have been agreed at fixed interest rates; and therefore, it is exposed to the fair value interest rate on its liabilities. However, the Group accepts the risk of fair value interest rate risk, because it considers it is not significant and does not expect the market interest rates to go significantly beyond the contractual rates in the foreseeable future.

(c.3) Liquidity risk -

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

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

The Group's main source of cash revenue is collections of local and imported merchandise sales. The average term of payment to its main suppliers was 48 days and 53 days for 2019 and 2018, respectively. 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 term agreed on the dates of the consolidated statement of financial position. These cash flows are stated at undiscounted amounts; interest to be accrued in the future is not included, accordingly:

	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Total
	S/000	S/000	S/000	S/000
At December 31, 2019 -				
Other liabilities:				
- Borrowings (capital)	710,917	532,179	909,584	2,152,680
- Borrowings (interest)	8,226	23,658	41,826	73,710
- Lease liability (capital)	19,963	27,140	79,581	126,684
- Trade payables	437,359	180,478	-	617,837
- Other payables	442,501	41,472	1,434	485,407
	1,618,966	804,927	1,032,425	3,456,318
At December 31, 2018 -				
Other liabilities:				
- Borrowings (capital)	428,977	359,709	1,210,437	1,999,123
- Borrowings (interest)	8,843	22,672	77,853	109,368
- Trade payables	441,463	118,976	-	560,439
- Other payables	384,488	127,068	34	511,590
	1,263,771	628,425	1,288,324	3,180,520

(c.4) Exchange rate risk -

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

Assets and liabilities transactions are carried out basically in the functional currency (Peruvian Sol) of the controlling party, which the Group uses to measure its performance, so that if the position in foreign exchange (i.e. U.S. 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 that is not maintained in Peruvian sol (functional currency) and which are exposed to movements in exchange rates. The Group measures its performance in the currency of each country so that if the foreign exchange position is positive, any devaluation of the US dollar would negatively affect the Group's consolidated statement of financial position. Any devaluation/revaluation of foreign currency would affect the consolidated statements of income.

Transactions in foreign currency in Peru are made at the exchange rates of the free market published by the Superintendencia de Banca, Seguros y AFP (SBS, the Spanish acronym). At December 31, 2019 the exchange rates prevailing in the free market for transactions in US dollars, as published by this institution were S/3.311 and S/3.317 per US$1 for assets and liabilities, respectively (S/3.369 and S/3.379 per US$1 for assets and liabilities respectively, at December 31, 2018).

At December 31, 2019 and 2018 the Group had the following monetary assets and liabilities in foreign currencies presented in Peruvian Soles:

2019	Soles	Dollars	Quetzal	Córdoba	Chilean Pesos	Belize Dollar	Total
	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Assets:							
Cash and cash equivalents	42,367	38,467	447	937	2,202	13	84,433
Trade receivables	272,830	841,113	25,425	1,172	6,105	-	1,146,645
Other receivables	166,787	91,946	3,149	-	1,371	60	263,313
	481,984	971,526	29,021	2,109	9,678	73	1,494,391
Liabilities:							
Borrowings	(211.488)	(1,692,997)	(61,199)	-	(186,996)	-	(2,152,680)
Lease liabilities	(91)	(71,954)	(5,034)	-	(49,605)	-	(126,684)
Trade payables	(180,699)	(316,283)	(63,162)	(1,257)	(55,560)	(876)	(617,837)
Other payables	(451.179)	(34,228)	-	-	-	-	(485,407)
	(843,457)	(2,115,462)	(129,395)	(1,257)	(292,161)	(876)	(3,382,608)
Net liabilities position	(361,473)	(1,143,936)	(100,374)	852	(282,483)	(803)	(1,888,217)

2018	Soles	Dollars	Quetzal	Córdoba	Chilean Pesos	Belize Dollar	Total
	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Assets:							
Cash and cash equivalents	33,903	36,264	1,816	815	846	54	73,698
Trade receivables	187,468	988,545	34,333	2,938	7,264	-	1,220,548
Other receivables	238,559	63,290	5,344	-	821	1,149	309,162
	459,930	1,088,099	41,493	3,753	8,931	1,203	1,603,408
Liabilities:							
Borrowings	(194,714)	(1,569,791)	(95,494)	(926)	(138,198)		(1,999,123)
Trade payables	(70,714)	(399,587)	(50,455)	(3,004)	(35,790)	(889)	(560,439)
Other payables	(406,506)	(104,533)	-	-	(551)	-	(511,590)
	(671,934)	(2,073,911)	(145,949)	(3,930)	(174,539)	(889)	(3,071,152)
Net liabilities position	(212,004)	(985,812)	(104,457)	(177)	(165,608)	314	(1,467,744)

At December 31, 2019 and 2018 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, 2019 the Group recorded a net exchange losses of approximately S/1,822,000 (net exchange losses of approximately S/59,365,000 in 2018), 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, 2019 and 2018, of its monetary assets and liabilities and estimated cash flows. The analysis determines the effect of a reasonably possible change in the US dollar exchange rate, with all the other variables held constant in the consolidated statement of income before income tax.

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

Sensitivity analysis	Change in rates US$	2019	2018
	%	S/000	S/000
Devaluation -			
Soles	5	147,682	59,967
Soles	10	73,841	119,934
Devaluation -			
Soles	5	(73,841)	(59,967)
Soles	10	(147,682)	(119,934)

(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, 2019 and 2018 the gearing ratio was as follows:

	2019	2018
	S/000	S/000
Borrowings, note 12(a)	2,152,680	1,999,123
Lease liability, note 13(a)	126,284	-
Less: Cash and cash equivalents, note 5	(84,433)	(73,698)
Net financial debt (A)	2,194,531	1,925,425
Equity (B)	2,145,571	2,133,968
Gearing ratio (A) / (B)	1.023	0.902

The gearing ratio calculated by Management increased from 0.964 to 1.023, as a result of the impact of the adoption of IFRS 16, “Leases”. Both the financial debt and the gross assets increased after the recognition of the right-of-use assets and the lease liabilities at January 1, 2019. For further detail, see Note 3.5.

Also, gearing ratio calculated by Management in 2019 was higher than in 2018, given the increase in borrowings obtained by the Group to finance its investment plan and meet its working capital needs.

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of short-term financial assets and liabilities are similar to their fair values since they are short term. For long-term debts, the table below shows an estimation of their fair value:

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	S/000	S/000	S/000	S/000
Other current financial liabilities	1,243,096	1,243,096	788,686	788,686
Other non-current financial liabilities	909,584	851,926	1,210,437	1,142,797

The carrying amounts of other short-term financial liabilities (borrowings and lease liabilities) approximate their fair value. At December 31, 2019, those of medium-term and long-term notes and leases have been determined using annual rates ranging from 1.60 percent to 6.00 percent, respectively (4.875 percent on bonds, from 3 percent to 5.98 percent medium-term and long-term notes, respectively, in 2018).

30 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, using the same basis of preparation of the financial statements.

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

At December 31, 2019 and 2018 the information by operating segments is as follows:

	Sales and services S/000	Other operating income S/000	Total income S/000	Gross margin S/000	Selling expenses S/000	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 venture S/000	Profit before income tax S/000	Income tax S/000	Net income S/000
2019:														
Heavy equipment, spare parts and services	4,899,120	1,139	4,900,259	1,153,353	(463,033)	(240,766)	(949)	(77,097)	17,292	(3,497)	-	385,303	(139,302)	246,001
Vehicles, spare parts and services	246,882	184	247,066	43,868	(31,142)	(14,675)	954	(7,749)	1,949	1,886	-	(4,909)	488	(4,421)
Rental equipment	184,242	-	184,242	62,086	(35,857)	(18,704)	-	(3,038)	689	(58)	-	5,118	(1,867)	3,251
Agricultural equipment, spare parts and services	80,367	767	81,134	15,684	(9,925)	(5,174)	-	(1,325)	300	(25)	-	(465)	170	(295)
Others	410,450	-	410,450	100,656	(62,876)	(32,765)	1	(6,767)	1,535	(128)	3,336	2,992	(1,092)	1,900
Total consolidated	5,821,061	2,090	5,823,151	1,375,647	(602,833)	(312,084)	6	(95,976)	21,765	(1,822)	3,336	388,039	(141,603)	246,436
2018:														
Heavy equipment, spare parts and services	4,304,298	921	4,305,219	1,048,688	(443,163)	(211,029)	14,977	(58,779)	17,735	(49,466)	-	318,963	(115,740)	203,223
Vehicles, spare parts and services	240,679	150	240,829	44,790	(33,470)	(15,160)	125	(5,213)	1,146	(2,427)	-	(10,209)	2,087	(8,122)
Rental equipment	181,703	-	181,703	48,626	(28,904)	(14,278)	669	(2,558)	755	(2,075)	-	2,235	(823)	1,412
Agricultural equipment, spare parts and services	70,670	529	71,199	16,477	(10,902)	(5,213)	260	(995)	294	(807)	-	(886)	326	(560)
Others	401,971	-	401,971	95,284	(63,720)	(30,416)	52,376	(5,660)	1,670	(4,590)	1,068	46,012	(16,937)	29,075
Total consolidated	5,199,321	1,600	5,200,921	1,253,865	(580,159)	(276,096)	68,407	(73,205)	21,600	(59,365)	1,068	356,115	(131,087)	225,028

At December 31, 2019 and 2018 the information by operation segments by country is as follows:

	Sales and services	Other operating income	Total income	Gross margin	Selling expenses	Adminis-trative expenses	Other income and expenses, net	Financial expenses	Financial income	Net exchange difference	Share in net profits of associates and joint venture	Profit before income tax	Income tax	Net income
	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
2019:														
Peru	5,251,563	2,014	5,253,577	1,207,045	(531,063)	(318,964)	49,101	(80,241)	28,060	19,071	3,336	376,345	(135,337)	241,008
Guatemala	224,706	76	224,782	47,667	(26,170)	(8,851)	(128)	(7,106)	826	142	-	6,380	(1,941)	4,439
El Salvador	167,938	-	167,938	46,351	(27,649)	(6,323)	470	(3,576)	544	-	-	9,817	(3,657)	6,160
Belize	13,318	-	13,318	3,969	(1,865)	(1,635)	1,223	-	212	139	-	2,043	(253)	1,790
United States of America	51,025	-	51,025	6,479	(623)	(3,666)	39	(196)	64	-	-	2,097	(615)	1,482
Nicaragua	20,283	-	20,283	4,843	(1,450)	(1,962)	31	(67)	22	(43)	-	1,374	(373)	1,001
Honduras	5,338	-	5,338	1,302	(1,249)	(40)	5	(246)	-	-	-	(288)	(37)	(265)
Panama	-	-	-	-	-	(3,281)	(4,066)	(24)	2	-	-	(7,369)	-	(7,369)
Chile	287,631	-	287,631	53,309	(11,151)	(10,754)	105	(14,777)	2,830	21,131	-	(1,569)	412	(1,157)
Ecuador	19,104	-	19,104	4,682	(1,613)	(3,382)	-	(755)	217	-	-	(851)	198	(653)
Intercompany transactions	(219,845)	-	(219,845)	-	-	46,774	(46,774)	11,012	(11,012)	-	-	-	-	-
Total consolidated	5,821,061	2,090	5,823,151	1,375,647	(602,833)	(312,084)	6	(95,976)	21,765	1,822	3,336	388,039	(141,603)	246,436
2018:														
Peru	4,688,977	1,262	4,690,239	1,115,056	(502,881)	(282,796)	116,140	(69,271)	32,219	(37,573)	1,010	371,962	(129,677)	242,285
Guatemala	210,565	201	210,766	34,876	(32,529)	(10,045)	505	(7,180)	1,659	(5,691)	-	(18,405)	2,204	(16,201)
El Salvador	167,710	137	167,847	44,121	(26,584)	(6,277)	743	(3,291)	610	-	-	9,322	(3,578)	5,744
Belize	14,988	-	14,988	4,244	(2,023)	(1,632)	297	-	107	230	-	1,223	(289)	934
United States of America	52,743	-	52,743	5,448	(894)	(2,691)	3	(3)	14	-	-	1,877	(433)	1,444
Nicaragua	20,084	-	20,084	4,854	(2,356)	(1,873)	172	(126)	9	(236)	-	444	(253)	191
Honduras	6,329	-	6,329	1,678	(1,355)	(33)	(27)	(202)	-	-	-	61	(44)	17
Panama	-	-	-	-	-	(3,895)	(2,445)	(239)	1	-	-	(6,578)	-	(6,578)
Chile	244,752	-	244,752	37,972	(9,888)	(10,869)	222	(6,094)	715	(16,095)	-	(4,037)	1,019	(3,018)
Ecuador	21,996	-	21,996	5,616	(1,649)	(3,188)	-	(745)	212	-	-	246	(36)	210
Intercompany transactions	(228,823)	-	(228,823)	-	-	47,203	(47,203)	13,946	(13,946)	-	-	-	-	-
Total consolidated	5,199,321	1,600	5,200,921	1,253,865	(580,159)	(276,096)	68,407	(73,205)	21,600	(59,365)	1,010	356,115	(131,087)	225,028

31 SUBSEQUENT EVENTS TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Between December 31, 2019 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 material adjustment to the balances stated in the consolidated financial statements.