

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-35401

CEMENTOS PACASMAYO S.A.A.
(Exact name of Registrant as specified in its charter)

PACASMAYO CEMENT CORPORATION
(Translation of Registrant's name into English)

Republic of Peru
(Jurisdiction of incorporation or organization)

Calle La Colonia 150, Urbanización El Vivero
Surco, Lima
Peru
(Address of principal executive offices)

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(Name, telephone, email and/or facsimile number and address of company contact person)

Securities registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Shares, par value \$1.00 per share, in the form of American Depositary Shares, each representing five Common Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

At December 31, 2019

423,868,449 common shares

4,238,397 investment shares*

* Excluding 36,040,497 investment shares held in treasury.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Note- Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 203.405 of this chapter) during the preceding 12 months (or for such other period that the registrant was required to submit and post such files) Yes ☐ No ☐ Note: Not required for Registrant.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Indicate by check mark which basis of accounting the Registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐

International Financial Reporting Standards as issued by
the International Accounting Standards Board ☒

Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow. Item 17 ☐
Item 18 ☐

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

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PART I INTRODUCTION

Certain Definitions

All references to “we,” “us,” “our,” “our company” and “Cementos Pacasmayo” in this annual report are to Cementos Pacasmayo S.A.A., a publicly-held corporation (*sociedad anónima abierta*) organized under the laws of Peru, and, unless the context requires otherwise, its consolidated subsidiaries. The terms “U.S. dollar” and “U.S. dollars” and the symbol “US\$” refer to the legal currency of the United States; and the terms “sol” and “soles” and the symbol “S/” refer to the legal currency of Peru.

Financial Information

Our consolidated financial statements included in this annual report have been prepared in *soles* and in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and audited in accordance with the standards of the Public Company Accountings Oversight Board (United States).

In this annual report, we present EBITDA and Adjusted EBITDA (only for 2017), which are financial measures that are not recognized under IFRS. We refer to such financial measures as “non-IFRS” financial measures. A non-IFRS financial measure is generally defined as one that purports to measure financial performance; financial position or cash flows of the subject reporting company but excludes or includes amounts that would not be so adjusted in the most comparable IFRS measure. We present EBITDA and Adjusted EBITDA because we believe it provides the reader with a supplemental measure of the financial performance of our core operations that facilitates period-to-period comparisons on a consistent basis. EBITDA and Adjusted EBITDA should not be construed as an alternative to profit or operating profit, as an indicator of operating performance, as an alternative to cash flow provided by operating activities or as a measure of liquidity (in each case, as determined in accordance with IFRS). EBITDA and Adjusted EBITDA, as calculated by us, may not be comparable to similarly titled measures reported by other companies, including those in the cement industry. For a calculation of EBITDA and Adjusted EBITDA and a reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable IFRS financial measure, see “Item 3. Key Information—A. Selected Financial Data.”

We have translated some of the *soles* amounts appearing in this annual report into U.S. dollars for convenience purposes only. Unless the context otherwise requires, the rate used to translate *soles* amounts to U.S. dollars was S/3.317 to US\$1.00, which was the average accounting exchange rate (*tipo de cambio contable*) reported on December 31, 2019, by the Peruvian Superintendence of Banks, Insurance and Private Pension Fund Administrators (*Superintendencia de Banca, Seguros y AFPs*, or “SBS”). The Federal Reserve Bank of New York does not report a noon buying rate for *soles*. The U.S. dollar equivalent information presented in this annual report is provided solely for convenience of the reader and should not be construed as implying that the *soles* amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate.

Certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be arithmetic aggregations of the figures that precede them.

Market Information

We make estimates in this annual report regarding our competitive position and market share, as well as the market size and expected growth of the construction sector and cement industry in Peru. We have made these estimates on the basis of our management’s knowledge and statistics and other information available from the following sources:

- the Central Bank of Peru (*Banco Central de Reserva del Perú*);
- the National Statistical Institute of Peru (*Instituto Nacional de Estadística e Informática*, or “INEI”);
- the Association of Cement Producers of Peru (*Asociación de Productores de Cemento*, or “ASOCEM”);
- the Ministry of Housing, Construction and Sanitation;

- ADUANET, a website administered by the Peruvian Tax Superintendence (*Superintendencia Nacional de Administración Tributaria*, or “SUNAT”);
- the Peruvian Chamber of Construction (*Cámara Peruana de la Construcción*); and
- the Global Competitiveness Index prepared by the World Economic Forum.

We believe these estimates to be accurate as of the date of this annual report.

Forward-Looking Statements

This annual report contains forward-looking statements. Forward-looking statements convey our current expectations or forecasts of future events. These statements involve known and unknown risks, uncertainties and other factors, including those listed under “Item 3. Key Information – D. Risk Factors,” which may cause our actual results, performance or achievements to differ materially from the forward-looking statements that we make.

Forward-looking statements typically are identified by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “project,” “plan,” “believe,” “potential,” “continue,” “is/are likely to,” or other similar expressions. Any or all of our forward-looking statements in this annual report may turn out to be inaccurate. Our actual results could differ materially from those contained in forward-looking statements due to a number of factors, including:

- political economic, political and social risk inherent to conducting business in Peru including as a result of public health crises in Peru, and the Peruvian government’s responses thereto;
- exchange rates, inflation and interest rates;
- the entry of new competitors into the market we serve;
- construction activity levels, particularly in the northern region of Peru;
- private investment and public spending in construction projects;
- unpredictable natural disasters, such as floods and earthquakes affecting the northern region of Peru, and global events, such as public health crisis and epidemics/pandemics and the worldwide effects thereof and responses thereto;
- availability and prices of energy, admixtures and raw materials;
- changes in the regulatory framework, including tax, environmental and other laws;
- the successful expansion of our production capacity;
- our ability to compete with potential substitutes of cement products that may be introduced in the Peruvian construction industry;
- our ability to maintain and expand our distribution network;
- our ability to retain and attract skilled employees; and
- other factors discussed under “Item 3. Key Information—D. Risk Factors.”

The forward-looking statements in this annual report represent our expectations and forecasts as of the date of this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this annual report.

COVID-19 Update

We remain focused first and foremost on the health, safety, and well-being of our workers. This is at the foundation of all the business decisions we are making during these unprecedented times.

A new strain of coronavirus (COVID-19) that was first identified in Wuhan, China in December 2019, and subsequently declared a pandemic by the World Health Organization, has surfaced in nearly all regions around the world and resulted in travel restrictions and business slowdowns or shutdowns in affected areas. On March 15, 2020, the Peruvian government declared a nationwide state of emergency, effectively shutting down all business considered non-essential (exceptions are food production and commercialization, pharmaceuticals, health). As a result, we have shut down our three plants until the Peruvian government allows us to restart our production. We cannot yet estimate the impact this will have on our results of operation for 2020, but it is likely that they will be materially impacted. We are already working on a business plan for the future, which includes a significant change in the way we operate, to comply with social distancing and promote remote work in all possible areas. Furthermore, since the economy will be impacted, the demand for cement may also be impacted, since households will have less disposable income and *auto-construcción* accounts for over 60% of our sales. Peruvian government spending for infrastructure may also be affected, as funds are diverted to fight COVID-19 and its subsequent effects in the economy.

Since we have been unable to generate income, but we still have to comply with our obligations, our liquidity and capital resources have been affected. We have not yet seen any changes in our access and cost of funding, and have taken short term loans as a precautionary measure, in case the shutdown is extended, to cover our working capital needs. As of the date of this report, we believe we will be able to meet the covenants of our outstanding debt. We do not expect COVID-19 to affect the value of our assets nor anticipate any material impairments or changes in accounting judgements.

Although we have had to shut down our cement production, we have continued working remotely in all possible areas. To the date of this annual report, we have been pleasantly surprised by the results, encouraging us to promote remote work arrangements permanently in many areas. We do not face material resource constraints or foresee requiring material expenditures in order to enact this plan. In terms of our supply chain, we do not foresee COVID-19 having an impact, once the Peruvian government allows for production to restart. In terms of distribution of our products, we should not have an impact as long as there are no further transportation restrictions.

We continue to monitor the rapidly evolving situation and guidance from international and domestic authorities since there may be developments outside our control requiring us to adjust our operating plan. The further spread of COVID-19, and the requirements to take action to limit the spread of the illness, will impact our ability to carry out our business as usual and may materially adversely impact our business, results of operations and financial condition.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated financial data should be read together with “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements and the related notes included in this annual report. As of December 31, 2019, the consolidated financial statements comprise the financial statements of Cementos Pacasmayo and its subsidiaries: Cementos Selva S.A. and subsidiaries, Distribuidora Norte Pacasmayo S.R.L., Empresa de Transmisión Guadalupe S.A.C., Calizas del Norte S.A.C. (in liquidation) and Salmueras Sudamericanas S.A. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

The following selected financial data as of and for the years ended December 31, 2019, 2018, 2017, 2016 and 2015 have been derived from our annual audited consolidated financial statements included in this annual report, which have been prepared in accordance with IFRS as issued by the IASB. Data for 2015, 2016, 2017 and 2018 for sales and selling and distribution expenses has been adjusted according to IFRS 15.

	Year ended December 31,					
	2019	2019	2018	2017	2016	2015
	(in millions of US\$, except share and per share data)(1)					
Statement of Financial Position:						
Sales of goods	US\$ 420.2	S/ 1,392.7	S/ 1,262.9	S/ 1,220.8	S/ 1,236.8	S/ 1,229.9
Cost of sales	(273.3)	(905.8)	(796.2)	(733.0)	(736.6)	(695.8)
Gross profit	146.9	486.9	466.7	487.8	500.2	534.1
Operating income (expenses):						
Administrative expenses	(52.7)	(174.5)	(172.1)	(195.6)	(193.4)	(179.7)
Selling and distribution expenses	(13.4)	(44.5)	(44.1)	(41.7)	(36.5)	(30.4)
Impairment of brine assets	—	—	—	(47.6)	—	—
Other operating income (expense), net	0.8	2.6	(8.7)	(4.3)	2.4	3.9
Total operating expenses, net	(65.3)	(216.4)	(224.9)	(289.2)	(227.5)	(206.2)
Operating profit	81.6	270.5	241.8	198.6	272.7	327.9
Other income (expenses):						
Finance income	0.8	2.6	2.3	5.8	3.2	3.4
Finance costs	(23.5)	(77.9)	(87.3)	(73.8)	(75.4)	(36.8)
Loss (gain) on the valuation of trading derivative financial instruments	(0.5)	(1.5)	2.6	—	—	—
Cumulative net loss on settlement of derivative financial instruments	—	—	(34.9)	—	—	—
Gain (loss) from exchange difference, net	0.1	0.6	(8.4)	(2.2)	2.4	12.3
Total other expenses, net	(23.1)	(76.2)	(125.7)	(70.2)	(74.6)	(21.1)
Profit before income tax	58.5	194.3	116.1	128.4	198.1	306.8
Income tax expense	(18.8)	(62.3)	(41.0)	(47.0)	(78.6)	(89.4)

	Year ended December 31,					
	2019	2019	2018	2017	2016	2015
	(in millions of US\$, except share and per share data)(1)					
Statement of Financial Position:				(in millions of S/, except share and per share data)(1)		
Profit for the year from continuing operations	39.7	132.0	75.1	81.4	119.5	217.4
Loss for the year from discontinued operations	—	—	—	(0.8)	(6.6)	(5.7)
Profit for the year	<u>39.7</u>	<u>132.0</u>	<u>75.1</u>	<u>80.6</u>	<u>112.9</u>	<u>211.7</u>
Share and Per Share Data:						
Attributable to:						
Equity holders of the parent	39.8	132.0	76.7	93.8	116.2	215.5
Non-controlling interests	—	—	(1.6)	(13.2)	(3.3)	(3.8)
	<u>US\$ 39.8</u>	<u>S/ 132.0</u>	<u>S/ 75.1</u>	<u>S/ 80.6</u>	<u>S/ 112.9</u>	<u>S/ 211.7</u>
Profit per share (2)	US\$ 0.1	S/ 0.31	S/ 0.18	S/ 0.21	S/ 0.21	S/ 0.38
Number of shares outstanding(3)	428,106,846	428,106,846	428,106,846	446,063,120	544,688,023	573,998,649
Dividends per share	US\$ 0.1	S/ 0.36	S/ 0.38	S/ 0.35	S/ 0.285	S/ 0.28

	As of December 31,											
	2019		2019		2018		2017		2016		2015	
	(in millions of US\$)(1)		(in millions of S/,(1)									
Balance Sheet Data:												
Current assets												
Cash and term deposits	US\$	20.6	S/	68.3	S/	49.1	S/	49.2	S/	80.2	S/	158.0
Trade and other receivables		36.4		120.5		102.9		99.5		81.1		110.9
Income tax prepayments		9.1		30.2		36.7		27.8		46.5		44.9
Inventories		156.6		519.0		424.8		373.0		346.5		307.5
Prepayments		3.1		10.3		5.8		3.9		8.0		7.2
Total current assets		225.8		748.3		619.3		553.4		562.3		628.5
Assets held for distribution		—		—		—		—		338.4		—
Non-current assets												
Other receivables		1.4		4.7		4.5		16.2		25.1		64.1
Prepayments		0.1		0.2		0.3		0.5		1.2		1.4
Financial instruments designated at fair value through other comprehensive income		5.5		18.2		26.9		21.2		0.7		0.4
Other financial instruments		—		—		12.3		0.5		69.9		124.8
Property, plant and equipment		633.9		2,100.7		2,152.7		2,208.6		2,273.1		2,490.8
Intangible assets		14.3		47.4		40.9		13.4		43.0		81.9
Goodwill		1.4		4.5		4.5		—		—		—
Deferred income tax assets		2.2		7.4		3.1		0.1		6.4		21.1
Other assets		0.1		0.2		0.1		0.2		0.7		1.0
Total non-current assets		658.8		2,183.3		2,245.3		2,260.7		2,420.1		2,785.5
Total assets	US\$	884.6	S/	2,931.6	S/	2,864.6	S/	2,814.1	S/	3,320.8	S/	3,414.0
Current liabilities												
Trade and other payables	US\$	71.6	S/	237.3	S/	154.6	S/	178.0	S/	142.8	S/	170.8
Interest-bearing loans and borrowings		29.8		98.8		60.8		—		—		—
Income tax payable		—		—		—		2.4		3.5		3.9
Provisions		5.0		16.6		46.4		24.6		31.7		28.9
Total current liabilities		106.4		352.7		261.8		205.0		178.0		203.6
Liabilities directly related to assets held for distribution		—		—		—		—		2.7		—
Non-current liabilities												
Interest-bearing loans and borrowings		302.7		1,003.1		1,022.6		965.3		998.1		1,012.4
Other financial instruments		0.4		1.3		—		—		—		—
Lease liabilities		—		0.1		—		—		—		—
Other non-current provisions		2.3		7.6		5.4		28.3		22.0		32.6
Deferred income tax liabilities, net		43.8		145.1		123.4		108.8		139.8		119.1
Total non-current liabilities		349.2		1,157.2		1,151.4		1,102.4		1,162.6		1,164.1
Total liabilities	US\$	455.6	S/	1,509.9	S/	1,413.2	S/	1,307.4	S/	1,340.6	S/	1,367.7
Equity:												
Capital stock	US\$	127.9	S/	423.9	S/	423.9	S/	423.9	S/	531.5	S/	531.5
Investment shares		12.2		40.3		40.3		40.3		50.5		50.5
Treasury shares		(36.6)		(121.3)		(121.3)		(119.0)		(108.2)		(108.2)
Additional paid-in capital		130.6		432.8		432.8		432.8		545.2		553.5
Legal reserve		50.9		168.6		168.4		160.7		188.1		176.5
Other reserves		(6.0)		(19.8)		(12.0)		(43.7)		(16.6)		11.6
Retained earnings		150.0		497.2		519.3		611.6		677.1		727.8
Non-controlling interests		—		—		—		0.1		112.6		103.1
Total equity		429.0		1,421.7		1,451.4		1,506.7		1,980.2		2,046.3
Total liabilities and equity	US\$	884.6	S/	2,931.6	S/	2,864.6	S/	2,814.1	S/	3,320.8	S/	3,414.0

		As of and for the year ended December 31,										
		2019	2019		2018	2017		2016		2015		
		(in millions of US\$, except percentages)(1)	(in millions of S/, except percentages)									
Other Financial Information:												
Net working capital (4)	US\$	119.4	S/	395.7	S/	357.6	S/	348.3	S/	384.3	S/	424.9
Capital expenditures (5)		26.3		87.1		107.3		70.0		120.3		490.8
Depreciation and amortization		39.1		129.8		129.8		124.2		111.3		70.8
Net cash flows from operating activities		61.8		205.1		203.6		250.4		241.7		275.6
Net cash flows from (used in) investing activities		(24.0)		(79.6)		(98.8)		(70.6)		(135.6)		(475.9)
Net cash flows from (used in) financing activities		(32.2)		(106.8)		(105.3)		(185.4)		(177.5)		(257.8)
EBITDA/Adjusted EBITDA (6)		120.7		400.3		371.6		371.5		371.0		389.7
EBITDA/Adjusted EBITDA margin (6) (7)		28.7%		28.7%		29.4%		30.5%		29.9%		31.7%

Operating Data:**Installed capacity (000 metric tons/year):**

	As of and for the year ended December 31,				
	2019	2018	2017	2016	2015
Cement:					
Pacasmayo	2,900	2,900	2,900	2,900	2,900
Rioja	440	440	440	440	440
Piura	1,600	1,600	1,600	1,600	1,600
Total	4,940	4,940	4,940	4,940	4,940

Clinker:

Pacasmayo	1,500	1,500	1,500	1,500	1,500
Rioja	280	280	280	280	280
Piura	1,000	1,000	1,000	1,000	1,000
Total	2,780	2,780	2,780	2,780	2,780

Quicklime

Pacasmayo	240	240	240	240	240
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Production (000 metric tons/year):

Cement:					
Pacasmayo	1,368	1,155	1,141	1,177	1,884
Rioja	301	273	287	281	288
Piura	954	918	858	817	161
Total	2,623	2,346	2,286	2,275	2,333

Clinker:

Pacasmayo	864	831	687	887	967
Rioja	231	211	209	215	235
Piura	758	676	746	629	—
Total	1,853	1,718	1,642	1,731	1,202

Quicklime

Pacasmayo	74	105	168	156	98
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(1) Calculated based on an average exchange rate of S/3.314 to US\$1.00 as of December 31, 2019.

(2) Basic earnings per share amounts are calculated by dividing profit for the year attributable to common shares and investment shares of the equity holders of Cementos Pacasmayo by the weighted average number of common shares and investment shares outstanding during the year. The weighted average number of shares in 2019, 2018, 2017 and 2016 takes into account the weighted average effect of changes in shares held in treasury. On October 15, 2015, we acquired 37,276,580 of our investment shares. In January 2017, we acquired an additional 7,911,845 of our investment shares.

(3) In addition number of common and investment shares was reduced due to the spin-off of the net assets of Fosfatos del Pacífico S.A. to Fossal S.A.A. in March 2017.

(4) Represents current assets minus current liabilities.

(5) Represents expenditures for the purchase of property, plant, equipment and intangibles.

(6) For all periods other than 2017, EBITDA is presented. For 2017, we present Adjusted EBITDA, which excludes the impairment of brine assets. For a calculation of EBITDA and Adjusted EBITDA and a reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable IFRS financial measure, see “Item 3. Key Information—A. Selected Financial Data.”

(7) EBITDA/Adjusted EBITDA margin is calculated by dividing EBITDA or Adjusted EBITDA by revenues.

Non-IFRS Financial Measure and Reconciliation

We define EBITDA as profit minus finance income and plus finance costs, income tax expenses, and depreciation and amortization, and plus or minus gain (loss) from exchange difference, net. We define Adjusted EBITDA as EBITDA plus impairment of brine assets. We define EBITDA margin as EBITDA divided by revenues and Adjusted EBITDA margin as Adjusted EBITDA divided by revenues.

EBITDA and Adjusted EBITDA should not be construed as alternatives to profit or operating profit, as indicators of operating performance, as alternatives to cash flow provided by operating activities or as measures of liquidity (in each case, as determined in accordance with IFRS). EBITDA and Adjusted EBITDA, as calculated by us, may not be comparable to similarly titled measures reported by other companies, including those in the cement industry.

The following table sets forth the reconciliation of our profit to EBITDA and Adjusted EBITDA:

	Year ended December 31,											
	2019		2019		2018		2017		2016		2015	
	(in millions of US\$)(1)		(in millions of S/)									
Profit	US\$	39.8	S/	132.0	S/	75.1	S/	80.6	S/	112.9	S/	211.7
Finance income		-0.8		(2.6)		(2.4)		(5.8)		(3.2)		(3.5)
Finance costs		23.5		78.0		87.3		73.8		75.4		36.8
Gain (loss) from exchange rate, net		(0.2)		(0.7)		8.4		2.2		(2.5)		(12.4)
Income tax expense		18.7		62.3		41.0		48.9		72.2		86.2
Liquidation of financial instruments		—		—		34.9		—		—		—
Gain (loss) on the valuation of trading derivative financial instruments		0.5		1.5		(2.6)		—		—		—
Depreciation and amortization		39.2		129.8		129.8		124.2		111.3		70.8
EBITDA	US\$	120.7	S/	400.3	S/	371.6	S/	323.9	S/	371.0	S/	389.7
Impairment of brine assets		—		—		—		47.6		—		—
Adjusted EBITDA(2)	US\$	120.7	S/	400.3	S/	371.6	S/	371.5	S/	371.0	S/	389.7

(1) Calculated based on an average exchange rate of S/3.314 to US\$1.00 as of December 31, 2019.

(2) For all periods other than 2017, EBITDA is presented. For 2017, we present Adjusted EBITDA, which excludes the impairment of brine assets.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Global Risks

The extent to which the coronavirus (COVID-19) outbreak and measures taken in response thereto impact our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted.

Global health concerns relating to the coronavirus outbreak have been weighing on the macroeconomic environment, and the outbreak has significantly increased economic uncertainty. The outbreak has resulted in the Peruvian government, as well as many local governments, declaring a state of emergency, which means that our plants are shutdown. We have not produced any goods in our plants or generated any revenues since March 16, 2020. These measures will not only negatively impact consumer spending and business spending habits, they may also adversely impact our workforce and operations and the operations of our customers, suppliers and business partners. These measures may remain in place for a significant period of time and they are likely to continue to adversely affect our business, results of operations, financial condition and prospects.

The spread of the coronavirus has caused us to modify our business practices (including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers and business partners. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or otherwise be satisfactory to government authorities.

The extent to which the coronavirus outbreak impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the coronavirus outbreak has subsided, we may continue to experience materially adverse impacts to our business as a result of its global economic impact, including any recession that has occurred or may occur in the future.

There are no comparable recent events which may provide guidance as to the effect of the spread of the coronavirus and a global pandemic, and, as a result, the ultimate impact of the coronavirus outbreak or a similar health epidemic is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. However, the effects could have a material impact on our results of operations. Further, risks relating to the coronavirus may exacerbate the other risks discussed in this annual report.

Global macroeconomic conditions may have an adverse effect on our business, financial condition and results of operations.

Our operations and customers are located in Peru. As a result, our business, financial condition and results of operations, like those of most companies in Peru, could be adversely affected by the level of economic activity in the country. Therefore, variations in economic indicators such as inflation, gross domestic product ("GDP"), the balance of payments, the appreciation and depreciation of the currency, access to credit, interest rates, investment and savings, consumption, spending and fiscal income, employment, among other variables, over which we have no control, could affect the development of the Peruvian economy and, therefore, could generate adverse consequences for our business, financial condition and results of operation.

According to the Inflation Report, dated December 20, 2019, issued by the Central Reserve Bank of Peru ("BCRP"), in 2019, GDP growth was 2.3% compared to 4.0% in 2018. In addition, in 2019 the annual inflation rate was 1.9% compared to 2.2% in 2018, and domestic demand grew 2.5%, below the 4.3% growth in 2018. However, it cannot be assured that Peru's GDP will continue to grow in the future at the same or similar rates, or that a persistent low growth or GDP contraction will not adversely affect our business, financial condition or results of operations.

Although the Peruvian economy has experienced strong growth during the past two decades, recently GDP growth has slowed and it cannot be assured that inflation will not rise from its current level or that GDP growth will not continue to decelerate or contract. The return to an environment with high inflation would undermine Peru's competitiveness vis-à-vis other economies, with negative effects on the level of economic activity and employment. If inflation increases or economic growth decreases, our ability to generate new flows can be materially affected.

Currently, Peru benefits from a period of growth, with stability in its main economic and monetary indicators. However, if political uncertainty or changes in the political, economic, and social circumstances arise, the development of the country and our business, financial condition and results of operations could be adversely affected. Due to the COVID-19 outbreak, the government has approved a plan to mitigate its effect in the economy, which we expect will negatively affect the country's macroeconomic variables in the short-term.

The cement sector is closely related to the following main macroeconomic variables: (i) the expansion or contraction of the economy as measured by GDP, (ii) domestic demand, (iii) private investment and (iv) public spending. In this regard, prolonged conditions that adversely affect the economic growth of Peru would negatively affect the cement sector, in such a way that the economic situation and our results of operations may not coincide with those presented at the date of this annual report.

The trade dispute between the United States and China could adversely affect the Peruvian economy and our business.

We use raw materials and equipment from abroad in the production of cement, such as gypsum, blast furnace slag, pozzolanic materials and iron, which we obtain from third parties. During 2019, the cost of raw materials provided by third parties was approximately 4.9% of our total cement production costs. As of the date of this annual report, the United States and China are involved in a trade dispute, which has led to the implementation and increase of various tariffs on imports of products from these countries.

As a result, the prices of raw materials and equipment that we purchase from the United States or China could increase, which could in turn cause diminished revenues and profitability of our business. Additionally, because of this trade dispute, our customers' income and purchasing capacity could be affected, which could, in turn, reduce our income and profitability.

Risks Relating to Peru

Public health crises and epidemics/pandemics, such as the novel COVID-19 virus may materially adversely affect Peru's economy and therefore our business, financial conditions and results of operations.

The Peruvian government is deploying various economic and public health measures to address the pandemic caused by the novel COVID-19 virus. These measures are part of an economic stimulus plan that includes tax incentives, among other tools, intended to address the immediate impacts of the national state of emergency invoked by the government to attempt to contain spread of the virus and lessen the strain on the health care system and the impact on the overall economy. The Ministry of Economy and Finance, the BCRP and the SBS, as well as other government entities, have adopted specific measures to provide economic support to segments of the population, such as vulnerable population and small enterprises, which are most at risk in this crisis.

The COVID-19 pandemic has had a material adverse impact on the Peruvian economy resulting in lower prices for primary goods, volatility in the financial markets, reduced international trade and lower activity in certain of the key drivers of the local economy. In addition, social distancing and stay-at-home quarantine measures imposed to minimize pressure on the healthcare system and contain social costs, are adversely affecting dynamism of various productive sectors of the economy. Reduced activity in these economic sectors has resulted in reduced employment and less income for families and companies. COVID-19 has generated a simultaneous shock on supply and demand – a supply shock resulting from the abrupt paralysis of production in multiple sectors and on demand as a result of reduced consumption – which amplifies the negative effects on the economy.

Both the primary and secondary sectors of the Peruvian economy have been affected, among the most impacted being: (i) tourism, restaurants and travel agencies, (ii) transportation, warehousing and messengers and (iii) art and entertainment, in particular because of the suspension of group activities and self-isolation/social distancing mandates. As a result, the Government has implemented a plan to counteract the effects of COVID-19, targeted at minimizing the adverse impacts on the population and on economic activity. See "Recent Developments."

In the short-term, the COVID-19 pandemic is not expected to have political consequences, especially as the political circumstances following the events of the second half of 2019 and the first quarter of 2020 have resolved much of the recent political turmoil in Peru, with a new Congress sworn in during the first months of 2020 and establishing that general elections will be held in 2021.

In the face of the crisis, Peru has committed to dedicate significant resources to strengthening the public health system. Social support to the neediest families has been approved to provide a public safety net to soften the brunt of the consequences of the virus on Peru's most vulnerable citizens. Over the long-term, we cannot assure you that the measures adopted by the Peruvian government to counteract the effects of the COVID-19 pandemic will be sufficient to restore public confidence or to restore economic growth.

Economic, social and political developments in Peru including political instability, rates of inflation and unemployment could have a material adverse effect on our business, financial condition and results of operations.

All of our operations and customers are located in Peru. Accordingly, our business, financial condition and results of operation depend on the level of economic activity in Peru. Our business, financial condition and results of operations could be affected by changes in economic and other policies of the Peruvian government (which has exercised and continues to exercise substantial influence over many aspects of the private sector), and by other economic and political developments in Peru, including devaluation or depreciation, currency exchange controls, inflation, economic downturns, political instability, corruption scandals, social unrest and terrorism.

In the past, Peru has experienced political instability that included a succession of regimes with disparate economic policies and programs that created uncertainty for domestic and foreign investors. At present, Peru is a democracy under the administration of President Martin Vizcarra, who took office in March 2018 after peacefully assuming the presidency following President Pedro Pablo Kuczynski's resignation following allegations of his involvement in a corruption scandal. In July, 2019, President Vizcarra proposed to accelerate elections by one year for both the presidency and Congress, a proposal that was rejected by the Constitutional Commission of the Congress on September 26, 2019. Simultaneously, Congress initiated a procedure to replace the members of the Constitutional Court, which the executive branch considered did not comply with transparency standards, and therefore submitted a vote of confidence to demand that this process be modified. Both issues were to be discussed in Congress on September 30, 2019. Congress chose to first debate the appointment of the members of the Constitutional Court, and to elect one of its members, therefore, the executive branch considered the vote of confidence had been denied and proceeded to dissolve the Congress and call for legislative elections on January 26, 2020. These elections took place and the new Congress was elected and took office March 16, 2020. This new Congress, as well as President Vizcarra, will be in office until 2021, when Presidential and Congressional elections will be held.

Prior Peruvian governments have imposed controls on prices, exchange rates, local and foreign investment and international trade, restricted the ability of companies to dismiss employees, expropriated private sector assets and prohibited the remittance of profits to foreign investors. Due to the COVID-19 pandemic, the Peruvian government has changed its agenda, diverting funds to mitigate the economic impact of a prolonged state of emergency, and increased spending for the public health system, among others.

During the 1980s and the early 1990s, Peru experienced severe terrorist activity targeted against, among others, the government and the private sector. Since then, terrorist activity in Peru has been mostly confined to small-scale operations in the Huallaga Valley and the Valleys of the Rivers Apurimac, Ene and Mantaro, or "VRAEM," areas, both in the Eastern part of the country. The Huallaga Valley and VRAEM constitute the largest areas of coca cultivation in the country and thus serve as a hub for the illegal drug trade. Terrorist activity and the illegal drug trade continue to be key challenges for Peruvian authorities. Any violence derived from the drug trade or a resumption of large-scale terrorist activities which may occur could hurt our operations and, could disrupt the economy of Peru and our business. In addition, Peru has, from time to time, experienced social and political turmoil, including riots, nationwide protests, strikes and street demonstrations. Despite Peru's ongoing economic growth and stabilization, the social and political tensions and high levels of poverty and unemployment continue. Future government policies to preempt or respond to social unrest could include, among other things, expropriation, nationalization, suspension of the enforcement of creditors' rights and new taxation policies. These policies could adversely and materially affect the Peruvian economy and our business.

In April 2019, two former presidents were placed in preliminary detention due to their alleged ties to corruption: Pedro Pablo Kuczynski, who is currently detained, and Alan Garcia, who took his own life when police came to place him under arrest. In July, President Vizcarra proposed to accelerate elections by one year for both the presidency and Congress, a proposal that was rejected by the Congress' Constitution Commission on September 26, 2019. Simultaneously, Congress initiated a procedure to replace the members of the Constitutional Court, which the Executive considered did not comply with transparency standards, and therefore submitted a vote of confidence to demand that this process be modified. Both issues were to be debated in Congress on September 30, 2019. However, Congress chose to first debate the appointment of the court members, and to elect one of its members, therefore, the Executive considered the vote of confidence had been denied and proceeded to dissolve the Congress and call for legislative elections on January 26, 2020. These elections took place and the new Congress was elected and took office March 16, 2020. Although recent history has shown that the macroeconomic stability of the country remains unaffected by political turmoil, we cannot yet assess the political and economic impact these developments this may have on the political stability of the country. In the recent past, we have seen a greater tendency towards populist measures, which could have an effect on political stability of the country.

Another source of risk is related to political and social unrest in areas where mining, oil and gas operations take place. In recent years, Peru has experienced protests against mining projects in several regions around the country. Mining is an important part of the Peruvian economy, with mining and oil and gas as of December 31, 2019, accounted for approximately 16.62% of the country's GDP according to the Central Bank of Peru. On several occasions, local communities have opposed these operations and accused them of polluting the environment and hurting agricultural and other traditional economic activities. In late 2011 and throughout 2012, social and political tension peaked around Conga, a gold project in the northern region of Cajamarca. The launch of Conga, which involved investments of approximately US\$4.5 billion, failed as a result of the protests. In 2019, conflict at Las Bambas, one of the largest copper mines in the country which produces 2% of the world copper halted operations for months, due to the community blockage of the only road that can be used to transport the extracted mineral out. Although this road has been re-opened, we cannot assure you that conflict will not return in this area. Social demands and conflicts could have an effect on the Peruvian economy.

On March 15, 2020, President Vizcarra declared a State of Emergency in Peru due to COVID-19, starting March 16, 2020, originally until March 30, 2020 but then further extended until May 10, 2020. During the state of emergency, the production and commercialization of cement has to be interrupted. We do not know yet the effect this will have on our business, but this, and any prolonged disruption in the operation of these facilities will have a material adverse effect on our business, financial condition and results of operations

The foregoing political uncertainty and presidential decisions could further increase interest rate and currency volatility, as well as adversely and materially affect the Peruvian economy and our business.

A depreciation or devaluation of the sol could have a material adverse effect on our business, financial condition and results of operations.

A significant depreciation or devaluation of the sol may affect us due to the fact that our revenues are denominated in soles while 47.1% of our indebtedness, as of December 31, 2019, is denominated in U.S. dollars. As a result, we are exposed to currency mismatch risks. As of December 31, 2019, we maintain cross currency swap hedging agreements in aggregate principal amount of 100% of our current U.S. dollar-denominated debt obligations to hedge against the associated foreign exchange risks. Nonetheless, a depreciation or devaluation of the sol against the U.S. dollar and increased exchange rate volatility would increase the cost of our debt service obligations which could have a material adverse effect on our business, financial condition and results of operations.

If the Peruvian government were to implement restrictive exchange rate policies and other similar laws, our business, financial condition and results of operations could be adversely affected.

Since 1991, the Peruvian economy has undergone a major transformation from a highly protected and regulated system to a free market economy. During this period, protectionist and interventionist laws and policies have been dismantled. As a result the Peruvian economy has been growing at a compound average annual rate of 3.2% during the period from 2015 to 2019. Currently, foreign exchange rates are determined by market conditions, with regular open-market operations by the Central Bank of Peru in the foreign exchange market to reduce volatility in the value of Peru's currency against the U.S. dollar.

We cannot assure you that the Peruvian government will not institute restrictive exchange rate policies in the future. Any such restrictive exchange rate policy could have a material adverse effect on our business, financial condition and results of operations and adversely affect our ability to repay debt or other obligations and restrict our access to international financing.

In addition, if the Peruvian government were to institute restrictive exchange rate policies in the future, we might be obligated to seek an authorization from the Peruvian government to make payments on the notes and the guarantees. We cannot assure you that such an authorization would be obtained. Any such exchange rate restrictions or the failure to obtain such an authorization could materially and adversely affect our ability to make payments under our U.S. dollar-denominated debt and to pay dividends on our ADRs.

Increased rates of inflation in Peru could have an adverse effect on the Peruvian long-term credit market, as well as the Peruvian economy generally and, therefore, on our business, financial condition and results of operations.

In the past, Peru has suffered through periods of high and hyper-inflation, which has materially undermined the Peruvian economy and the government's ability to create conditions that support economic growth. In response to increased inflation, the Central Bank of Peru, which sets the Peruvian basic interest rate, may increase or decrease the basic interest rate in an attempt to control inflation or foster economic growth. Increases in the base interest rate could adversely affect our results of operations, increasing the cost of certain funding. Additionally, a return to a high-inflation environment would also undermine Peru's foreign competitiveness, with negative effects on the level of economic activity and employment, while increasing our operating costs and adversely impacting our operating margins if we are unable to pass the increased costs on to our customers.

Changes in tax laws or their interpretation may increase our tax burden and, as a result, negatively affect our business.

The Peruvian Congress and government regularly implement changes to tax laws that may increase our tax burden, or the tax burden of our subsidiaries. These changes may include modifications in our taxable base, tax rates and, on occasion, the enactment of temporary taxes that in some cases have become permanent taxes or changes to VAT exemptions applicable to certain of our operations in the Amazonian region. We are unable to estimate the outcomes that these changes may have on business. In that sense, the Peruvian government recently introduced several changes related to transfer pricing rules and formal obligations in order to comply with BEPS (base erosion and profit shifting) Guidelines on transactions performed between related parties or with the intervention of low or no-tax jurisdictions, such as the obligation to file new local-files, master-files and country-by-country reports with the Peruvian tax authority, and to adjust taxable bases accordingly for income tax purposes.

The effects of any tax reforms that could be proposed in the future and any other changes that result from the enactment of additional reforms have not been, and cannot be, quantified. However, any changes to our tax regime or interpretations thereof (including in connection with the tax rates, tax base (*base imponible*), deductions rules, payments in advance regime (*regimen de pagos a cuenta*), time of payment or the establishment of new taxes thereof) may result in increases in our overall costs and/or our overall compliance costs, which could negatively affect our results of operation.

Our operations could be adversely affected by an earthquake, flood or other natural disasters.

Severe weather conditions and other natural disasters in areas in which we operate may materially adversely affect our operations. Peru is affected by El Niño, an oceanic and atmospheric phenomenon that causes a warming of temperatures in the Pacific Ocean, resulting in heavy rains off the coast of Peru and various other effects in other parts of the world. The effects of El Niño, which typically occurs every two to seven years, include flooding and the destruction of fish populations and agriculture, and accordingly have a negative impact on Peru's economy. For example, in early 2017, El Niño adversely affected agricultural production, transportation and communications services, tourism and commercial activity, caused widespread damage to infrastructure and displaced significant populations. Although our facilities were not significantly affected, our ability to ship cement was compromised by the destruction of infrastructure. Peru also is located in an area that experiences seismic activity and occasionally is affected by earthquakes. For example, in 2007, an earthquake with a magnitude of 7.9 on the Richter scale struck the central coast of Peru, severely damaging the region south of Lima. Such conditions may result in physical damage to our properties, closure of one or more of our shopping centers or our tenants-stores, inadequate work forces in our markets, temporary disruptions in the supply of products to our tenants, delays in the delivery of goods to our tenants' stores and a reduction in the availability of products in our tenants' stores. In addition, adverse climate conditions (due to climate change or otherwise) and adverse weather patterns, such as droughts or floods that impact growing conditions and the quantity and quality of crops, may materially adversely affect the availability or cost of certain commodities or other products within our supply chain. Any of these factors may disrupt and materially adversely affect our business, financial condition and results of operations.

Our operations could be adversely affected by government-mandated plant closures

Public health outbreaks, epidemics or pandemics, as well as other events may result in the government stopping our operations. In March 2020, the Peruvian government ordered a state of emergency due to the outbreak of COVID-19, therefore our operations have been closed since March 16, 2020. This will have a materially adverse effect on our business, financial conditions and results of operation, both during the state of emergency, and further as we do not yet know the implications these measures will have on the economy as a whole, the construction sector, our customers' ability to purchase cement and cement-based products, and their ability to pay for previously sold products.

The Peruvian economy could be adversely affected by economic developments in regional or global markets.

Financial and securities markets in Peru are influenced by economic and market conditions in regional and global markets. Although economic conditions vary from country to country, investors' perceptions of the events occurring in one country may adversely affect cash flows and securities from issuers in other countries, including Peru. For example, the Peruvian economy was adversely affected by the political and economic events that occurred in several emerging economies in the 1990s, including in Mexico in 1994, which impacted the fair value of securities issued by companies from markets throughout Latin America. The crisis in the Asian markets beginning in 1997 also negatively affected markets throughout Latin America. Similar adverse consequences resulted from the economic crisis in Russia in 1998, the Brazilian devaluation in 1999 and the Argentine crisis in 2001. In addition, Peru's economy continues to be affected by events in the economies of its major regional partners and in developed economies that are trading partners or that affect the global economy.

The 2008 and 2009 global economic and financial crisis substantially affected the financial system, including Peru's securities market and economy. Additionally, the debt crisis in Europe that began with financial crises in Greece, Spain, Italy and Portugal, reduced the confidence of foreign investors, caused volatility in the securities markets and affected the ability of companies to obtain financing globally. Doubts about the pace of global growth, particularly in the United States, contributed to already weak international growth in 2011, 2012 and 2013. Brexit continues to create volatility and uncertainty in a number of financial markets. The global COVID-19 pandemic will result in a worldwide recession that we cannot yet accurately measure as it is ongoing. Any interruption to the recovery of developed economies, the continued effects of the global crisis in 2008 and 2009, a worsening or resurgence of the debt crisis in Europe, impacts due to Brexit, the economic impact of COVID-19, or a new economic and/or financial crisis, or a combination of the above, could affect the Peruvian economy, and consequently, materially adversely affect our business. In particular, the Peruvian economy recently has suffered the effects of fluctuating commodity prices in the international markets, a decrease in export volumes, a decrease in foreign direct investment inflows and, as a result, a decline in foreign reserves and an increase in its current account deficit. To date, the United States and China are facing a trade dispute, which has imposed new tariffs that could undermine economic growth and raise costs for manufacturers around the world. Further, the current global COVID-19 pandemic may cause a global recession, which will in turn affect our business, financial conditions and results of operation. See "—Global Risks."

Additionally, adverse developments in regional or global markets or an increase in the perceived risks associated with investing in emerging markets in the future could adversely affect the Peruvian economy and, as a result, adversely affect our business, financial condition and results of operations. In March 2020, after its annual review, the FTSE announced that, since there is only one Peruvian stock in the FTSE Global All Cap index, it does not meet the requirements of the new minimum investable market cap and securities count requirement criterion. As a result, Peru will be reclassified from Secondary Emerging market to Frontier market status effective from September 2020.

A decline in the prices of certain commodities in the international markets could have a material adverse effect on our financial condition and results of operations.

In 2019, traditional exports, in particular mineral products, fishing products, agricultural products and petroleum and its derivatives, represented 70.6% of Peru's total exports, according to the figures published by the Central Bank of Peru. Changes in commodity prices in the international markets, may have an adverse impact on Peruvian government finances, which could affect both investor confidence and the sustainability of government expenditure and social programs. Thus, a decline in commodity prices could, ultimately, affect the political environment in Peru, especially as regional and local governments are particularly reliant on tax revenue from mining concerns. By potentially affecting private sector demand and investor confidence, lower commodity prices could also affect the retail sector, leading to, for example, a decline in purchasing power and consumer spending.

Corruption and ongoing high-profile corruption investigations may hinder the growth of the Peruvian economy and have a negative impact on our business and operations.

Peruvian authorities are currently conducting several high-profile corruption investigations relating to the activities of certain companies in the construction and infrastructure sectors, which have resulted in suspension or delay of important infrastructure projects that were otherwise operational and permitted. The overall delay relating to such projects has resulted in a drop in GDP growth and overall infrastructure investment.

In July 2017, former President Ollanta Humala and his wife were detained in connection with a corruption probe and in February 2018, a Peruvian judge submitted a request to extradite former president Alejandro Toledo on allegations of bribery, both in connection with Brazilian construction company Odebrecht S.A. Several high-profile politicians are subject to corruption investigations. Corruption and corruption investigations could directly affect the Peruvian government, divert resources that would otherwise be focused on developing the economy, create political instability, and result in slower or negative economic growth, such as has recently happened in Brazil. In turn, this could impact our ability to successfully implement our growth and expansion strategies.

On March 21, 2018, President Kuczynski announced his decision to resign his office as president, due to allegations of corruption he faced. On March 23, 2018, Congress accepted his resignation and his first vice president, Martín Vizcarra, was sworn in as acting president. On April 2, 2018, President Vizcarra appointed the members of his cabinet. Although there was some political instability initially, after his first year in office, President Vizcarra has managed to maintain high levels of acceptance among the population and dissipate some of the initial instability.

In July 2018, a set of secretly recorded phone conversations high-court officials in Peru revealed widespread corruption in the judicial system's top ranks. In February 2019, preventive prison was ordered of four of the involving implicated judges while the investigations continue.

Since November 1, 2018, Keiko Fujimori has been in preventive prison while prosecutors investigate claims she ran a "de facto criminal organization" within her political party to launder campaign donations. Many other politicians are under investigation for corruption allegations linked to Odebrecht and other constructions companies. The political instability caused by these events could affect macroeconomic conditions in the country, including currency volatility, as well as have a negative effect on our business, financial condition and results of operations.

In April 2019, two former presidents were placed in preliminary detention due to their alleged ties to corruption: Pedro Pablo Kuczynski, who is currently detained, and Alan García, who took his own life when police came to place him under arrest. Although recent history has shown that the macroeconomic stability of the country remains unaffected by political turmoil, we cannot yet assess the political and economic impact these developments this may have on the political stability of the country.

See "—Economic, social and political developments in Peru including political instability, rates of inflation and unemployment could have a material adverse effect on our business, financial condition and results of operation"

Risks Relating to our Business and Industry

We are subject to the possible entry of domestic or international competitors into our market, which could decrease our market share and profitability.

The cement market in Peru is competitive and is currently served mainly by three main groups, which together supply most of the cement consumed in the country, and one additional small producer and some imports. In the cement industry, the location of a production plant tends to limit the market a plant can serve because transportation costs are high, reducing profit margins. Historically, we have supplied the northern region of Peru while two other groups have supplied the central (which includes the Lima metropolitan area) and southern regions of Peru, driven principally by the location of production facilities and distribution focus. However, competition could intensify if other manufacturers decide to enter our market.

We may face increased competition if the other Peruvian cement manufacturers, despite incremental freight costs, expand their distribution of cement to the northern region of Peru, or if they develop a cement plant in the north, particularly if the cement markets in Lima or other areas of Peru become saturated. In the past, some foreign cement manufacturers have announced plans to build cement plants in the central region of the country. If competition intensifies in the central region of Peru due to the presence of foreign cement manufacturers or otherwise, it may have price repercussions in our market.

We also face the possibility of competition from the entry into our market of imported clinker for grinding facilities, cement or other materials or products from foreign manufacturers, which may have significantly greater financial resources than us, particularly as production capacity continues to exceed depressed demand in other parts of the world and transportation costs decrease.

We may not be able to maintain our market share if we cannot match our competitors' prices or keep pace with the development of new products. If any of these events were to occur, our business, financial condition and results of operations could be adversely affected.

Demand for our cement products is highly related to housing construction in northern Peru, which, in turn, is affected by economic conditions in the region.

Cement consumption is highly related to construction levels. Demand for our cement products depends, in large part, on residential construction in the north of Peru, which consists mostly of low-income families gradually building or improving their own homes without technical assistance, which we refer to as *auto-construcción*. We estimate that in 2019, *auto-construcción* accounted for approximately 60.3% of our cement sales. Residential construction, in turn, is highly correlated to prevailing economic conditions in Peru. A decline in economic conditions would reduce household disposable income and cause a significant reduction in residential construction, leading to a decrease in demand for cement. As a result, a deterioration of economic conditions in the northern region of Peru would have a material adverse effect on our financial performance and results of operations. We cannot assure you that growth in Peru's GDP, or the contribution to GDP growth attributable to the northern region of the country, will continue at the recent pace or at all. The current global COVID-19 pandemic will most likely have a significant impact on the Peruvian economy, which may in turn impact the demand for cement, since households will have less disposable income and *auto-construcción* accounts for over 60% of our sales.

A reduction in private or public construction projects in the northern region of Peru would have a material adverse effect on our business, financial condition and results of operations.

We estimate that in 2019, approximately 19.9% of our cement sales were derived from private construction (other than *auto-construcción*) and 19.8% from public construction in the north of Peru. Significant interruptions or delays in, or the termination of, private or public construction projects may adversely affect our business, financial condition and results of operations. Private and public construction levels in our market depend on investments in the region which, in turn, are affected by economic conditions. During 2019, we saw a pickup in public spending, after a decline in 2017 due to El Niño phenomenon and the Odebrecht corruption scandal which delayed investments.

The level of public infrastructure construction also depends, to a great extent, on the priorities and financial resources of the national, regional and local governmental authorities. Although the anticipated increase in Peru's large infrastructure projects has been delayed, this remains an important growth driver for the country and also a necessity due to Peru's significant infrastructure deficit. In the North, significant spending will be directed towards reconstruction works to address the damage caused by Coastal El Niño, based on Peru's "Reconstruction with Changes" Plan. This Plan has an approved budget of S/25.7 billion (US\$7.6 billion). We cannot assure you that the Peruvian government will continue promoting recent levels of public infrastructure spending in our market, especially considering the current need for funding to fight the COVID-19 outbreak and its subsequent effect in the economy. A reduction in public infrastructure spending in our market would adversely affect our business, financial condition and results of operations.

Our business, financial condition and results of operations may be adversely affected by increases in energy prices or shortages in the supply of energy.

Energy accounts for a significant percentage of our production costs. Our principal energy sources are coal, gas and electricity. In 2019, the cost of energy represented approximately 31.4% of our cement production costs, compared to 31.1% in 2018. We use a substantial amount of coal as a source of fuel in our production process. Most of the coal we use is anthracite coal which we purchase from domestic suppliers and import a small amount of bituminous coal from suppliers primarily in Colombia, in each case, at market prices. We do not have long-term coal supply agreements, and we do not engage in hedging transactions in connection with the price of coal. Any shortage or interruption in the supply of coal could also disrupt our operations. In addition, the price of coal is largely driven by the price of oil, and, as a result, increases in international oil prices are likely to affect the price of coal and adversely affect our results of operations. In July 2019, we started using gas in our Piura plant. We have a long-term contract with Olympic Peru to provide gas needs for our Piura plant at a set price, which varies periodically over the 18-year period of the contract. Our business, financial condition and results of operations could be materially and adversely affected by higher costs, interruptions, and unavailability or shortage of gas. See “Item 10. Additional information—D. Material Contracts.”

We have a long-term electricity supply agreement with Electroperú S.A. (“Electroperú”), a government-owned company, to serve the electricity requirements of our Pacasmayo and Piura facilities until 2026. We have also entered into a supply agreement with Electro Oriente S.A. (“ELOR”) to supply the Rioja facility until November 2022. Our business, financial condition and results of operations could be materially and adversely affected by higher costs, interruptions, and unavailability or shortage of electricity. We have no back-up power system at our plants and cannot assure you that, in case of interruption or failure in Electroperú’s or ELOR’s operations, we will have access to other energy sources at the same prices and conditions, which could adversely affect our business, financial condition and results of operations. Moreover, electricity to our plants is transmitted through the Peruvian Electricity Interconnection System (*Sistema Eléctrico Interconectado Nacional del Perú*, or “SEIN”). Any interruptions or failures in SEIN’s system would also have a material adverse effect on our business, financial condition and results of operations.

In the recent past, we have experienced electricity rationing, limiting our use of electricity to certain times of the day. In such cases, we were forced to readjust our production schedules in order to ensure that our production process was not interrupted. In the event of any future rationing of electricity, we may not be able to readjust quickly enough and our production process may be interrupted. Future shortages or efforts to respond to or prevent shortages, such as rationing, may adversely impact the cost or supply of electricity for our operations.

A significant increase in the prices of coal, gas or electricity would increase our costs of production. We may not be able to increase the prices of our cement products in the future if the prices of coal, gas or electricity rises, which would adversely affect our business, financial condition and results of operations

Changes in the cost or availability of admixtures and raw materials supplied by third parties may adversely affect our business, financial condition and results of operations.

We use certain admixtures and raw materials in the production of cement, such as gypsum, blast furnace slag and iron that we obtain from third parties. In 2019, our cost of admixtures and raw materials supplied by third parties as a percentage of our cement production costs was approximately 4.9% compared to 4.3% in 2018. We do not have long-term contracts for the supply of admixtures or raw materials that we use and if existing suppliers cease operations or reduce or eliminate production of these products, our costs to procure these materials may increase significantly or we may be obligated to procure alternatives to replace these products.

We may undertake future acquisitions that may not achieve expected benefits.

Our strategic initiatives include pursuing acquisitions that tend to diversify our existing portfolio of products and services and expand our geographic footprint. In the future, we may decide to expand by acquiring other companies in Peru or abroad. Any future acquisitions will depend on our ability to identify suitable candidates, negotiate acceptable terms, and obtain financing for the acquisitions. If future acquisitions are significant, they could change the scale of our business and expose us to new geographic, political, operating and financial risks. In addition, each acquisition involves a number of risks, such as the diversion of our management’s attention from our existing business to integrating the operations and personnel of the acquired business, possible adverse effects on our results of operations during the integration process, our inability to achieve the intended objectives of the combination and potential unknown liabilities associated with the acquired assets.

We may not be able to obtain the funding required to implement future strategies.

Our strategies to continue to expand our cement production capacity and distribution network require significant capital expenditures. We cannot assure you that we will generate sufficient cash flow from operations, or that we will have access to external financing sources, to adequately fund such capital expenditures. Our access to external sources of financing will depend on many factors, including factors beyond our control, such as conditions in the global capital markets and investors' risk perception of investing in Peru and in emerging markets generally. Any equity or debt financing, if available, may not be on terms that are favorable to us. If our access to external financing is limited, we may not be able to execute our strategy, which could adversely affect our business, financial condition and results of operations.

In addition, the indenture pursuant to which we issued our 4.50% Senior Notes due 2023 contains covenants that limit our ability and that of our restricted subsidiaries to incur additional indebtedness if we do not meet certain financial ratios. If we are unable to incur additional debt to fund our future strategies, our business could be adversely affected.

We are subject to risks related to litigation and administrative proceedings that could adversely affect our business and financial performance in the event of an unfavorable ruling.

The nature of our business exposes us to litigation relating to product liability claims, labor, health and safety matters, environmental matters, regulatory, tax and administrative proceedings, governmental investigations, tort claims and contract disputes, among other matters. In the past, we have been subject to antitrust and tax proceedings or investigations. While we contest these matters vigorously and make insurance claims when appropriate, litigation is inherently costly and unpredictable, making it difficult to accurately estimate the outcome of actual or potential litigation. Although we establish provisions as we deem necessary, the amounts that we reserve could vary significantly from any amounts we actually pay due to the inherent uncertainties in the estimation process. We cannot assure you that these or other legal proceedings will not materially affect our ability to conduct our business, financial condition and results of operations in the event of an unfavorable ruling.

Our business is subject to a number of operational risks, which may adversely affect our business, financial condition and results of operations.

Our business is subject to several industry-specific operational risks, including accidents, natural disasters, labor disputes and equipment failures. Such occurrences could result in damage to our production facilities and equipment, and/or the injury or death of our employees and others involved in our production process. Moreover, such accidents or failures could lead to environmental damage, loss of resources or intermediate goods, delays or the interruption of production activities and monetary losses, as well as damage to our reputation. Our insurance may not be sufficient to cover losses from these events, which could adversely affect our business, financial condition and results of operations.

In addition, key equipment at our facilities, such as our mills and kilns, may deteriorate sooner than we currently estimate. Such deterioration of our assets may result in additional maintenance or capital expenditures, and could cause delays or the interruption of our production activities. If these assets do not generate the cash flows we expect, and we are not able to procure replacement assets in an economically feasible manner, our business, financial condition and results of operations may be materially and adversely affected.

Our business depends on the continued operation of our Pacasmayo and Piura facilities.

Our production facilities in Pacasmayo and Piura are essential to our business. In 2019, approximately 88.4% of our total cement and all of our quicklime was produced at the Pacasmayo and Piura facilities. These plants are subject to normal hazards of operating any cement production facility, including accidents, natural disasters and unexpected malfunctioning of the equipment. Any interruption in our operation of the Pacasmayo or Piura facilities or a decrease in the effective capacity of these facilities would adversely affect our results of operations. On March 15, 2020, President Vizcarra declared a State of Emergency in Peru due to COVID-19, starting March 16, 2020 originally until March 30, 2020 but then further extended until May 10, 2020. During the state of emergency, the production and commercialization of cement has to be interrupted. We do not know yet the effect this will have on our business, but this, and any prolonged disruption in the operation of these facilities would have a material adverse effect on our business, financial condition and results of operations. Revenues and EBITDA decreased 4.4% and 22.8%, respectively, during the first quarter of 2020, compared to the same period of 2019 because of the halt in operations during the last 15 days of the first quarter of 2020.

The introduction of cement substitutes into the market and the development of new construction techniques could have a material adverse effect on our business, financial condition and results of operations.

Materials such as plastic, aluminum, ceramics, glass, wood and steel can be used in construction as a substitute for cement. In addition, other construction techniques, such as the use of drywall, could decrease the demand for cement and concrete. In Peru, drywall has only been introduced into the housing construction market in recent years and it is not widely used. However, the use of drywall for housing construction could increase significantly in the future as it becomes more popular. In addition, research aimed at developing new construction techniques and modern materials may introduce new products in the future. The use of substitutes for cement could cause a significant reduction in the demand and prices for our cement products.

Our success depends on key members of our management.

Our success depends largely on the efforts and strategic vision of our executive management team and board of directors. The loss of the services of some or all of our executive management team or members of our board of directors could have a material adverse effect on our business, financial condition and results of operations.

The execution of our business plan also depends on our ongoing ability to attract and retain additional qualified employees capable of operating our plants. Due to the limited pool of skilled workers in the north of Peru or workers from other regions willing to relocate to the north of Peru, we may not be successful in attracting and retaining the personnel we require. If we are unable to hire, train and retain qualified employees at a reasonable cost, we may be unable to successfully operate our business or reach full planned production levels in a timely manner and, as a result, our business, financial condition and results of operations could be adversely affected.

Our operations and sales are highly concentrated in the northern region of Peru.

All of our operations are located in the northern region of Peru, including our production facilities and the quarries from where we obtain limestone to produce cement. In addition, substantially all of our cement products are sold to consumers in this market. As a result, any adverse economic, political or social conditions affecting the northern region of Peru, as well as natural disasters and weather conditions, such as the El Niño climate pattern, among other factors that may affect this region, could have a material adverse effect on our business, financial condition and results of operations. In 2017, the north of Peru experienced severe rain, landslides and flooding, which affected the demand for cement, and the ability to ship it, as well as the provision of raw materials since some roads were destroyed. Our plants did not suffer any significant damage as we halted operations to mitigate physical damage.

We are subject to environmental regulations and may be exposed to liability and political cost as a result of our handling of hazardous materials and potential costs for environmental compliance.

We are subject to various environmental protection and health and safety laws and regulations that regulate, among other things, the generation, storage, handling, use and transportation of hazardous materials; emissions and discharge of hazardous materials; and the health and safety of our employees. Pursuant to Peruvian law, in order to conduct mining and industrial activities, we are required, among other things, to (i) submit an environmental impact assessment to the Ministry of Production (*Ministerio de la Producción*) and a mining closure plan to the Ministry of Energy and Mines (*Ministerio de Energía y Minas*, or “MEM”) prior to initiating mining activities, (ii) comply with certain air emission and wastewater discharge standards, (iii) obtain approval from the water management authority to discharge wastewater into natural water sources or soil, (iv) dispose solid waste generated by us in special landfills exclusively through companies registered with the environmental agency, and (v) store fuel in compliance with environmental and safety standards. In addition, we are required to have a health and safety committee and develop an internal health and safety code. Although we believe we are in compliance with all these regulations in all material respects, we cannot assure you that we have been or will be at all times in full compliance with these laws and regulations. Any violation of such laws or regulations could result in substantial fines, criminal sanctions, revocations of operating permits and shutdowns of our facilities. In addition, current or future governments may also impose stricter regulations which may require us to incur higher compliance costs.

Pursuant to certain applicable environmental laws, we could be held liable for all or substantially all of the damages caused by pollution at our current or former facilities or those of our predecessors or at disposal sites. We could also be held liable for all incidental damages due to the health effects of exposure of individuals to hazardous substances or other environmental damage.

We cannot assure you that our costs of complying with current and future environmental and health and safety laws and regulations, and any liabilities arising from past or future releases of, or exposure to, hazardous substances will not adversely affect our business, financial condition and results of operations.

International agreements related to climate change may result in an increase in our costs.

There are ongoing international efforts to address greenhouse emissions. The United Nations and certain international organizations have taken action against activities that may increase the atmospheric concentration of greenhouse gases. Regulatory measures, such as the Kyoto Protocol, aimed at addressing greenhouse gas emissions and climate changes, are in various stages of negotiation and implementation. Such measures may result in increased costs to us for installation of new controls aimed at reducing greenhouse gas emissions, purchase of credits or licenses for atmospheric emissions, and monitoring and registration of greenhouse gas emissions from our operations. These measures, if adopted in Peru, could adversely affect our business, financial condition and results of operations.

Changes in regulations or in the interpretation of regulations may adversely affect our business, financial condition and results of operations.

Our business is subject to extensive regulation in Peru, including, among others, relating to tax, environmental, labor, health and safety, and mining matters. We believe that our facilities are currently operating in all material respects in accordance with all applicable concessions, laws and regulations. Future regulatory changes, changes in the interpretation of such regulations or stricter enforcement of such regulations, including changes to our concession agreements, may increase our compliance costs and could potentially require us to alter our operations. We cannot assure you that regulatory changes in the future will not adversely affect our business, financial condition and results of operations.

Any dispute with the labor unions that represent our employees could have an adverse effect on our business, financial condition and results of operations.

As of December 31, 2019, 17.1% approximately of our employees were members of employee unions. Although we consider our relations with our employees are currently positive, we cannot assure you that we will not experience work slowdowns, work stoppages, strikes or other labor disputes in the future, which could adversely affect our business, financial condition and results of operations.

New projects may require the prior approval of local indigenous communities.

On September 7, 2011, Peru enacted Law No. 29785, regarding the Prior Consultation Right of Local Indigenous Communities, in accordance with the International Labor Organization Convention No. 169 (*Ley del Derecho a la Consulta Previa a los Pueblos Indígenas y Originarios, Reconocido en el Convenio 169 de la Organización Internacional del Trabajo*). This law, which became effective on December 6, 2011, establishes a prior consultation procedure (*procedimiento de consulta previa*) that the Peruvian government must carry out with local indigenous communities, whose rights may be directly affected by new legislative or administrative measures, including the granting of new mining concessions. Local indigenous communities do not have a veto right; upon completion of this prior consultation procedure, the Peruvian government retains the discretion to approve or reject the applicable legislative or administrative measure. However, to the extent that in the future our new projects may require implementation of legislative or administrative measures that impact local indigenous communities, we may not be able to undertake such projects, unless the Peruvian government first conducts the foregoing consultation procedure. We cannot assure you that this law will not adversely affect our new projects and have an adverse effect on our business, financial condition and results of operations.

The indenture pursuant to which we issued our 4.50% Senior Notes due 2023 and our two local bond issuances due 2029 and 2034 contain financial covenants, and any default under the indenture may have a material adverse effect on our financial condition and cash flows.

The indenture pursuant to which we issued our 4.50% Senior Notes due 2023 contains restrictions and covenants, including restrictions on our and our guarantor subsidiaries' ability to incur further indebtedness or issue disqualified stock and preferred stock, unless certain conditions are met.

Additionally, in January 2019, two issuances were completed under a local bond program in a total principal amount of S/570 million: One for S/260 million with a rate of 6.68750% with a maturity of 10 years, and another for S/ 310 million with a term of 15 years and a rate of 6.84375%. These issuances contain the same restrictions and covenants as our Senior Notes due 2023. Failure to meet or satisfy any of these covenants could result in an event of default under the indenture.

Risks Relating to our Common Shares and ADSs

The market price of our ADSs may fluctuate significantly, and you could lose all or part of your investment.

Volatility in the market price of our ADSs may prevent you from being able to sell your ADSs at or above the price you paid for them. The market price and liquidity of the market for our ADSs may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, among others:

- actual or anticipated changes in our results of operations, or failure to meet expectations of financial market analysts and investors;
- investor perceptions of our prospects or our industry;
- operating performance of companies comparable to us and increased competition in our industry;
- new laws or regulations or new interpretations of laws and regulations applicable to our business;
- general economic trends in Peru;
- catastrophic events, such as earthquakes and other natural disasters; and
- developments and perceptions of risks in Peru and in other countries.

Our controlling shareholder has significant influence over us and his interests could conflict with the interests of other shareholders.

As of March 31, 2020, our controlling shareholder beneficially owned 50.01% of our outstanding common shares. As a result, our controlling shareholder has the ability to determine the outcome of substantially all matters submitted for a vote to our shareholders and thus exercise control over our business policies and affairs, including, among others, the following:

- the composition of our board of directors and, consequently, any determinations of our board with respect to our business direction and policy, including the appointment and removal of our executive officers;
- determinations with respect to mergers, other business combinations and other transactions, including those that may result in a change of control;
- whether dividends are paid or other distributions are made and the amount of any such dividends or distributions;
- whether we offer preemptive and accretion rights to holders of our common shares in the event of a capital increase;

- sales and dispositions of our assets; and
- the amount of debt financing we incur.

Our controlling shareholder may direct us to take actions that could be contrary to the interests of our other shareholders and may be able to prevent other shareholders from blocking these actions or from causing different actions to be taken. Also, our controlling shareholder may prevent change of control transactions that might otherwise provide the shareholders with an opportunity to dispose of or realize a premium on their investment in our common shares and ADSs. We cannot assure you that our controlling shareholder will act in a manner consistent with our other shareholders' best interests.

Holders of ADSs may be unable to exercise voting rights with respect to our common shares underlying the ADSs at our shareholders' meetings.

Holders of ADSs may exercise voting rights with respect to the common shares represented by the ADSs only in accordance with the deposit agreement relating to the ADSs. Holders of our common shares will receive notice of shareholders' meetings through publication of a notice 25 days in advance, pursuant to Peruvian law, in the official gazette in Peru, a Peruvian newspaper of general circulation, the bulletin of the Lima Stock Exchange and the website of the *Superintendencia del Mercado de Valores* (the "Peruvian Securities Commission"), and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. ADS holders will not receive notice directly from us. Instead, pursuant to the deposit agreement, we will notify the depositary, which will mail to holders of ADSs the notice of the meeting and a statement as to the manner in which voting instructions may be given. To exercise their voting rights, ADS holders must instruct the depositary how to exercise the voting rights for the common shares which underlie their ADSs. Due to these additional procedural steps involving the depositary, the process for exercising voting rights may take longer for ADS holders than for holders of our common shares.

Holders of ADSs also may not receive voting materials in time to instruct the depositary to vote the common shares underlying their ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions of the holders of ADS or for the manner of carrying out such instructions, unless such failure can be attributed to gross negligence, bad faith or willful misconduct on the part of the depositary or its agents. Accordingly, holders of ADSs may not be able to exercise voting rights, and they will have little, if any, recourse if the underlying common shares are not voted as requested.

The ability of holders of our ADSs to receive payments of cash dividends may be limited.

Our shareholders' ability to receive cash dividends may be limited by the ability of the depositary to convert cash dividends paid in *soles* into U.S. dollars. Under the terms of our deposit agreement with the depositary for the ADSs, the depositary will convert any cash dividend or other cash distribution we pay on the common shares underlying the ADSs into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If this conversion is not possible or if any government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. If the exchange rate fluctuates significantly during a time when the depositary cannot convert the foreign currency, holders of ADSs may lose some or all of the value of the dividend distribution.

Holders of ADSs may be unable to exercise pre-emptive or accretion rights with respect to the common shares underlying their ADSs.

Under Peruvian corporate law, if we issue new common shares as part of a capital increase, unless otherwise agreed to by holders of 40% of our outstanding common shares, our shareholders will generally have the right to subscribe to a proportional number of common shares of the class held by them to maintain their existing ownership percentage, which is known as preemptive rights. In addition, shareholders are entitled to the right to subscribe for the unsubscribed common shares of either the class held by them or other classes which remain unsubscribed at the end of a preemptive rights offering, on a pro rata basis, which is known as accretion rights. Holders of ADSs may not be able to exercise the preemptive or accretion rights relating to common shares underlying the ADSs unless a registration statement under the U.S. Securities Act of 1933, as amended (the "Securities Act"), is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the common shares relating to these preemptive and accretion rights and we cannot assure you that we will file any such registration statement. Unless we file a registration statement or an exemption from registration is available, holders of ADSs may receive only the net proceeds from the sale of their preemptive and accretion rights by the depositary or, if the preemptive and accretion rights cannot be sold, they will be allowed to lapse. As a result, U.S. holders of our ADSs may suffer dilution of their interest in our company upon future capital increases.

We are entitled to amend the deposit agreement under which our ADSs were issued, and to change the rights of ADS holders under the terms of such agreement, without the prior consent of the ADS holders.

We are entitled to amend the deposit agreement and to change the rights of the ADS holders under the terms of such agreement, without the prior consent of the ADS holders. Any change related to an increase in deposits or charges for book-entry securities services or any modification that might hinder the rights of the ADS holders will be effective within 30 days after the ADS holders have received notice of such change or modification and such holders will have no right to any compensation whatsoever.

Our status as a foreign private issuer allows us to follow alternate standards to the corporate governance standards of the New York Stock Exchange, which may limit the protections afforded to investors.

We are a “foreign private issuer” within the meaning of the New York Stock Exchange corporate governance standards. Under New York Stock Exchange rules, a foreign private issuer may elect to comply with the practices of its home country and not to comply with certain corporate governance requirements applicable to U.S. companies with securities listed on the exchange. We currently follow certain Peruvian practices concerning corporate governance and intend to continue to do so. Accordingly, holders of our ADSs will not have the same protections afforded to shareholders of companies that are subject to all New York Stock Exchange corporate governance requirements.

For example, the New York Stock Exchange listing standards provide that the board of directors of a U.S. listed company must have a majority of independent directors at the time the company ceases to be a “controlled company.” Under Peruvian corporate governance practices, a Peruvian company is not required to have a majority of independent members on its board of directors.

The listing standards for the New York Stock Exchange also require that U.S. listed companies; at the time they cease to be “controlled companies,” have a nominating/corporate governance committee and a compensation committee (in addition to an audit committee). Each of these committees must consist solely of independent directors and must have a written charter that addresses certain matters specified in the listing standards. Under Peruvian law, a Peruvian company may, but is not required to, form special governance committees, which may be composed partially or entirely of non-independent directors.

In addition, New York Stock Exchange rules require the independent non-executive directors of U.S. listed companies to meet on a regular basis without management being present. There is no similar requirement under Peruvian law.

The New York Stock Exchange’s listing standards also require U.S. listed companies to adopt and disclose corporate governance guidelines. In November 2013, the Peruvian Securities Commission and a committee comprised of regulatory agencies and associations prepared and published a list of suggested non-mandatory corporate governance guidelines called the “Good Corporate Governance Code for Peruvian Companies.” Although we have implemented a number of these measures, we are not required to comply with the corporate governance guidelines by law or regulation, only to disclose whether or not we are in compliance.

Minority shareholders in Peru are not afforded equivalent protections as minority shareholders in other jurisdictions and investors may face difficulties in commencing judicial and arbitration proceedings against our company or the controlling shareholder.

Our company is organized and existing under the laws of Peru, and our controlling shareholder is resident in Peru. Accordingly, investors may face difficulties in serving process on our company, our officers and directors or the controlling shareholder in other jurisdictions, and in enforcing decisions granted by courts located in other jurisdictions against our company, our officers and directors or the controlling shareholder that are based on securities laws of jurisdictions other than Peru.

In Peru, there are no proceedings to file class action suits or shareholder derivative actions with respect to issues arising between minority shareholders and an issuer, its controlling shareholders or directors and officers. Furthermore, the procedural requirements to file actions by shareholders differ from those of other jurisdictions, such as in the United States. As a result, it may be more difficult for our minority shareholders to enforce their rights against us, our directors, officers or controlling shareholder as compared to the shareholders of a U.S. company. The deposit agreement provides that the depositary has no obligation to commence or become involved in any judicial proceedings and any other legal actions relating to the ADSs or the deposit agreement, either on behalf of the ADS holders or on behalf of any other person.

The ability of investors to enforce civil liabilities under U.S. securities laws may be limited.

Most of our directors or executive officers are not residents of the United States. All or a substantial portion of our assets and those of our directors and executive officers are located outside of the United States. As a result, it may not be possible for investors in our securities to affect service of process within the United States upon such persons or to enforce in U.S. courts or outside of the United States judgments obtained against such persons outside of the United States.

We are a company organized and existing under the laws of Peru, and there is no existing treaty between the United States and Peru for the reciprocal enforcement of foreign judgments. It is not clear whether a Peruvian court would accept jurisdiction and impose civil liability if proceedings were commenced in a foreign jurisdiction predicated solely upon U.S. federal securities laws.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our History

Cementos Pacasmayo S.A.A. began its operations in 1957 and is a publicly-held corporation (*sociedad anónima abierta*) organized under the laws of Peru. Our executive offices are located at Calle La Colonia 150, Urbanización El Vivero, Surco, Lima, Peru. Our telephone number at this location is + (511) 317-6000. Our website address is www.cementospacasmayo.com.pe. Information on or accessible through our website is not a part of, nor incorporated by reference in, this annual report.

Cementos Pacasmayo S.A.A. and Hochschild Mining plc together constitute the two businesses of the Hochschild Group, which has operated in Latin America for more than 100 years. Hochschild Mining plc is incorporated in the United Kingdom and its shares have been listed on the London Stock Exchange since 2006. Cementos Pacasmayo S.A.A. has been listed on the Lima Stock Exchange since 1995. As of March 31, 2020, Eduardo Hochschild, directly and indirectly, owned and controlled 50.32% of the shares of Hochschild Mining plc. Through Inversiones ASPI S.A. (“ASPI”), as of that same date Eduardo Hochschild, directly and indirectly, owns and controls 50.01% of the outstanding common shares of Cementos Pacasmayo S.A.A.

The Hochschild Group traces its origins to 1911, when Mauricio Hochschild, a German mining engineer, founded a group of companies in South America that came to be known as the Hochschild Group. Following World War I, the Hochschild Group expanded into Bolivia where it developed significant interests in tin. The Hochschild Group commenced operations in Peru in 1925 and in 1945 Luis Hochschild, the nephew of Mauricio Hochschild (and the father of Eduardo Hochschild), joined the Hochschild Group’s Peruvian operations.

During the first decades of its operations, the Hochschild Group focused on the commercialization of minerals, although it later began operating its own mines and other industrial companies. During World War II, the Hochschild Group was a key supplier of tin and other metals to the allied forces.

Cementos Pacasmayo, was incorporated in Lima, Peru in 1949, by a group of private investors that founded the company to serve the cement market in the northern region of Peru. The Hochschild Group acquired its initial ownership interest in us in 1956. Set forth below are key developments in our company’s history.

- In 1957, we began our operations with the installation of our first clinker line with an installed production capacity of approximately 110,000 metric tons per year. In 1966 and 1977, we added a second and third clinker line, respectively, increasing our installed clinker production capacity to approximately 830,000 metric tons per year.
- In November 1984, the South American mining and industrial operations of the Hochschild Group were sold to the Anglo American Corporation of South Africa which, in the same month, sold the Peruvian operations of the Hochschild Group, including its interest in Cementos Pacasmayo and predecessors of Hochschild Mining plc, to a group of companies controlled by Luis Hochschild.

- In 1995, we launched our distribution network to commercialize and distribute our products throughout the northern region of Peru. In that same year, we also listed our common shares for trading on the Lima Stock Exchange, currently under the ticker symbol “CPACASC1.”
- In 1998, we acquired from the Peruvian government our Rioja facility, located in the northeast of Peru. At the time, the Rioja facility had one clinker line with an installed cement production capacity of approximately 35,000 metric tons per year.
- In 2003, we acquired Zemex Corporation, a U.S. company engaged in non-metallic mining and industrial activities in the United States and Canada, which we sold in 2007 in a series of transactions.
- In 2009, we created Fosfatos del Pacífico in order to explore phosphate rock deposits from our concession at Bayóvar in the north of Peru.
- In 2010, we reached an aggregate total installed cement production capacity of 3.1 million in our Pacasmayo and Rioja facilities and completed the conversion of our Waelz kiln, retrofitting it to produce quicklime or calcine zinc interchangeably. That same year, we also sold our copper mining concessions in the central region of Peru known as “Mina Raul,” which were previously leased to a third party, for US\$28.0 million.
- In December 2011, we sold a minority equity interest in Fosfatos to an affiliate of Mitsubishi to develop our phosphate deposits in the Bayóvar fields, in the northwest of Peru.
- In March 2012, we completed our initial equity offering of 22,296,800 ADSs in the United States and listed our ADSs on the New York Stock Exchange.
- In February 2013, we issued US\$300 million of our, in our inaugural international bond offering. A portion of the proceeds from this offering were used to prepay amounts outstanding on our secured loan agreement with BBVA Banco Continental, and the remaining proceeds were used to fund a portion of the capital expenditures related to the construction and operation of our new Piura plant and our cement business.
- In September 2015, we began producing cement at our new plant in Piura. This was a very important milestone for us, since we have been investing in this project since 2012 and we have begun to reap the benefits of this investment.
- In January 2016, we began producing clinker at our new plant in Piura, finishing the start-up of the plant, adding one million metric tons of annual clinker production capacity.
- In March 2017, Cementos Pacasmayo consummated the spin-off of Fosfatos del Pacífico.
- In December 2017, our board of directors resolved to focus our strategy on our core business of developing cement and building solutions. In furtherance of this strategy, we have focused on disposing our non-core investments. In the fourth quarter of 2017, we discontinued our brine project.
- In March 2018, Cementos Pacasmayo launched its new brand image and updated its vision: to further enhance our position as a leader in developing building solutions and innovations that anticipate the needs of our clients and that contributes to the progress of our country.
- During 2018, Cementos Pacasmayo implemented the ISO 37001 anti-bribery management systems, obtaining certification in January 2019. This certification confirms that our management systems are designed to help prevent, detect and respond to bribery and comply with anti-bribery laws and voluntary commitments applicable to its activities. This certification and related initiatives reiterates our commitment to global anti-bribery best practices and high standards of transparency and good corporate governance.

- In November 2018, Cementos Pacasmayo launched an offer to purchase for cash a portion of the US\$300 million principal amount international bond outstanding. The offer expired on December 7, 2018 with a total of US\$168,388,000, or approximately 56.13% of the total outstanding amount, tendered and repurchased by Cementos Pacasmayo.

On January 8, 2019, the General Shareholders' Meeting approved the issuance of a local bond program in an aggregate principal amount up to S/1,000 million. On January 31, 2019, two issuances were completed under the program for a total principal amount of S/570 million: One for S/260 million accruing interest at a rate of 6.68750% per annum with term to maturity of 10 years, and another for S/310 million accruing interest at a rate of 6.84375% per annum with a term to maturity of 15 years. The proceeds were used to purchase part of our outstanding 4.50% Senior Notes due 2023. The rates and terms obtained reduce our financial cost structure, with lower cost of capital, an extended maturity and less exposure to exchange rate fluctuations.

- On September, 2019, we were included on the 2019 Dow Jones MILA Sustainability Index for the first time. This Index is made up of those companies that demonstrate superior performance among their peers based on social, environmental and economic criteria. This achievement comes as a result of our efforts to improve our performance in all of these criteria and to work towards ambitious goals in terms of long-term sustainability. We are committed not only to remain in the Index but to improve our performance, as we are convinced that the focus on sustainability is key to our business and our stakeholders.

Capital Expenditures

We expect to spend over the next five years approximately US\$25 million per year on recurring capital expenditures necessary to maintain our plants and equipment. We expect to finance these investments with our current and future cash flows.

The table below sets forth our total capital expenditures incurred during 2019, 2018 and 2017.

(in millions of S/)	Year ended December 31,		
	2019	2018	2017
Concrete and aggregates equipment	44.6	50.7	35.0
Piura plant projects	12.3	28.0	17.3
Pacasmayo plant projects	25.0	26.2	15.5
Rioja plant projects	5.2	2.4	2.2
Total	87.1	107.3	70.0

B. Business Overview

Overview

We are a leading Peruvian cement company, and the only cement manufacturer in the northern region of Peru. With more than 62 years of operating history, we produce, distribute and sell cement and cement-related materials, such as precast products and ready-mix concrete. Our products are primarily used in construction, which has been one of the fastest growing segments of the Peruvian economy in recent years. We also produce and sell quicklime for use in mining operations, although it represents a very small percentage of our overall revenues.

In 2019, our cement shipments were approximately 2.6 million metric tons, representing an estimated 22.2% share of Peru's total cement shipments. Cement volumes in 2019 increased by 10.6% compared to 2018, the highest growth rate since 2012. The growth was primarily due to increased cement volumes to for public investment connected to reconstruction from El Niño related damages and the self-construction segment, as well as increased concrete sales to medium-sized infrastructure projects and small and medium sized businesses. We believe the construction sector has significant potential to grow with the expected continued expansion of the economy, the continued deficit in infrastructure and the persistent housing deficit in the country, as well as the reconstruction of northern Peru following the impact of El Niño weather conditions in the first four months of 2017.

We own three cement production facilities, our flagship Pacasmayo facility located in the northwest region of Peru, our new plant in Piura and our smaller Rioja facility located in the northeast. Our facilities have total installed annual cement production capacity of approximately 4.9 million metric tons. We also have installed annual production capacity of 240,000 metric tons of quicklime. We own concession rights to several quarries with reserves of limestone and other raw materials located near our facilities. We estimate that our existing quarries have sufficient reserves to supply our limestone and seashells needs for approximately 73 years, based on our 2019 limestone and seashell consumption levels.

We completed an expansion of our Rioja plant in April 2013. We more than doubled the cement production capacity of our Rioja facility by installing a new production line with 240,000 metric tons of installed annual cement production capacity. We finished construction of our plant in Piura in 2015. This facility has annual production capacity of 1.6 million metric tons of cement. In September 2015, we began cement production, and clinker production began in January 2016.

We provide consumers with high-quality and value-added cement products and, as a result, we believe we have developed strong brand recognition and customer loyalty in our market. We have developed one of the largest independent retail distribution networks for construction materials in Peru. Through our network of 286 independent retailers and 413 hardware stores as of December 31, 2019, we distribute our cement products as well as other construction materials manufactured by third parties, such as steel rebar, cables and pipes, in the northern region of Peru. We also sell our cement products directly to other retailers that are not part of our distribution network and to private construction companies and government entities.

The following table sets forth certain macroeconomic data for Peru and operating and financial data for our company for the periods indicated.

	As of and for the year ended December 31,		
	2019	2018	2017
Economic data(1):			
GDP growth in Peru	2.3%	4.0%	2.7%
Construction sector growth in Peru	1.5%	4.7%	2.2%
Operating data:			
Capacity (thousands metric tons per year):			
Installed cement capacity	4,940	4,940	4,940
Installed clinker capacity	2,780	2,780	2,780
Production (thousands metric tons):			
Cement production	2,623	2,346	2,286
Clinker production	1,853	1,719	1,642
Utilization rate at Pacasmayo plant(2):			
Cement	47.2%	39.8%	39.4%
Clinker	57.6%	55.4%	45.8%
Utilization rate at Rioja plant(2):			
Cement	68.4%	62.0%	65.2%
Clinker	82.5%	75.5%	74.6%
Utilization rate at Piura plant(2):			
Cement	59.7%	57.4%	53.6%
Clinker	75.8%	67.6%	74.6%
Gross profit (\$/ million)	486.9	466.7	487.8
Gross profit margin	35.0%	37.0%	40.0%
EBITDA / Adjusted EBITDA(3) (\$/ million)	400.3	371.6	371.5
EBITDA / Adjusted EBITDA margin (3)	28.7%	29.4%	30.5%
Profit (\$/ million)	132.0	75.2	80.6
Profit margin	9.5%	6.0%	6.6%

(1) Source: BCRP.

(2) Utilization rate is calculated by dividing production for the specified period by installed capacity.

(3) For all periods other than 2017, EBITDA is presented. For 2017, we present Adjusted EBITDA, which excludes the impairment of brine assets. For a calculation of EBITDA and Adjusted EBITDA and a reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable IFRS financial measure, see “Item 3. Key Information—A. Selected Financial Data.”

Peruvian Cement Market

Peru has experienced sustained economic growth over the past decade. From 2015 to 2019, GDP grew at a compound annual growth rate, or “CAGR”, of 3.2%. Growth during this period was accompanied by low inflation, which averaged 2.84% per year. In addition, at December 31, 2019, the government had accumulated foreign exchange reserves of approximately US\$68.2 billion, and the sovereign long-term debt rating was investment grade from each of the three major international credit rating agencies. This economic growth has resulted, among other key trends, in significant poverty reduction, with a decrease in the percentage of the country’s population living below the poverty line from approximately 48.6% in 2004 to approximately 21.3% in 2018. According to the Central Bank of Peru, the Peruvian GDP grew at a rate of 2.3% in 2019.

We sell substantially all our cement in the northern region of Peru, which in 2019 accounted for approximately 28.8% of the country’s population and 17.6% of national GDP. Two other groups sold most of the cement consumed in each of the central and southern regions of Peru, with 6.5% of all the cement consumed in the country coming from imports, and approximately 4% coming from a small domestic producer. From 2015 to 2019, total cement consumption in Peru increased 1.5% according to the INEI. Peru continues to have a significant housing deficit, estimated by the INEI at 1.9 million homes nationwide. In Peru, cement is mainly sold to a highly fragmented consumer base, consisting primarily of households that buy cement in bags to gradually build or improve their own homes without professional technical assistance, a segment known in our industry as *auto-construcción*. We estimate that in 2019 sales to the *auto-construcción* segment accounted for approximately 60.3% of our total sales of cement, private construction projects accounted for 19.9%, and public construction projects accounted for the remaining 19.8%. Approximately 89.0% of our total cement sales in 2019 were in the form of bagged cement, substantially all of which was sold through retailers.

Even though our ready mix sales are still a small proportion of our sales, we expect this trend to change as infrastructure becomes a bigger driver of demand in the upcoming years.

Discontinuance of Brine Project

In 2017, our board of directors resolved to prioritize investments in the development of products related to the manufacture and sale of cement and building solutions. In furtherance of this strategy, we have pursued the sale or other disposition of investments that are not central to our core cement production business. As a result of this decision, during the fourth quarter of 2017 we discontinued the brine project.

Competitive Strengths

Our principal competitive strengths include the following:

Strong corporate governance standards and international recognition

Our common shares are listed on the Lima Stock Exchange and our ADSs are listed on the New York Stock Exchange. We are subject to the disclosure requirements of the U.S. Securities and Exchange Commission (the “SEC”) and the Peruvian Securities Commission and we must comply with and adopt internal compliance standards to increase transparency and improve corporate governance standards including an audit committee and appointment of independent directors. Since 2009, every year we have been selected as part of the Good Corporate Governance Index of the Lima Stock Exchange. Furthermore, in 2019, we received the Top Social Responsibility Award (*Distintivo de Empresa Socialmente Responsable*) for the seventh consecutive year, in recognition of our achievement of corporate goals in a socially responsible manner, principle that is ingrained in our corporate culture and business strategy. Finally, we were included for the first time as part of the 2019 Dow Jones MILA Sustainability Index. This Index is made up of those companies that demonstrate superior performance among their peers under social, environmental and economic criteria. This achievement comes as a result of Pacasmayo’s effort to improve in all of these criteria and to work towards ambitious goals in terms of long-term sustainability. We are committed not only to remain in the Index but to improve our performance, as we are convinced that the focus on sustainability is key to our business and our stakeholders.

Track record of cash flow generation and strong results through multiple business cycles

We have historically generated strong cash flow and high profit margins mainly due to the following key factors:

- our leadership position in the northern region of Peru; and
- our extensive distribution network, operational flexibility and efficiency, and focus on innovation.

In 2019, we generated cash flow from operating activities of S/205.1 million (US\$61.8 million) and EBITDA of S/400.4 million (US\$120.8 million), recorded profit for the year of S/132.0 million (US\$39.8 million), and our operating margin and EBITDA margin were 19.4% and 28.7%, respectively. EBITDA for 2019 was 7.7% higher than 2018, mainly due to increased sales volume, partially offset by higher transportation costs because the demand for type V cement increased and its production is centralized in the Pacasmayo plant for the whole region.

This solid financial position and our ability to consistently generate operating cash flow also allows us to obtain relatively low interest rates.

Leader in attractive and expanding market with solid macroeconomic fundamentals

We are currently the only cement manufacturer in the northern region of Peru and we produce and sell substantially all of our cement in the region. In 2019, the northern region accounted for approximately 28.8% of the country's population and 17.6% of its GDP. From 2015 to 2019, GDP in the northern region grew at a CAGR of 2.3%. During the same period, our cement sales volume grew at a CAGR of 3.1%, above northern region GDP mainly due to increased public spending resulting from the government's reconstruction plan after El Niño in 2017.

Best-in-class operating efficiencies with vertical integration and strong brand recognition

Our quarries are located in close proximity to our plants, enabling us to minimize transportation costs. We strive to enhance our operational efficiency by focusing on lowering costs and improving profitability. We also benefit from our vertically integrated operations, participating in the entire chain of production from the quarries, which we own directly, to the related products such as quicklime, ready-mix, precast and our large distribution network. We have developed one of the largest independent retail distribution networks for construction materials in Peru, known as "DINO," consisting of 286 independent retailers and 413 hardware stores as of December 31, 2019, primarily small, local stores in the northern region, through which we distribute our cement products as well as construction materials manufactured by third parties. We use our distribution network, together with our strategically located commercial offices, to promote our products and stay abreast of market developments. We have developed this network through years of fostering relationships with retailers in the region, which we believe would be difficult for a competitor to replicate. Our distribution network has enabled us to build strong recognition for our Pacasmayo brand among retailers and end-consumers in our market, which we believe is important to our business, particularly because our cement is principally sold in bags to retail consumers.

Disciplined capital expenditure plan with attractive risk / return profile

We seek to minimize risk while securing an adequate return on our development projects. In 2015, we completed construction of our new plant in Piura, the third largest city in northern Peru, which has an annual production capacity of 1.6 million metric tons of cement. The first ton of cement from the Piura plant was produced and shipped on September 17, 2015. The Piura plant improves our competitive position in the northern region of Peru. With production from three plants, we are able to serve our market more efficiently. This state-of-the-art plant is one of the most modern in Latin America. It also reduces transportation costs by enabling the dispatching of cement from plants within closer proximity to the point of sale.

Emphasis on innovation

We place significant emphasis on research and development to ensure our products meet the needs of consumers in our market and to improve the efficiency of our operations. For example, we have developed cement products suitable to coastal construction that tend to be more exposed to erosion from sulfate. We believe that, by educating retailers and end consumers of these attributes of our products, we have been successful in building demand and realizing higher margins for our differentiated product offering.

In July 2016, we created the Innovation Department with the main objective of systematizing the continuous transformation process of the business in order to ensure a sustainable growth for Cementos Pacasmayo and the improvement of its margins. To achieve this objective it is necessary to:

- Put the customer at the center of all our processes.
- Design an innovation management model.
- Promote an organizational culture that encourages entrepreneurship and innovation.

Given that customers, and consumption patterns can change quickly and unexpectedly we must quickly adapt in order to retain our customers.

In 2019 we worked hard to develop new value propositions, that will enable us to offer our clients the best experiences. We designed Journey Maps together with the commercial and Marketing areas wherein we detailed the experience of our various clients to identify our strengths and those aspects that we need to improve. Under this approach, in 2019 we began to develop (and in some cases) to consolidate our digital platforms:

Name of the project	Description
EGIPTO	Digital platform aimed at delivering value to Construction companies. Through this digital application, our clients will be able to check the status of their dispatches, re-schedule them and display the GPS location of their shipments in real time.
MOCHE	Digital platform aimed at delivering value to the hardware stores by managing sales and orders.
BURGOS	Digital consultation channel aimed at giving technical support to Master Builders.
SISPLAN	Digitization of the request, approval and issuance processes for the discount on plans and promotions, negotiation, tenders and sale, giving visibility to our clients and sales force.
RPA's Pilot	Three automated processes were launched for the Credit and Collections, DINO Operations and Distribution areas.

Strong relationship with local communities

Since we began operations 62 years ago, we have been committed to improving the quality of life of the communities surrounding our plants, whose members we regularly employ. We have developed close and cooperative relationships with the local communities, which are supported by several social responsibility initiatives we have undertaken. For example, the family of our controlling shareholder founded, Asociación Tecsup, a leading non-profit institute in Peru that provides technical education to students. We provide scholarships and financial aid to local qualified students interested in studying at Tecsup. Through its three campuses in Peru, as of December 31, 2019, Tecsup had graduated over 11,285 students in various technical fields, some of whom currently work for us and our affiliates.

Highly experienced and professional management and board of directors

Our management team, with an average of 14 years of experience in the cement industry in Peru, has extensive technical and local market expertise and has led our company through our recent growth. We have developed a strong professional business culture and a team of highly qualified executives. We also have a well-regarded and experienced board of directors that includes some of Peru's business leaders and former senior government officials. Since 2009, we have been selected to form part of the Best Corporate Governance Practices Index of the Lima Stock Exchange, and in 2019 we were selected as part of the Dow Jones MILA Sustainability Index.

Our Strategies

Our objective is to maximize shareholder value, while honoring our commitment to the environment and abiding by our social responsibility goals. We aim to be a leading company that provides building solutions anticipating the needs of our clients and that contributes to the continued development of our country. We intend to achieve our objective through the following principal strategies:

Continue to focus on our core business of supplying the rising demand for cement

We plan to continue to meet the increasing demand for cement in our market, while controlling production costs. We intend to increase our production capacity while we continue to serve the current cement market, as well as increasing cement demand through the production of new cement-based products. Our principal goal is to maintain our market share in the northern region of Peru without reducing the profitability of our business.

Maintain operational efficiencies to control production costs

We intend to sustain operational efficiencies in an effort to control costs and maintain our operating margins. One of our principal initiatives to diversify our sources of energy and to secure supply when possible. In 2018, we signed a long-term contract with Olympic Peru for the supply of gas for our Piura plant. We started using gas in this plant in July 2019. This allows for more stability in our cost structure since the contract has a predetermined price, as well as being more environmentally friendly. See "Item 10. Additional information—D. Material Contracts."

Deepen our commercial relationship with retailers and end-consumers

We plan to enhance our commercial relationships with retailers and end-consumers in our market, both to maintain brand loyalty and to foster demand for our cement products. We will continue to support retailers in our DINO distribution network by providing product education, training sessions, rewards programs, and assistance in financing purchases of our products. In addition, we continue with our door-to-door commercial strategy for cement sales. We believe that these initiatives have been successful in strengthening our relationship with retailers and end-consumers.

Continue to focus on being the preferred provider of building solutions

We strive to be the supplier of choice for cement consumers in the northern region of Peru, whether its individuals building their homes or private construction companies or governmental entities undertaking projects of any size. We continue to focus on providing consumers with efficient and customized building solutions for their construction needs. Over the past several years, we have evolved from being a single type cement manufacturer to offering five different types of cement products, under 2 brands, and other building solutions, such as assembly gravity walls, sheet piles, precast beams, among others. Moreover, in 2018 we launched a new corporate image and future vision, transforming ourselves from a cement producer to a building solutions company. We focus on innovation and are constantly searching for ways to improve building practices, inspired by our culture based on sustainability. For example, we offer cement that contains special properties that protect against sulfate erosion, as well as other products designed to meet the needs of consumers in the northern region of Peru. In order to provide a portfolio of specialized solutions for our clients, we have developed *Pacasmayo Profesional*, a business unit focused on the development and commercialization of building solutions. Our mission is to provide a comprehensive solution for all project types and thus respond to the unique needs of each client, generating savings and efficiencies in the construction processes.

Selectively pursue acquisitions

We will continue to evaluate and may selectively pursue strategic acquisitions of cement and complementary businesses that expand our geographic footprint and diversify our portfolio of products. Our management team has significant operating experience and industry knowledge in the production and commercialization of cement and cement-related materials, and we believe this experience will enable us to identify and pursue attractive acquisitions that will maximize shareholder value.

Continue to strengthen our enterprise risk management

We continue to strengthen our enterprise risk management methods and processes that allow us to identify, assess and monitor the legal, commercial, operational, financial and reputational risks, as well as fraud, corruption, bribery and money laundering and financing of terrorism risks, determining the existing controls and establishing a plan along with other areas in order to mitigate existing risks. Along these lines, during 2018, we implemented the ISO 37001 Anti-bribery management systems obtaining the certification in January 2019. This certification confirms that our management system are designed to help prevent, detect and respond to bribery and comply with anti-bribery laws and voluntary commitments applicable to its activities. We believe this certification reiterates our commitment to global anti-bribery best practices and high standards of transparency and good corporate governance.

Maintain high environmental, social and governance standards

We are committed to maintaining high environment, social and corporate governance standards. We are focused on developing and strengthening a favorable social environment for the continuity and growth of our operations, prioritizing our social investment in innovative education, health and local development programs in coordination with other stakeholders to contribute to sustainable development. Since 2009, we have been selected as part of the Good Corporate Governance Index of the Lima Stock Exchange. Furthermore, in 2019, we received the Top Social Responsibility Award (*Distintivo de Empresa Socialmente Responsable*) for the seventh consecutive year, in recognition of our achievement corporate goals in a socially responsible manner, principle that is ingrained in our corporate culture and business strategy. We were included for the first time as part of the 2019 Dow Jones MILA Sustainability Index. This Index is made up of those companies that demonstrate superior performance among their peers under social, environmental and economic criteria. This achievement comes as a result of Pacasmayo's effort to improve in all of these criteria and to work towards ambitious goals in terms of long-term sustainability. We are committed not only to remain in the Index but to improve our performance, as we are convinced that the focus on sustainability is key to our business and our stakeholders.

Our Products

Our core products are cement and other cement-related materials. We also produce quicklime. In 2019, cement, concrete and precast accounted for 92.6% of our net sales and quicklime accounted for 2.6%. We also sell and distribute construction materials, such as steel rebar, cables and pipes, manufactured by large third-party manufacturing companies, and others which in 2019 represented 4.8% of our net sales.

The following table sets forth a breakdown of our shipments by type of product for the periods indicated:

(in thousands of metric tons)	Year ended December 31,		
	2019	2018	2017
Cement, concrete and precast	2,615	2,364	2,268
Quicklime	66	120	163

The following table sets forth a breakdown of our total net sales by product for the periods indicated:

(in millions of S/)	Year ended December 31,		
	2019	2018	2017
Cement, concrete and precast	1,289.0	1,134.7	1,071.8
Quicklime	36.1	57.6	80.7
Construction supplies(1)	67.2	69.0	66.4
Others	0.4	1.6	1.9
Total	1,392.7	1,262.9	1,220.8

(1) Refers to construction materials manufactured by third parties that we distribute. Construction supplies include the following products: steel rebar, wires, nails, corrugated iron, electric conductors, plastic tubes and accessories, among others.

Cement

Cement is a powdered mixture of ground minerals that, when mixed with water, adheres to other materials and hardens to form a rock-like substance. Cement is generally mixed with other materials, such as gravel and sand, forming concrete with a high degree of compressive strength that is able to withstand substantial pressure.

Cement types are generally classified as either Portland cement or blended hydraulic cement. Portland cement is a hydraulic cement produced by pulverizing clinker, consisting essentially of crystalline hydraulic calcium silicates and calcium sulfate. Blended hydraulic cement consists of a mixture of Portland cement clinker and mineral admixtures, such as blast furnace slag, pozzolanic materials and limestone.

We produce predominantly blended cement, which represented 79.8% of the our cement sales in 2019. This type of cement requires less clinker and reduces carbon dioxide emissions of our operations and production. Our global clinker/cement ratio is estimated at 72.8%, below the average value for similar producers globally of approximately 76.0%

We produce a range of cement products suitable for various uses, such as residential and commercial construction and civil engineering. We currently offer the following six types of cement products designed for specific uses:

- *Type ICo*. This type of cement is used for general purposes and is similar to Portland Type I cement. It is widely used in our market due to its effectiveness and low hydration heat.
- *Type MS/MH/R (called Fortimax3)*. This is the new formula for the type of cement that is used to protect against moderate sulfate action, such as drainage structures, with higher-than-normal, but not unusually severe, sulfate concentrations in ground water. It is designed for sites and structures in humid areas that are exposed to sulfates and sea water. It also prevents thermal contraction cracking due to moderate heat hydration, and is resistant to contact with alkaline reagents.
- *Type I*. This type of cement is for general purposes and suitable if special properties are not needed. It is generally used for constructing pavements, floors, reinforced concrete buildings, bridges, reservoirs, pipes, masonry units and precast concrete products.
- *Type V*. Type V cement is used in concrete exposed to severe sulfate action, principally in places where soil or ground water has high sulfate content. It is generally used in hydraulic construction, such as irrigation canals, tunnels, water conduits and drains.
- *Type HS*. Type HS cement is used in concrete that is exposed to severe sulfate action, principally where soil or ground water has high sulfate content. It is recommended for port construction, industrial plants and construction of sewage sites. Our Portland Type HS cement has low reactivity with alkali-reactive aggregates, making it more durable than other types of cement.
- *Type IL*. Type IL cement is a blended Portland limestone cement. These cements are more environmentally friendly than Portland cements and have very similar performance to Portland Type I/II cements.

We believe that our Type V, Fortimax and HS cement products are particularly suitable for construction in the northern coastal region of Peru, where sulfate and chloride concentrations from soil, ground water and sea water affect the durability of construction structures. By educating retailers about the different cement characteristics and conducting marketing campaigns, we believe we have been successful in building demand for our cement products. Our research and development department is also equipped to produce custom-tailored cement products on demand. In addition, through our dedicated team of geologists and scientists, we have significantly reduced the amount of clinker required for cement production minimizing our capital expenditures and significantly reducing our carbon dioxide emissions (CO₂).

We market and distribute our cement primarily in 42.5 kilogram bags. Most of our bagged cement is sold to the retail sector consisting primarily of households that buy bags of cement to build or expand their own homes over time with little or no formal technical assistance (commonly referred to as *auto-construcción*). The bags are made of Kraft paper to preserve the quality of the cement. Our bags include information relating to the composition of our cement, handling instructions, production dates and storage instructions. Our cement bags have different colors to easily identify the different types of cement. Once bagged at our Pacasmayo, Rioja and Piura facilities, our cement is loaded onto trucks operated by third parties. Cement in bulk is sold to large industrial consumers.

Concrete Products

We also produce and sell concrete products principally in the form of ready-mix concrete used in large construction sites, as well as blocks, bricks, pavers and other precast materials.

- *Ready-mix concrete.* Ready-mix is a blend of cement, aggregates (sand and stone), admixtures and water. It is manufactured and delivered to construction sites in a form that is ready to use. This mixture hardens to form a building material, ranging from sidewalks to skyscrapers. We have 19 fixed and mobile ready-mix plants.
- *Concrete blocks.* We produce and sell concrete blocks, such as paving units, or paver stones for pedestrian walkways, as well as other bricks for partition walls and concrete blocks for structural and non-structural uses.
- *New cement based products.* We have developed, and are in the process of developing more cement-based products that are innovative and easy building solutions. Some of these products are:
 - *Mortar for brick laying:* Pre-dosed and bagged dry masonry mortar for block and brick laying.
 - *Mortar for plaster:* Pre-dosed mortar to plaster interiors and exteriors, walls and ceilings. Allows smooth finishes and thin applications
 - *Caravista Concrete:* Concrete designed to be exposed without any additional coating or paint.
 - *Tremie Concrete:* Concrete designed to be placed under water at depths greater than 1.5 meters.
 - *New Jersey Walls:* safety barriers used to separate traffic flows
 - *Mortar for brick laying:* Pre-dosed and bagged dry masonry mortar for block and brick laying.
 - *Viaforte Type MH:* Cement of moderate heat of special hydration for stabilization of soils and road bases. The cement provides greater workability and less risk of cracking on site, also ensuring greater durability to the structure
 - *Bagged Dry Concrete:* Pre-dosed mixture of cement, aggregates (Stone and Sand) and additives, that only requires the addition of water indicated on the package and mixing (manual or mechanical) to be used immediately
 - *Corner block:* Product that complements the structures built with our blocks, giving better functionality to any corner.
 - *Beam block:* Product that is used to confine the upper part of walls built with our blocks.
 - *Concrete driving pipes:* precast reinforced concrete pipes that are installed without the need to open pit ditches or dredging of maritime floors. The main use of the driving pipe is to collect seawater (inlet pipe) and to bring brackish water back out to sea (outfall pipe). We are building a 1.5 kilometer long underwater outfall project for the Talara Refinery, where it is necessary to build a water collection system for its fire and cooling system.

- *Sheet piles presented and assembled:* concrete piles that can be pre-stressed or reinforced (they are two different types of manufacturing) that sink one alongside the other, forming a containment structure, used as riparian defenses. We are manufacturing 40,000 ml pre-stressed and reinforced sheet piles that will form a coastal defense for the Piura River, ensuring the containment of water during rainy events, reducing the vulnerability of the city to floods.

Quicklime

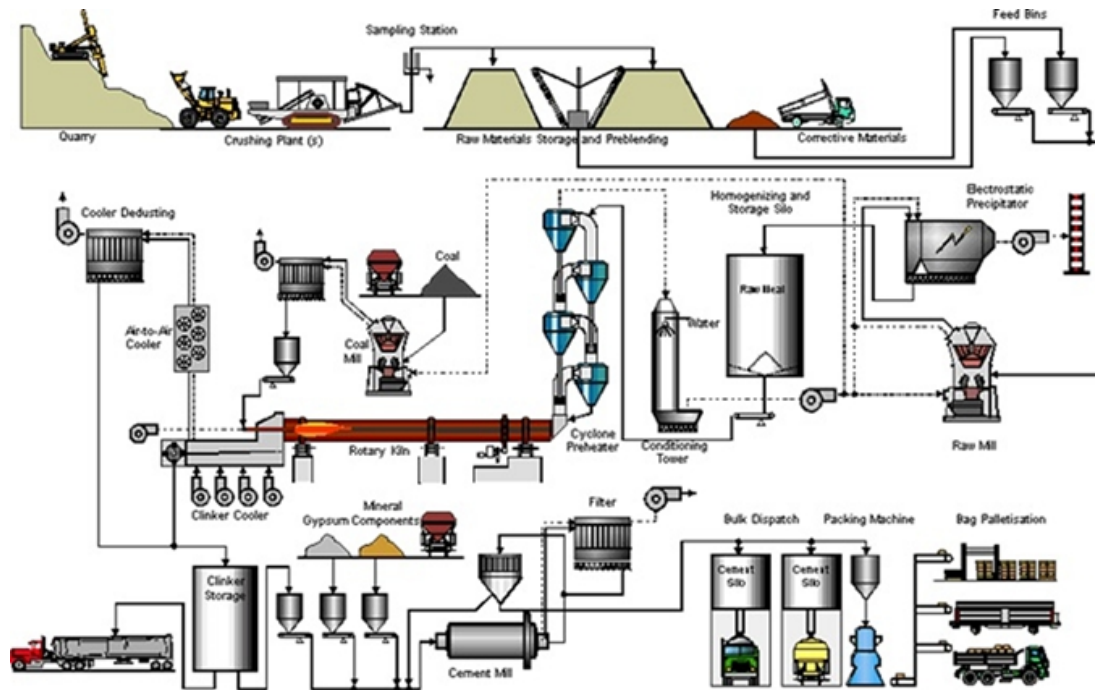
We produce and distribute quicklime, which has several industrial uses. Quicklime serves as a neutralizer, lubricant, drying and absorbing material, disinfectant, and as a raw material. Quicklime has various applications, including in the steel, food, fishing and chemical industries. It is also used in mining operations to treat water and industrial residues, in agriculture as a fertilizer enhancer and, to a lesser extent, in other industries. In Peru, quicklime is mainly used in the mining industry, as an additive to treat water residues. We produce quicklime in finely and coarsely ground varieties and sell it either in bags of one metric ton or in bulk, according to clients' requirement.

Production Process

Cement Production Process

The diagram below depicts the standard cement production process, which consists of the following main stages:

- extraction and transportation of limestone or seashells from the quarry;
- grinding and homogenization to make the raw material of consistent quality;
- clinkerization;
- cement grinding;
- storage in silos; and
- packaging, loading and distribution.



Extraction of raw materials. To produce cement, limestone/seashells are extracted from our quarries. We use explosives to loosen the limestone and deploy bulldozers to remove dirt and the overburden covering the limestone. We crush the limestone in our primary and secondary cone crusher and the resulting limestone is loaded into trucks and hauled to our Pacasmayo or Rioja facilities from the adjacent quarry where it is stored. In the case of Piura, our surface miner drills out our seashell quarry and then it is also loaded into trucks and hauled to the Piura plant.

Grinding and homogenization. Limestone/seashells, clay and sand are mixed with iron that is acquired from third parties. The quality of the resulting raw meal is monitored by examining samples of each batch and processing them through our quality control x-ray software that automatically measures the mix of materials to confirm the blend is in compliance with our quality standards. Subsequently, the raw meal is sent to a blending silo and then to a storage silo from where it is fed into the pre-heater.

Clinkerization. The raw meal is heated at a temperature of approximately 1,450 degrees Celsius in our kilns. The intense heat causes the limestone and other materials in the mixture to react inside the kiln, turning the mixture into clinker. Clinker is then cooled to a temperature of approximately 200 degrees Celsius and stored in a silo or in an outdoor yard.

Cement grinding. After being cooled, clinker, together with gypsum and some admixtures, is fed into a ball mill or into a vertical roller mill where it is ground into a fine powder to produce cement. In this form, cement reacts as a binding agent that, when mixed with water, sand, stone and other aggregates, is transformed into concrete or mortar.

Storage in silos. After passing through the ball mills, the cement is transferred on conveyor belts and stored in concrete silos in order to preserve its quality until distribution.

Packaging, loading and transport. Cement is transferred through another conveyor belt from the silo to be packaged in 42.5 kilogram bags and then loaded into trucks operated by third parties to be transported for distribution. Bulk cement may be transported (unpacked) on especially designed trucks that deliver large amounts of cement directly to the work site.

Quicklime Production Process

Quicklime is produced by crushing limestone with a calcium carbonate content of at least 95% by calcinating it in a rotary kiln. The limestone for quicklime comes from our quarries. The crushing of the limestone is done at the quarry and the calcination process takes place only at our Pacasmayo facility. We produce quicklime in finely and coarsely ground varieties and sell both varieties in bags of 40 kilograms and up to one metric ton, as well as in bulk.

Raw Materials and Energy Sources

Limestone and Other Calcareous Resources

We obtain limestone required to produce clinker and quicklime principally from land where we have concession rights. For our Pacasmayo plant, we extract limestone from our Acumulación Tembladera quarry located approximately 60 kilometers from the plant, and for our Rioja plant, we extract limestone from our Calizas Tioyacu quarry which is adjacent to our Rioja plant. For our Piura plant, we extract seashells from our Bayovar 4 and Virrilá quarries, located approximately 140 and 120 kilometers, respectively, from the plant.

Acumulación Tembladera. We have a concession with an indefinite term to extract limestone and other minerals from our Acumulación Tembladera quarry, a 3,390 hectare open-pit mine located in the district of Yonan, in the department of Cajamarca. We acquired this concession in November 2002.

Calizas Tioyacu. For our Rioja production, we have a concession with an indefinite term to extract limestone and other minerals from a 400 hectare open-pit mine near our Rioja facility in the district of Elias Soplin Vargas, in the department of San Martín. We acquired this concession in February 1998.

Bayovar 4. For our Piura production, we have a concession with an indefinite term to extract seashells and other minerals from our Bayovar 4 quarry, a 22,326 hectare open-pit mine located in the district of Sechura, in the department of Piura. We acquired this concession in 2008

Virrilá. For our Piura production, we also have a group of concessions with an indefinite term to extract seashells and other minerals from our Virrilá quarry, a 931 hectare open-pit mine located in the district of Sechura, in the department of Piura. We acquired these concessions between 2000 and 2008.

In each of our limestone and seashell concessions, the term of the concession is indefinite, provided we pay an annual concession fee and a penalty fee if we fail to meet required minimum annual production levels. Failure to pay timely pay these fees for two consecutive years will result in forfeiture of our concession. As of the date of this annual report, we have fully paid all applicable fees on our operating concessions.

We extracted from our Acumulación Tembladera quarry approximately 1.9 million metric tons in 2017, 1.9 million metric tons in 2018 and 1.5 million metric tons in 2019 which were used for cement and quicklime production at our Pacasmayo facility. We extracted from our Calizas Tioyacu quarry approximately 331,497 metric tons in 2017, 359,529 metric tons in 2018 and 400,520 metric tons in 2019 which were used for cement production at our Rioja plant. We extracted from our Bayovar 4 quarry approximately 40,183 metric tons in 2017, 43,786 metric tons in 2018 and 41,531 metric tons in 2019 which were used for cement production at our Piura facility. We extracted from our Virrilá quarry approximately 866,023 metric tons in 2017, 1.3 million metric tons in 2018 and 1.0 million metric tons in 2019 which were used for cement production at our Piura plant.

We estimate that as of December 31, 2019, our Acumulación Tembladera quarry contains approximately 154 million metric tons of proven and probable limestone reserves with an average grade of 85.7% of calcium carbonate; our Calizas Tioyacu quarry contains approximately 16 million metric tons of proven limestone reserves with an average grade of 90.3% of calcium carbonate; our Bayovar 4 quarry contains approximately 4.5 million metric tons of proven seashells reserves with an average grade of 87.2 % of calcium carbonate; and our Virrilá quarry contains approximately 89 million metric tons of proven seashells reserves with an average grade of 90.1% of calcium carbonate. Based on limestone consumption at 2019 levels, we estimate that our limestone reserves at our Acumulación Tembladera quarry have a remaining life of approximately 99 years and our limestone reserves at our Calizas Tioyacu quarry have a remaining life of approximately 40 years. Based on seashells consumption for 2019, we estimate that our seashells reserves at our Bayovar 4 quarry has a remaining life of approximately 108 years and our Virrilá quarry has a remaining life of approximately 57 years. Our estimates were prepared by our internal engineers and geologist and are reviewed periodically.

In addition to our Acumulación Tembladera, Calizas Tioyacu, Bayovar 4 and Virrilá quarries, we also own concession rights to various other calcareous material quarries consisting, in total, of approximately 40,767 hectares located in the northern region of Peru. None of these quarries are in operation as of the date of this annual report.

Clay, Sand and Other Raw Materials and Admixtures

The other raw materials that we use to produce clinker are clay, sand, iron and diatomite.

Clay

For cement production in our Pacasmayo facility, we extract clay from our Pituras quarry, a 400 hectare open-pit concession located in the district and province of Pacasmayo, department of La Libertad. We were granted this concession by the MEM in 1996. The term of the concession is indefinite, provided we pay an annual concession fee and meet minimum annual production requirements. We extracted from this quarry approximately 49,618 metric tons in 2017, 44,636 in 2018 and in 2019 there was no extraction of clay.

For cement production in our Rioja facility, we extract clay from our Pajonal 2 quarry, a 400 hectares open-pit concession located in the district and province of Rioja, department of San Martín. This concession was granted to us by the MEM in 1998. The term of the concession is indefinite, provided we pay an annual concession fee and meet minimum annual production requirements. We extracted from our Pajonal 2 quarry approximately 48,215 metric tons in 2017, 42,227 metric tons in 2018 and 57,129 metric tons in 2019.

We have not calculated our clay reserves, as we believe there is an abundant supply of clay in our concessions and more broadly in the northern region where we operate.

Sand

For cement production in our Pacasmayo facility, we use sand extracted from our Pituras quarry. We extract approximately 120,000 metric tons of sand per year on average for use at our Pacasmayo facility. Our Rioja facility does not utilize sand as a raw material given the type of cement it produces.

We have not calculated our sand reserves, as we believe there is an abundant supply of sand in our concessions and more broadly in the northern region where we operate.

Iron

We use small quantities of iron in our cement production, which we purchase from third parties at market prices.

Pozzolan Materials and Other Admixtures

Our cement production also requires small amounts of other admixtures, such as pozzolan materials, gypsum and blast furnace slag.

For cement production in our Pacasmayo facility, we use pozzolan materials obtained from our Cunyac quarry, a 200 hectare open-pit concession located in the district of Sexi, province of Santa Cruz, department of Cajamarca. The concession was granted to us by the MEM in 2008. The term of the concession is indefinite, provided we pay an annual concession fee and meet minimum annual production requirements. We began using pozzolan material at our Pacasmayo facility in 2010 and in 2017 we extracted 22,287 metric tons, in 2018 and 2019 we consumed pozzolan material from our stock.

For cement production in our Rioja facility, we use pozzolan materials obtained from our Fila Larga quarry, a 1,000 hectare open-pit concession located in the district of El Milagro, province of Utcubamba, department of Amazonas. The concession was granted to us by the MEM in 1998. We did not use pozzolan materials to produce cement in 2017 or 2018. In 2019 we extracted 1,000 metric tons of pozzolan from our Fila Larga quarry.

We also own several other concessions containing pozzolanic material which have not been exploited. In addition, our use of pozzolanic materials may be substituted with clinker or other admixtures. Other admixtures, such as gypsum and blast furnace slag, are purchased at market prices from third-party suppliers. If we are unable to acquire raw materials or admixtures from current suppliers, we believe that other sources of raw materials and admixtures would be available without significant interruption to our business.

Energy Sources

Our main energy sources are fuel in the form of coal and electricity. Our production processes consume significant amounts of energy, because our kilns must reach extreme temperatures to produce clinker and quicklime. In addition, milling operations, homogenization and transportation of materials consume significant amounts of energy.

Coal

We purchase mostly anthracite coal from local suppliers and import small amounts of bituminous coal from suppliers mainly in Colombia, in each case at spot market prices. Anthracite coal tends to be less expensive than bituminous coal. We store coal at our premises and in our warehouse facility adjacent to the Salaverry port, located approximately 130 kilometers south of our Pacasmayo facility, where we have sufficient stock of coal to maintain our production levels for the next six months.

In December 2009 and February 2010, we entered into option agreements to acquire coal mining concessions as a means to secure a steady and reliable source for our coal requirements and to reduce the volatility in costs related to coal. In 2011, we exercised certain options under these agreements to acquire coal mining concessions for 908.5 hectares near our Pacasmayo facility for a total purchase price of US\$4.5 million. In 2013, we exercised our remaining options to purchase an additional coal mining concession for 501.2 hectares for US\$1.0 million, thereby completing the acquisition of the related coal mining concessions.

Gas

On August 29, 2018, we signed a gas supply agreement with Olympic Peru that entered in force during 2019 for the supply of gas to our Piura plant. The supply agreement of gas is for a term of 18 years to cover most of our energy needs in the mentioned plant. The contract has two phases: 1) a spot phase, during which we pay for the gas we use, and the agreement may be terminated at any time by either party without penalties, and 2) a take or pay phase, during which we are obliged to pay for a minimum amount of gas established as a percentage (varying from 60% to 70% depending on the year) of the maximum amount of gas purchased by us from Olympic Peru during the spot phase, and penalties apply if either party terminates the agreement. The unit prices of the gas are fixed for each year during both phases. We are currently in the spot phase. The take or pay phase will commence, when the following conditions are met by Olympic: (i) the Peruvian government signs a distribution contract of gas with a third-party concessionaire, (ii) Olympic transfers the pipe to such concessionaire, and (iii) commercial conditions to transport the gas between Olympic Peru and such concessionaire are agreed. These conditions are not under our control and we cannot reasonably estimate when they will be met. See “Item 10. Additional information—D. Material Contracts.”

Electricity

As of December 31, 2019, all of the electricity requirements for our Pacasmayo and Piura facilities were supplied by Electroperú and for our Rioja facility by ELOR.

We have a long-term electricity supply contract with Electroperú currently valid until 2026. Electroperú has agreed to provide us with sufficient energy to operate our Pacasmayo and Piura facilities at pre-determined maximum amounts during the term of the contract. Payments for electricity are based on a formula that takes into consideration our energy consumption and certain market variables, such as the U.S. purchase price index, the global price of oil, the local price of natural gas and the import price of bituminous coal.

In addition, we have a medium-term electricity supply contract with ELOR to supply the Rioja facility, which was recently extended until November 2022. ELOR supplies the Rioja facility with six megawatts of electricity at peak hours and eight megawatts at non-peak hours. Payments for electricity are based on a formula that takes into consideration our energy consumption and certain market variables, such as the U.S. dollar price, the local price of natural gas, the global price of oil and the import price of bituminous coal.

Other Production Materials

We use other materials in the cement production process, including paper bags to package cement, which we purchase principally from local suppliers; plastic bags used to package quicklime, which we purchase from local suppliers; and water to cool the kiln exhaust gases and for our crushing operations at our Acumulación Tembladera quarry, which we obtain principally from a well located at our Pacasmayo facility and from the Jequetepeque river. Water used in our production process is maintained in a closed system at our plants and re-processed for utilization in our production process.

Consumer Base

The retail cement sector in Peru is characterized by households that purchase single bags of cement to gradually build or improve their homes with little or no professional assistance. This sector is known as *auto-construcción*. Families in this sector tend to invest a large portion of their savings in building or improving their own homes. *Auto-construcción* is often conducted with the help of a foreman (*maestro de obra*) who generally has experience in construction. Our retail marketing plans typically target the *maestro de obra* who is usually the decision maker when buying cement and other related construction materials.

We also sell directly to small, medium and large private construction companies working on a variety of construction projects, from housing complexes to commercial developments. In the public sector, we provide cement for national, regional and local governments carrying out construction projects including housing complexes and public construction, ranging from local schools and hospitals to large infrastructure

Sales and Distribution

Distribution

Our market extends from the Ecuadorian border in the north of Peru to the city of Barranca in the south (approximately 180 kilometers north of Lima), to the rainforest in the east and the Pacific Ocean in the west. Our market covers the provinces of Amazonas, Cajamarca, La Libertad, Lambayeque, Piura and Tumbes in the north; and San Martín and Loreto in the northeast.

Our Pacasmayo, Piura and Rioja facilities supply the entire northern region of Peru, interchangeably subject to where it is most efficient to ship from at the moment, depending on the distance and type of cement being produced, among other factors.

In 2019, approximately 89.1% of our total cement shipments were in the form of bagged cement, substantially all of which was sold through retailers both within and outside of our distribution network. The remaining 10.9% of our cement was sold in bulk or in shipments of precast products or ready-mix concrete directly to large construction companies.

We have developed one of the largest independent retail distribution networks for construction materials in Peru, consisting of more than 413 local hardware stores, with which we have a distribution agreement. In addition, we also distribute to other independent retailers located throughout the northern region of Peru with whom we do not have contractual relationships. We have built our distribution network by investing in strengthening our relationship with retailers.

Even though our ready mix sales are still a small proportion of our sales, we expect this trend to change as infrastructure becomes a bigger driver of demand in the upcoming years. Additionally, we sell and distribute other construction materials manufactured by third parties that are used alongside cement, such as steel rebar, plastic pipes and electrical wires, among others.

Marketing and Brand Awareness

We use our distribution network, together with our strategically located local commercial offices, to promote our products and brands, as well as to keep us informed of market developments. We believe our distribution network has enabled us to build strong recognition for our Pacasmayo brand among *maestros de obra*, retailers and end consumers which we believe is important to our business, particularly because our cement is principally sold in bags to retail consumers.

Our marketing expenses in 2019 were approximately S/7.0 million, or 0.5% of our sales. Historically, our marketing strategy has been to develop brand loyalty by providing high-quality products, tailored to the needs of our customers, and customer service accompanied by complimentary training for the *maestros de obra*, who are typically the decision makers in the *auto-construcción* segment.

We develop strong ties with our distributors by promoting income generating opportunities for them. For instance, we give them priority when hiring transportation to distribute our cement throughout our territory. Also, our large salesforce has the ability to cover most of the construction sites in northern Peru generating business opportunities that are then channeled through our distributors. Finally, our distributors enjoy various commercial and marketing benefits such as rebates, special promotions, special credit conditions, and loyalty programs.

Quality Control

In Peru, cement production is subject to standardization (*normalización*) regulations approved by the National Institute for the Protection of Competition and Intellectual Property (*Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual*, or “INDECOPI”). Although the standardization regulations are not mandatory, they are useful in achieving an optimum level of management. As of the date of this annual report, we comply with all standardization regulations applicable to our products.

We have established a quality assurance program in accordance with ISO Standard 9001-2008, certified by SGS del Perú S.A.C., a company that provides inspection, verification, testing and certification services. We monitor quality at every stage of the cement production process. In our facilities, we periodically test the quality of our raw materials. These tests include chemical, physical and x-ray tests. We perform similar examinations of the clinker we produce. Additionally, we also perform regular quality tests on our finished products.

We have a quality control area with computerized systems to access real-time information on the quality of our products. As part of our quality control process, we monitor the performance of our different cement products, monitor the performance of additives in our cement and review monthly statistical analysis on the resistance of cement, among other things.

Competitive Position

Peru's cement production is segmented into three main geographic regions: the northern region, the central region, including Lima's metropolitan area, and the southern region. We are the only cement manufacturer in the northern region of Peru. The central region is principally served by UNACEM (formerly known as Cementos Lima and Cemento Andino), some imports, and Caliza Cemento Inca. The south is principally served by Cementos Yura and Cementos Sur. In 2019, our cement shipments were approximately 2.6 million metric tons, representing an estimated 22.2% share of total cement shipments in Peru.

Regulatory Matters

Overview

Although our core business is the production of cement, we hold a number of mining concessions granted by the Peruvian government for the supply of limestone and other raw materials required for cement production. As a result, we are subject both to the mining and the general industrial legal framework in Peru. The regulatory framework applicable to our cement production may be divided into rules and regulations relating to (i) the mining and crushing of limestone and clay, and (ii) the production process.

Mining Regulations

The General Mining Law (*Texto Único Ordenado de la Ley General de la Minería*) approved by Supreme Decree No. 014-92-EM, published in the Peruvian Official Gazette, *El Peruano*, on June 3, 1992, is the primary law governing both metallic and non-metallic mining activities in Peru and is supplemented by implementing guidelines and policies regarding mining and the processing of minerals enacted by the MEM. Under the General Mining Law, mining activities (except storage, reconnaissance, prospecting and trade) are carried out exclusively through various forms of concessions. Mining concessions are granted by the Geological, Mining and Metallurgical Institute (*Instituto Geológico Minero y Metalúrgico*, or "INGEMMET"), and all other concessions, including our mineral processing concessions, are granted by the Directorate General for Mining of the MEM. Any act, transfer, termination or agreement related to these concessions must be registered with the Mining Rights Registry, which is part of the National Public Registry System, to be effective against the Peruvian government and third parties.

Holders of concessions or mining claims must comply with several obligations, including the payment of an annual concession fee (*derecho de vigencia*) of US\$3.00 per applicable hectare. The annual concession fee is due and payable on or prior to June 30 of each year. Failure to pay the annual concession fee for two consecutive years will result in the termination of the mining concession.

Mining activities require holders to obtain title to the surface land from individual landowners, peasant communities or the Peruvian government. Mining concessions are granted for an unlimited period, subject to the achievement of minimum annual production levels. Two different regimes apply depending on the date the concession was granted:

Under Legislative Decree 1320 and Supreme Decree No. 011-2017-EM, since January 1, 2019, if the annual minimum production or investment has not been met, the annual penalty and the causes to terminate a mining concession will be determined by the General Mining Law for all concessions, as described below.

For concessions granted until 2008, the following rules apply:

- the minimum annual production target is equivalent to one tax unit (approximately US\$1,245) per year per hectare, in case of metallic mining concessions, and 10% of one tax unit (approximately US\$124) per year per hectare, in the case of non-metallic mining concessions;
- the minimum production level is to be achieved no later than the end of the tenth year from the date of grant;
- if the minimum production level is not achieved within that period, an annual penalty equivalent to 2% of the minimum annual production level is due until such level is achieved;
- if the minimum production level is not achieved by the end of the fifteenth year, an annual penalty equivalent to 5% of the minimum annual production level is due until such level is achieved;
- if the minimum production level is not achieved by the end of the twentieth year, an annual penalty equivalent to 10% of the minimum annual production level is due until such level is achieved; and
- if the minimum production level is not achieved by the end of the thirtieth year, the mining concession expires.

Any penalty must be paid prior to June 30 of each year. Failure to pay the penalty for two consecutive years results in the termination of the mining concession.

From January 1, 2020, these penalties will be applied for concessions granted in 2009 and thereafter.

The foregoing penalties and fines are not applicable to mining concessions granted by the government through private investment promotion initiatives, which will be subject to the minimum production and investment levels set forth in such contracts.

In addition to the payment of the annual concession fee and the penalty, holders of mining concessions must, pursuant to the Mining Royalty Law, pay a royalty for the exploitation of metallic and non-metallic resources. Prior to the amendment of the Mining Royalty Law described below, the amount of the royalty was determined on a monthly basis. For those minerals with an international market price (gold, silver, copper, zinc, lead and tin), the amounts were computed by applying the rates to the value of the concentrate or its equivalent, according to the applicable international market price. The historic rate scales were established in the Mining Royalty Law's regulations as shown in the following table:

Annual sales (in millions of US\$)	Rate
Up to 60	1%
Between 60 and up to 120	2%
More than 120	3%

In case of minerals without an international reference market price (minerals other than gold, silver, copper, zinc, lead and tin), the mining royalty amounted to 1% of the value of the final product obtained from the mineral separation process, net of any costs incurred in the mineral separation process (*componente minero*).

However, the Mining Royalty Law was amended on September 29, 2011 to increase the tax payable on metallic and non-metallic mineral resources. Effective October 1, 2011, the royalty for the exploitation of metallic and non-metallic resources is payable on a quarterly basis in an amount equal to the greater of (i) an amount determined in accordance with the following statutory scale of tax rates based on a company's operating profit margin and applied to the company's operating profit, as adjusted by certain non-deductible expenses, and (ii) 1% of a company's net sales, in each case, during the applicable quarter. The royalty rate applied to the company's operating profit is based on its operating profit margin according to the following statutory scale of rates:

Operating margin	
	Applicable rate (%)
0% - 10%	1.00
10% - 15%	1.75
15% - 20%	2.50
20% - 25%	3.25
25% - 30%	4.00
30% - 35%	4.75
35% - 40%	5.50
40% - 45%	6.25
45% - 50%	7.00
50% - 55%	7.75
55% - 60%	8.50
60% - 65%	9.25
65% - 70%	10.00
70% - 75%	10.75
75% - 80%	11.50
More than 80%	12.00

Mining royalty payments will be deductible for income tax purposes in the fiscal year in which such payments are made.

We believed that certain portions of the regulations of the Mining Royalty Law were unconstitutional, because they impose a mining royalty tax on non-mining activities. For instance, for cement companies, the amended Mining Royalty Law and its regulations established that the mining royalty tax was calculated based on the total operating profit or net sales, as opposed to operating profit or net sales attributable exclusively to mining products, such as limestone, used to produce cement. Accordingly, in December 2011, we filed a claim to declare that the mining royalty tax applicable for the exploitation of non-metallic mining resources be calculated based on the value of the final product obtained from the mineral separation process, net of any costs incurred in the mineral separation process ("*componente minero*").

In November 2013, the Peruvian Constitutional Court affirmed the constitutional challenge we filed against the new regulation of the Mining Royalty Law, in a final and unappealable ruling, on the grounds that the new regulation violates the constitutional right of property, as well as the principles of legal reserve and proportionality. Therefore, the new regulation is rendered inapplicable to our operation. As a result, we will continue to use as a basis for the calculation of the mining royalty the value of the concentrate or mining component, and not the value of the product obtained from the industrial or manufacturing process.

Finally, holders of mining concessions are required at the beginning of their operations to submit a mining closure plan that must contain a description of the steps to restore the areas and facilities of each mining operation area to pre-mining condition. Holders of mining concessions are required to secure completion of the restorative measures by means of the following guarantees: (i) banking guarantee or credit insurance; (ii) cash guarantees; (iii) trusts; or (iv) those indicated in the Peruvian Civil Code.

As of the date of this annual report, we primarily owned non-metallic mining concessions and limited metallic mining concessions with respect to iron. Substantially all of our concessions were granted prior to 2008. Our mining rights and concessions are in full force and effect under applicable Peruvian laws. We believe that we are in compliance in all material respects with the terms and requirements applicable to our mining rights and concessions.

Production Process

The cement production process along with other manufacturing activities are governed by General Industry Law (*Ley General de Industrias*), Law No. 23407, published in *El Peruano* on May 29, 1982, which establishes basic rules that promote and regulate activities in the manufacturing industry. The Ministry of Production is vested with authority to promote private investments in connection with industrial, processing and manufacturing activities, the surveillance of sustainable exploitation of natural resources (except for those extractive activities involving primary transformation of natural products), the protection of the environment, and the supervision of the quality of manufactured products. All industrial companies are subject to the General Industry Law and its regulations to the extent that the company's gross income is primarily derived from industrial activities. Pursuant to Supreme Decree No. 009-2011-MINAM, the supervisory and monitoring functions of the Ministry of Production were transferred to the OEFA in 2013.

Environmental Regulations

Industrial companies and particularly cement companies are required to comply with several environmental regulations. Pursuant to Article 50 of Legislative Decree No. 757, the competent environmental authority is that corresponding to the activity of the company which generates the highest gross annual income. For that reason, the environmental authority that monitors our operations, considering that cement production represents the highest proportion of our gross profit, is the Ministry of Production.

The Environmental Management Regulations for Manufacturing Industries and internal Trade (*Reglamento de Gestión Ambiental para la Industria Manufacturera y Comercio Interno*—Supreme Decree No. 017-2015-PRODUCE, or the “Environmental Regulations”), the same that was modified by Supreme Decree No. 006-2019-PRODUCE, set forth different environmental obligations depending on the date of commencement of the subject company’s industrial activities. Thus, companies with industrial cement activities operational at the time these regulations entered into force (September 1997) were obliged to submit an Environmental Adaptation Management Plan (*Programa de Adecuación y Manejo Ambiental*, or “PAMA”) to the Ministry of Production; while companies with industrial activities starting from that date onwards are obliged to submit either an environmental impact assessment or an environmental impact declaration depending on the level of risk and the impact of their activities on the environment. Furthermore, the Environmental Regulations establish that the Ministry of Production may require a mining closure plan (as an independent environmental assessment) with environmental measures that all companies must comply with before closing their operations to prevent any negative effects on the environment.

With regard to air emissions and wastewater discharges, the Ministry of Production has adopted legally binding environmental quality standards (*Límites máximos permisibles para emisiones atmosféricas*) for cement and/or limestone industries (approved by Supreme Decree No. 001-2020-MINAM) which are currently being implemented by cement companies. In 2017, New environmental quality standards were established on by the Ministry of Environment (through Supreme Decree No. 003-2017-MINAM for air, and Supreme Decree No. 004-2017-MINAM for water). These standards are legally enforceable and all cement industry operations are required to comply with them.

By Directing Council Resolution No. 023-2013-OEFA/CD, of the *Organismo de Evaluación y Fiscalización Ambiental* (the Environmental Monitoring and Enforcement Agency or “OEFA”), OEFA assumes the functions of monitoring, supervision, control and sanctioning of environmental matters in the Cement Sector of the Manufacturing Industry, of the Industrial Subsector of the Ministry of Production - PRODUCE

Through Directing Council Resolutions No. 004-2018-OEFA/C and 006-2018-OEFA/C, OEFA established sanctions related to failure to comply with environmental permits ranging from 10 UIT (S/43,000) to 30,000 UIT (S/129,000,000), the most serious of which is the development of projects without the approved environmental management permit. Failure to update an environmental impact assessment carries sanctions of up to 6,000 UIT (S/25,800,000), while not complying to commitments included in the environmental impact assessment could carry sanctions of up to 15,000 UIT (S/64,500,000).

In 2016, by Ministerial Resolution No. 201-2016-MINAM, the “National Protocol of Continuous Emission Monitoring Systems – CEMS” was approved. Its objective is to standardize the process of continuous monitoring of polluting gases and particles emitted into the atmosphere by manufacturing activities. It establishes the technical criteria for the selection of continuous monitoring methodologies, as well as the location of the monitoring points, the operation of the equipment and the calibration tests required for the assurance of the quality of the measurements.

By Ministerial Resolution N° 191-2016-MINAM, the “National Plan for the Integral Management of Solid Waste - PLANRES 2016-2024” was approved. It establishes among other things, obligations to managers regarding the management of non-municipal solid waste, as well as the modification of the environmental studies in case it is planned to carry out co-processing. By Legislative Decree No. 1278, the new Comprehensive Solid Waste Management Law, in order to ensure a constant maximization of the efficiency in the use of materials and regulate the management and handling of solid waste, which includes the minimization of waste generation solids at the source, the material and energy recovery of solid waste, and its regulations approved by Supreme Decree No. 014-2017-MINAM

Prior Consultation with Local Indigenous Communities

On September 7, 2011, Peru enacted Law No. 29785, Prior Consultation Right of Local Indigenous Communities. The law was enacted in order to implement Convention No. 169 of the International Labor Organization on Local Indigenous Communities in Independent Countries, previously ratified by Peru through Legislative Decree No. 26253. This law, which became effective on December 6, 2011, establishes a prior consultation procedure to be undertaken by the Peruvian government in favor of local indigenous communities, whose collective rights may be directly affected by new legislative or administrative measures, including the granting of new mining concessions. Regulation implementing this law was approved on April 3, 2012, by Supreme Decree No. 001-2012-MC, which defines the local indigenous communities that are entitled to the prior consultation rights and establishes the different stages that comprise the prior consultation procedure.

Consultation procedures for mining and processing concessions are carried out by the MEM prior to the granting of a new processing concession.

According to the recent practice of the Geologic Institute of Mining and Metallurgy (*Instituto Geológico Minero Metalúrgico*), the granting of mining concessions does not qualify as an “administrative measure” that potentially affects the rights of indigenous people because it does not grant *per se* a right to explore and exploit mineral deposits. Accordingly, the granting of mining concessions has not been included among measures that require consultation procedures with indigenous people. According to Ministerial Resolution No. 003-2013-MEM-DM, the MEM has established that consultation procedures apply prior to the commencement of: (i) exploration activities (*Autorización de inicio de actividades de exploración*); (ii) exploitation activities (*Autorización de inicio o reinicio de las actividades de desarrollo, preparación y explotación - incluye plan de minado y botaderos*); and (iii) processing concessions (*otorgamiento de concesión de beneficio*).

Local indigenous communities do not have a veto right; upon completion of this prior consultation procedure, the Peruvian government can discretionarily approve or reject the applicable legislative or administrative measure. In addition, any sale, lease or other act of disposal of surface land owned by local indigenous communities is subject to the approval of an assembly composed of the members of such communities according to the following rules:

- for local indigenous communities located on the coast, approval of not less than 50% of members attending the assembly is required; and
- for local indigenous communities located in the highlands and the Amazon region, approval of at least 2/3 of all members attending the assembly is required.

Permits and Licenses

Mining Concessions

According to the General Mining Law, a mining concession is required in order to extract mineral resources needed to produce cement. The mining concession grants the right to explore and exploit the mineral resources located in a solid of indefinite depth, limited by the vertical plane corresponding to the sides of square, rectangle or polygon referred to by the Universal Transversal Mercator coordinates. The Geological Mining and Metallurgical Institute (*Instituto Geológico Minero y Metalúrgico*) is in charge of managing the procedure of granting mining concessions, which includes the receipt of the request, the granting and the termination of mining concessions.

Explosives. Mining concessionaires are required to obtain the following permits to operate and store explosives:

- Certificate of Mining Operation (*Certificado de Operación Minera*), granted by the MEM;

- Semiannual Authorization for Use of Explosives, granted by the General Bureau of Explosives of the Ministry of Interior (*Superintendencia Nacional de Control de Servicios de Seguridad, Armas, Municiones y Explosivos de Uso Civil*, or “SUCAMEC”);
- Manipulation of Explosives License for each individual that intends to handle explosives, granted by the SUCAMEC; and
- Explosive’s Warehouse Operation License, granted by SUCAMEC.

Water and Wastewaters

To use water resources in cement industry activities, it is necessary to obtain a water right granted by the Water Management Authority (*Autoridad Nacional del Agua*, or “ANA”) prior to the use of underground or fresh water sources. If the proposed activities will generate domestic or industrial wastewaters, which will be discharged into natural water sources or soil, authorization from ANA is required, with a favorable opinion of the General Bureau of Environmental Health (*Dirección General de Salud Ambiental*, or “DIGESA”).

Hazardous Waste

Hazardous waste generated as a consequence of cement production activities must be disposed of in specialized landfills. The transportation of solid waste outside the limits of the industrial complex must be conducted exclusively through specialized companies registered with DIGESA. Industries are free to contract with an EPS-RS (a company that provides solid waste services such as transportation, treatment or disposal) or with an EC-RS (a company that carries out commercialization activities aiming at the reuse of solid waste). Yet in order to limit their liability in case of environmental harm, industries must make sure the EPS-RS and EC-RS they retain count with all necessary permits to collect, transport and dispose hazardous wastes.

Chemical Feedstock

The commercialization, transportation and use of controlled chemical feedstock (*Insumos Químicos y Productos Fiscalizados*, or “IQPF”) is restricted, because of their potential use in the production of illegal drugs or controlled substances. Companies that require an IQPF must obtain an IQPF User Certificate (*Certificado de Usuario de IQPF*) from the SUNAT.

Fuel Storage

Any company that purchases fuels for its own activities and has facilities to receive and store fuel with a minimum capacity of one meter cubed (264,170 gallons) is required to (i) receive from the Mining and Energy Investment Supervision Body (*Organismo Supervisor de la Inversión en Energía y Minería*, or “OSINERGMIN”) prior permission to build and operate said installations, and (ii) be registered with the Registry of Direct Fuel Consumers, in order to obtain the SCOP Code (*Código del Sistema de Control de Órdenes de Pedido*) necessary to purchase fuel.

Cultural Heritage Protection

If the design and development of cement industry activities involves the removal of topsoil, a Certificate of Non-Existence of Archaeological Ruins (*Certificado de Inexistencia de Restos Arqueológicos*, or “CIRA”) from the Ministry of Culture (*Ministerio de Cultura*) with respect to the area under construction must be obtained. The CIRA will either certify that on the surface of the evaluated area no archaeological sites or features were discovered, or will identify their exact location and extent in order to implement precautionary measures to protect the archaeological artifact. The CIRA is valid for an unlimited period, but will become void should any archaeological artifacts be accidentally discovered during the construction works or due to any natural cause. In such an instance, the company must stop the construction work immediately and notify the Ministry of Culture. Failure to stop the construction work may generate civil and criminal liabilities. Under certain exceptional circumstances, Peruvian legislation allows the removal of archeological artifacts when the area is required for development of projects that are of national interest.

Labor Regulations

Peruvian legislation allows hiring employees through: (i) a fixed-term contract, (ii) a contract for an indefinite duration, or (iii) a contract for part-time employment.

The minimum wage established in Peru is S/930.00 per month. Peruvian labor legislation establishes a maximum 8-hour work day or 48 hours per week for employees older than 18 years. For overtime, employers must pay at least an additional 25% and an additional 35% over the regular hourly wage for the first two hours and for any additional hours, respectively. Employees are entitled to a minimum rest of 24 consecutive hours per week.

Regardless of the type of employment contract, pursuant to Peruvian law full-time employees are entitled to receive:

- (i) an additional 10% of the minimum wage, provided that they are responsible for (a) one or more children under the age of 18 or (b) persons who are up to 24 years of age if they are pursuing higher education;
- (ii) two additional months' salary per year, one in July and one in December (pursuant to Law No. 29351, as of the date of this report, said payments were not subject to any social contribution, except for Income Tax; consequently, employers pay directly to their employees as an Extraordinary Bonus, the amount of the contribution to the Social Health Insurance (ESSALUD) for such payments, equivalent to 9% of the bonus paid);
- (iii) thirty calendar days of annual paid vacation per year;
- (iv) life insurance;
- (v) a compensation for years of service (CTS) equal to one monthly salary is deposited each year in May and November, provided they work an average of at least four hours per day for the same employer;
- (vi) benefits from the Peruvian Social Health Insurance (ESSALUD) to which employers must contribute a rate equivalent to 9% of their employees' income; and
- (vii) a percentage of the company's annual income net of taxes (10% in the case of income derived from industrial cement operations, and 8% in the case of income derived from our mining or commercial activities), provided the company has twenty or more employees.

Free and Fair Competition Protection

In Peru, businesses are generally not required to receive the prior authorization of the antitrust authority, which in Peru is INDECOPI. However, in order to promote economic efficiency and protect consumers, anti-competitive behavior is subject to sanctions under applicable law. Behavior that is prohibited according to national law includes: (i) the abuse of a dominant market position, (ii) concerted horizontal practices and (iii) concerted vertical practices. Moreover, under the Unfair Competition Law it is illegal to act in a way that may hinder the competitive process. An unfair behavior is one that is objectively contrary to the entrepreneurial good faith, ethical behavior and efficiency in a market economy.

Anti-corruption regulation

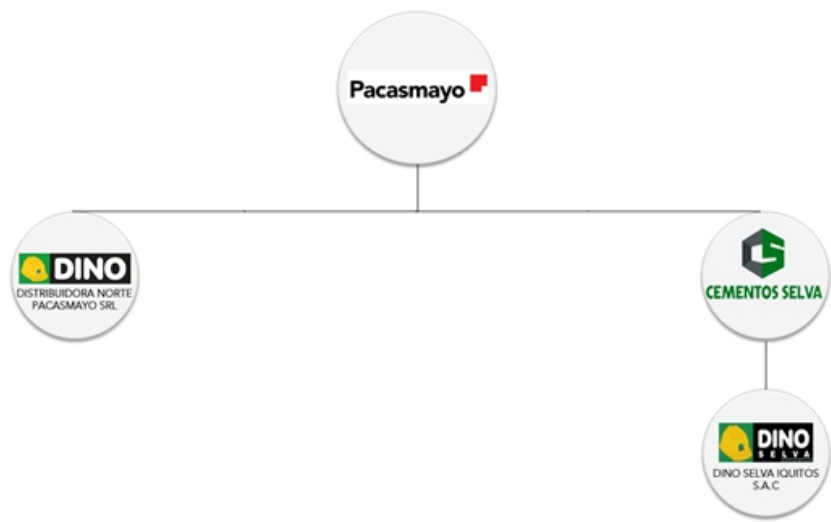
Peru has an established legal framework applicable to bribery, both to public officers and between private individuals.

According to Law No. 30424 and Legislative Decree No. 1352, a legal entity will not be liable for bribery offenses if it has voluntarily implemented a "Prevention Model" (compliance program) prior to the commission of the offense. If a legal entity implements a Prevention Model after the offense is committed, it will be considered as a mitigating factor.

Our compliance program complies with all the elements that such program should have according Law No. 30424 and Legislative Decree No. 1352 to be considered as a liability exonerator in case of bribery offenses.

C. Organizational Structure

All of our operating subsidiaries are incorporated in Peru. The following chart sets forth our simplified corporate structure, relevant operating subsidiaries only, as of the date of this annual report.



The following is a brief description of the principal activities of our consolidated subsidiaries.

- Cementos Selva S.A. is engaged in production and marketing of cement and other construction materials in the northeast region of Peru. Also, it holds all of the shares in Dinonselva Iquitos S.A.C. (a cement and construction materials distributor in the north of Peru, which also produces and sells precast, cement bricks and ready-mix concrete) and in Acuicola Los Paiches S.A.C. (a fish farm entity).
- Distribuidora Norte Pacasmayo S.R.L. is mainly engaged in selling cement produced by the Company. Additionally, it produces and sells precast, cement bricks and ready-mix concrete.

Our other non-material subsidiaries include:

- Calizas del Norte S.A.C. (in liquidation). On May 31, 2016, the Company decided to liquidate the subsidiary Calizas del Norte S.A.C.
- Empresa de Transmisión Guadalupe S.A.C. is mainly engaged in providing electric energy transmission services to the Company.
- Salmueras Sudamericanas S.A. (“Salmueras”) was engaged in the exploration of a brine project located in the northern region of Peru. In December 2017, the Company decided not to continue with the activities related to this project, as explained in note 1.4 to our annual audited consolidated financial statements included in this annual report. As of December 31, 2017, Quimpac S.A. held a participation of 25.1% of the common shares of this entity. As of December 31, 2018 and during 2019, Quimpac held no common shares of this entity.

D. Property, Plant and Equipment

Properties

We own our headquarters office in Lima, Peru, at Calle La Colonia 150, Urbanización El Vivero, Surco. We also own our plants, warehouses, transportation facilities and the office space at our production facilities, including our workers’ facilities occupying approximately 50,000 square meters at our Pacasmayo facility and a warehouse occupying approximately 25,000 square meters at the Salaverry port facility.

Area of Operation

We own and operate three cement production facilities. Our largest facility is located in the city of Pacasmayo, department of La Libertad, approximately 667 kilometers north of Lima. The second facility is located in the city of Piura, department of Piura, approximately 330 kilometers north of Pacasmayo. This facility started cement production in September 2015. We also own and operate a smaller cement facility, located in the city of Rioja, department of San Martín, approximately 468 kilometers east of the Panamericana Norte highway. From the Pacasmayo and Piura facilities we supply cement principally to the coastal and highland regions of northern Peru, including the cities of Piura, Chiclayo, Cajamarca, Trujillo and Chimbote. From our Rioja facility, we supply cement to the northeastern region of Peru, including the cities of Moyobamba, Tarapoto, Loreto, among others among others.



Pacasmayo Facility

As of December 31, 2019, our Pacasmayo facility had 10 kilns, which produce clinker (one of which is also equipped to produce quicklime), and an additional Waelz rotary kiln that produces quicklime. Additionally, our facility has a primary and secondary cone crusher located near our Acumulación Tembladera limestone quarry. The main crusher has installed crushing capacity of 800 metric tons per hour and the secondary crusher has installed crushing capacity of 170 metric tons per hour. Our Pacasmayo facility operates with three horizontal rotary kilns with total installed annual clinker production capacity of 1,034,880 metric tons and six vertical shaft kilns with total installed annual clinker production capacity of 465,120 metric tons. The total installed annual clinker production capacity at our Pacasmayo facility is 1.5 million metric tons. Our Pacasmayo facility also features three cement finishing mills with installed annual cement production capacity of 2.9 million metric. Our Pacasmayo facility is also equipped with silos containing storage capacity for 26,700 metric tons of cement.

As of December 31, 2019, our Pacasmayo facility had installed production capacity of approximately 240,000 metric tons of quicklime per year, including the annual installed capacity of one of our clinker kilns and our Waelz rotary kiln, which are equipped to also produce quicklime.

Piura Facility

Annual installed production capacity of our Piura plant is 1.6 million metric tons of cement and 1 million metric tons of clinker.

Our Piura plant operates with a horizontal kiln with installed clinker production capacity of 1 million metric tons per year, as well as a cement mill with installed cement production capacity of 1.6 million metric tons per year. Our Piura plant also has two storage silos with storage capacity of 240,000 metric tons of cement.

Rioja Facility

Annual installed production capacity of our Rioja plant is 440,000 metric tons of cement and 280,000 metric tons of clinker.

Our Rioja facility currently operates with a small cone crusher and four vertical shaft kilns with total annual installed clinker production capacity of 280,000 metric tons and three cement finishing mills with total annual installed cement production capacity of 440,000 metric tons. Our Rioja plant is also equipped with silos with storage capacity of 1,750 metric tons of cement.

Ready-Mix Concrete Facilities

We also have 25 fixed and mobile ready-mix concrete and precast facilities located in the northern cities of Chimbote, Trujillo, Chiclayo, Piura, Cajamarca, Tarapoto, Chachapoyas, Iquitos among others. These facilities allow us to supply ready-mix concrete and precast materials to small, medium and large construction projects throughout the entire northern region of Peru. As of December 31, 2019, our ready-mix operations had 171 mixer trucks and 30 concrete pumps available to deliver ready-mix concrete.

Capacity and Volumes

The table below sets forth our clinker, cement and quicklime production capacity and volumes in our Pacasmayo and Rioja facilities for the periods indicated.

(in thousands of metric tons, except percentages)	As of and for the year ended December 31,								
	2019			2018			2017		
	Capacity	Production	Utilization rate(1)	Capacity	Production	Utilization rate(1)	Capacity	Production	Utilization rate(1)
Cement:									
Pacasmayo facility	2,900	1,368	47.2%	2,900	1,155	39.8%	2,900	1,141	39.4%
Piura facility	1,600	954	59.7%	1,600	918	57.4%	1,600	858	53.6%
Rioja facility	440	301	68.4%	440	273	62.0%	440	287	65.2%
Total	4,940	2,623	53.1%	4,940	2,286	47.5%	4,940	2,286	46.8%
Clinker:									
Pacasmayo facility	1,500	864	57.6%	1,500	831	55.4%	1,500	687	45.8%
Piura facility	1,000	758	75.8%	1,000	676	67.6%	1,000	746	74.6%
Rioja facility	280	231	82.5%	280	211	75.5%	280	209	74.6%
Total	2,780	1,853	66.6%	2,780	1,642	61.8%	2,780	1,642	59.0%
Quicklime(2):									
Pacasmayo facility	240	74	30.7%	240	105	43.9%	240	168	70.1%

(1) Utilization rate is calculated by dividing production for the specified period by installed capacity.

(2) Our Rioja plant does not produce quicklime. In addition, one of our clinker kilns and our Waelz rotary kiln are equipped to produce quicklime.

Insurance

We maintain a comprehensive insurance program that protects us from certain types of property and casualty losses. Our plants and equipment are insured against losses. Additionally, our insurance policy provides coverage for business interruption in our cement manufacturing facilities. We also purchase commercial insurance to cover risks associated with workers' compensation and other general liabilities. We believe our insurance programs and policy limits and deductibles are appropriate for the risks associated with our business and are in line with the insurance policies of similar cement manufactures that operate in Peru.

Sustainability Performance

We report our sustainability performance information to the GNR (Getting the Numbers Right) database, inspired by the guiding principles of the Cement Sustainability Initiative (CSI), a sector-project of the World Business Council for Sustainable Development (WBCSD) among other cement companies in Latin America through the Inter-American Cement Federation (FICEM).

In August 2018, we join the Global Cement and Concrete Association (GCCA) and become members of the GCCA and the GCCA announced the formation of a strategic partnership with WBCSD to facilitate sustainable development of the cement and concrete sectors and their value chains. As part of a new agreement, the work carried out by the CSI and the GNR database was transfer from WBCSD to the GCCA on 1 January 2019.

In 2019, we were included as part of the 2019 Dow Jones MILA Sustainability Index for the first time. This Index is made up of those companies that demonstrate superior performance among their peers under social, environmental and economic criteria. This achievement comes as a result of Pacasmayo's effort to improve in all of these criteria and to work towards ambitious goals in terms of long-term sustainability. We are committed not only to remain in the Index but to improve our performance, as we are convinced that the focus on sustainability is key to our business and our stakeholders.

Social Performance

We are committed to the development and quality of life of communities that surround the area where we operate. We have developed a good relationship with the local communities surrounding our plant facilities since we started operations in Pacasmayo. We have a number of social responsibility programs aimed at improving health and education in the area. Below is a brief description of a few of our social initiatives.

Tecsup. Tecsup is a leading not-for-profit institute in Peru that provides technical education. It was founded by the family of our controlling shareholder, and we support it by providing scholarships to promising students living near our plants to study at the Trujillo campus of Tecsup. Through its three campuses in Peru, Tecsup has graduated over 11,285 students in various technical fields, some of whom currently work for us and our affiliated companies.

Center for Technological Training. We have three training centers at our facilities where we teach students and adults business and technical skills. Our centers are staffed with instructors from Tecsup. The goal of the center is to help develop the professional skills of the local population, especially of students and teachers at the educational institutions in the towns of Tembladera, Pacasmayo and Sechura. In 2019, this program benefited over 1500 stakeholders.

Abilities Strengthening. This program seeks to provide training to local stakeholders such as grassroots organizations, local entrepreneurs, teachers, journalists, among others. The objective of the program is to strengthen their skills and knowledge by providing courses and seminars especially designed for that purpose. The program is funded by us, in coordination with local governments and social institutions, and in 2019 benefited 250 stakeholders.

Mi Escuela, mi comunidad (My School, My Community.) We have developed this project for a second year in partnership with the Instituto Peruano de Acción Empresarial – IPAE (Peruvian Institute of Business Action). Educational institutions from the Pacasmayo, Rioja and Tembladera communities participated in this project with the purpose of strengthening the management capacities of school leaders in order to mobilize resources for the education of students. In 2019, this program benefited over 11,147 students and teachers.

Universidad de Ingeniería y Tecnología – UTEC (University of Engineering and Technology) is an educational nonprofit proposal that since 2012 is aimed at the development of people in the engineering field, looking to satisfy the need for these types of professionals in the labor market by implementing a curriculum in line with the trends and demands that globalization poses to modern engineering, with an integrated approach to innovative teaching models. We support it by providing financial aid for its operations. To enhance students’ knowledge, UTEC also has various national and international alliances with top organizations.

Acuícola Los Paiches. Through our social venture, Acuícola Los Paiches S.A.C., we studied the reproductive forms of the “paiche” (*arapaima giga*), a native fish species that was on the edge of extinction. After years of studies and scientific testing, we have successfully bred this species in captivity, and we have obtained thousands of fingerlings.

Supply Chain

Key Performance Metrics (“KPIs”)

The following table summarizes the five supply chain KPIs that we monitor. The 2020 targets have been redefined after taking into account the impact of COVID-19.

KPIs	KPI Name		Target Year	Target
KPI 1	1.	% Local Suppliers vs. Imported Suppliers Indicator that shows the percentage of purchases made from local suppliers versus the total purchases from foreign suppliers over the total purchase made in the year under analysis. In 2019, a target of 93% was achieved in this KPI. However, due to the impact of COVID-19 the proposed target for 2020 has been redefined.	2020	90%
KPI 2	2.	% Homologated Suppliers / Total Suppliers Indicator that shows the percentage of homologated suppliers over the total of purchase during the year of analysis.	2020	45%
KPI 3	3.	% of Suppliers Strategic Partners Hired Under Sustainability Terms / Total Suppliers (Expressed in Purchase Value of the Company) Indicators that show the percentage of a supplier’s strategic partner that include sustainability issues in their practices over the total purchase during the year under analysis.	2020	10%
KPI 4	4.	% of Suppliers Trained in Sustainability Matters (expressed in Purchase Value of the Company) Indicator that shows the percentage of suppliers trained in sustainability matters. During 2019, we achieved a compliance target of this KPI of 35%. The target of this KPI for 2020 has been redefined.	2020	33%
KPI 5	5.	% Suppliers With Contractual Clauses Indicator that shows the percentage of suppliers whose contracts contain sustainability clauses during the year under analysis.	2020	10%

Supply Chain Risk Assessment and Action Plans

Our critical suppliers include suppliers classified as “strategic partner suppliers”. These 30 strategic partner suppliers represent the 43.73% of the net value of our annual purchases, or more than S/ 332 million annually for 2019 and with 18,523 annual orders. These suppliers are classified into seven purchasing groups:

- Raw material: very important suppliers in economic terms due to the high cost of raw materials, as well as the operation in supply and the impact of a shortage thereof.
- Primary transportation: limestone, seashell, coal, waste and pozzolana transportation suppliers, very important due the high cost of transport and the large volumes required, as well as the operation in supply due to the impact of a shortage thereof.
- Spare parts and direct suppliers: suppliers that provides the spare parts and direct supplies that are used by cement, concrete and precast (DINO) plants.
- Operational services: suppliers that provide limestone and seashell quarrying services, corrective and preventive maintenance services for production plants, industrial cleaning services, import services, consolidation, storage and transportation. These suppliers are very important due for the high cost of services in maintenance costs, for the large volumes required for the exploitation of raw material (clinker production) and for the operability and quality of the service. They have a high impact on costs.
- Support services: suppliers that perform quarry operation services. Their importance lies in the high cost of services and the large volumes of raw material exploitation, as well as the operability and quality service. They can significantly impact our costs due to a lack of resources, a poor provision of service and the shortage of service.
- Water / energy: Suppliers with a direct impact on the manufacturing costs of our products and on the continuity of operations.
- Assets and equipment: suppliers of assets and equipment (Mixers); they ensure the operations of Concrete (DINO) and have a direct impact on the cost of Concrete sales.

As part of our management processes, we carry out sustainability risk assessments at 100% of our strategic partner suppliers, taking into account the variables of term, costs, quality, ethics, and reputation, after-sales service and type of market in which operates our suppliers good and services. This assessment allows us to identify those suppliers with high, medium and low sustainability risk.

From the total evaluated suppliers, a 10% have high sustainability risk, 40% have medium risk and 50% have a low sustainability risk. This evaluation has allowed us to establish mitigation plans for each supplier according to their purchase group:

- We have established contracts with supply clauses and direct supervision of companies in our operations.
- We have established the comprehensive management of strategic contracts (by our contract administration area) due to their importance to the continuity of our operations and their participation in the value chain.
- We have reinforced our monitoring and control system in order to reduce the risks relating to provision and supply, as well as transparency and corruption risks.
- We have a stock of raw material for safety in plants, we carry out quality reports by external entities to the raw material purchased, we develop new sources of slag and develop modifications of blending slag vs local pozzolana.
- In relation to operational service suppliers, we carry out social impact measurements through our community relations area, we monitor the human factor and compliance in matters related to occupational health and safety, and we have safety inventory in plants.
- In relation to suppliers of energy and water, we carry out operational management of rate control in a coordinated manner between our management control and operational areas, validating costs and rates as well as consumption.
- In relation to suppliers of assets and equipment, we perform quarterly fleet sizing review, maintenance compliance review and equipment performance review with the operating area, and we carry out periodic tenders for the annual purchase of units.
- In addition to the detailed measures described above, , our risk management processes include the periodic review of our suppliers for the purchase of goods and services, using the world check tool, managed by the corporate purchasing area. This analysis allows us to strengthen the monitoring and control system of our operations in order to increase transparency and reduce the risk of corruption.

As part of our sustainability strategy by 2030, we have ESG commitments and targets associated with supply chain management. We have established ESG criteria that guide our supplier contracting decisions, in addition to other criteria such as quality, deadlines, price and delivery time. The ESG criteria are included in the approval evaluation that we carry out on our suppliers and we encourage their management. We have established KPIs that allow us to secure our ESG targets:

- % of approved suppliers / total suppliers
- % of suppliers trained in sustainability criteria.
- % of suppliers strategic partners hired based on sustainability criteria/total suppliers

We evaluate all of our strategic partner suppliers based on the foregoing. We are convinced that ESG criteria allow us to mitigate our risks by ensuring a more sustainable supply chain.

Risk Management

Risk Management Description

Corporate Risk Management (GRC) is a structured approach that allows managing all of the important risks that could affect our long-term objectives. The purpose of this approach is to support senior management in the decision-making process, in order to reduce adverse impacts and take advantage of opportunities; as well as managing the action plans to mitigate the risks.

Therefore, Pacasmayo has processes and systems that analyze and evaluate the management of the its business units, encouraging continuous improvement. Our management control systems include:

- Mapping of new emerging risks and definition of impact, probability and design of controls;
- Periodic review of current risks and update of Impact Probability and Controls information;
- Quantification and effect of risk on EBITDA;
- Evaluation of external factors; and
- Periodic review of policies, procedures, regular internal audits and employee training.

Risk Management Process

The following are highlights of our risk management process.

- The Risks are mapped considering the impact on profit, revenues, resources, employees, communities where we operate and our suppliers.
- An integrated risk management system and tools are used to collect information collaboratively with the functional areas and external sources of the company.
- These processes include the evaluation of risks related to the areas of commercial, operational, environmental and health and safety.
- The development of a risk management culture throughout the company in a decentralized manner, integrating the processes to the mapping of risks and the identification and mitigation of risks from the strategic level to the operational level.
- The foregoing is reinforced with training for employees and suppliers and communication plans for the entire company.

Risk Management Organization

Managers responsible for risk metrics	Risks committee	Audit Committee
• Those responsible for the evaluation, management and prevention of the risk metrics of each area. • Risk management coordinates with them for the development and monitoring of these metrics.	• It is the group created to establish and implement risk management at the corporate level. • It is made up by the CEO, the VPs and the Risks Manager • the Risks Committee reports to the Audit Committee	• Made up by 3 independent board members, reports directly to the Board • The participants are the external auditors, the internal auditor, the compliance officer, the CFO and the Risk Manager • Evaluates improvement opportunities and plans for the risk metrics.

Due to the outbreak of COVID-19, we have activated three plans that are key to the continuity of our business:

- *Incident response plan* – focused on the immediate response. It includes employee safety and asset protection in each location.
- *Crisis management plan* – focus on leadership and the response to manage business impact, including communication with stakeholders.
- *Business recovery plan* – Focus on the actions and knowledge needed to recover operations and maintain uninterrupted service.

Based on these plans, we have prepared a restart protocol for the restart of operations that include new safety measures and measures for the protection of health, and we have updated all of our protocols relating to health and safety to include measures needed to stop the spread of COVID-19.

Emerging risks

Emerging risks are those that have an impact in the long-term. The risks considered here include all recently identified risks that could have a long-term impact on the company's business or industry, although in some cases they may have already begun to impact the company's business.

Risk Description	Potential Impact	Mitigation actions	Evidence of mitigation actions
Economic and reputational impact as a consequence of the halt of operations as a result of the contagion of personnel in operating units with the COVID-19 pandemic	- Halt of operations - Reputational impact - employees impacted	- ü Implementation of home office in administrative team: Attention to infrastructure requirements by the IT team and enabling remote teams - ü Collaboration monitoring and control platform: Implementation of online platform via monitoring, support and control application for all employees - ü Development of security protocols: - Restart of operations in plants: Transfer to operating units, Entrance to plants. Displacement inside unit. operations, use of locker rooms, use of dining rooms, cleaning of common areas, work in operations, operation of heavy machinery and training - ü Restart of logistics reception Operations - ü Restart of Product Dispatch operations - ü Use of residences - ü Restart of operations warehouses and Dino experts - ü Restart of operations warehouses, raw material - ü Restart of operations, transportation of seashell, limestone and pozzolana - ü Restart of operations, customer service - ü Accessory control measures: - ü Supply security implements to all employees: Delivery for use in operation of prevention implements (gloves, lenses and masks)	- ü Presentation of the Audit Committee in April 2020 - ü Protocol to restart operations after halt due to COVID-19 was sent to Ministry of Production on April 6, 2020 and an internal communication was sent to the entire company on April 8, 2020 - ü Cement stock in silos to dispatch immediately once the operations restart - ü Delivery of food and hygiene kits to employees and contractors (to be delivered when work is restarted and will be published later)
Loss of information and interruption due to attacks on our information systems and due to failures in the systems that support business processes and guarantee its continuity	- Loss of company information - Filtering of confidential information - Halt of Operations	- ü Firewall systems - ü IBM external servers - ü Constant antivirus updates - ü Initiatives - social hacking - ü Temporary energy backup systems Cyber Risk Policy (under development).	- ü Presentation of the Audit Committee April 2020 - ü IT area risk matrix

Contributions, Payments and fees

Set forth below are our contributions, payments and fees to organizations to which we belong:

Organization	Total Contributions, Payments and Fees Made During 2019 in S/
Producers Association	943,008.93
Stock Market Superintendence	577,963.02
Lima Stock Exchange	558,495.78
Peruvian Institute of Business Action	384,903.00
NYSE	226,508.00
Global Cement & Concrete Association	105,470.61
Others	205,183.01
Total contributions, payments and fees	3,001,532.35

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

Overview

We are a leading Peruvian cement company, and the only cement manufacturer in the northern region of Peru. With more than 62 years of operating history, we produce, distribute and sell cement and cement-related materials, such as precast products and ready-mix concrete. Our products are primarily used in construction. We also produce and sell quicklime for use in mining operations.

In 2019, our cement sales volume were approximately 2.6 million metric tons, representing an estimated 22.2% share of Peru's total cement sales that year. That same year, we also sold approximately 66 thousand metric tons of quicklime.

We own three cement production facilities, our Pacasmayo and Piura facilities located in the northwest region of, Peru, and our smaller Rioja facility located in the northeast. Our facilities have total installed annual cement production capacity of approximately 4.9 million metric tons. We also have installed annual production capacity of 240,000 metric tons of quicklime. We own concession rights to several quarries with reserves of limestone/seashells and other raw materials located near our facilities. We estimate that our existing quarries have sufficient reserves to supply our limestone and seashell needs for approximately 73 years, based on our 2019 limestone/seashell consumption levels. We completed an expansion of our Rioja plant in April 2013. We more than doubled the cement production capacity of our Rioja facility by installing a new production line that added 240,000 metric tons of installed annual cement production capacity. In 2015, we completed construction of our cement plant in Piura, the third largest city in northern Peru, which has an annual production capacity of 1.6 million metric tons of cement. The first ton of cement from the Piura facility was produced and shipped on September 17, 2015, and clinker production started in January 2016. The Piura plant improved our competitive position in the northern region of Peru. With production from three plants, we are able to serve our market more efficiently. This state-of-the-art plant in Piura is one of the most modern in Latin America. It also reduces transportation costs by enabling the dispatching of cement from plants within closer proximity to the point of sale.

Factors Affecting our Results of Operations

Revenue Drivers

In 2019, approximately 89.1% of our total cement sales were in the form of bagged cement, substantially all of which was sold through retailers both within and outside of our distribution network. The remaining 10.9% of our cement was sold in bulk or in shipments of precast products or ready-mix concrete directly to large construction companies. Our retail sales are directed to both the *auto-construcción* segment and construction companies that buy cement for a variety of small construction works, including minor residential, commercial and infrastructure projects. Cement destined for large private and public projects, such as housing complexes, highways, irrigation channels, hospitals, schools, mining and industrial facilities, is typically sold in bulk or in shipments of precast products or ready-mix concrete.

Based on our estimates, sales to the *auto-construcción* segment accounted for approximately 60.3% of our total cement sales in 2019, 58.7% in 2018, 62.2% in 2017; private construction projects, both large and small, accounted for approximately 19.9% of our total cement sales in 2019, 24.4% in 2018, 23.9% in 2017; and public construction projects accounted for the remaining 19.8% of our total cement sales in 2019, 16.9% in 2018 and 13.9% in 2017. While *auto-construcción* continues to represent the majority of our sales, as the Peruvian economy continues to grow and formalize, private construction projects and infrastructure should become increasingly more important to our business.

Our cement sales are largely driven by residential construction (both *auto-construcción* and small and large housing developments undertaken by construction companies), which is generally affected by economic conditions in the northern region of Peru. *Auto-construcción* is particularly affected by levels of disposable household income, as low-income families tend to invest most of their savings in developing their homes. Larger residential construction is more susceptible to the economic outlook, the availability of financing and prevailing investment levels in the region. GDP in the northern region of Peru is estimated to have grown 3.2% in 2019, 4.7% in 2018 and 1.2% in 2017. Our cement volumes, which represented most of the cement sales in the northern region of Peru, grew 10.6% in 2019, 4.3% in 2018 and contracted by 0.8% in 2017, in terms of metric tons of cement shipments.

Our cement sales are also driven, to a lesser extent, by commercial developments and infrastructure projects. Commercial and other private construction projects are also affected by the level of public and private investment in the region, while public infrastructure projects depend on the priorities and financial resources of the national, regional and local governments. During 2019, we saw a more significant pick up in public spending, from reconstruction related spending.

Cost Drivers

Coal is the main source of energy used in our production process, in particular to fuel our kilns. We purchase anthracite coal from nearby coal mines and import a small amount of bituminous coal primarily from Colombia. We do not have long-term coal supply agreements, and we do not engage in hedging transactions in connection with the price of coal. In the past, the price of bituminous coal has been related to the international price of oil, as it is used as a substitute for oil. Coal accounted for an estimated 10.6% of our costs of production in 2019, 13.1% in 2018 and 13.1% in 2017. In 2011, we exercised certain of our options to purchase coal mining concessions, which we intend to use to continue to reduce our use of bituminous coal sourced by third-party producers.

During July 2019 we started using gas in our Piura facility to fuel our kiln. We have a long-term gas supply agreement with Olympic Peru which expires by its terms in 2037, unless earlier terminated by the parties. Gas accounted for an estimated 3.5% of our costs of production in 2019, since we only started using gas in July.

Electricity is used in our facilities mainly to power our cement mills. We power our Pacasmayo facility with electricity purchased from Electroperú, with which we have a long-term supply agreement expiring in 2026. Our Rioja facility is powered primarily with electricity from ELOR, with which we have a medium-term supply agreement expiring in 2022. Under these agreements, the price of electricity is based on a formula that takes into consideration our consumption of electricity and certain market variables, including the international price of oil. Electricity accounted for approximately 14.9% of our cost of production in 2019, 14.8% in 2018 and 13.4% in 2017. Electricity costs tend to be lower during the rainy season, from January to March of each year, as our region is served primarily by hydro-electric power plants.

In addition, we purchase from third parties admixtures and certain raw materials that we use in our production process, including gypsum, blast furnace slag, iron and other materials. Admixtures and raw materials used in our cement production process do not include construction supplies that we acquire from third-parties for resale through our distribution network along with our cement products. The cost of admixtures and raw materials purchased from third parties accounted for approximately 4.7% of our cost of production in 2019, 4.3% in 2018 and 5.1% in 2017.

Personnel expenses represented 18.9% of our total costs and expenses in 2019, 18.8% in 2018 and 19.5% in 2017.

Third-Party Construction Supplies

In addition to selling our own products, we also sell and distribute construction supplies manufactured by third parties, such as steel rebar, wires and pipes that are typically used in construction along with our cement. Our profit margins from the sale of third party construction supplies are significantly lower than the margins on our cement products and they are affected by fluctuations in product prices and the exchange rate between the *sol* and the U.S. dollar between the time we purchase these products and the time we resell them. We sell these products primarily as a service to retailers in our distribution network in an effort to support the sale of our cement products.

Mining Royalty Tax

The mining royalty tax for the exploitation of metallic and non-metallic minerals is payable on a quarterly basis in an amount equal to the greater of (i) an amount determined in accordance with a statutory scale of tax rates based on a company's operating profit margin that is applied to its operating profit, as adjusted by certain non-deductible expenses and (ii) 1% of a company's net sales, in each case during the applicable quarter. These amounts are determined based on our unconsolidated financial statements and those of our subsidiaries with operations that are under the scope of the Mining Royalty Law. Mining royalty payments are deductible for income tax purposes in the fiscal year in which such payments are made. For additional information, see note 28 to our annual audited consolidated financial statements included in this annual report.

Operating Segments

We have three operating segments: (i) cement, concrete and precast, (ii) quicklime and (iii) sales of construction supplies. For additional information on our operating segments, see note 31 to our annual audited consolidated financial statements included in this annual report.

New Accounting Pronouncements

For a description of new interpretations and improvements to IFRS in effect since 2019, see note 2.3.19 and 4 to our annual audited consolidated financial statements included in this annual report.

Critical Accounting Policies

The following is a discussion of our application of critical accounting policies that require our management to make certain assumptions about matters that are uncertain at the time the accounting estimate is made, where our management could reasonably use different estimates, or where accounting changes may reasonably occur from period to period, and in each case would have a material effect on our financial statements. For additional information, see note 2.3 to our annual audited consolidated financial statements included in this annual report.

Determination of Useful Live of Assets for Depreciation and Amortization Purposes

Depreciation of mining concessions and mine development costs are charged to cost of production on a units-of-production basis using proved reserves. Other assets are depreciated on a straight-line-basis over their estimated useful lives, as follows:

Property, Plant and Equipment	Estimated Years of Useful Life
Buildings and other construction:	
Administrative facilities	Between 35 and 48
Main production structures	Between 30 and 49
Minor production structures	Between 20 and 35
Machinery and equipment:	
Mills and horizontal furnaces	Between 42 and 49
Vertical furnaces, crushers and grinders	Between 23 and 36
Electricity facilities and other minors	Between 12 and 35
Furniture and fixtures	10
Transportation units:	
Heavy units	Between 11 and 21
Light units	Between 8 and 11
Computer equipment	4
Tools	Between 5 and 10

The assets' residual value, useful lives and methods of depreciation/amortization are reviewed at each reporting period, and adjusted prospectively, if appropriate.

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

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

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

Sales of goods

Revenue from sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

We consider whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, we consider the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

Rendering of services

In the businesses segments cement, quicklime, concrete, precast and construction supplies, we provide transportation services. These services are sold together with the sale of the goods to the customer.

Transportation services are satisfied when the transport service is concluded, which coincides with the moment of delivery of the goods to the customers.

Operating lease income

Income from operating lease of land and office was recognized on a monthly accrual basis during the term of the lease.

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial assets, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated statement of profit or loss.

Impairment of Non-Financial Assets

We assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, (goodwill and Intangible assets with indefinite useful lives), we estimate the asset's recoverable amount. An asset's recoverable value is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use, and is determined for an individual asset, unless the asset does not generate net cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset's cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

As of December 31, 2019 and 2018, goodwill related to the acquisition of assets made by our subsidiary Distribuidora Norte Pacasmayo S.R.L. amounted to S/4,459,000, See note 1.1 to our annual audited consolidated financial statements included in this annual report. We have assessed the recoverable amount of our goodwill and has determined that there are no indicators of an impairment loss of this asset as of December 31, 2018 and 2019.

We base our impairment calculation on detailed budgets and forecast calculations, which are prepared separately from our cash generation units to which the individual assets are allocated. Impairment losses of continuing operations, including impairment on inventories, are recognized in the consolidated statement of profit or loss in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or have decreased. If such indication exists, we estimate the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit or loss. Exploration and evaluation assets are tested for impairment annually as of December 31, either individually or at the cash-generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

Deferred Tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in subsidiaries, where deferred assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax related to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Derivative Financial Instruments and Hedge Accounting

Initial Recognition and Subsequent Measurement

We use derivative financial instruments, such as cross-currency swaps (CCS), to hedge our foreign currency exchange rate risk. Such derivative financial instruments are initially recognized at their fair value on the date on which the derivative contract is entered into and subsequently remeasured at their fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when fair value is negative.

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

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

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how our management will assess the effectiveness of changes in the hedging instrument’s fair value in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is ‘an economic relationship’ between the hedged item and the hedging instrument;
- The effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are recorded as cash flow hedges.

Cash flow hedges

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

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If the cash flow hedge is discontinued, the amount accumulated in other comprehensive income must remain in other comprehensive income accumulated if the covered cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the covered cash flows are given, any amount that remains in other comprehensive accumulated results must be recorded considering the nature of the underlying transaction.

Results of Operations

Comparison of Year Ended December 31, 2019 to Year Ended December 31, 2018

(amounts in millions of S/)	Year ended December 31,		Variation %
	2019	2018	
Sales of goods	1,392.7	1,262.9	10.3
Cost of sales	(905.8)	(796.2)	13.8
Gross profit	486.9	466.7	4.3
Operating income (expense):			
Administrative expenses	(174.5)	(172.1)	(1.4)
Selling and distribution expenses	(44.5)	(44.1)	(0.9)
Other operating income (expense), net	2.6	(8.7)	N/R
Total operating income (expense), net	(216.4)	(224.9)	(3.8)
Operating profit	270.5	241.8	11.9
Other income (expense):			
Finance income	2.6	2.4	13.0
Finance costs	(77.9)	(87.3)	(10.8)
Loss (gain) on the valuation of trading derivative financial instruments	(1.5)	2.6	(10.8)
Cumulative net loss on settlement of derivative financial instruments	—	(34.9)	N/R
Loss from exchange difference, net	(0.6)	(8.4)	N/R
Total other expenses, net	(76.2)	(125.7)	(39.4)
Profit before income tax	194.4	116.1	67.4
Income tax expense	(62.3)	(41.0)	52.0
Profit for the year	132.0	75.1	75.8

Sales of Goods

The following table sets forth a breakdown of our sales of goods by segment and as a percentage of total sales for 2018 and 2017:

(amounts in millions of S/)	Year ended December 31,			
	2019	%	2018	%
Cement, concrete and precast	1,289.0	92.6	1,134.7	89.8
Quicklime	36.1	2.6	57.6	4.6
Construction supplies	67.2	4.8	69.0	5.5
Other	0.4	—	1.7	0.1
Total sales of goods	1,392.7	100.0	1,262.9	100.0

Our total sales of goods increased by 10.3%, or S/129.8 million, to S/1,392.7 million in 2019 from S/1,262.9 million in 2018. This increase was primarily due to the following factors:

- a 13.6%, or S/154.3 million, increase in 2019 in sales of cement, concrete and precast mainly due to increased sales of concrete to small and medium sized private projects and the public sector, as well as increased sales of cement to *auto-construcción* and the public sector for reconstruction related projects;
- offset in part by a 37.3%, or S/ 21.5 million, decrease in 2019 in the sales of quicklime, mainly due to a decrease in sales of refined quicklime; and
- a 2.6%, or S/1.8 million, decrease in 2019 in the sale of construction supplies, mainly due to lower sales of steel bars.

The following table sets forth the composition of our sales of cement, concrete and precast for 2019 and 2018:

	Year ended December 31,		
	2019	2018	Variation
	(in millions of S/)		%
Cement	1,065.5	975.6	9.2
Concrete and pavement	197.7	136.7	44.6
Precast	25.8	22.4	15.2
Total	1,289.0	1,134.7	13.6

Our total sales of cement, concrete and precast increased by 13.6%, or S/154.3 million, to S/ 1,289 million in 2019 from S/1,134.7 million in 2018. This was primarily due to the following factors:

- sales of cement increased by 9.2%, or S/89.9 million in 2019 due to a 8.3% increase in volume of cement sold, and a 0.9% increase in the average sales price;
- sales of concrete and pavement increased by 44.6%, or S/61.3 million, in 2019, due to an 40.1% increase in volume and 4.5% increase in the average price of concrete and pavement; and
- sales of precast increased by 15.2%, or S/3.4 million, in 2019, due to a 23.1% increase in price, partially offset by a 7.9% decrease in volume.

Cost of Sales

The following table sets forth a breakdown of our cost of sales by segment for 2019 and 2018:

	Year ended December 31,			
	2019		2018	
	(in millions of S/)	%	(in millions of S/)	%
Cement, concrete and precast	808.6	89.3	675.2	84.8
Quicklime	32.5	3.6	52.3	6.6
Construction supplies	64.4	7.1	67.2	8.4
Other	0.3	—	1.4	0.2
Total	905.8	100.0	796.2	100.0

Our total cost of sales in 2019 increased by 13.8%, or S/109.6 million, to S/905.8 million, from S/796.2 million in 2018, primarily due to the following factors:

- a 19.8%, or S/133.4 million, increase in the cost of sales of cement, concrete and precast in 2019, due primarily to an increase in sales volume, as well as increased production costs for cement, and increased sales of concrete to small and medium-sized companies;
- offset by a 37.9%, or S/194.8 million, decrease in 2019 in the cost of sales of quicklime, due primarily to lower sales volume; and
- a 4.2%, or S/2.8 million, decrease in 2019 in the cost of sales of construction supplies, in line with the decrease in sales volume.

The following table sets forth the composition of our cost of sales of cement, concrete and precast for 2019 and 2018:

	Year ended December 31,		
	2019	2018	Variation
	(in millions of S/)		%
Cement	624.1	535.0	16.7
Concrete and pavement	162.3	117.3	38.4
Precast	22.2	22.9	(3.5)
Total	808.6	675.2	19.8

Our cost of sales represented 65.0% of our sales in 2019, compared to 63.0% in 2018. Our total cost of sales of cement, concrete and precast increased by 19.8%, or S/133.4 million, in 2019, primarily due to the following factors:

- cost of sales of cement increased by 16.7%, or S/89.1 million, in 2019, mainly due to a 8.3% increase in cement sales volume and a 8.4% increase in production cost due to higher transportation costs for the production of type V cement centralized at the Pacasmayo plant.
- a 38.4%, or S/45.1 million increase in the cost of sales of concrete and pavement in 2019, due to an 40.2% increase in volume sold, offset by a 1.8% decrease in production costs, mainly due to dilution of fixed costs.
- Offset by a 3.5% or S/0.8 million decrease in the cost of sales of precast during 2019, mainly due a 7.9% increase in sales volume, offset by an 11.4% increase in production costs mainly due to higher costs from more specialized products, which also have a higher margin.

Gross Profit

The following table sets forth a breakdown of our gross profit and gross profit margin by segment for 2019 and 2018:

	Year ended December 31,			
	2019		2018	
	Gross profit (in millions of S/)	Gross profit margin %	Gross profit (in millions of S/)	Gross profit margin %
Cement, concrete and precast	480.4	37.3	459.5	40.5
Quicklime	3.6	10.0	5.3	9.2
Construction supplies	2.8	4.2	1.8	2.6
Other	0.1	25.0	0.1	6.3
Total gross profit	486.9	35.0	466.7	37.0

Total gross profit increased by 4.3%, or S/20.2 million, to S/486.9 million in 2019, from S/466.7 million in 2018, mainly due to higher sales. Our gross profit margin (i.e., gross profit as a percentage of net sales) for 2019 was 35.0% compared to 37.0% for 2018.

The following table sets forth a breakdown of our gross profit and gross profit margin for the cement, concrete and precast segment for 2019 and 2018:

	Year ended December 31,				
	2019		2018		Variation percentage points
	Gross profit (in millions of S/)	Gross profit margin %	Gross profit (in millions of S/)	Gross profit margin %	
Cement	441.4	41.4	440.6	45.2	(3.6)
Concrete and pavement	35.3	17.9	19.4	14.2	3.6
Precast	3.7	14.7	(0.5)	(2.2)	16.9
Total gross profit	480.5	37.3	458.9	40.5	(3.2)

Gross profit margin for cement, concrete and precast decreased by 3.2 percentage points in 2019 compared to 2018. This was mainly due to a decrease of 3.6 percentage points in cement margin due to higher transportation costs, from the transfer of clinker from Piura to Pacasmayo for the production of type V cement, as well as increased production costs during the first half of the year due to the use of imported clinker in Pacasmayo during maintenance of the kiln. This was partially offset by the increase gross margin of concrete, mainly due to higher dilution of fixed costs as a result of higher sales, and precast, mainly due to sale of higher margin products.

Operating expense

Our operating expenses primarily reflect administrative and selling and distribution expenses. In 2019, our operating expenses decreased by S/8.5 million to S/ 216.4 million from S/224.9 million in 2018, by the provision expense of a tax receivable to the Peruvian tax authority in 2018, as well as expenses related to reconstruction of public road network destroyed by the Coastal El Niño in 2018.

Administrative Expenses

The following table sets forth the composition of our administrative expenses for 2019 and 2018:

(in millions of S/)	Year ended December 31,	
	2019	2018
Personnel expenses	84.4	84.7
Third-party services	53.0	51.5
Board of directors compensation	6.7	6.8
Depreciation and amortization	14.6	12.0
Taxes	5.0	4.8
Others	10.8	12.3
Total	174.5	172.1

Our administrative expenses increased slightly by 1.4%, or S/2.4 million, to S/174.5 million in 2019 from S/172.1 million in 2018. Personnel expenses remained in line with 2018 and third party services increased by S/1.5 million in 2019 mainly due to an increase in consultancy services compared to 2018.

Administrative expenses related to the cement, concrete and precast segment accounted for approximately 95.0% of total administrative expenses for 2019 compared to approximately 96.5% for 2018. Administrative expenses related to the quicklime, construction supplies and other segments accounted for approximately 1.0%, 2.0% and 2.0%, respectively, of total administrative expenses for 2019 compared to approximately 1.3%, 0.3% and 1.9% respectively, for 2018.

Selling and Distribution Expenses

The following table sets forth the components of our selling and distribution expenses for 2019 and 2018:

(in millions of S/)	Year ended December 31,	
	2019	2018
Personnel expenses	26.8	21.7
Advertising and promotion expenses	7.0	13.1
Third-party services	4.9	4.8
Expected credit losses for trade receivables	1.5	0.7
Other	4.3	3.8
Total	44.5	44.1

Our total selling and distribution expenses remained relatively flat, increasing by only 0.9%, or S/0.4 million, to S/44.5 million in 2019 from S/44.1 million in 2018. ,

Selling and distribution expenses related to the cement, concrete and precast segment represented approximately 95.0% of total selling and distribution expenses for 2019, compared to 97.5% for 2018. Selling and distribution expenses related to quicklime, the construction supplies and other segments represented approximately 1.0%, 2.0%, and 2.0% respectively, of total selling and distribution expenses for 2019, compared to 0%, 2.4% and 0.1%, respectively, for 2018.

Other Operating Income (Expense), Net

Our other operating income (expense), net increased S/11.3 million, to an income of S/ 2.6 million, from an expense of S/ 8.7 million, mainly due to expenses related to a non-cash effect generated by the provision expense of a tax receivable to the Peruvian tax authority in 2018, as well as expenses related to reconstruction of public road network destroyed by the Coastal El Niño in 2018.

Income Tax Expense

Our income tax expense increased by 52.0%, or S/21.3 million, to S/62.3 million for 2019 from S/41.0 million for 2018, mainly due to an increase in profit before income tax. Our effective tax rate for 2019 was 32.1%, 35.3% for 2018 and 36.6% for 2017.

Profit

As a result of the foregoing, our profit for 2019 increased by 75.8%, or S/56.9 million, from S/75.1 million for 2018 to S/132.0 million for 2019, mainly due increased sales, as well as to two non-cash effects in 2018: the provision of a tax receivable to the Peruvian tax authority, and the accounting effects of the purchase of part of the international bonds.

Results of Operations

Comparison of Year Ended December 31, 2018 to Year Ended December 31, 2017

(amounts in millions of S/)	Year ended December 31,		
	2018	2017	Variation %
Sales of goods	1,262.9	1,220.8	3.4
Cost of sales	(796.2)	(733.0)	(8.6)
Gross profit	466.7	487.8	(4.3)
Operating income (expense):			
Administrative expenses	172.1	(195.6)	(12.0)
Selling and distribution expenses	(44.1)	(41.7)	5.8
Impairment on brine project	-	(47.6)	N/R
Other operating income (expense), net	(8.7)	(4.3)	N/R
Total operating income (expense), net	(224.9)	(289.2)	(22.2)
Operating profit	241.8	198.6	21.8
Other income (expense):			
Finance income	2.3	5.8	(60.3)
Finance costs	(87.3)	(73.8)	(18.3)
Gain on the valuation of trading derivative financial instruments	2.6	-	N/R
Cumulative net loss on settlement of derivative financial instruments	(34.9)	-	N/R
Loss from exchange difference, net	(8.4)	(2.2)	281.8
Total other expenses, net	(125.7)	(70.2)	(79.1)
Profit before income tax	116.1	128.4	(9.6)
Income tax expense	(41.0)	(47.0)	(12.8)
Profit for the year from continuing operations	75.1	81.4	(7.7)
Loss for the year from discontinued operations	-	(0.8)	N/R
Profit for the year	75.1	80.6	(6.8)

N/M means not meaningful.

Sales of Goods

The following table sets forth a breakdown of our sales of goods by segment for 2018 and 2017:

	Year ended December 31,			
	2018		2017	
	(in millions of S/)	%	(in millions of S/)	%
Cement, concrete and precast	1,134.7	89.8	1,071.8	87.8
Quicklime	57.6	4.6	80.7	6.6
Construction supplies	69.0	5.5	66.4	5.4
Other	1.6	0.1	1.9	0.2
Total sales of goods	1,262.9	100.0	1,220.8	100.0

Our total sales of goods increased by 3.4%, or S/42.1 million, to S/1,262.9 million in 2018 from S/1,220.8 million in 2017. This increase was primarily due to the following factors:

- a 5.9%, or S/62.9 million, increase in 2018 in sales of cement, concrete and precast mainly due to increased sales of concrete to small and medium sized projects and the public sector, as well as increased sales of cement to auto-construction and the public sector;
- offset in part by a 28.6%, or S/ 23.1 million, decrease in 2018 in the sales of quicklime, mainly due to a decrease in sales of refined quicklime; and
- a 3.98%, or S/2.6 million, increase in 2018 in the sale of construction supplies, mainly due to spending by the self-construction segment as families were rebuilding their homes after coastal El Niño.

The following table sets forth the composition of our sales of cement, concrete and precast for 2018 and 2017:

	Year ended December 31,		Variation %
	2018	2017	
	(in millions of S/)	(in millions of S/)	
Cement	975.6	944.1	3.3
Concrete and pavement	136.7	110.2	24.0
Precast	22.4	17.5	28.0
Total	1,134.7	1,071.8	5.9

Our total sales of cement, concrete and precast increased by 5.9%, or S/62.9 million, to S/ 1,134.7 million in 2018 from S/1,071.8 million in 2017. This tab was primarily due to the following factors:

- sales of cement increased by 3.3%, or S/31.5 million in 2018 due to a 3.8% increase in volume of cement sold, offset by a 0.5% decrease in the average sales price;
- sales of concrete and pavement increased by 24.0%, or S/26.5 million, in 2018, due to an 18.0% increase in volume and 6.0% increase in the average price of concrete and pavement; and
- sales of precast increased by 28.0%, or S/4.9 million, in 2018, due to a 25.5% increase in volume and a 2.5% increase in price, mainly due to a change in strategy which seeks to expand our client base and our portfolio of products including heavy precast products.

Cost of Sales

The following table sets forth a breakdown of our cost of sales by segment for 2018 and 2017:

	Year ended December 31,			
	2018		2017	
	(in millions of S/)	%	(in millions of S/)	%
Cement, concrete and precast	675.2	84.8	599.7	81.8
Quicklime	52.3	6.6	67.0	9.2
Construction supplies	67.2	8.4	64.6	8.8
Other	1.5	0.2	1.7	0.2
Total	796.2	100.0	733.0	100.0

Our total cost of sales in 2018 increased by 8.6%, or S/63.2 million, to S/796.2 million, from S/733.0 million in 2017, primarily due to the following factors:

- a 12.6%, or S/75.5 million, increase in the cost of sales of cement, concrete and precast in 2018, due primarily to an increase in sales volume, as well as increased production costs for cement, and increased sales of concrete to small and medium-sized companies which results in higher logistics costs;
- offset by a 21.9%, or S/14.7 million, decrease in 2018 in the cost of sales of quicklime, due primarily to lower sales volume; and
- a 4.0%, or S/2.6 million, increase in 2018 in the cost of sales of construction supplies, in line with the increase in sales volume.

The following table sets forth the composition of our cost of sales of cement, concrete and precast for 2018 and 2017:

	Year ended December 31,		Variation
	2018	2017	
	(in millions of S/)	(in millions of S/)	%
Cement	535.0	496.3	7.8
Concrete and pavement	117.3	88.0	33.3
Precast	22.9	15.4	48.7
Total	675.2	599.7	12.6

Our cost of sales represented 63.0% of our sales in 2018, compared to 60.0% in 2017. Our total cost of sales of cement, concrete and precast increased by 12.6%, or S/75.5 million, in 2018, primarily due to the following factors:

- cost of sales of cement increased by 7.8%, or S/38.7 million, in 2018, mainly due to a 3.8% increase in cement sales volume and a 4.0% increase in production cost in the aftermath of El Niño related damages which affected our ability to source raw materials during the first months of the year, as well as an increase in the price of coal;
- a 33.3%, or S/29.3 million increase in the cost of sales of concrete and pavement in 2018, due to an 18.0% increase in volume sold as well as a 15.3% increase in production costs. Since large infrastructure projects have been delayed in the North, the Company has actively sought to fill this gap with demand from other small and medium-sized projects. This allows us to utilize more of our installed capacity, but at the same time generates an additional logistics costs since we need to deliver to more clients; and
- a 48.7%, or S/7.5 million increase in the cost of sales of precast during 2018, mainly due to a 25.5% increase in sales volume and a 23.2% increase in production costs mainly due to higher costs from initial investment required for new heavy precast products. As this business unit grows and matures, we should see margin improvement.

Gross Profit

The following table sets forth a breakdown of our gross profit and gross profit margin by segment for 2018 and 2017:

	Year ended December 31,			
	2018		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(in millions of S/)	%	(in millions of S/)	%
Cement, concrete and precast	459.5	40.5	472.1	44.0
Quicklime	5.3	9.2	13.7	17.0
Construction supplies	1.8	2.6	1.8	2.7
Other	0.1	6.3	0.2	10.5
Total gross profit	466.7	37.0	487.8	40.0

Total gross profit decreased by 4.3%, or S/21.1 million, to S/466.7 million in 2018, from S/487.8 million in 2017, mainly because of, higher raw material costs of cement and quicklime and higher sales to small and medium sized concrete companies, which generate higher logistics costs. Our gross profit margin (i.e., gross profit as a percentage of net sales) for 2018 was 37.0% compared to 40.0% for 2017.

The following table sets forth a breakdown of our gross profit and gross profit margin for the cement, concrete and precast segment for 2018 and 2017:

	Year ended December 31,				
	2018		2017		Variation percentage points
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	
	(in millions of S/)	%	(in millions of S/)	%	
Cement	440.6	45.2	447.8	47.4	(1.6)
Concrete and pavement	19.4	14.2	22.2	20.1	(12.6)
Precast	(0.5)	(2.2)	2.1	12.0	N/R
Total gross profit	459.5	40.5	472.1	44.0	(2.7)

Gross profit margin for cement, concrete and precast decreased by 2.7 percentage points in 2018 compared to 2017. This was mainly due to a decrease of 1.6 percentage points in cement margin due to higher raw materials costs, a decrease of 12.6 percentage points in concrete and pavement margin due to higher sales to small- and medium-sized companies which generated a higher logistics costs, and a decrease in the precast margin mainly due to higher costs from initial investment required for new heavy precast products.

Operating expense

Our operating expenses primarily reflect administrative and selling and distribution expenses. In 2018, our operating expenses decreased by S/64.3 million to S/ 224.9 million from S/289.2 million in 2017, mainly due to the impairment of our brine assets during 2017, as well as operating efficiencies derived from lower administrative expenses.

Administrative Expenses

The following table sets forth the composition of our administrative expenses for 2018 and 2017:

(in millions of S/)	Year ended December 31,	
	2018	2017
Personnel expenses	84.7	94.4
Third-party services	51.5	65.4
Board of directors compensation	6.8	6.5
Depreciation and amortization	12.0	14.9
Taxes	4.8	3.8
Consumption of supplies	1.8	2.7
Donations	9.9	7.3
Others	0.6	0.5
Total	172.1	195.6

Our administrative expenses decreased by 12.0%, or S/23.5 million, to S/172.1 million in 2018 from S/195.6 million in 2017. Personnel expenses decreased by S/9.7 million mainly due to lower severance payments in 2018. Third party services also decreased by S/13.9 million in 2018 mainly due to a decrease in consultancy services compared to 2017.

Administrative expenses related to the cement, concrete and precast segment accounted for approximately 96.5% of total administrative expenses for 2018 compared to approximately 89.0% for 2017. Administrative expenses related to the quicklime, construction supplies and other segments accounted for approximately 1.3%, 0.3% and 1.9%, respectively, of total administrative expenses for 2018 compared to approximately 8.0%, 0.8% and 2.3% respectively, for 2017.

Selling and Distribution Expenses

The following table sets forth the components of our selling and distribution expenses for 2018 and 2017:

(in millions of S/)	Year ended December 31,	
	2018	2017
Personnel expenses	21.7	18.0
Advertising and promotion expenses	13.1	14.0
Third-party services	4.8	7.4
Allowance for expected credit losses, note 7 (d)	0.7	1.2
Other	3.8	1.0
Total	36.5	34.2

Our total selling and distribution expenses increased by 5.8%, or S/2.4 million, to S/44.1 million in 2018 from S/41.7 million in 2017, primarily related to an increase in sales as well as a slight increase in personnel expenses in line with our strategy to serve more small and medium sized clients and successfully defend our market share.

Selling and distribution expenses related to the cement, concrete and precast segment represented approximately 97.5% of total selling and distribution expenses for 2018, compared to 94.4% for 2017. Selling and distribution expenses related to quicklime, the construction supplies and other segments represented approximately 0%, 2.4%, and 0.1% respectively, of total selling and distribution expenses for 2018, compared to 0%, 5.5% and 0.1%, respectively, for 2017.

Other Operating Income (Expense), Net

Our other operating income (expense), net decreased S/4.4 million, to an expense of S/8.7 million in 2018 from an expense of S/ 4.3 million in 2017, mainly due to expenses related to a non-cash effect generated by the provision expense of a tax receivable to the Peruvian tax authority.

Other Expenses, Net

Our other expenses, net increased by S/55.5 million, to S/ 125.7 million in 2018 from S/70.2 million in 2017, mainly due to the net loss originated by the cancellation of cross-currency swaps after purchasing part of our outstanding international bonds.

Income Tax Expense

Our income tax expense decreased by 12.8%, or S/6.0 million, to S/41.0 million for 2018 from S/47.0 million for 2017. In December 2016, the Peruvian government approved an increase of the income tax rate from 28% to 29.5% to be effective as of January 1, 2017. This increase resulted in an increase in our deferred income tax liability on S/22.3 million and increased the deferred income tax asset by S/8.5 million (S/14.6 million was recognized as a higher income tax expense in the consolidated statement of profit or loss and S/824,000 as an income in Other Comprehensive Income).

Our effective tax rate for 2018 was 35.3%, 36.6% for 2017 and 39.0% for 2016. It was unusually high in 2017 mainly due to the non-deductible expenses related to the impairment on the brine project and in 2016 due to the increase in the future tax rate from 26% to 29.5%.

Profit from continuing operations

As a result of the foregoing, our profit from continuing operations for 2018 decreased by 7.7%, or S/6.3 million, from S/81.4 million for 2017 to S/75.1 million for 2018, mainly due to two non-cash effects: the provision of a tax receivable to the Peruvian tax authority, and the accounting effects of the purchase of a portion of the international bonds. Profit from continuing operations without these effects would have been S/106.1 million.

B. Liquidity and Capital Resources

Our main cash requirements are our operating expenses, capital expenditures relating to the maintenance and expansion of our facilities, the servicing of our debt, the payment of dividends and payment of taxes. Our primary sources of cash have been cash flow from operating activities, and our issuance of Senior Notes and, to a lesser extent, loans and other financings. We believe that these sources of cash will be sufficient to cover our working capital needs in the ordinary course of our business.

Cash Flows

The table below sets forth certain components of our cash flows for the years ended December 31, 2019, 2018 and 2017.

(in millions of S/)	Year ended December 31,		
	2019	2018	2017
Net cash flows from operating activities (1)	205.1	203.6	250.4
Net cash flows from (used in) investing activities (1)	(79.6)	(98.8)	(70.6)
Net cash flows from (used in) financing activities (1)	(106.8)	(105.3)	(185.4)
Increase (decrease) in cash	18.7	(0.5)	(5.6)

(1) Includes continuing and discontinued operations. For detail on cash flow from discontinued operations please see “Item 18. Financial Statements – Consolidated Statements of Cash Flow.”

Cash Flows from Operating Activities

Net cash flow from operating activities increased by 0.7% or S/1.5 million, to S/205.1 million in 2019 from S/203.6 million in 2018, mainly due to an increase of inventory and a decrease of income tax payments and interest.

Net cash flow from operating activities decreased by 18.7% or S/46.8 million, to S/203.6 million in 2018 from S/250.4 million in 2017, mainly due to an increase of inventory and an increase of income tax payments.

Cash Flows used in Investing Activities

Net cash flows used in investing activities were S/79.6 million for 2019, and were primarily related to maintenance capex for our cement plants and purchase of equipment for concrete and aggregates.

Net cash flows used in investing activities were S/98.8 million for 2018, and were primarily related to maintenance capex for our cement plants and purchase of equipment for concrete and aggregates equipment.

Cash Flows used in Financing Activities

Net cash flows used in financing activities were S/106.8 million for 2019, and were primarily due to dividends paid to our shareholders.

Net cash flows used in financing activities were S/105.3 million for 2018, and were primarily due to dividends paid to our shareholders.

Indebtedness

As of December 31, 2019, we had total outstanding indebtedness of S/1,101.9 (US\$332.2 million). As of December 31, 2019, we maintain cross currency swap hedging agreements for US\$150 million to manage foreign exchange risks related to our U.S. dollar-denominated debt. The adjusted debt by hedge was S/1,069.5 million (US\$322.4 million).

(amounts in millions of S/)	As of December 31, 2019	Interest rate	Maturity date	Currency
4.50% Senior Notes due 2023	434.4	4.50%	February 8, 2023	U.S. dollars
4.50% Senior Notes due 2029	259.4	6.69%	February 1, 2029	Soles
4.50% Senior Notes due 2034	309.3	6.84%	February 1, 2034	Soles
Short-term promissory notes	8.3	2.70%	May 8, 2020	U.S. dollars
Short-term promissory notes	13.7	4.64%	June 18, 2020	Soles
Short-term promissory notes	5.3	3.36%	August 6, 2020	U.S.dollars
Short-term promissory notes	4.9	3.23%	August 14,2020	U.S.dollars
Short-term promissory notes	16.9	3.16%	October 9, 2020	U.S.dollars
Short-term promissory notes	43.1	3.00%	October 10, 2020	U.S.dollars
Short-term promissory notes	6.6	2.35%	November 27, 2020	U.S.dollars
	<u>1,101.9</u>			

International Bonds. In February 2013, we issued US\$300,000,000 of our 4.50% Senior Notes due 2023 in our inaugural international bond offering. A portion of the proceeds from this offering were used to prepay amounts outstanding on our secured loan agreement with BBVA Banco Continental, and the remaining proceeds was used in capital expenditures incurred in connection with the construction and operation of the new Piura plant and our cement business. The notes were issued pursuant to Rule 144A under the Securities Act and in compliance with Regulation S under the Securities Act, and listed on the Irish Stock Exchange.

The indenture pursuant to which the notes were issued contains certain covenants, including restrictions on our and our restricted subsidiaries' ability to incur further indebtedness or issue disqualified stock and preferred stock, unless the following conditions are met:

- the fixed charge coverage ratio for our most recently ended four fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional indebtedness is incurred or such disqualified stock or such preferred stock is issued, as the case may be, would have been at least 2.5 to 1.0; and
- the consolidated debt to EBITDA ratio for our most recently ended four fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional indebtedness is incurred or such disqualified stock or such preferred stock is issued, as the case may be, would have been no greater than 3.5 to 1.0,

in each case, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional indebtedness had been incurred or the disqualified stock or the preferred stock had been issued, as the case may be, at the beginning of such four fiscal quarters. The indenture also contains restrictions on our ability and that of our restricted subsidiaries to incur liens and to merge, consolidate or transfer all or substantially all of our assets.

In management's opinion, we were in compliance with all of applicable covenants as of the date of this annual report.

The subsidiaries that guarantee the notes are those related to our cement business namely, Cementos Selva S.A., Distribuidora Norte Pacasmayo S.R.L., Empresa de Transmisión Guadalupe S.A.C., Dinaselva Iquitos S.A.C. and Calizas del Norte S.A.C., in liquidation.

In December 2018, we purchased US\$168,388,000 or approximately 56.13% of the total outstanding bonds by means of a partial cash tender offer (local bond program).

Local Bonds. On January 8, 2019, the General Shareholders' Meeting approved the issuance of a local bond program for up to S /1,000 million soles. On January 31, 2019, 2 issuances were completed for a total of S/570 million. One for S/260 million with a rate of 6.68750% for a term of 10 years, and another for S/310 million with a term of 15 years and a rate of 6.84375%. The rates and terms obtained benefit our financial costs structure, with lower cost of capital, an extended maturity and less exposure to currency fluctuations.

Derivative Financial Instruments

As of December 31, 2019, we maintain cross currency swap hedging agreement in aggregate principal amount of US\$150 million to hedge against the foreign exchange risks associated with our U.S. dollar-denominated debt. Of the US\$150,000,000 shown in the swap position, there are underlying liabilities in the amount of US\$131,612,000. The difference of US\$18,388,000 is reflected in net (loss) gain on the valuation of trading derivative financial instruments.

During 2019, the net gain originated by the exchange difference was approximately S/729,000 and, during 2018, the net loss from exchange difference amounted to S/8,377,000. All these results are presented in the caption "Gain (loss) from exchange difference, net" of the consolidated statement of income. The net loss difference in exchange for the year 2018 includes a loss of S/4,293,000 originated by cash flow hedging instruments that changed under negotiation conditions.

Capital Expenditures

See “Item 4—Information on the Company—A. History and Development of the Company—Capital Expenditures.”

C. Research and Development, Patents and Licenses, Etc.

As of December 31, 2019, our research and development group consisted of 8 geologists in-house, as well as a research and development agreement with UTEC, for the development of new types and uses of cement. Our research and development team is mainly focused on developing (i) an ideal mix of additives for our cement products in an effort to reduce the amount of clinker material in our cement; (ii) other concrete products with various practical applications; and (iii) products with specific characteristics that meet market demands. We believe our research and development department is an integral part of our strategy to develop innovative cement products by continuously studying the chemical composition of cement and making it adaptable to the requirements and specific needs of our end consumer.

D. Trend Information

Cement Market

The Peruvian Cement Market

Peru’s cement production is segmented into three principal geographic regions: the northern region, the central region, including Lima’s metropolitan area, and the southern region. The table below sets forth selected data with respect to each region in Peru and the corresponding cement manufacturers. Market share data is based on metric tons of cement delivered during 2018.

Geographic Breakdown

Northern Region (thousands of metric tons)

Plant	2015	2016	2017	2018	2019	% share
Pacasmayo Group	2,310	2,285	2,267	2,364	2,615	22.2%
Imports	12	-	76	32	13	0.1%
Total	2,322	2,852	2,343	2,396	2,628	22.3%

Central Region (thousands of metric tons)

Plant	2015	2016	2017	2018	2019	% share
UNACEM	5,546	5,110	4,993	5,058	5,316	45.1%
Caliza Inca	357	347	387	448	513	4.3%
Imports	507	490	496	885	663	5.6%
Total	6,410	5,947	5,876	6,391	6,492	56.0%

Southern Region (thousands of metric tons)

Plant	2015	2016	2017	2018	2019	% share
Grupo Yura	2,480	2,645	2,618	2,597	2,584	21.9%
Imports	3	18	42	65	98	0.8%
Total	2,483	2,663	2,660	2,662	2,682	22.7%
Total Regions	11,215	10,895	10,879	11,449	11,802	100%



Sources: ASOCCEM, INEI, ADUANET (SUNAT).

The table below sets forth production by type of cement produced by each manufacturer in Peru that is part of ASOCCEM:

Business	Portland Cement			Other Portland Cements			
	I	II	V	IP	I(PM)	MS	I Co
UNACCEM	ü(1)	ü(1)	ü(1)	ü	ü		
Cementos Pacasmayo	ü	ü(2)	ü	ü		ü(2)	ü
Cementos Selva	ü(1)	ü(1),(3)	ü(1),(3)				ü
Cementos Sur	ü	ü(2)	ü(2)	ü	ü		
Yura	ü	ü(2)	ü(2)	ü	ü		

Source: ASOCCEM

- (1) Low alkaline content.
- (2) Our Portland cement II is the same as our type MS/MH/R cement.
- (3) Manufactured upon request.

Although the Lima metropolitan area, located in the central region of Peru, still concentrates a large proportion of demand, the housing market in the provinces of Peru, including the northern region, has grown significantly in recent years. Despite this trend, Peru continues to have significant shortages in housing, estimated by the INEI at 1.9 million homes nationwide. Economic growth, particularly in the mining and agribusiness sectors, rising employment levels and the implementation of real estate projects, have resulted in the creation of higher paying jobs, which have ultimately resulted in the expansion of the housing market.

Peru has improved by 35 places on the Global Competitiveness Index prepared by the World Economic Forum which measures the quality of infrastructure, among other things, from 110th place in 2008 to 65th in 2019. In the 2019 report, although Peru stands in first place (along with another 33 countries) in Macroeconomic stability, it lies in 88th place in infrastructure, demonstrating that it continues to have a significant deficit in infrastructure. In recent years, significant efforts have been made to channel investments into the infrastructure sector through a series of initiatives that range from the creation of financial instruments (such as the infrastructure investment and trust funds) to regulatory changes, to promotion of more public private partnerships (for example “taxes for infrastructure” which allows private companies to use part of their tax payments to directly finance infrastructure works).

Distribution and Logistics

Peru’s cement market is divided into three regions circumscribed primarily by the location of established production facilities. Our facilities are located in the northern region of Peru, UNACEM is the main producer in the central region, and Yura in the southern region. Cement is mainly sold in bags of 42.5 kilograms (approximately 94 pounds). However, cement can also be sold in bulk according to customer requirements.

The transportation and storage of cement requires specialized equipment. A favorable location of the production facilities not only reduces the time required to transport cement products to distributors and third-party merchants but also diminishes the costs of necessary equipment and resources. The location of a cement plant relative to its distribution network provides operational efficiencies and advantages that translate into stronger market share.

Cement can be stored in silos for up to 12 months if the silo is completely humidity proof. The typical vehicles used for the transport of cement are adapted to maintain the necessary environment during shipment. The proximity of production plants and storage centers to distribution centers, third-party vendors and retail outlets, creates a more efficient supply chain and minimizes the time and resources required to transport products from the production line to the construction site. The streamlined nature of this process ensures that cement products in the northern region of Peru, for example, reach customers within approximately one week of production. A cement company’s success is inherently linked to the sophistication of its distribution network and its emphasis on quality assurance throughout the supply chain.

Competitive Dynamics

The Peruvian cement market is comprised basically of three groups and one small plant, which own six cement producing companies:

- Cementos Pacasmayo and Cementos Selva, which principally serve the northern region;
- UNACEM, which principally serves the central region;
- Cementos Yura and Cementos Sur, which primarily serve the southern region; and
- Caliza Cemento Inca, located in Cajamarquilla, Lima which principally serves the central region as well as other regions throughout the country.

The level of competitiveness of cement companies generally depends on their cost structure, which is a function of the cost of energy, fuel, costs of raw materials and transportation. Cement companies in Peru generally compete within the limits of their distribution market, which is determined principally by their geographic locations.

The following are the main characteristics of the cement sector in Peru:

- highly fragmented consumer base;
- relatively low cost of energy and raw materials;
- operations and distribution primarily determined by geographic location; and
- high correlation to *auto-construcción* and public and private investments.

E. Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our results of operations, financial condition or liquidity.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations with definitive payment terms as of December 31, 2019.

(in millions of S/)	Payments due by period				Total
	Less than 6 months	6 to 12 months	1 to 5 Years	More than 5 Years	
Interest-bearing loans adjusted by hedge (1)	—	98.7	400.7	570.0	1,069.4
Interest	29.1	31.3	203.5	232.1	496.0
Hedge finance cost payable	—	14.7	36.8	—	51.5
Trade and other payables	174.9	50.3	—	—	225.2
Total	204.0	195.0	641.0	802.1	1,842.1

(1) Does not include issuance costs.

In addition, we have various mining fees and royalties payable to the government and third parties in connection with our concessions and surface land use.

G. Safe Harbor

See “Part I—Introduction—Forward-Looking Statements.”

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

General

Our business and affairs are managed by the board of directors in accordance with our by-laws and Peruvian Corporate Law No. 26887 (“Peruvian Corporate Law”). Our by-laws provide for a board of directors of between seven and eleven members. Between three and five alternate directors may be elected by the shareholders to act on behalf of any director who is absent from meetings or who is unable to exercise his or her duties, when and for whatever period fixed by the chairman of the board. Alternate directors have the same responsibilities, duties and powers of directors to the extent they are called to replace them.

Directors are elected at a shareholders' meeting and hold office for three years. Directors may be elected to multiple terms. Our current board of directors is composed of nine directors and two alternates. If a director resigns or otherwise becomes unable to continue with the duties, a majority of our directors may appoint one of the alternate directors to serve as director for the remaining term of the board. In the first board meeting held after the annual shareholders' meeting where members of the board are elected, the board of directors must elect among its members a chairman and a vice chairman.

The board of directors typically meets in regularly scheduled bi-monthly meetings and when called by the chairman of the board or a person representing the chairman. Resolutions must be adopted by a majority of the directors present at the meeting and the chairman is entitled to cast the deciding vote in the event of a tie.

Duties and Liabilities of Directors

Pursuant to Article 177 of Peruvian Corporate Law, directors are jointly and severally liable to a corporation, shareholders and third parties for any damages caused by abuse of power, fraud, willful misconduct or gross negligence. In addition, pursuant to Article 3 of Law No. 29720, as of June 26, 2011, directors of companies listed on the Lima Stock Exchange are also strictly liable for any damages caused as a result of any transactions in which they were involved and which resulted in damages or other losses to the corporation. A director cannot be found liable if the director expressed disagreement at the time the vote was cast or upon learning of such transaction and if there is a record expressing such opposition.

Our by-laws prohibit a director from voting on matters in which such director has an interest. In addition, Article 180 of the Peruvian Corporate Law requires a director with a conflicting interest on a specific matter to disclose such interest and abstain from the deliberation and decision-making process with respect to such matter. A director who violates this requirement is liable for any damages caused to us and may be removed by a majority of the board of directors upon request of any member of the board or by a majority vote of the shareholders.

Our by-laws stipulate that Directors' compensation is determined by the Mandatory Annual General Shareholders' Meeting at the time it reviews our annual audited financial statements. The fixed portion of the Chairman's compensation shall be twice the amount allocated to any other director. If directors are part of one or more Committees, their compensation may include an additional amount for the work performed as members of such Committees. The additional compensation of the directors may not exceed the aggregate fixed portion of the compensation that the directors are entitled to receive. Our by-laws do not restrict Directors from voting upon matters relating to their own compensation.

Our by-laws do not prohibit our directors from borrowing from us. However, Article 179 of the Peruvian Corporate Law provides that directors of a company may enter into an agreement with such company only if the related loan agreement relates to operations the company performs in the regular course of business and in an arms'-length transaction. Further, a company may provide a loan to a director or grant securities in such director's favor only in connection with operations that the company usually performs with third parties. Agreements, credits, loans or guarantees that do not meet the requirements set forth above require prior approval from at least two thirds of the members of the Company's Board of Directors. Directors are jointly liable to the company and the Company's creditors for contracts, credit, loans or securities executed or granted without complying with Article 179 of the Peruvian Corporate Law.

According to our Director's Duties, Rights and Legal Obligations Manual, members of the Board must perform an annual self-evaluation of the Board and each Committee. Each director will be requested to provide his or her assessment of the effectiveness of the Board and the Committees. If determined by the Board to be desirable, the Board may retain independent corporate governance experts to assist the Board with the evaluations.

Legislative Decree No 1422, enacted on September 13, 2018 established provisions with regard to the Peruvian General Anti-Avoidance Rule (GAAR) for tax purposes. According to this Decree, the GAAR will apply for tax audits reviewing facts, acts and situations from July 19, 2012 and thereafter. Legal representatives will be jointly liable for taxes due when the GAAR is applied, provided those legal representatives have collaborated with the design or implementation of the acts challenged by the Peruvian Tax Authority using the GAAR. Boards of directors (for entities having a board of directors) will be responsible for approving the entity's tax planning and cannot delegate this obligation. Finally, the board of directors must evaluate the tax planning implemented up to September 14, 2018, in order to ratify or modify the plan (the period for ratifying or modifying the tax plan will end on March 29, 2019).

Neither our by-laws nor Peruvian Corporate Law contain age limit requirements for the retirement or non-retirement of directors.

Board of Directors

The following sets forth our directors and alternate directors and their respective positions as of the date of this annual report. On September 1, 2019, Ana María Botella Serrano was appointed to the Board.

Name	Position	Year of Birth
Eduardo Hochschild Beeck	Chairman of the Board	1963
José Raimundo Morales Dasso	Vice Chairman of the Board	1946
Juan Francisco Correa Sabogal	Director	1974
Roberto Dañino Zapata	Director	1951
Carlos Miguel Heeren Ramos	Director	1968
Humberto Nadal Del Carpio	Director, Chief Executive Officer	1964
Hilda Ochoa-Brillembourg	Director	1945
Felipe Ortíz de Zevallos Madueño	Director	1947
Marco Antonio Zaldivar Garcia	Director	1960
Robert Patrick Bredthauer	Alternate director	1947
Manuel Bartolomé Ferreyros Peña	Alternate director, Chief Financial Officer	1966
Ana María Botella Serrano	Alternate Director	1953

The following sets forth selected biographical information for each of the members of our board of directors. The average tenure of board members is 9.67 years. The business address of each of our current directors is Calle La Colonia 150, Urb. El Vivero, Surco, Lima, Peru.

Eduardo Hochschild Beeck. Mr. Hochschild has served as Director since April 1991, and currently serves as Chairman of the Board. He holds a degree in mechanical engineering from Tufts University, Boston, USA. Mr. Hochschild is also President of Hochschild Mining plc, Inversiones ASPI S.A. and is on the Board of Directors of UTEC and TECSUP. He is also Director of Banco de Crédito del Perú, El Pacífico Peruano-Suiza Compañía de Seguros y Reaseguros, Fosfatos del Pacífico S.A., and Sociedad de Comercio Exterior del Perú (COMEX Perú). He is also an expert consultant for the Economic Council of the Episcopal Conference.

José Raimundo Morales Dasso. Mr. Morales has served as Director since March 2008. He holds a Bachelor's degree in Economics and Business Administration from Universidad del Pacífico, and a Master's in Business Administration from the Wharton Graduate School of Finance from the University of Pennsylvania, USA. Between 1970 and 1980 he worked in different positions at the Bank of America and Wells Fargo Bank. In 1980 he started to work at Banco de Crédito del Perú and served in high management positions. He served as the Chief Executive Officer of Banco de Crédito del Perú from October 1990 to April 2008. Currently, he is the Vice-Chairman of the board of Credicorp LTD., Banco de Crédito del Perú and Pacífico Cía. Seguros y Reaseguros. In addition, he is member of the Board of Atlantic Security Bank, Alicorp S.A.A., Pesquera Centinela S.A., Grupo Romero, Cementos Pacasmayo S.A.A., Salmueras Sudamericanas S.A., Fosfatos del Pacífico S.A., Cerámica Lima S.A., Corporación Cerámica S.A. and Inversiones y Propiedades S.A. He is also a member of the Board of the Peruvian Institute of Economy.

Juan Francisco Correa Sabogal. Mr. Correa has served as Director since February 2018. He holds a bachelor's degree in Business Administration from Universidad de Lima and a Master in Business Administration (MBA) from The Wharton Business School, University of Pennsylvania. Mr. Correa served as Lazard Freres LLC's Mergers and Acquisitions Managing Director at their Middle East and US offices until July 2017, following a career of over 11 years at that firm. He was one of the founding members of the practice and was responsible for establishing the business and developing an American client base in the Middle East in an array of industries. Previously, Mr. Correa had been the Director of Lazard's New York-based "Power, Energy & Infrastructure" group, overseeing various sub-sectors. Mr. Correa also assumed responsibilities linked to Lazard's efforts in Latin America and was a member of the Board of Directors of MBA Lazard (Lazard's former joint venture for Spanish speaking Latin America). Prior to joining Lazard, Mr. Correa worked at RWE/Thames Water, Merrill Lynch and Banco de Crédito del Peru. In addition, Mr. Correa has been a consultant to a large number of international companies and American on topics that are not in the public domain related to strategies of activities of mergers acquisitions and corporate finance. (Second-degree affinity of Eduardo Hochschild).

Roberto Dañino Zapata. Mr. Dañino has served as Director since 1995. In July 2001 he resigned from the Board of Directors to take office as Prime Minister of the Peruvian government. Later on, he rejoined the Board in June 2008. He is an attorney having graduated from the schools of Law of both Harvard University and Pontificia Universidad Católica del Perú. He was the Peruvian Ambassador to the United States and Senior Vice-President and General Counsel of the World Bank. He has also been Partner and Chairman of the Latin American Practice at Wilmer Cutler & Pickering (now Wilmer Hale), Washington D.C. He is currently the Chairman of the Board of Directors of Everis (Peru) and member of the Board of Directors of Inversiones Centenario, Results for Development, LUMNI and AFP Integra, as well as member of the Advisory Board of Open Society Foundations and Goldman Sachs.

Carlos Heeren Ramos. Mr. Heeren has served as Director since March 2017. He is also the CEO at Universidad de Ingeniería y Tecnología (UTEC) and TECSUP. Moreover, he is Director of various companies and other non-profit companies and institutions. He has previously served as a partner in Apoyo Consultoría. He holds a degree in Economics from Universidad del Pacífico and a Post-graduate degree in Economics from the University of Texas.

Humberto Reynaldo Nadal Del Carpio. Mr. Nadal joined our company as Corporate Development Manager in June 2007 and has served as Director since March 2008, and as Chief Executive Officer since April 2011. He holds a Bachelor's degree in Economics from Universidad del Pacífico and an MBA from Georgetown University. He is also the CEO of ASPI, Fosfatos del Pacífico and FOSSAL. Moreover, he is a board member at Ferreycorp and has been Chairman of the Board of Trustees of Universidad del Pacífico, and Chairman of the Board of Directors of Fondo Mi Vivienda. In April 2006, he joined Compañía Minera Ares S.A.C. (a subsidiary of Hochschild Mining plc) as Corporate Development Manager. Mr. Nadal has also served as Business, Administration and Finance Manager of the Instituto Libertad y Democracia and as Chief Executive Officer at Socosani S.A. He has been honored by the Institutional Investor magazine as one of the three best CEOs in the Latin American construction industry in 2015, 2016, 2017, 2018 and 2019.

Hilda Ochoa-Brillembourg. Ms. Ochoa-Brillembourg has served as Director since October 2011. She holds a Bachelor Degree in Economics from Universidad Católica Andres Bello of Venezuela, a Master's degree in Public Administration and is a PhD candidate in Business Administration, both from Harvard University. She is the founder of Strategic Investment Group, and a group of affiliated investment management firms. She served as President and CEO from 1987 to 2017. She was appointed as Chairwoman of the Board of Directors in 2014 and is the president of Emeritus since 2017. From 1976 to 1987, she was Chief Investment Officer of the Pension Investment Division at the World Bank. Ms. Ochoa-Brillembourg is a member of the Board of Directors and of the Dispute Settlement committee of the Asset Management Company, an affiliate of the World Bank and the IFC.

Felipe Ortiz de Zevallos. Mr. Ortiz de Zevallos has served as Director since March 2014. He studied at the Universidad Nacional de Ingeniería in Lima, at the University of Rochester in New York and at Harvard Business School. He is the founder and has been Chairman of Apoyo since 1977. He has served as Ambassador of Peru in the United States (2006-2009) where he was responsible, with the US Congress' approval, of managing the Free Trade Agreement between both countries. He has been a professor at Universidad del Pacífico and served as Dean of said university from 2004 to 2006. In addition, he was President of the Asociación Civil Transparencia. He is currently an independent board member of various companies and non-profit organizations. He received the IPAE Award in 1990, the Journalism Jerusalem Prize in 1998 and the Manuel J. Bustamante de la Fuente Award in 2008. In 2009, the Lima Chamber of Commerce paid tribute to Mr. Ortiz de Zevallos for his contributions to the social and economic development of Peru, and in 2011 the Ministry of Economy and Finance awarded him the "Hipólito Unanue" award for his contributions to the country's economic and financial development.

Marco Antonio Zaldívar. Mr. Zaldívar has served as Director since March 2017. He is a member of the Public Accounting Association, an Universidad de Lima alum and graduate of the Executive Development Program of Universidad de Piura's PAD. In addition, Mr. Zaldívar holds an MBA degree from the Adolfo Ibáñez School of Management (USA). He has been Chairman of the Board of the Lima Stock Exchange. Previously, at Ernst & Young, he was a Partner of Risk Management and Regulatory Matters, Senior Partner of the Firm's Audit and Business Advisory Division. He has also been Vice Dean of the Lima Public Accountants' Association, Chairman of the Board of Directors and Chairman of the Procapitales Corporate Governance Committee. He is currently an Independent Director of Banco Santander del Perú, Edpyme Santander Consumo, Buenaventura and Union of Breweries Peruvian Backus and Johnston, among other positions, highlighting his extensive experience of Corporate Governance issues.

Robert Patrick Bredthauer. Mr. Bredthauer has served as Alternate Director since March 2003. He holds a degree in Business Administration from Hochschule St. Gallen, Switzerland, and a commerce degree from the École Supérieure de Commerce, La Neuveville, and the École Supérieure de Commerce, Lausanne, both in Switzerland. Since 1976, he acted as Vice-President of Finance and Executive Vice-President of Cemento Nacional C.A. (Guayaquil, Ecuador) and prior to that, he served as the regional Controller for Holderbank Management and Consulting in Nyon, Switzerland.

Manuel Bartolomé Ferreyros Peña. Mr. Ferreyros has served as Alternate Director since March 2008 and as our Vice-President of Finance and Administration since January 2008. He is a member of the Board of Directors of Fosfatos del Pacífico S.A. Mr. Ferreyros holds a Bachelor's degree in Business Administration from Universidad de Lima, a Multinational MBA from the Adolfo Ibáñez School of Management, Miami and a Master's in Business Administration from The College of Insurance of New York. Mr. Ferreyros has pursued the Advanced Management Program at Instituto Centroamericano de Administración de Empresas – INCAE (Central American Institute of Business Administration) and the CEOs' Management Program at Kellogg School of Management, among others. Before joining the Company, Mr. Ferreyros was Chief Executive Officer of La Positiva Seguros y Reaseguros. He has been honored by the Institutional Investor magazine as one of the three best CFOs in the Latin American construction industry in 2015, 2016, 2017, 2018 and 2019.

Ana María Botella Serrano. Ms. Botella has served as Alternate Director since September 1, 2019 after having been appointed by the Board of Directors on June 24, 2019. She holds a bachelor's degree in Law from the Complutense University of Madrid and is a member of the Senior Civil Administrators of the State. As a civil servant, she has worked at the Ministry of the Interior, Civil Government of La Rioja, Ministry of Public Works, Treasury Delegation of Valladolid and Ministry of Finance. In 2003, she was elected Councilor of the City of Madrid, has served as Second Deputy Mayor and has held the Government Delegations Employment and Social Services and Environment and Mobility. In December 2011, she was invested Mayor of the City of Madrid, a position she held until June 2015. She is currently the Executive President of the Integra Foundation and Director of Programs of the Atlantic Government Institute

Executive Officers

Our executive officers oversee our business and are responsible for the execution of the decisions of the board of directors. The following table presents information concerning the current executive officers of the company and their respective positions:

Name	Position	Year of Birth	Year of Appointment
Humberto Nadal Del Carpio	Chief Executive Officer	1964	2011
Jorge Javier Durand Planas	Legal Vice - President	1966	2008
Manuel Bartolomé Ferreyros Peña	Chief Financial Officer	1966	2008
Carlos Julio Pomarino Pezzia	Vice – President of the Cement Business	1962	2009
Diego Arispe Silva	Central Manager of Human Management	1981	2019
Aldo Bertoli Estrella	Central Business Manager	1969	2016
Carlos Paul Cateriano Alzamora	Central Manager of Corporate Social Responsibility and Communications	1957	2006
Dante Rafael Cárdenas Roncal	Central Manager of Innovation and Digital Transformation	1974	2018
Rodolfo Ricardo Jordán Musso*	Central Manager of Engineering and Infrastructure	1952	2009
Tito Alberto Inope Mantero	Central Manager of Construction Solutions	1972	2015
Diego Reyes Pazos	Central Manager of Supply Chain	1977	2013
Hugo Villanueva Castillo	Central Manager of Operations	1962	2012

* Mr. Jordán resigned from the Company on December 31, 2019.

The following sets forth selected biographical information for each of our executive officers:

Humberto Reynaldo Nadal Del Carpio. See “Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management—Board of Directors.”

Jorge Javier Durand Planas. Mr. Durand joined the Hochschild Group in 1994. He serves as the Company’s Legal Vice-President and General Counsel since 2008. Previously, he held the title of Legal Vice-President and General Counsel at Hochschild Mining plc. Mr. Durand holds a Law degree from Universidad de Lima (Peru), and a Master’s in Business Administration from Universidad del Pacifico (Peru). Among other studies, he has also completed the Management Program for Lawyers and Corporate Governance and Performance Program at the Yale School of Management (USA), the Strategic Negotiations Program of Harvard Business School (USA) and the Prince of Wales’s Business & Sustainability Programme by the University of Cambridge Institute for Sustainability Leadership (UK). Currently, Mr. Durand is also a board member of Inversiones ASPI S.A., and he is member of the Board of Directors of UTEC and TECSUP.

Manuel Bartolomé Ferreyros Peña. See “Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management—Board of Directors.”

Carlos Julio Pomarino Pezzia. Mr. Pomarino is the Vice-President of the Cement and Building Solutions part of the business since January 2017. He holds a degree in Economic Engineering from Universidad Nacional de Ingeniería and a Master’s in Business Administration from the Adolfo Ibañez School of Management and ESAN. He has also participated in the Senior Management Program at Universidad de Piura and he completed the Certification of Independent Board members at Centrum Católica. He was the Vice-President of Cement from 2012 to 2017, Deputy Chief Executive Officer from 2009 to 2012, served as Commercial Officer of the Company from 2002 to 2009, and as Chief Executive Officer of Distribuidora Norte Pacasmayo S.R.L. from 1998 to 2009. Prior to joining the Company, Mr. Pomarino worked as Manager of Administration and Finance at Comercializadora de Alimentos S.A. and as Chief Financial Officer at Fábrica de Tejidos San Jacinto S.A.

Diego Arispe Silva. Mr. Arispe is our Central Manager of Human Management since January 2019. He holds a degree in Law by the Pontificia Universidad Católica del Perú and has a Master of Business Administration (MBA) from Columbia Business School. He has been working at the company for more than 10 years, having held various positions in the areas of Human Management, Social Responsibility and Legal, and was part of the team in charge of the implementation of our cement plant in Piura, as Project Controller.

Aldo Bertoli Estrella. Mr. Bertoli is our Central Business Manager since May 2016. He holds a degree in Business Administration from Universidad de Pacífico and a Master’s degree in Business Management from Universidad de Piura. Before joining our company, Mr. Bertoli worked for five years at Pepsico Inc as the Sales Manager for Peru, Ecuador and Bolivia. Previously, Mr. Bertoli worked for twelve years at Procter & Gamble in several Commercial positions, including four years as Country Manager in Bolivia

Carlos Paul Cateriano Alzamora. Mr. Cateriano serves as Central Manager of Corporate Social Responsibility since June 2012. Previously, he was Human Resources Manager since 2006. He studied Mechanical Engineering at the Pontificia Universidad Católica del Peru and has pursued different studies in the Senior Management Program at Universidad de Piura. Before joining our company, Mr. Cateriano worked as Human Resources Assistant Manager at Banco Wiese Sudameris S.A. (acquired by Scotiabank Perú S.A.A.). Moreover, he also held the position of Head of Training at Santander S.A. from 1995 to 1999, and has worked as a consultant for Polímeros y Adhesivos S.A.

Dante Rafael Cárdenas Roncal. Mr. Cardenas served as IT Manager from April 13, 2015 until October 31, 2018 and in November he assumed the position of Central Manager of Innovation and Digital Transformation. He has vast experience in information technologies, implementation of systems and digital transformation an innovation projects. He holds a degree in Industrial Engineering from the Pontificia Universidad Católica del Perú and a Master of Business Administration (MBA) from York University, Canada. Prior to joining us, Mr. Cardenas served as Corporate IT Manager at Iberoamericana de Plásticos, Corporate IT Manager at Quimtia, PMO Manager at Hewlett Packard, Project Manager at Telus, among others.

Rodolfo Ricardo Jordan Musso. Mr. Jordan serves as our Central Manager of Engineering and Infrastructure since January 2018. He previously served as Central Manager of Industrial Development. He holds a degree in Civil Engineering from Universidad Católica del Perú and he has pursued an Advanced Management Program at the Universidad de Piura (University of Piura). Before joining the Company, he served as Chief Executive Officer of GMI Ingenieros Consultores, and afterwards as Executive Director of the Mexican affiliate of Graña & Montero. He served as Marketing Manager of Distribuidora Norte Pacasmayo S.R.L from 2007 to 2009.

Tito Alberto Inope Mantero. Mr. Inope is our Central Manager of Constructive Solutions since January 2015. He holds a degree in Economics from Universidad de Lima and a Master's degree in Business Administration (MBA) from the Universidad Peruana de Ciencias Aplicadas (UPC), as well as the Senior Management Program (PAD). Mr. Inope joined our Company in 1996, and he has worked in different management positions throughout his 18 years in the Company.

Diego Reyes Pazos. Mr. Reyes serves as Central Manager of Supply Chain, Administration and Risks since July 2013. He has vast experience in the supply chain, project development, design and implementation of systems/processes and financial analysis. He graduated with a degree in Business Administration from Universidad de Lima and received a Master's in Business Administration from Universidad de Piura. Before joining our company, Mr. Reyes worked as Operations and Finance Manager at Belcorp, as Senior Business Process Expert for Latin America at SAB Miller, as Project Manager in the Vice Presidency of Supply Chain at UCP Backus & Johnston.

Hugo Pedro Villanueva Castillo. Mr. Villanueva serves as Central Manager of Operations of Cementos Pacasmayo and Cementos Selva since January 2012. Previously, he served as Operations Manager of Cementos Selva for over 9 years. Mr. Villanueva has also worked at our Company for over 20 years, holding different positions in the areas of Quality, Production and Operations of the company. He holds a degree in Chemistry from Universidad Mayor de San Marcos. He holds a Master's in Business Administration from the Monterrey Technological Institute (Mexico). Additionally, he has participated at the General Management Program at PAD, Universidad de Piura and at the Program for Senior Management at INCAE in Costa Rica. He has also participated in different specialty programs in the industry.

B. Compensation

As of December 31, 2019, the total short-term compensations amounted to S/23,692,000 (2018: S/24,129,000, 2017: S/22,705,000) and the total long-term compensations amounted to S/6,523,000 (2018: S/9,495,000, 2017: S/11,401,000). This compensation included payments made in connection with the workers' profit sharing required under Peruvian labor laws, which require us to distribute between 8% and 10% of our taxable annual income, net of taxes, to all employees, including our executive officers. See "Item 4. Information on the Company—B. Business Overview—Regulatory Matters" for additional information on the profit sharing regulatory requirements.

Since 2011, we pay each of our directors a yearly compensation of US\$200,000 (US\$400,000 in the case of our Chairman). In addition, compensation paid to certain of our directors for serving on board committees will be, in aggregate per year, not higher than the total amount paid to our directors for serving on our board of directors. Our 2019 director compensation was approved at our annual shareholders' meeting.

Neither we nor any of our subsidiaries have entered into any agreement that provides for any benefit or compensation to any director or executive officer after expiration of his or her term.

Executive Compensation Plan

Our business operates in a competitive environment where highly trained professionals and executives are in demand. Continued expansion of the Peruvian economy over the past several years has created new opportunities resulting in additional competition for local talent. As a result, we have in place compensation plan to retain our key executives and attract new executives with the skills and experience required to achieve our strategic objectives and create long-term value for our shareholders. We believe that executive compensation should reward individual performance and the achievement of our strategic objectives.

Our executive compensation plan has been designed to achieve the following primary objectives:

- recruit, retain and incentivize highly talented and dedicated executives with the skills and experience required to manage and operate our business and create long-term value for our shareholders;
- provide our executive officers with compensation opportunities that are fair, reasonable and competitive in the market;
- compensate based on our performance and individual performance;
- promote transparency by using clear and straightforward compensation metrics; and
- align the interests of our executive officers with the interests of our shareholders, both in the short-term and long-term.

Our executive compensation plan is in addition to workers' profit sharing requirements applicable to all of our employees, including our executive officers, under Peruvian labor laws.

Our compensation plan has been designed to compensate our executives through a combination of base salary, a cash bonus incentive and other benefits that we believe are fair and equitable to us and our shareholders and competitive in the market. We believe that the combination of salary, cash bonus incentive and other benefits help distinguish us from other companies in the cement industry in Peru, and serve as an important retention tool as we compete for executive talent. We also believe that it will provide an appropriate compensation structure to retain our executives, reward them for individual performance, and induce them to contribute to the creation of long-term value.

Components of Executive Compensation

The key components of our executive compensation plan are:

- base salary;
- short-term cash bonus incentives; and
- long-term cash bonus incentives.

The short term cash bonus incentives are defined based on achieving specific business goals which include sustainability metrics and financial results such as EBITDA. Regarding long-term cash bonus incentives, they are defined based on each employee's tenure. It is important to note that our Chief Executive Officer and other Executives of the company do not receive shares as a part of the compensation plan.

We believe that the use of few and straightforward compensation components promotes the effectiveness and transparency of our executive compensation plan and enables us to be competitive. No formula or specific weightings or relationships are used to allocate the various components in our executive compensation plan. Each component has an important role in implementing our executive compensation philosophy and in meeting the executive compensation objectives described above.

Base Salary

We compensate our executive officers and other employees with a base salary to compensate them for services rendered on a day-to-day basis during the fiscal year. Base salaries provide stable compensation to executives, allow us to recruit and retain highly talented and dedicated executives and, through periodic merit increases, provide a basis upon which executives may be rewarded for individual performance.

Short-Term Cash Bonus Incentives

As a key component of our compensation plan, we currently provide our executive officers the opportunity to earn annual cash bonuses based on the achievement of our short-term business objectives. As additional cash compensation that is contingent on achieving our business objectives, cash incentives augment the base salary component while being tied directly to corporate and individual performance objectives. The financial profitability variables are based on EBITDA targets.

Long-Term Cash Bonus Incentives

In addition, as a tool to promote retention of our executive officers, we have implemented a deferred cash incentive program that we believe aligns compensation with corporate performance, allows us to recruit and retain competent executive talent, and rewards for superior performance measured over the long-term. Our plan provides for the payment of bonuses in addition to the annual bonuses that are paid to our executive officers.

Our long-term bonus incentive program features the following key components:

- available to senior executives who have been employed by our company at this level for at least four years;
- at the end of each year, the cash bonus will be accrued in a “personal virtual account” for the benefit of the relevant executive;
- on the fifth anniversary of the creation or beginning of the bonus plan, the relevant executive will receive the amount accrued during the first four years;
- additional annual bonuses will be accrued for the following four years and a final payout will be made at the end of the eighth year from the creation or beginning of the plan; and
- if the employee decides to voluntarily leave the company before a scheduled distribution, he will not receive this compensation.

Our plan provides that the executive must meet the following eligibility criteria:

- must be no older than 58 years at the time his or her participation in the incentive program begins;
- must have at least four years as senior executives with either our company, or our subsidiaries or affiliates;
- is a professional who is deemed to have characteristics that are attractive to the market; and
- the executive’s departure is deemed by the board of directors or a committee thereof to have an adverse effect on our performance.

C. Board Practices

For information about the date of expiration of the current term of office and the period during which each director has served in such office, see “Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management.”

Benefits upon Termination of Employment

There are no contracts providing for benefits to directors upon termination of employment

Board Committees

We have four board committees comprised of members of our board of directors, which are described below.

Executive Committee

Our by-laws permit us to delegate an executive committee composed of three to five members of the board of directors. Mr. Eduardo Hochschild Beeck (chair), Mr. Roberto Dañino Zapata, Mr. Raimundo Morales Dasso and Mr. Humberto Nadal del Carpio are currently members of our executive committee. Our executive committee is mainly responsible for (i) supervising and supporting our management in executing the resolutions passed by our board of directors, (ii) executing the strategy approved by our board of directors, (iii) meeting short-term and medium-term goals, as well as designing action plans to meet such goals in accordance with the long-term strategy and goals approved by our board of directors, (iv) approving agreements or transactions involving amounts greater than US\$3 million but less than US\$20 million, (v) monitoring compliance with the annual budget and approving any significant deviations from approved levels of working capital, (vi) making strategic decisions that do not rise to the level of a full board approval, and (vii) approving and executing new projects in amounts up to US\$20 million.

Our executive committee also performs the functions of a compensation committee.

Antitrust Best Practices Committee

The antitrust best practices committee is composed of three members: Mr. Raimundo Morales Dasso, Mr. Humberto Nadal del Carpio and Mr. Eduardo Hochschild Beeck. The antitrust best practices committee is responsible for informing our employees about our competition best practices and for monitoring compliance with such practices, including compliance with antitrust regulations.

Audit Committee

Our audit committee is composed of three directors: Ms. Hilda Ochoa-Brillembourg, who is the chairman of the audit committee, Mr. Felipe Ortiz de Zevallos and Mr. Marco Antonio Zaldívar. All of the members of the audit committee qualify as independent in accordance with the SEC rules applicable to foreign private issuers. Ms. Hilda Ochoa-Brillembourg and Mr. Marco Antonio Zaldívar also qualify as financial experts under SEC rules. The audit committee is responsible for (i) reviewing our financial statements; (ii) evaluating our internal controls and procedures, and identifying deficiencies; (iii) the appointment, compensation, retention; and (iv) oversight of our external auditors. Additionally, it is responsible for informing our board of directors regarding any issues that arise with respect to the quality or integrity of our financial statements, our compliance with legal or regulatory requirements, the performance and independence of the external auditors, or the performance of the internal audit function; and overseeing measures adopted as a result of any observations made by our shareholders, directors, executive officers, employees or any third parties with respect to accounting, internal controls and internal and external audit, as well as any complaints regarding management irregularities, including anonymous and confidential methods for addressing concerns raised by employees.

Corporate Governance Committee

Our corporate governance committee is composed of four directors. The current members are Mr. Felipe Ortiz de Zevallos (chair), Mr. Humberto Nadal del Carpio, Mr. Roberto Dañino Zapata and Mr. Eduardo Hochschild Beeck. The corporate governance committee is responsible for assisting the board on its oversight of director nomination and committee assignments, as well as the board and CEO successions. Similarly, it is responsible for assisting in the implementation of the committee and board self-assessment surveys and the review of governance principles.

D. Employees

As of December 31, 2019, we had a total of 1,721 permanent employees. The following table sets forth a breakdown of our employees by category as of the periods indicated.

	As of December 31,		
	2019	2018	2017
Management	36	35	35
Administrative personnel	1,364	1,133	1,032
Plant workers	321	309	319
Total (1)	1,721	1,477	1,386

(1) Workers from our social venture Acuícola Los Paiches S.A.C. are excluded from these calculations.

As of December 31, 2019, approximately 17.1% of our employees were members of labor unions (*Sindicato Único de Trabajadores de Cementos Pacasmayo S.A.A*, *Sindicato de Trabajadores de Distribuidora Norte Pacamasyo S.R.L*, *Sindicato Único de Trabajadores de la Empresa Distribuidora Norte Pacasmayo S.R.L.-Dino*) that represents its members in collective bargaining negotiations. Our management and administrative personnel are not members of a labor union. Labor relations for unionized and non-unionized employees in our production facilities, including compensation and benefits, are governed by a collective bargaining agreement that is renewed annually. In March 2019, three-year Union Agreements were signed with our largest union.

Under Peruvian law, it is illegal to lay off employees without cause or without following certain formal procedures. In addition, employees who are laid off are entitled to severance payments upon termination of their employment in an amount equal to one and a half month's salary for each full year of work performed with a maximum payment equal to 12 monthly salaries provided they are indefinite term employees. In case of fixed term employment relationship the severance payment is equal to 1.5 monthly salaries for each month, until the completion of the contract, with a maximum of 12 monthly salaries.

Our employees are enrolled in either the national public pension fund or a privately managed pension fund. In both cases the applicable payment (approximately 13%) is withheld by the employer from the employees' monthly salary. As of December 31, 2019, approximately 12.1% of our employees were enrolled with the national public pension fund and 87.4% with a private social pension plan.

We believe we have a good relationship with our employees. In the past, we have not experienced any material strikes, work stoppages or any other significant disruptions.

Diversity

We seek to generate a culture of diversity that includes minority groups and vulnerable populations.

As of the date of this annual report, 12.49% of our total workforce is female, and 11.43% of our senior management positions are held by women. The positions of women in managerial positions, including junior, middle management and senior managerial positions represented 0.24% of such positions as of the date of this annual report. Although, as of the date of this annual report, we do not have female personnel in commercial management, 17.39% of our junior management positions are held by women, who provide support for business management. The proportion of women in management roles is growing annually, including in headquarters in support and commercial areas. However, 100% of our operational workforce is made up of men.

Remuneration Equality

We pay our employees taking into account the responsibility, experience and performance of their work. For this reason, we report the average remuneration of men and women in our workforce at their different levels of management:

Employee Level	Average Monthly Female Salary (in soles)	Average Monthly Male Salary (in soles)	Ratio (=Average Female Salary / Average Male Salary)
Executive level (Base salary only)	-	-	-
Management level (base salary only)	13,682	13,169	1.0390
Management level (base salary + other cash incentives)	14,991	14,738	1.0172
Non-management level	4,527	3,246	1.3946

Freedom of Association

17.37% of our employees are members of the the Pacasmayo or DINO Unions (which consists of two separate unions).

The most representative benefits of the union agreement include:

- School Assignment (100% of Employees/Plant Workers)
- Annual union increase (100% of Employees/Plant Workers)
- Bid closing bonus (100% of Employees/Plant Workers)
- Study scholarships (Employees from the branches where there is a union)
- Vacation Loan (100% of Employees/Plant Workers)
- Allowance for death of direct family members (100% of Employees/Plant Workers)
- Allowance for death of Employees (100% of Employees/Plant Workers)
- Assignment by May 1st (An amount is granted to the Union Organization)
- Union anniversary allowance (An amount is awarded to the Union Organization)
- Paid leave for the death of a direct family member (100% Employees/Plant Workers and Executive Management)
- 27% discount for the purchase of cement (100% Employees/Plant Workers and Executive Management)
- Special group medical insurance (with a 70% subsidy from the company (100% of employees)

Human Rights

To manage our risks related to human rights, we work under a multidimensional and participatory approach with different areas of the organization. We analyze the most relevant risks in our operations and value chain, and we also identify the stakeholders that could be affected. Among the issues evaluated are labor rights, health and safety, discrimination and harassment, freedom of association, the rights of indigenous peoples, labor conditions in the supply chain, potential environmental impacts, among others. The groups analyzed have been our employees, suppliers and the community.

Based on the identified risks, the different areas of the organization establish action plans to manage them. As part of these plans, we include training and dissemination actions on the company's commitments, directed to the board, executive team and employees in general. Finally, we make complaint mechanisms available to our stakeholders, through which we can receive complaints related to possible affectations of human rights. Any complaint is evaluated and investigated internally to take the necessary corrective actions. During 2019, we have not received any complaints regarding issues related to human rights, so no remediation actions have been carried out.

Engagement

In 2019 we started measuring the level of engagement of all the employees of Cementos Pacasmayo and Subsidiaries, achieving a result of 78%, percentage higher than the market, which ranges from 70% and 75%

The methodology used was the standard, and the survey had three fundamental pillars: 1) Connection; 2) Commitment; and 3) Effort; that measure the involvement or emotional state of the employee towards the Company and the way in which this is reflected in their performance results and/or achievement of objectives. These three pillars, are measured on the following 12 dimensions: autonomy, feedback, leader coaching, growth and development opportunities, collaboration, optimism, self-efficacy, pressure at work, cognitive demands, emotional demands, role conflict and obstacles at work.

The scale used in the survey was the following:

- 0 - Never
- 1 - Almost Never
- 2 - Sometimes
- 3 - Regularly
- 4 - Quite a few times
- 5 - Almost always
- 6 - Always

E. Share Ownership

As of March 31, 2020, persons who are currently members of our board of directors and our executive officers held as a group 1,164,895 of our common shares and no investment shares (not including common shares held by Mr. Eduardo Hochschild through ASPI). This amount represented less than 1% of our outstanding share capital as of March 31, 20120. Mr. Eduardo Hochschild through ASPI indirectly controls 211,985,547 or our common shares.

Mr. Humberto Nadal, Mr. Raimundo Morales, Mr. Roberto Dañino, Mr. Carlos Heeren, Mr. Manuel Ferreyros, Mr. Carlos Pomarino and own individually and in the aggregate less than 1% of our common shares.

There are no minimal specific stock ownership requirements for the CEO and other members of our executive committee. However, we have a security trading policy regarding non-public information and the prevention of insider trading that states directors and restricted persons (managers or others who have had a relation with the Company and have access to privileged information due to their condition or exercise of functions) can only buy or sell company stocks prior authorization and only in certain periods (Trading Window).

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

As of March 31, 2020, our issued and outstanding share capital was composed of 423,868,449 common shares. In addition, as of March 31, 2020, we had 40,278,894 non-voting investment shares outstanding, 36,040,497 of which were held in treasury.

The following table sets forth the beneficial ownership of our common shares and non-voting investment shares as of March 31, 2020.

Shareholder	As of March 31, 2020					
	Common shares		Investment shares		Total	
	Number of shares	Percentage	Number of shares	Percentage	Number of shares	Percentage
ASPI(1)	211,985,547	50.01%	—	—	211,985,547	45.67%
CPSAA (treasury shares)	—	—	36,040,497	89.48%	36,040,497	7.76%
RI—Fondo 2 (AFP Prima)	19,591,306	4.62%	—	—	19,591,306	4.22%
RI—Fondo 3 (AFP Prima)	19,055,816	4.50%	—	—	19,055,816	4.11%
IN—Fondo 3 (AFP Integra)	23,655,908	5.58%	—	—	23,655,908	5.10%
PR—Fondo 2 (PROFUTURO)	18,646,208	4.40%	—	—	18,646,208	4.02%
PR—Fondo 3 (PROFUTURO)	18,818,758	4.44%	—	—	18,818,758	4.05%
Directors and officers(2)	1,164,895	0.27%	—	—	1,164,895	0.25%
ADRS NY	31,425,896	7.41%	—	—	31,425,896	6.77%
Other shareholders	79,524,115	18.76%	4,238,397	10.52%	83,762,512	18.05%
Total	423,868,449	100.0%	40,278,894	100.0%	464,147,343	100.0%

- (1) ASPI is indirectly controlled by Mr. Eduardo Hochschild through Farragut Holdings, Inc. (Cayman Islands). Mr. Eduardo Hochschild is a member of the board of directors of our company. The shares expressed here include those held through ASPI.
- (2) See “Item 6. Directors, Senior Management and Employees—Share Ownership” for information regarding shares of our common stock owned by members of our board of directors and executive officers. The number of common shares held by directors and executive officers excludes any shares that may be deemed to be beneficially owned by Mr. Eduardo Hochschild through ASPI.

Changes in Ownership

The following sets forth the composition of ownership from December 31, 2015 to December 31, 2019.

Shareholder	As of December 31,				
	2019	2018	2017	2016	2015
ASPI	45.7%	45.7%	45.7%	45.7%	45.7%
CPSAA (treasury shares)	7.8%	7.8%	7.8%	6.4%	6.4%
RI—Fondo 2 (AFP Prima)	3.9%	4.4%	3.3%	4.2%	5.1%
RI—Fondo 3 (AFP Prima)	4.1%	0.1%	2.5%	3.1%	4.2%
IN—Fondo 2 (AFP Integra)	—	4.6%	—	—	—
IN—Fondo 3 (AFP Integra)	5.1%	—	—	—	—
PR—Fondo 2 (AFP Profuturo)	4.0%	—	—	—	—
PR—Fondo 3 (AFP Profuturo)	4.0%	—	—	—	—
Directors and officers	0.1%	0.1%	0.1%	0.1%	0.1%
American Depositary Receipts	6.7%	13.0%	15.1%	16.2%	16.6%
Other shareholders	18.5%	24.3%	25.5%	24.3%	21.9%
Total	100%	100.0%	100.0%	100.0%	100.0%

On October 14 and 15, 2015, ASPI sold 9,863,277 and 4,036,723, respectively, of our common shares. On October 15, 2015, we bought back 37,276,580 investment shares, which we currently hold in treasury.

On January 19, 2017, our management approved the buyback of an additional 7,911,845 investment shares, which we currently hold in treasury.

On March 1, 2017, we spun-off a portion of the net assets (consisting of the assets and liabilities) related to Fosfatos del Pacífico S.A. to Fossal S.A.A. ("FOSSAL"), and as a result our capital stock was reduced by approximately S/107,593,030, from S/531,461,479 to S/423,868,449.

Differences in Voting Rights

Our major shareholders do not have different voting rights.

Securities Held in the Host Country

On February 7, 2012, we completed our initial public offering of 20,000,000 ADSs, each representing five common shares, in the United States. On March 2, 2012, we sold an additional 2,296,800 ADSs pursuant to an over-allotment option granted to the underwriters in that offering. Our ADSs are listed on the New York Stock Exchange. As of March 31, 2019, we estimate that there were 12,122,950 ADSs outstanding, which represented 14.3% of our common shares outstanding as of such date. As of December 31, 2019, the number of record holders of our common shares (or ADSs representing our common shares) that file Form 13-Fs in the United States was 13.

Arrangements for Change in Control

We are not aware of any arrangements that may, when in force, result in a change in control.

B. Related Party Transactions

Peruvian Law Concerning Related Party Transactions

Under Peruvian law, board members and executive officers of a publicly-held company may not (i) engage in transactions with the company or any related party of the company, except for transactions entered into in the ordinary course of business and on an arm's length basis, (ii) appropriate for their own benefit a business opportunity that belongs to the company, or (iii) participate in any transaction or decision that presents a conflict of interest with the company.

Peruvian law sets forth certain restrictions and limitations on transactions with certain related parties.

For instance, from a tax standpoint, the value of those transactions must be equal to the fair market value assessed under transfer pricing rules (*i.e.*, the value agreed to by non-related parties under the same or similar circumstances). Similarly, companies with securities registered in the Peruvian Public Registry of Securities (*Registro Público del Mercado de Valores*), such as us, are required to comply with the following rules:

- The directors and managers of the company cannot, without the prior authorization of the board of directors, (i) receive in the form of a loan money or assets of the company; or (ii) use, for their own benefit or for the benefit of related parties, assets, services or credits of the company.
- The execution of agreements that involve at least 5% of the assets of the company with persons or entities related to directors, managers or shareholders that own, directly or indirectly, 10% of the share capital, requires the prior authorization of the board of directors (with no participation of the director involved in the transaction, if any).
- The execution of agreements with a party controlled by the company's controlling shareholder requires the prior authorization of the board of directors and an evaluation of the terms of the transaction by an external independent company (audit companies or other to be determined by the Peruvian Securities Commission).

The external independent company that reviews the transaction should not be related to the parties involved therein, nor to directors, managers or shareholders that own at least 10% of the share capital of the company.

Related Party Transactions

As a general policy, we do not enter into transactions with related parties, including our board members and officers, on terms more favorable than what we would offer third parties. Any related party transaction we have entered into in the past has been in the ordinary course of business and on an arm's length basis.

As of December 31, 2019, we had an accounts receivable balance with ASPI, our controlling shareholder, in the amount of S/157 (US\$47).

The following transactions have been entered into by us with related parties:

- We lease a plot of land adjacent to our headquarters to our affiliate, Compañía Minera Ares S.A.C., a subsidiary of Hochschild Mining plc. We received rental payments of, S/336,000 in 2017, S/339,000 in 2018 and S/344,000 in 2019.
- We lease part of our headquarters as office space to ASPI and its affiliates. We received rental payments of, S/383,000 in 2017, S/ 368,000 in 2018 and S/378,000 in 2019.
- We provide back office management and administrative services to ASPI and its affiliates, for which we received S/1,560,000 in 2017, S/1,765,000 in 2018 and S/1,744,000 in 2019.
- We receive security services from our affiliate Compañía Minera Ares S.A.C., a subsidiary of Hochschild Mining plc. We paid a total of S/1,195,000 in 2017, S/2,059,000 in 2018 and S/1,989,000 in 2019 for these services.

ASPI and Hochschild Mining plc are majority-owned and controlled, directly and indirectly, by Mr. Eduardo Hochschild.

For more information about our related-party transactions please see note 26 to our annual consolidated financial statements included elsewhere in this annual report.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information.

See Item 19. — Exhibits.

Legal and Administrative Proceedings

From time to time, we may become subject to various legal and administrative proceedings that are incidental to the ordinary conduct of our business. We are currently not party to any material legal or administrative proceedings.

Dividends and Dividend Policy

Our ability to pay dividends is subject to our results of operations for each year. Holders of our common shares and investment shares are entitled to receive dividends on a pro rata basis in accordance with their respective number of shares held.

Under our dividend policy, shareholders must take the following factors into consideration prior to declaring dividends: our financial and economic condition, including committed and budgeted expenses and obligations, and previously approved investments. In addition, our dividend policy states that (a) our board of directors may declare advanced dividends based on either the net income resulting from financial statements prepared for such purpose or the cumulative net income corresponding to previous years, provided that shareholders delegated such authority to the board of directors, and (b) holders of common shares representing no less than 20% of our total share capital may request the distribution of dividends up to 50% of the net income corresponding to the previous year, net of any legal reserve requirements. Our board of directors makes a recommendation at the annual shareholders' meeting with respect to the amount and timing of dividend payments, if any, to be made on our common shares and investment shares.

Under Peruvian law, companies may distribute up to 100% of their profit (after payment of income tax) subject to a 10% legal reserve until the legal reserve equals 20% of shareholders' equity. According to Article 40 of the Peruvian Corporate Law, in order to distribute dividends, profits must be determined in accordance with the individual financial statements of the company.

Payment of Dividends

Dividends are paid to holders of our common shares and investment shares, as of a record date determined by us. In order to allow for the settlement of securities, under the rules of the Peruvian Securities Commission, investors who purchase shares of a publicly-held company three business days prior to a dividend payment date do not have the right to receive such dividend payment. Dividends on issued and outstanding common shares and investment shares are distributed pro rata.

Holders of common shares and investment shares are not entitled to interest on accrued dividends. In addition, under Article 232 of the Peruvian Corporate Law, the right to collect accrued dividends declared by a publicly-held company expires 10 years from the original dividend payment date.

Previous Dividend Payments

The following table sets forth the amounts of cash dividends declared and paid from 2012 through the date hereof for our common shares and our investment shares.

Year ended December 31,	Dividends declared and paid	Per share (in S/)
2019	154,118,465	0.36000
2018	161,396,280	0.38000
2017	149,837,396	0.35000
2016	155,236,000	0.28500
2015	162,950,000	0.28000
2014	116,393,000	0.20000
2013	58,196,000	0.10000

B. Significant Changes

We are not aware of any changes bearing upon our financial condition since the date of the financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Market Price of Our Common Shares and ADSs

Our ADSs

On February 7, 2012, we completed our initial public offering of 20,000,000 ADSs, each representing five common shares, in the United States. On March 2, 2012, we sold an additional 2,296,800 ADSs pursuant to an over-allotment option granted to the underwriters in that offering.

Our ADSs are listed on the New York Stock Exchange under the symbol "CPAC."

Our Shares

Our common shares and our investment shares are registered in the Public Registry of Securities held with the Peruvian Securities Commission and are listed on the Lima Stock Exchange under the symbols “CPACASC1” and “CPACASC11,” respectively. Historically, the trading volume of our investment shares on the Lima Stock Exchange has been limited.

(in S/)	Common shares		Investment shares	
	High	Low	High	Low
2014	6.50	4.70	4.00	2.50
2015	5.45	3.57	2.60	2.25
2016	6.70	4.27	4.70	2.13
2017	8.59	5.96	6.80	4.20
2018	8.45	6.28	6.70	5.00
2019	6.83	5.50	5.00	3.90

B. Plan of Distribution

Not applicable.

C. Markets

Trading in the Peruvian securities market

The Lima Stock Exchange

As of December 31, 2019, there were 273 companies with securities listed on the Lima Stock Exchange. Established in 1970, the Lima Stock Exchange is Peru’s only securities exchange. On November 19, 2003, the members of the Lima Stock Exchange approved to convert its corporate status to a publicly held corporation effective as of January 1, 2003. As of December 31, 2019, The Lima Stock Exchange had a share capital of S/182,092,340, divided into 173,659,481 class “A” shares and 8,432,859 class “B” shares of par value S/1.00 each. Class “A” shares are entitled to one vote per share while class “B” shares do not have voting rights. As of December 31, 2019, the Lima Stock Exchange had 241 shareholders. On March 2020, after its annual review, FTSE announced that, since there is only one Peruvian stock in the FTSE Global All Cap index, it fails the new minimum investable market cap and securities count requirement criterion. As a result, Peru will be reclassified from Secondary Emerging market to Frontier market status effective from September 2020.

Trading on the Lima Stock Exchange is primarily done on an electronic trading system that became operational in August 1995. From the first Monday of November through the second Sunday of March of each year, trading hours are Monday through Friday (except holidays) as follows: 8:20 a.m.-8:30 a.m. (pre-market ordering); 8:30 a.m.-2:55 p.m. (trading); 2:55 p.m.-3:00 p.m. (after-market sales); and 3:00 p.m.-3:10 p.m. (after-market trading). At all other times, trading hours are from Monday to Friday (except holidays) as follows: 9:00 a.m.-9:30 a.m. (pre-market ordering); 9:30 a.m.-3:55 p.m. (trading); 3:55 p.m.-4:00 p.m. (after-market sales); and 4:00 p.m.-4:10 p.m. (after-market trading).

Transactions during the electronic sessions are executed through brokerage firms and stock brokers on behalf of their clients. Brokers submit orders in the order in which they are received. The orders must specify the type of security as well as the amount and price of the proposed sale or purchase. In order to control price volatility, for Peruvian companies there are volatility auctions for variations of +/- 7% during trading session and +/- 4% during the last half-hour of continuous trading, when a stock reaches the 15% limit there is an auction and a consequent price formation. For non-Peruvian companies there is no limit because it is the price in the foreign market the main reference.

Regulation of the Peruvian Securities Market

The Securities Market Law regulates certain securities matters, such as transparency and disclosure, corporate takeovers, capital market instruments and operations, the securities markets and broker-dealers, and credit-rating agencies. In 1996, the Peruvian Securities Commission, “*Superintendencia del Mercado de Valores – SMV*”, formerly known as the National Supervisory Commission for Securities and Companies (*Comisión Nacional Supervisora de Empresas y Valores*, or “CONASEV”), was given additional responsibilities relating to the supervision, regulation and development of the securities market, while the Lima Stock Exchange was granted the status of a self-regulatory organization. Additionally, a unified system of guarantees and capital requirements was established for the Lima Stock Exchange.

Pursuant to Law No. 29,782, published in the Peruvian Official Gazette, *El Peruano*, on July 28, 2011, the Peruvian Securities Commission is a governmental entity reporting to Peru’s Ministry of Economy and Finance with functional, administrative, economic, technical and budgetary autonomy.

The Peruvian Securities Commission is governed by the Superintendent and a five board-members confirmed by the Superintendent (who acts as President of the board) and four members appointed by the Peruvian Executive Power (one suggested by the Ministry of Economy and Finance, one suggested by the Peruvian Central Reserve Bank, one suggested by the Peruvian Superintendence of Banking, Insurance and Private Pension Funds and one independent member). The Peruvian Securities Commission has broad regulatory powers, including reviewing, promoting, and making rules regarding the securities market, supervising its participants, and approving the registration of public offerings of securities.

The Peruvian Securities Commission supervises the securities markets and the dissemination of information to investors. It also (i) governs the operations of the Public Registry of Securities, (ii) regulates mutual funds, publicly placed investment funds and their respective management companies and broker-dealers, (iii) monitors compliance with accounting regulations by companies under its supervision as well as the accuracy of financial statements and (iv) registers and supervises auditors who provide accounting services to those companies registered with the Peruvian Securities Commission.

Pursuant to the Securities Market Law, broker-dealers must maintain a guarantee fund. This guarantee fund must be managed by an entity supervised by the Peruvian Securities Commission. Contributions to the guarantee fund must be made by the 25 broker-dealers that are members of the Lima Stock Exchange and are based on the volume traded over the exchange. In addition to the guarantee fund managed, each broker-dealer is required to maintain a guarantee in favor of the Peruvian Securities Commission to guarantee any liability that broker-dealers may have with respect to their clients. Such guarantees are generally established through letters of credit issued by local banks.

Disclosure Obligations

Issuers of securities registered with the Peruvian Securities Commission are required to disclose material information relating to the issuer. Pursuant to the Securities Market Law and relevant regulations enacted thereunder, all material information in connection with the issuer of registered securities (such as our common shares and investment shares), its activities or securities issued or secured by such issuer which may influence the liquidity or price of such securities must be disclosed. Accordingly, issuers must file with the Peruvian Securities Commission mainly two types of information: (a) financial information, including interim unaudited financial statements on a quarterly basis (which are not required to be subject to limited review), and annual audited consolidated financial statements on an annual basis, and (b) material information relating to the issuer and its activities that may significantly affect the price, offering or negotiation of the issued securities, and in general, all the information that may be relevant for investors to be able to make investment decisions.

In order to comply with the foregoing disclosure obligations, issuers must disclose reaffirmation to the Peruvian Securities Commission and, if the securities are listed, with the Lima Stock Exchange as soon as practicable but not later than one business day after having become aware of such information.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The information set forth in Exhibit 2(d), “Description of Securities Registered under Section 12(b) of the Exchange Act” is incorporated herein by reference.

C. Material Contracts

On December 31, 2007, we entered into a contract for the general management and provision of services with ASPI, pursuant to which we provide legal and corporate services to it. See “Item 7. Major Shareholders and Related Party Transactions—A. Related Party Transactions.”

On February 1, 2008, we entered into a surface rights agreement with Compañía Minera Ares S.A.C., pursuant to which we lease a plot of land adjacent to our headquarters to our affiliate, Compañía Minera Ares S.A.C., a subsidiary of Hochschild Mining plc. See “Item 7. Major Shareholders and Related Party Transactions—A. Related Party Transactions.”

On June 30, 2008, we entered into a property lease agreement with ASPI pursuant to which we lease part of our headquarters as office space to ASPI. See “Item 7. Major Shareholders and Related Party Transactions—A. Related Party Transactions.”

On June 3, 2010, we entered into a long-term electricity supply agreement with Electroperú, a government-owned company, which expires in July 2020, to serve the electricity requirements of our Pacasmayo facility. Electroperú has agreed to provide us with sufficient energy to operate our Pacasmayo facility at pre-determined maximum amounts during the term of the contract. Payments for electricity are based on a formula that takes into consideration our energy consumption and certain market variables, such as the U.S. purchase price index, the global price of oil, the local price of natural gas and the import price of bituminous coal. We entered into an addendum to this agreement, effective February 1, 2020, which extends the term of the agreement until May 31, 2026. See “Item 4. Information on the Company—A. History and Development of the Company—Raw Materials and Energy Sources.”

On February 8, 2013, we issued US\$300,000,000 of our 4.50% Senior Notes due 2023, in our inaugural international bond offering, pursuant to an indenture. A portion of the proceeds were used to prepay amounts outstanding our secured loan agreement with BBVA Banco Continental, and the remaining proceeds were used to cover a portion of the capital expenditures in connection with the construction and development of the new Piura plant and our cement business. See “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources.”

On January 31, 2019, we issued S/ 570,000,000 of Senior Notes in two issuances. One for S/ 260 million with a rate of 6.68750% for a term of 10 years, and another for S/ 310 million with a term of 15 years and a rate of 6.84375%. The proceeds were used to purchase a portion of the US\$ 300,000,000 of our Senior Notes due 2023.

On August 29, 2018, we signed a gas supply agreement with Olympic Peru that entered in force during 2019 for the supply of gas to our Piura plant. The supply agreement of gas is for a term of 18 years to cover most of our energy needs in the mentioned plant. The contract has two phases: 1) a spot phase, during which we pay for the gas we use, and the agreement may be terminated at any time by either party without penalties, and 2) a take or pay phase, during which we are obliged to pay for a minimum amount of gas established as a percentage (varying from 60% to 70% depending on the year) of the maximum amount of gas purchased by us from Olympic Peru during the spot phase, and penalties apply if either party terminates the agreement. The unit prices of the gas are fixed for each year during both phases. We are currently in the spot phase. The take or pay phase will commence, when the following conditions are met by Olympic: (i) the Peruvian government signs a distribution contract of gas with a third-party concessionaire (ii) Olympic transfers the pipe to such concessionaire, and (iii) commercial conditions to transport the gas between Olympic Peru and such concessionaire are agreed. These conditions are not under our control and we cannot reasonably estimate when they will be met.

D. Exchange Controls

Since August 1990, there have been no exchange controls in Peru and all foreign exchange transactions are based on free market exchange rates. Prior to August 1990, the Peruvian foreign exchange market consisted of several alternative exchange rates. Additionally, during the 1990s, the Peruvian currency experienced a significant number of large devaluations, and Peru has consequently adopted, and operated under, various exchange rate control practices and exchange rate determination policies, ranging from strict control over exchange rates to market determination of rates. Current Peruvian regulations on foreign investment allow the foreign holders of equity shares of Peruvian companies to receive and repatriate 100 percent of the cash dividends distributed by such companies. Such investors are allowed to purchase foreign exchange at free market currency rates through any member of the Peruvian banking system and transfer such foreign currency outside Peru without restriction.

E. Taxation

The following summary contains a description of certain Peruvian and United States federal income tax consequences of the acquisition, ownership and disposition of common shares or ADSs, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase common shares or ADSs. The summary is based upon the tax laws of Peru and regulations thereunder and on the tax laws of the United States and regulations thereunder as in effect on the date hereof, which are subject to change.

Prospective holders of common shares or ADSs should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of common shares or ADSs in their particular circumstances.

Peruvian Tax Considerations

The following are the principal tax consequences of ownership of common shares or ADSs by non-resident individuals or entities (“Non-Peruvian Holders”) as of the date hereof. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming. Any such changes or interpretations could affect the tax consequences to holders of common shares or ADSs and could alter or modify the conclusions set forth herein. This summary is not intended to be a comprehensive description of all the tax consequences of acquisition, ownership and disposition of common shares or ADSs and does not describe any tax consequences arising under the laws of any taxing jurisdiction other than Peru or applicable to a resident of Peru or to a person with a permanent establishment in Peru.

For purposes of Peruvian taxation:

- individuals are residents of Peru, if they are Peruvian nationals who have established their principal place of residence in Peru or if they are foreign nationals with a permanence in Peru of 183 days in any 12-month period (the condition of Peruvian resident can only be acquired as of the 1st of January of the year following the fulfillment of residence conditions); and
- legal entities are residents of Peru if they are established or incorporated in Peru.

Changes to Peruvian tax law

In December 2016, the Peruvian government approved an increase of the income tax rate from 28% to 29.5% to be effective from 2017 onwards.

Cash Dividends and Other Distributions

Cash dividends paid with respect to common shares and amounts distributed with respect to ADSs are currently subject to a Peruvian withholding tax, at a rate of 6.8% of the dividend paid. As a general rule, the distribution of additional common shares representing profits, distribution of shares which differ from the distribution of earnings or profits, as well as the distribution of preemptive rights with respect to common shares, which are carried out as part of a pro rata distribution to shareholders, will not be subject to Peruvian tax or withholding taxes.

Capital Gains

Pursuant to Article 6 of the Peruvian income tax law, individuals and entities resident in Peru are subject to Peruvian income tax on their worldwide income while Non-Peruvian Holders are subject to Peruvian income tax on Peruvian source income only.

The general rule of the Law of Income Tax in Peru provides that income derived from the disposal of securities issued by Peruvian entities is considered Peruvian source income and is therefore subject to income tax. Peruvian income tax law also provides that capital gains resulting from the disposal of ADSs that represent shares issued by Peruvian entities are considered Peruvian source income and therefore also subject to Peruvian income tax. Peruvian income tax law also provides that taxable income resulting from the disposal of securities is determined by the difference between the sale price of the securities at market value and the tax basis.

Notwithstanding the foregoing, capital gains resulting from the disposal of ADSs or beneficial interest in ADSs that represent shares issued by a Peruvian entity are not considered Peruvian source income as long as the ADSs issued by the foreign depository are held in the name of a nominee and such ADSs are not transferred to a third party as a result of the disposal of the ADSs.

In the event ADSs are exchanged into common shares and such common shares are disposed of, capital gains resulting therefrom will be subject to an income tax rate of either 5% or 30%, depending on where the transaction takes place. If the transaction is consummated in Peru, the income tax rate is 5%; if the transaction is consummated outside of Peru, capital gains are taxed at a rate of 30%. Peruvian income tax law regulations have stated that transactions are deemed to be consummated in Peru if the common shares are transferred through the Lima Stock Exchange. Any gain resulting from the conversion of ADSs into common shares or common shares into ADSs will not be subject to taxation in Peru.

Any Non-Peruvian Holder who acquires common shares will have the following tax basis: (i) for common shares purchased by the transferor, the acquisition price paid for the shares; (ii) for common shares received by the transferor as a result of a share capital increase because of a capitalization of net profits, the face or nominal value of such common shares; (iii) for other common shares received free of any payment, the stock market value of such shares if listed on the Lima Stock Exchange or, if not, the face or nominal value of such common shares and (iv) for common shares of the same type acquired at different opportunities and at different values, the tax basis will be the weighted average cost. In cases where common shares are sold by Non-Peruvian Holders outside the Lima Stock Exchange, the tax basis must be certified by the Peruvian tax administration prior to the time payment is made to the transferor; otherwise it would not be possible to deduct the tax basis and a 30% Peruvian income tax would apply to the total sale price. Under Peruvian income tax law, tax basis certification is granted by the tax authorities within 30 days from the date of the application (which application must contain supporting evidence with respect to the tax basis) is made by the transferor. If the tax authorities do not respond within such 30 day period, the tax basis presented for approval by the transferor is deemed automatically approved.

On December 31, 2010, Law No. 29645 was enacted and took effect from January 1, 2011. This law states that in transactions relating to Peruvian securities through the Lima Stock Exchange, CAVALI S.A. ICLV (the Peruvian clearing house) will act as withholding agent to the extent that such transactions are settled in cash through CAVALI's account (*liquidación en efectivo*). The implementing regulations of Law No. 29645 enacted on July 9, 2011 provide that CAVALI began acting as a withholding agent as from November 1, 2011. As a result, while such regulations do not apply to securities transferred through the Lima Stock Exchange by a Non-Peruvian Holder, such transferor must still self-assess and pay its income tax liability directly to Peruvian tax authorities within the first 12 working days following the month in which Peruvian source income was earned. With respect to transactions of Peruvian securities conducted through the Lima Stock Exchange that are settled directly without CAVALI's intervention (*liquidación directa*), Non-Peruvian Holders are required to self-assess and pay income taxes directly to the Peruvian tax authorities within the first 12 working days following the month in which income from a Peruvian source was earned. Finally, if the purchaser is resident in Peru and the sale is not performed through the Lima Stock Exchange, the purchaser will act as withholding agent.

Nevertheless, Law No. 30341 was enacted on December 12, 2015 and took effect on January 1, 2016, and Legislative Decree No. 1262, which complements Law No. 30,341 took effect on January 1, 2017. Such law, which will be in effect until December 31, 2019, regulates an exception to a general rule. However, its effect was extended until December 31, 2022 by Emergency Decree 005-2019. The exemption regulated in the law applies to the income from the sale of shares and other securities representing shares made through a centralized negotiation mechanism supervised by the Superintendence of Securities, where the shares do not represent 10% or more of the shares issued by a specific company.

Law No. 30341 and the amendment through Legislative Decree No. 1262 and Emergency Decree 005-2019 include the following provisions:

- Securities covered by the exemption:
 - Ø American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs);
 - Ø Exchange Trade Fund (ETF) units having underlying shares and / or debt securities as underlying;
 - Ø Debt securities;
 - Ø Certificates of participation in mutual funds for investment in securities;
 - Ø Certificates of participation in Investment Fund in Real Estate Income (FIRBI) and certificates of participation in Trust for Securitization for Investment in Real Estate Income (FIBRA); and
 - Ø Negotiable invoices.
- Requirements for apply the exemption:
 - Ø No transfer of 10% or more of the shares or securities representing shares in a period of twelve (12) months. In the case of ADRs and GDRs, this requirement will be determined by considering the underlying shares;
 - Ø In the case of shares or securities representing shares, the calculation of the percentage shall be determined based on the total number of shares of capital or account of investment shares at the time of disposal;
 - Ø The law indicates those operations to be considered for calculating this percentage, as well as those that do not;
 - Ø The securities must have a stock market presence. To determine if the securities have a stock market presence, the following shall be taken into account;
 - Ø Within 180 business days prior to the transfer, the number of days in which the daily-negotiated amount has exceeded the limit established in the regulation shall be determined. This limit cannot be less than six (6) Tax Units (ITU) and will be established considering the volume of transactions that take place in the centralized negotiation mechanisms;
 - Ø The number of days determined according to what is indicated in the previous section will be divided between 180 and multiplied by 100; and
 - Ø The result cannot be less than the limit established by the regulation. This limit cannot exceed thirty-five percent (35%)
 - Ø Those responsible for conducting centralized trading mechanisms must disseminate on their web pages the list of the securities that comply with having a presence in the stock market.
- Loss of exoneration:
 - Ø If, after applying the waiver, the issuer delivers the values of the Securities Registry of the Stock Exchange, in whole or in part, in an act or progressively, within the 12 months following the sale, the exoneration applied with respect to the values listed; and
 - Ø Those responsible for conducting the centralized trading mechanisms must notify SUNAT, in accordance with the procedure set forth in the regulations, of the securities whose registrations are canceled within 12 months of the sale.

Other Considerations

No Peruvian estate or gift taxes are imposed on the gratuitous transfer of ADSs or common shares. No stamp, transfer or similar tax applies to any transfer of ADSs or common shares, except for commissions payable by seller and buyer to the Lima Stock Exchange (0.15% of value sold), fees payable to the Peruvian Securities Commission (0.05% of value sold), brokers' fees (about 0.05% to 1% of value sold) and Value Added Tax (at the rate of 18%) on commissions and fees. Any investor who sells its common shares on the Lima Stock Exchange will incur these fees and taxes upon purchase and sale of the common shares.

United States Federal Income Tax Considerations

The following are the material United States federal income tax consequences as of the date hereof to a United States Holder (as defined below) of the acquisition, ownership and disposition of our common shares and ADSs. Except where noted, this summary deals only with common shares and ADSs held as capital assets (generally, property held for investment). As used herein, the term "United States Holder" means a beneficial owner of common shares or ADSs that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust, or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;
- a person holding our common shares or ADSs as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a person who owns or is deemed to own 10% or more of our stock (by vote or value);
- a partnership or other pass-through entity for United States federal income tax purposes;

- a person required to accelerate the recognition of any item of gross income with respect to our common shares or ADSs as a result of such income being recognized on an applicable financial statement; or
- a person whose “functional currency” is not the U.S. dollar.

The discussion below is based upon the provisions of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in United States federal income tax consequences different from those discussed below. There is currently no income tax treaty between the United States and Peru that would provide for United States federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made by the depositary to us and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) holds our common shares or ADSs, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common shares or ADSs, you should consult your tax advisors.

This summary does not address the Medicare tax on net investment income or the effects of any state, local or non-United States tax laws. If you are considering the acquisition, ownership or disposition of our common shares or ADSs, you should consult your own tax advisors concerning the United States federal income tax consequences to you in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.

ADSs

If you hold ADSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying common shares that are represented by such ADSs. Accordingly, deposits or withdrawals of common shares for ADSs will not be subject to United States federal income tax.

Taxation of Dividends

The gross amount of distributions on the ADSs or common shares (including amounts withheld to reflect Peruvian withholding taxes) will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles.

To the extent that the amount of any distribution (including amounts withheld to reflect Peruvian withholding taxes) exceeds our current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the ADSs or common shares, and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. However, we do not expect to keep earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend. Such dividends (including withheld taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of the common shares, or by the depositary, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

With respect to non-corporate United States Holders, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A non-United States corporation is treated as a qualified foreign corporation with respect to dividends received from that corporation on common shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. United States Treasury Department guidance indicates that our ADSs, which are listed on the New York Stock Exchange, but not our common shares, are readily tradable on an established securities market in the United States. Thus, we believe that dividends we pay on our common shares that are represented by ADSs, but not our common shares that are not so represented, will meet such conditions required for the reduced tax rates. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. Non-corporate United States Holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as “investment income” pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of these rules given your particular circumstances.

The amount of any dividend paid in *soles* will equal the U.S. dollar value of the *soles* received, calculated by reference to the exchange rate in effect on the date the dividend is actually or constructively received by you, in the case of the common shares, or by the depositary, in the case of ADSs, regardless of whether the *soles* are converted into U.S. dollars at that time. If the *soles* received as a dividend are converted into U.S. dollars on the date they are received, you generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. If the *soles* received as a dividend are not converted into U.S. dollars on the date of receipt, you will have a tax basis in the *soles* equal to their U.S. dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the *soles* will be treated as United States source ordinary income or loss.

Subject to certain conditions and limitations, Peruvian withholding taxes on dividends may be treated as foreign taxes eligible for credit against your United States federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the ADSs or common shares will be treated as foreign source income and will generally constitute passive category income. However, in certain circumstances, if you have held the ADSs or common shares for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for any Peruvian withholding taxes imposed on dividends paid on the ADSs or common shares. If you do not elect to claim a United States foreign tax credit, you may instead claim a deduction for Peruvian income tax withheld, but only for a taxable year in which you elect to do so with respect to all foreign income taxes paid or accrued in such taxable year. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Taxation of Capital Gains

For United States federal income tax purposes, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of ADSs or common shares in an amount equal to the difference between the amount realized for the ADSs or common shares and your tax basis in the ADSs or common shares. Such gain or loss will generally be capital gain or loss. Capital gains of non-corporate United States Holders derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

If Peruvian income tax is withheld on the sale or other disposition of our ADSs or common shares, your amount realized will include the gross amount of the proceeds of that sale or other disposition before deduction of the Peruvian income tax. Any gain or loss recognized by you will generally be treated as United States source gain or loss. Consequently, in the case of gain from the disposition of ADSs or common shares that is subject to Peruvian income tax, you may not be able to benefit from the foreign tax credit for that Peruvian income tax (*i.e.*, because the gain from the disposition would be United States source), unless you can apply the credit (subject to applicable limitations) against United States federal income tax payable on other income from foreign sources. Alternatively, you may take a deduction for the Peruvian income tax if you do not take a credit for any foreign taxes paid or accrued during the taxable year. You are urged to consult your tax advisors regarding the tax consequences if Peruvian income tax is imposed on a disposition of ADSs or common shares, including the availability of the foreign tax credit under your particular circumstances.

Passive Foreign Investment Company

We do not believe that we are, for United States federal income tax purposes, a passive foreign investment company (“PFIC”), and we expect to operate in such a manner so as not to become a PFIC. If, however, we are or become a PFIC, you could be subject to additional United States federal income taxes on gain recognized with respect to the ADSs or common shares and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules. Non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us (as discussed above under “Taxation of Dividends”), if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

Information Reporting and Backup Withholding

In general, information reporting will apply to dividends in respect of our ADSs or common shares and the proceeds from the sale, exchange or other taxable disposition of our ADSs or common shares that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. Backup withholding may apply to such payments if you fail to provide a taxpayer identification number or certification of exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the Internal Revenue Service in a timely manner.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership or disposition of our ADSs or common shares. You should consult your own tax advisors concerning the overall tax consequences to you, including the consequences under laws other than United States federal income tax laws, of an investment in our ADSs or common shares.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We make our filings in electronic form under the EDGAR filing system of the SEC. Our filings are available through the EDGAR system at www.sec.gov. In addition, our filings are available to the public over our website www.cementospacasmayo.com.pe. Such filings and other information on our website are not incorporated by reference in this annual report. You may request a copy of this filing, and any other report, at no cost, by writing to us at the following address or telephoning us:

Investor Relations Department
Calle La Colonia 150,
Urbanización El Vivero, Surco,
Lima, Peru.
Tel.: + (511) 317-6000
E-mail: cbustamante@cpsaa.com.pe

I. Subsidiary Information

See note 1 to our annual audited consolidated financial statements included in this annual report for a description of our subsidiaries.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a description of our market risks, see note 31 to our consolidated financial statements included in this annual report.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and expenses

JPMorgan Chase Bank, N.A., as depositary, pursuant to our Deposit Agreement, dated as of February 7, 2012, and the amendment dated February 21, 2017 (as so amended the “Deposit Agreement”), may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of common shares, issuances in respect of common share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities or whose ADSs or American Depositary Receipts representing ADSs (“ADRs”) are cancelled or reduced for any other reason, US\$5.00 for each 100 ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, as the case may be. The depositary may sell (by public or private sale) sufficient securities and property received in respect of a common share distribution, rights and/or other distribution prior to such deposit to pay such charge.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing common shares or by any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADRs or the deposited securities or a distribution of ADSs), whichever is applicable:

- a fee of US\$1.50 per ADR or ADRs for transfers of certificated or direct registration ADRs;
- a fee of US\$0.05 or less per ADS for any cash distribution made pursuant to the deposit agreement;
- a fee of US\$0.05 or less per ADS per calendar year (or portion thereof) for services performed by the depositary in administering the ADRs (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);
- reimbursement of such fees, charges and expenses as are incurred by the depositary and/or any of the depositary’s agents (including, without limitation, the custodian and expenses incurred on behalf of holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the common shares or other deposited securities, the delivery of deposited securities or otherwise in connection with the depositary’s or its custodian’s compliance with applicable law, rule or regulation (which charge shall be assessed on a proportionate basis against holders as of the record date or dates set by the depositary and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions);
- a fee for the distribution of securities (or the sale of securities in connection with a distribution), such fee being in an amount equal to US\$0.05 per ADS issuance fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were common shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the depositary to those holders entitled thereto;
- stock transfer or other taxes and other governmental charges;
- cable and facsimile transmission and delivery charges incurred at your request in connection with the deposit or delivery of common shares;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities; and
- expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars.

We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The charges described above may be amended from time to time by agreement between us and the depositary.

Our depositary has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADR program, including investor relations expenses and exchange application and listing fees. The amounts of reimbursements available to us are not based upon the amounts of fees the depositary collects from investors. The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing common shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting on their behalf. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary will generally set off the amounts owing from distributions made to holders of ADSs. If, however, no distribution exists and payment owing is not timely received by the depositary, the depositary may refuse to provide any further services to holders that have not paid those fees and expenses owing until such fees and expenses have been paid. At the discretion of the depositary, all fees and charges owing under the deposit agreement are due in advance and/or when declared owing by the depositary.

The Deposit Agreement is incorporated by reference as Exhibit 2.2 to this annual report, and Amendment No. 1 thereto is incorporated by reference in this annual report as Exhibit 2.2A. We encourage you to review these documents carefully if you are a holder of ADRs.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

A. Disclosure Controls and Procedures

As of the end of the period covered by this annual report, the Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2019, the design and operation of our disclosure controls and procedures were effective at the reasonable assurance level.

B. Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not necessarily prevent or detect some misstatements. It can only provide reasonable assurance regarding financial statement preparation and presentation. Also, projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate over time.

Management assessed the effectiveness of its internal control over financial reporting for the year ended December 31, 2019. The assessment was based on criteria established in the framework "Internal Controls—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (COSO). Based on this assessment, our management has concluded that as of December 31, 2019, our internal control over financial reporting was effective.

The effectiveness of internal control over financial reporting as of December 31, 2019, has been audited by Paredes, Burga & Asociados SCRL, member firm of EY (formerly Ernst & Young), an independent registered public accounting firm, as stated in their attestation report, which is included under "Item 15—Controls and Procedures—C. Attestation Report of Independent Registered Public Accounting Firm."

C. Report of the Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Cementos Pacasmayo S.A.A. and subsidiaries.

Opinion on Internal Control over Financial Reporting

We have audited Cementos Pacasmayo S.A.A. and subsidiaries internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Cementos Pacasmayo S.A.A. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Company as of December 31, 2019 and 2018, the related consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated April 29, 2020, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards, as issued by the International Accounting Standard Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standard Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Paredes, Burga & Asociados Sociedad Civil de Responsabilidad Limitada
A member practice of
Ernst & Young Global Limited

/s / Cristian Emmerich
Paredes, Burga & Asociados Sociedad Civil de Responsabilidad Limitada

Lima, Peru,
April 29, 2020

D. Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required under Rules 13a-15 or 15d-15 that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Ms. Hilda Ochoa-Brillembourg and Mr. Marco Antonio Zaldívar, members of the audit committee, are "financial experts," as such term is defined in the SEC rules. We have determined that Ms. Hilda Ochoa-Brillembourg and Mr. Felipe Ortiz de Zevallos and Mr. Marco Antonio Zaldívar are independent under the standards of the New York Stock Exchange listing rules and Rule 10A-3 under the Exchange Act.

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our directors, officers and employees. Our code of ethics is available on our website <http://www.cementospacasmayo.com.pe>. Information on our website is not incorporated by reference in this annual report.

If we make any substantive amendment to our code of ethics or if we grant any waivers, including any implicit waiver, from a provision of the code of ethics, we will disclose the nature of such amendment or waiver by filing a current report on a Form 6-K or in our subsequent annual report on Form 20-F to be filed with the SEC. During the year ended December 31, 2019, no such amendment was made nor did we grant any waiver to any provision of our code of ethics.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES***Audit and Non-Audit Fees***

The following table presents the aggregate fees for professional services and other services rendered by our independent auditors, Paredes, Burga & Asociados SCRL, member firm of EY (formerly Ernst & Young), responsible for auditing the annual consolidated financial statements included in the annual report, during the fiscal years ended December 31, 2019 and 2018.

(in thousands of S/)	Year Ended December 31,	
	2019	2018
Audit fees	1,138	1,130
Tax fees	302	247
Total fees	1,440	1,377

Audit fees in the above table are the aggregate fees billed and billable by our independent auditors in connection with the audit of our annual consolidated financial statements and review of our quarterly financial information.

Tax fees in the above table are fees billed relating to tax compliance services.

Our audit committee is responsible for the oversight of the independent auditors and has established pre-approval procedures for the engagement of its independent registered public accounting firm for audit and non-audit services. Such services can only be contracted if they are approved by the audit committee, they comply with the restriction provided under applicable rules and they do not jeopardize the independence of our auditors.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

We are a “foreign private issuer” within the meaning of the New York Stock Exchange corporate governance standards. Under New York Stock Exchange rules, a foreign private issuer may elect to comply with the practices of its home country and not to comply with certain corporate governance requirements applicable to U.S. companies with securities listed on the exchange.

We currently follow certain Peruvian practices concerning corporate governance and intend to continue to do so. There are significant differences in the Peruvian corporate governance practices as compared to those followed by United States domestic companies under the New York Stock Exchange’s listing standards.

The New York Stock Exchange listing standards provide that the board of directors of a U.S. listed company must have a majority of independent directors at the time the company ceases to be a “controlled company.” Under Peruvian corporate governance practices, a Peruvian company is not required to have a majority of independent members on its board of directors.

The listing standards for the New York Stock Exchange also require that U.S. listed companies, at the time they cease to be “controlled companies,” have a nominating/corporate governance committee and a compensation committee (in addition to an audit committee). Each of these committees must consist solely of independent directors and must have a written charter that addresses certain matters specified in the listing standards. Under Peruvian law, a Peruvian company may, but is not required to, form special governance committees, which may be composed partially or entirely of non-independent directors.

In addition, New York Stock Exchange rules require the independent non-executive directors of U.S. listed companies to meet on a regular basis without management being present. There is no similar requirement under Peruvian law.

The New York Stock Exchange’s listing standards also require U.S. listed companies to adopt and disclose corporate governance guidelines. In November 2013, the Peruvian Securities Commission and a committee comprised of regulatory agencies and associations prepared and published a list of suggested non-mandatory corporate governance guidelines called the “Good Corporate Governance Code for Peruvian Companies.” These principles are disclosed on the Peruvian Securities Commission web page at <http://www.smv.gob.pe/> and the Lima Stock Exchange web page at <http://www.bvl.com.pe>. Although we have implemented a number of these measures and are part of the Best Corporate Governance Practices Index of the Lima Stock Exchange, we are not required to comply with the referred corporate governance guidelines by law or regulation, only to disclose whether or not we are in compliance.

ITEM 16H. MINE SAFETY DISCLOSURE

NOT APPLICABLE

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

See our consolidated financial statements beginning at page F-1. Our financial statements have been prepared in accordance with IFRS as issued by the IASB.

ITEM 19. EXHIBITS

Exhibit Number	Description of Document
1.1	Amended and Restated By-laws of the Registrant, as currently in effect, incorporated by reference to Exhibit 1.1 of the Registrant's Annual Report on Form 20-F filed with the SEC on May 1, 2017 (File No. 001-35401)
2.1	Registrant's Form of American Depositary Receipt, incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form F-1 filed with the SEC on January 6, 2012 (File No. 333-178922)
2.2	Deposit Agreement dated January 19, 2012 among the Registrant, J.P. Morgan Chase N.A., as depositary, and the holders from time to time of American depositary shares issued thereunder, incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form F-1 filed with the SEC on January 6, 2012 (File No. 333-178922)
2.2A	Amendment No. 1, dated as of February 21, 2017, to the Deposit Agreement dated as of February 7, 2012, among the Registrant, J.P. Morgan Chase Bank, N.A., as depositary, and all holders from time to time of American depositary receipts issued thereunder, incorporated by reference to the Registrant's Registration Statement on Form F-6 filed with the SEC on February 21, 2017 (File No. 333-216152)
2.3	Indenture, dated as of February 8, 2013, among the Registrant, the Subsidiary Guarantors named therein and Deutsche Bank Trust Company Americas incorporated by reference to Exhibit 2.3 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2014 (File No. 001-35401)
2.4	Local bond issuance agreement (Contrato Marco de Emisión de Bonos Corporativos correspondiente al Segundo Programa de Bonos Corporativos de Cementos Pacasmayo S.A.A.) dated January 8, 2019, between Scotiabank Perú S.A.A. as administrative agent and Cementos Pacasmayo S.A.A. as issuer (English summary of principal terms), providing for the issuance of up to S/1,000,000,000 in one or more series, and related issuances of series 1 in an aggregate principal amount of S/260,000,000 and series 2 in an aggregate principal amount of S/310 million, incorporated by reference to Exhibit 2.4 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2019 (File No. 001-35401)
2(d)	Description of securities registered under Section 12(d) of the Exchange Act.
4.2	Contract of General Management and Provision of Services, dated December 31, 2007, between the Registrant and Inversiones ASPI S.A. (formerly Inversiones Pacasmayo S.A.), incorporated by reference to Exhibit 4.2 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012 (File No. 001-35401)
4.3	Property Lease Agreement, dated June 30, 2008, between the Registrant and Inversiones ASPI S.A. (formerly Inversiones Pacasmayo S.A.), incorporated by reference to Exhibit 4.3 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012 (File No. 001-35401)
4.4	Surface Rights Agreement, dated February 1, 2008, between the Registrant and Compañía Minera Ares S.A.C., incorporated by reference to Exhibit 4.4 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012 (File No. 001-35401)
4.5	Addendum, effective February 1, 2020, to the Power Supply Agreement, dated June 3, 2010, between the Registrant and Electrop Perú S.A. (English summary of principal terms)
4.6	Gas Supply Agreement, dated August 29, 2018, between the Registrant and Olympic Peru Inc. (English summary of principal terms)
6.1	Certificates of Independence of Independent Directors, incorporated by reference to Exhibit 6.1 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2019 (File No. 001-35401)
8.1	List of Subsidiaries incorporated by reference to Exhibit 8.1 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2016 (File No. 001-35401)
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1*	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Chief Executive Officer
13.2*	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Chief Financial Officer

* This certification will not be deemed "filed" for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on Form 20-F on its behalf.

CEMENTOS PACASMAYO S.A.A.

By: /s/ Humberto Nadal Del Carpio

Name: Humberto Nadal Del Carpio

Title: Chief Executive Officer

By: /s/ Manuel Bartolome Ferreyros Peña

Name: Manuel Bartolome Ferreyros Peña

Title: Chief Financial Officer

Date: April 30, 2020

Cementos Pacasmayo S.A.A. and Subsidiaries

Consolidated financial statements as of December 31, 2019 and 2018 together with the Independent Auditors' Report

Cementos Pacasmayo S.A.A. and Subsidiaries

Consolidated financial statements as of December 31, 2019 and 2018 together with the Independent Auditors' Report

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To the Shareholders and the Board of Directors of Cementos Pacasmayo S.A.A. and subsidiaries.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Cementos Pacasmayo S.A.A. and subsidiaries (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 29, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue recognition

Description of the Matter	At December 31, 2019, the Company’s revenue from the sale of cement, concrete and precast was S/(000)1,289,034. As discussed in Note 2.3.15 to the consolidated financial statements, revenue is recognized at the point in time when control of the goods is transferred to the customer, generally upon delivery. As the Company sells its products to a very large number of small distributors, management analyzes proper revenue recognition at year end, ensuring that only delivered goods are recognized as revenue. Auditing the Company’s proper revenue recognition at year end was complex and involved a high degree of auditor judgment because of the large number of small transactions and the complexity of management’s processes to ensure revenue was properly recognized.
How We Addressed the Matter in Our Audit	We obtained an understanding of the process, evaluated the design, and tested the operating effectiveness of controls over the Company’s process to determine the proper timing of revenue recognition, including management’s controls over the completeness and the accuracy of the financial data generated by its distribution centers. Our audit procedures included, among others, selecting a sample of recorded revenue transactions and obtaining source documents to evaluate management’s application of their accounting policy and tested revenue recognition for the performance obligations in the pertinent period. We analyzed sales activity before and after year-end and obtained explanations and supporting documentation for any unusual or unexpected sales activity. We tested the mathematical accuracy of management’s analysis of undelivered goods and the associated timing of revenue recognized in the financial statements. Further, we evaluated management’s significant accounting policies related to revenue recognition for reasonableness. We also evaluated the adequacy of the disclosure relating to revenue recognition in the notes to the consolidated financial statements.

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A member practice of
Ernst & Young Global Limited

/s/ Cristian Emmerich
Paredes, Burga & Asociados Sociedad Civil de Responsabilidad Limitada
We have served as the Company’s auditor since 2002.
Lima, Peru.
April 29, 2020

Cementos Pacasmayo S.A.A. and Subsidiaries

Consolidated statement of financial position
As of December 31, 2019 and 2018

	Note	2019 S/(000)	2018 S/(000)
Assets			
Current assets			
Cash and cash equivalents	6	68,266	49,067
Trade and other receivables	7	120,530	102,969
Income tax prepayments		30,191	36,748
Inventories	8	519,004	424,783
Prepayments		10,339	5,765
Total current assets		748,330	619,332
Non-current assets			
Trade and other receivables	7	4,681	4,532
Prepayments		151	342
Financial investments designated at fair value through other comprehensive income	9	18,224	26,883
Other financial instruments	30	-	12,268
Property, plant and equipment, net	10	2,100,682	2,152,724
Intangible assets	11	47,366	40,881
Goodwill	12	4,459	4,459
Deferred income tax assets	16	7,419	3,098
Other assets		246	105
Total non-current assets		2,183,228	2,245,292
Total assets		2,931,558	2,864,624
Liabilities and equity			
Current liabilities			
Trade and other payables	13	237,299	154,565
Financial obligations	15	98,774	60,822
Provisions	14	16,603	46,453
Total current liabilities		352,676	261,840
Non-current liabilities			
Financial obligations	15	1,003,130	1,022,555
Other financial instruments	30	1,302	-
Lease liabilities		57	-
Other non-current provisions	14	7,643	5,377
Deferred income tax liabilities	16	145,099	123,489
Total non-current liabilities		1,157,231	1,151,421
Total liability		1,509,907	1,413,261
Equity			
Capital stock	17	423,868	423,868
Investment shares		40,279	40,279
Investment shares holds in treasury		(121,258)	(121,258)
Additional paid-in capital		432,779	432,779
Legal reserve		168,636	168,356
Other accumulated comprehensive results		(19,853)	(11,946)
Retained earnings		497,200	519,285
Total equity		1,421,651	1,451,363
Total liability and equity		2,931,558	2,864,624

The accompanying notes are an integral part of these consolidated financial statements.

Cementos Pacasmayo S.A.A. and Subsidiaries

Consolidated statement of profit or loss
For the years ended December 31, 2019, 2018 and 2017

	Note	2019 S/(000)	2018 S/(000)	2017 S/(000)
Sales of goods	18	1,392,701	1,262,934	1,220,750
Cost of sales	19	(905,806)	(796,206)	(732,956)
Gross profit		486,895	466,728	487,794
Operating income (expenses)				
Administrative expenses	20	(174,482)	(172,141)	(195,617)
Selling and distribution expenses	21	(44,533)	(44,117)	(41,678)
Impairment on brine project	1.3	-	-	(47,582)
Other operating income (expense), net	23	2,645	(8,697)	(4,357)
Total operating expenses, net		(216,370)	(224,955)	(289,234)
Operating profit		270,525	241,773	198,560
Other income (expenses)				
Finance income	24	2,576	2,367	5,842
Finance costs	25	(77,986)	(87,338)	(73,759)
(Net loss) net gain on the valuation of trading derivative financial instruments		(1,491)	2,603	-
Cumulative net loss on settlement of derivative financial instruments	15	-	(34,887)	-
Gain (loss) from exchange difference, net	5	729	(8,377)	(2,226)
Total other expenses, net		(76,172)	(125,632)	(70,143)
Profit before income tax		194,353	116,141	128,417
Income tax expense	16	(62,306)	(40,995)	(47,032)
Profit for the year from continuing operations		132,047	75,146	81,385
Loss for the year from discontinued operations	1.2	-	-	(754)
Profit for the year		132,047	75,146	80,631
Attributable to:				
Equity holders of the parent		132,047	76,699	93,782
Non-controlling interests		-	(1,553)	(13,151)
		132,047	75,146	80,631
Earnings per share				
Basic and diluted profit from continuing and discontinued operations attributable to equity holders of common shares and investment shares of Cementos Pacasmayo S.A.A. (S/ per share)	27	0.31	0.18	0.21

The accompanying notes are an integral part of these consolidated financial statements.

Cementos Pacasmayo S.A.A. and Subsidiaries

Consolidated statements of other comprehensive income
For the years ended December 31, 2019, 2018 and 2017

	Note	2019 S/(000)	2018 S/(000)	2017 S/(000)
Profit for the year		132,047	75,146	80,631
Other comprehensive income				
<i>Other comprehensive income to not be reclassified to profit or loss in subsequent periods:</i>				
Change in fair value of financial instruments designated at fair value through other comprehensive income	9(a)	(8,659)	5,677	37
Deferred income tax	16	2,554	(1,675)	62
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>				
Transfer to profit or loss of the year of net loss on settlement of derivate financial statements	15	-	34,887	-
Transfer to profit or loss of the net loss on derivate financial statements that changed to trading condition		-	4,275	-
(Net loss) net gain on cash flows hedges	30(a)	(2,556)	201	(38,230)
Transfer to profit or loss of fair value of financial instruments designated at fair value through other comprehensive income sold		-	-	(243)
Deferred income tax	16	754	(11,612)	11,277
Other comprehensive income for the year, net of income tax		(7,907)	31,753	(27,097)
Total comprehensive income for the year, net of income tax		124,140	106,899	53,534
Total comprehensive income attributable to:				
Equity holders of the parent		124,140	108,452	66,685
Non-controlling interests		-	(1,553)	(13,151)
		124,140	106,899	53,534

The accompanying notes are an integral part of these consolidated financial statements.

Cementos Pacasmayo S.A.A. and Subsidiaries

Consolidated statement of changes in equity
For the years ended December 31, 2019, 2018 and 2017

	Attributable to equity holders of the parent										
	Capital stock S/(000)	Investment shares S/(000)	Treasury shares S/(000)	Additional paid-in capital S/(000)	Legal reserve S/(000)	Unrealized gain (loss) on financial instruments designated at fair value S/(000)	Unrealized gain on cash flow hedge S/(000)	Retained earnings S/(000)	Total S/(000)	Non-controlling interests S/(000)	Total equity S/(000)
Balance as of January 1, 2017	531,461	50,503	(108,248)	545,165	188,075	145	(16,747)	677,086	1,867,440	112,589	1,980,029
Profit for the year	-	-	-	-	-	-	-	93,782	93,782	(13,151)	80,631
Other comprehensive income	-	-	-	-	-	(145)	(26,952)	-	(27,097)	-	(27,097)
Total comprehensive income	-	-	-	-	-	(145)	(26,952)	93,782	66,685	(13,151)	53,534
Appropriation of legal reserve, note 17(e)	-	-	-	-	9,379	-	-	(9,379)	-	-	-
Contribution of non-controlling interest	-	-	-	-	-	-	-	-	-	491	491
Acquisition of investments shares holds in treasury, note 17(c)	-	-	(34,216)	-	-	-	-	-	(34,216)	-	(34,216)
Splitting effects of equity block, note 1.2	(107,593)	(10,224)	23,459	(118,569)	(36,957)	-	-	-	(249,884)	(100,357)	(350,241)
Dividends, note 17(g)	-	-	-	-	-	-	-	(149,837)	(149,837)	-	(149,837)
Terminated dividends, note 17(g)	-	-	-	-	189	-	-	-	189	-	189
Impairment on brine project, note 1.3	-	-	-	6,759	-	-	-	-	6,759	-	6,759
Other adjustments of non-controlling interests	-	-	-	(576)	-	-	-	-	(576)	576	-
Balance as of December 31, 2017	423,868	40,279	(119,005)	432,779	160,686	-	(43,699)	611,652	1,506,560	148	1,506,708
Profit for the year	-	-	-	-	-	-	-	76,699	76,699	(1,553)	75,146
Other comprehensive income	-	-	-	-	-	4,002	27,751	-	31,753	-	31,753
Total comprehensive income	-	-	-	-	-	4,002	27,751	76,699	108,452	(1,553)	106,899
Appropriation of legal reserve, note 17(e)	-	-	-	-	7,670	-	-	(7,670)	-	-	-
Contribution of non-controlling interest	-	-	-	-	-	-	-	-	-	1,405	1,405
Dividends, note 17(g)	-	-	-	-	-	-	-	(161,396)	(161,396)	-	(161,396)
Other	-	-	(2,253)	-	-	-	-	-	(2,253)	-	(2,253)
Balance as of December 31, 2018	423,868	40,279	(121,258)	432,779	168,356	4,002	(15,948)	519,285	1,451,363	-	1,451,363
Change in accounting policy, note 2.3.19	-	-	-	-	-	-	-	(13)	(13)	-	(13)
Restated total equity as of January 1, 2019	423,868	40,279	(121,258)	432,779	168,356	4,002	(15,948)	519,272	1,451,350	-	1,451,350
Profit for the year	-	-	-	-	-	-	-	132,047	132,047	-	132,047
Other comprehensive loss	-	-	-	-	-	(6,105)	(1,802)	-	(7,907)	-	(7,907)
Total comprehensive income	-	-	-	-	-	(6,105)	(1,802)	132,047	124,140	-	124,140
Terminated dividends, note 17 (g)	-	-	-	-	280	-	-	-	280	-	280
Dividends, note 17(g)	-	-	-	-	-	-	-	(154,119)	(154,119)	-	(154,119)
Balance as of December 31, 2019	<u>423,868</u>	<u>40,279</u>	<u>(121,258)</u>	<u>432,779</u>	<u>168,636</u>	<u>(2,103)</u>	<u>(17,750)</u>	<u>497,200</u>	<u>1,421,651</u>	<u>-</u>	<u>1,421,651</u>

The accompanying notes are an integral part of these consolidated financial statements.

Cementos Pacasmayo S.A.A. and Subsidiaries

Consolidated statement of cash flows
For the years ended December 31, 2019, 2018 and 2017

	Note	2019 S/(000)	2018 S/(000)	2017 S/(000)
Operating activities				
Profit before income tax		194,353	116,141	127,112
Non-cash adjustments to reconcile profit before income tax to net cash flows				
Depreciation and amortization	10 and 11	129,818	129,779	124,206
Finance costs	25	77,986	87,338	73,759
Long-term incentive plan	22	6,523	9,495	11,401
Provision of impairment of inventories, net	8	2,498	3,808	2,718
Net loss (net gain) on disposal of property, plant and equipment and intangible assets	23	1,846	(4,599)	(42)
Net loss (net gain) on the valuation of trading derivate financial instruments		1,491	(2,603)	-
Accumulated net loss due to settlement of derivative financial instruments		-	34,887	-
Allowance for expected credit losses	7(d)	1,452	9,717	1,190
Adjustment as a result of physical inventories		939	1,910	2,700
Impairment on brine project	1.3	-	-	47,582
Unrealized exchange difference related to monetary transactions		(483)	(392)	185
Finance income	24	(2,576)	(2,367)	(5,842)
Other operating, net		728	(1,168)	234
Working capital adjustments				
Increase in trade and other receivables		(23,391)	(3,416)	(31,178)
(Increase) decrease in prepayments		(4,383)	(1,728)	4,662
Increase in inventories		(97,657)	(59,637)	(31,863)
(Decrease) increase in trade and other payables		(4,220)	(6,409)	14,083
		284,924	310,756	340,907
Interest received		2,252	2,353	2,251
Interest paid		(47,155)	(55,098)	(52,346)
Income tax paid		(34,884)	(54,383)	(40,404)
Net cash flows from operating activities				
		205,137	203,628	250,408
Which includes cash used in discontinued operations for	1.2	-	-	(2,611)

	Note	2019 S/(000)	2018 S/(000)	2017 S/(000)
Investing activities				
Purchase of property, plant and equipment		(77,680)	(80,214)	(71,355)
Purchase of intangible assets		(5,335)	(31,052)	(6,331)
Loans granted		(1,117)	-	-
Proceeds from sale of property, plant and equipment		4,199	12,441	6,353
Proceed loans granted		354	-	-
Proceeds from sale of financial instruments designated at fair value through other comprehensive income	9	-	-	694
Net cash flows used in investing activities		(79,579)	(98,825)	(70,639)
<i>Which includes cash used in investment activities of discontinued operations for</i>	1.2	-	-	(6,410)
Financing activities				
Loan received	29	638,281	656,845	-
Income from settlement of derivative financial instruments		1,458	22,789	-
Payment for senior note purchase	29	-	(572,060)	-
Paid loan	29	(610,999)	(16,090)	-
Dividends paid	29	(120,647)	(171,790)	(124,993)
Payment of hedge finance cost	29	(14,935)	(26,443)	(26,708)
Purchase of treasury shares	17(c)	-	-	(34,216)
Contribution of non-controlling interests	1.3	-	1,405	491
Net cash flows used in financing activities		(106,842)	(105,344)	(185,426)
Net increase (decrease) in cash and cash equivalents		18,716	(541)	(5,657)
Net foreign exchange difference		483	392	(185)
Cash and cash equivalents as of January 1	6	49,067	49,216	80,215
Cash transferred to held assets for distribution	1.2	-	-	(34,178)
Change in cash and cash equivalents of discontinued operations	1.2	-	-	9,021
Cash and cash equivalents as of December 31	6	68,266	49,067	49,216
Transactions with no effect in cash flows:				
Unrealized exchange difference related to monetary transactions		(483)	(392)	185
Derecognition of impaired assets		-	3,401	-
Outstanding accounts payable related to acquisition of property, plant and equipment		8,698	4,627	5,368

See transfer of net assets and impairment on brine project that did not generated cash flows in notes 1.2 and 1.3.

The accompanying notes are an integral part of these consolidated financial statements.

1. Corporate information

Cementos Pacasmayo S.A.A. (hereinafter “the Company”) was incorporated in 1957 and, under the Peruvian General Corporation Law, is an open stock corporation, its shares are listed in the Lima and New York Stock Exchanges. The Company is a subsidiary of Inversiones ASPI S.A., which held 50.01 percent of the Company’s common shares as of December 31, 2019 and 2018. The Company’s registered address is Calle La Colonia No.150, Urbanización El Vivero, Santiago de Surco, Lima, Peru.

The Company’s main activity is the production and marketing of cement, precast, concrete and quicklime in La Libertad region, in the North of Peru.

The issuance of the consolidated financial statements of the Company and its subsidiaries (hereinafter “the Group”) for the year ended December 31, 2019 was authorized by the Company’s Audit Committee, delegated by the Board of Directors, on April 29, 2020. The consolidated financial statements as of December 31, 2018 and for the year ended that date were approved by the General Shareholders’ Meeting on March 11, 2019.

As of December 31, 2019 and 2018, the consolidated financial statements comprised the financial statements of the Company and its subsidiaries: Cementos Selva S.A. and subsidiaries, Distribuidora Norte Pacasmayo S.R.L. and subsidiary, Empresa de Transmisión Guadalupe S.A.C., Salmueras Sudamericanas S.A. and Calizas del Norte S.A.C. (in liquidation). As of the date of the consolidated financial statements, the Company maintained a 100 percent interest in all of its subsidiaries.

The main activities of the subsidiaries incorporated in the consolidated financial statements are described as follows:

- Cementos Selva S.A. is engaged in production and marketing of cement and other construction materials in the northeast region of Peru. Also, it holds 100 percent of the shares in Dinospelva Iquitos S.A.C. (a cement and construction materials distributor in the north of Peru, which also produces and sells precast, cement bricks and ready-mix concrete) and in Acuicola Los Paiches S.A.C. (a fish farm entity).
- Distribuidora Norte Pacasmayo S.R.L. is mainly engaged in selling cement produced by the Company. Additionally, it produces and sells precast, cement bricks and ready-mix concrete. In May 2017, it created Prefabricados del Pacífico S.A.C. (a company dedicated to the production and commercialization of cement bricks in northern Peru, which as of the date of this report has not started operations).

Notes to the consolidated financial statements (continue)

- Empresa de Transmisión Guadalupe S.A.C. is mainly engaged in providing electric energy transmission services to the Company.
- Salmueras Sudamericanas S.A. (“Salmueras”) was engaged in the exploration of a brine project located in the northern region of Peru. In December 2017, the Company decided not to continue with the activities related to this project, as explained in note 1.4 of the consolidated financial statements. As of December 31, 2017, Quimpac S.A. held a participation of 25.1% of the common shares of this entity. As of December 31, 2018 and during 2019, Quimpac held no common shares of this entity.
- Calizas del Norte S.A.C. (in liquidation). On May 31, 2016, the Company decided to liquidate the subsidiary Calizas del Norte S.A.C.
- Soluciones Takay S.A.C., an entity constituted on March 29, 2019 whose corporate purpose is to provide advisory services and information, promotion, acquisition, intermediation services for the management and development of real estate projects by natural and/or legal persons.

The table presented below shows the summary of the main captions of the audited financial statements of the subsidiaries controlled by the Group as of December 31, 2019, 2018 and 2017:

Entity	Assets		Liabilities		Net equity		Net income (loss)		
	2019	2018	2019	2018	2019	2018	2019	2018	2017
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Cementos Selva S.A. and subsidiaries	279,818	240,844	41,506	30,149	238,312	210,695	27,713	24,261	37,467
Distribuidora Norte Pacasmayo S.R.L. and subsidiary	326,949	308,158	184,904	178,905	142,045	129,253	13,108	4,867	(220)
Empresa de Transmisión Guadalupe S.A.C.	46,068	41,971	4,941	846	41,127	41,125	588	386	124
Salmueras Sudamericanas S.A., note 1.3	213	46	35	674	178	(628)	(94)	(2,620)	(50,942)
Calizas del Norte S.A.C. (in liquidation)	694	703	2	-	692	703	(11)	(3)	(121)
Soluciones Takay S.A.C.	2,120	-	2,588	-	(468)	-	(1,674)	-	-
Fosfatos del Pacífico S.A., note 1.2	-	-	-	-	-	-	-	-	(1,216)

1.1 Business combination –

On October 5, 2018, Distribuidora Norte Pacasmayo S.R.L. acquired certain assets of a third party through the disbursement of US\$12,335,000.

The assets' purchase was classified as the acquisition of a business in accordance with the IFRS 3 "Business Combinations" and was recorded under the "Acquisition" method reflecting their fair values at the purchase date in accordance with IFRS 3. These values were recorded in the separate financial statements of Distribuidora Norte Pacasmayo S.R.L. as of that date, as well as the resulting goodwill. The carrying amounts and fair values of the assets identified as of the acquisition date were as follows:

	Fair value S/(000)
Inventories	6,849
Machinery and equipment	2,749
Brand and other intangibles, note 11 (c)	25,152
Deferred income tax asset	1,866
	36,616
Goodwill, note 12	4,459
Total assets acquired	41,075

The methodology used to determine the fair values at the acquisition date for each of the items evaluated are the following:

- (i) Inventories -
The fair value corresponded to the estimated sale price, less the estimated costs to carry out the sale.
- (ii) Fixed assets -
For the determination of the fair value of the fixed assets, technical reports prepared by an independent appraiser were used.
- (iii) Brand and other intangibles -
The fair values of identifiable intangible assets at the acquisition date were determined using the income approach, based on the present value of the gains attributable to the asset or costs avoided as a result of owning the asset. Under this approach, the fair value of intangible assets is determined through the methodology of discounted future cash flows using the rate of return that considers the relative risk of obtaining cash flows and the value of money over time.

The methods used by the Management of the Company to estimate the fair values of the intangible assets identified at the acquisition date were the “With / Without Method” (WWM) which estimates the value of the intangible as the differential between the value of the cash flows with and without the intangible asset, after discounting the returns for all the assets that contribute to the flow and the “Relief from Royalty” (RFR) method, which estimates the cash flows that the company saves for the payment of royalties that it would do if it did not have its own brand.

(iv) Goodwill -

Goodwill comprises the fair value of the expected synergies that the Company expects to obtain when acquiring the assets. This goodwill is recorded at cost and corresponds to excess of the cost of acquisition (consideration transferred) and the fair value of the identifiable assets, including the brand and other intangible assets.

1.2 *Spin-off project -*

On September 2016, the Company’s General Shareholders’ Meeting approved a spin-off of a portion of net assets (composed by the assets and liabilities related to the Company’s interest in Fosfatos del Pacífico S.A.) in favor of Fossal S.A.A. (enterprise created as a subsidiary of Inversiones ASPI S.A.). The purpose of the spin-off project was to allocate the assets and liabilities of the Company in accordance with the specialization of each business, creating greater flexibility for shareholders and greater clarity in long-term operations.

The spin-off contemplated that for each common and investment share of Cementos Pacasmayo S.A.A., the shareholders would receive approximately 0.20 common shares of Fossal S.A.A. and approximately 0.80 common shares of Cementos Pacasmayo S.A.A.

On March 1, 2017, the spin-off was consummated; consequently, capital stock, investment shares, additional capital and legal reserve of the Company decreased by S/107,593,000, S/10,224,000, S/118,569,000 and S/36,957,000, respectively. The related non-controlling interest was reduced in the amount of S/100,357,000.

On the other hand, as of the date of the spin-off’s consummation, part of the investment shares transferred to Fossal S.A.A. were owned by Cementos Pacasmayo S.A.A. (treasury shares). As a consequence, the Company received 9,148,373 investment shares of Fossal S.A.A. The transactions were recorded with a debit to financial instruments designated at fair value through other comprehensive income, for an amount of S/21,206,000 and a credit to equity for S/23,459,000. The difference between the financial and tax value of those investments generated a deferred income tax asset of S/2,253,000, see note 9.

The results from discontinued operations are presented in the consolidated statement of profit or loss, in a single line as a post-tax result from discontinued operations, related to the net losses generated by Fosfatos del Pacífico S.A. (net of intercompany eliminations), were presented as “net loss of discontinued operations” for the year 2017 and amounted to S/754,000.

As of March 1, 2017, the assets and liabilities transferred of Fosfatos del Pacífico S.A. (net of intercompany eliminations), mainly comprise the following:

S/(000)

Assets -

Cash and cash equivalents	34,178
Accounts receivable from related parties	5,822
Inventories	2,694
Income tax prepayments	3,892
Other current assets	5,126
Other receivables non- current	50,200
Property, plant and equipment, net	204,975
Exploration and evaluation assets	52,578
Deferred income tax assets	23,173
	<u>382,638</u>

Liabilities and equity -

Trade and other payables	8,938
Capital stock	107,593
Investment shares	10,224
Additional paid-in capital	118,569
Other reserves	36,957
Non-controlling interest	100,357
	<u>382,638</u>

1.3 *Impairment on brine project -*

In 2017, the Company decided to prioritize its investments in the development of products related to the manufacture and sale of cement and constructive solutions; therefore, the disposal of investments that are not in line with the strategic plan has been approved.

As a result of this decision, the Company has decided not to continue with the brine project recording a charge to results related to the impairment on the assets of this project amounted to S/47,582,000, which is presented in the item "impairment on subsidiary investment" in the consolidated statement the profit or loss of the year 2017.

The impairment was attributed to the equity holders of the parent and to the non-controlling interest for the amounts of S/25,444,000 and S/11,988,000, respectively, net of deferred income tax amounting to S/10,150,000.

On the other hand, non-controlling interest made contributions during 2018 and 2017 amounted to S/1,405,000 and S/491,000, respectively, and were presented in the consolidated statement of changes in equity as “contributions from non-controlling interest”. It should be noted that the contribution made by the non-controlling interest in 2018 was originated by the payment of certain penalties corresponding to the concessions contributed in previous years by the non-controlling interest.

2. Significant accounting policies

2.1 Basis of preparation –

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for instruments designated at fair value through other comprehensive income (OCI) and derivative financial instruments that have been measured at fair value. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost are adjusted to record changes in fair values attributable to the risks that are being hedged in effective hedge relationships. The consolidated financial statements are presented in soles and all values are rounded to the nearest thousand (S/000), except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period, there are certain standards and amendments applied for the first time by the Group during 2019 that did not require the restatement of previous financial statements, as explained in note 2.3.19.

2.2 Basis of consolidation -

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2019 and 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if it has: i) power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee), ii) exposure, or rights, to variable returns from its involvement with the investee, and iii) the ability to use its power over the investee to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

2.3 Summary of significant accounting policies -

2.3.1 Cash and cash equivalents -

Cash and cash equivalents presented in the statements of cash flows comprise cash at banks and on hand and short-term deposits with original maturity of three months or less.

2.3.2 Financial instruments-initial recognition and subsequent measurement -

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets -

Initial recognition and measurement -

Financial assets are classified at initial recognition as measured at amortized cost, fair value through other comprehensive income (OCI) or fair value through profit or loss.

The Group's financial assets include cash and cash equivalents, commercial and other receivables, available-for-sale financial investments and derivative financial instruments.

Subsequent measurement -

For purposes of subsequent measurement, financial assets are classified into the following categories:

- Financial assets at amortized cost (debt instruments).
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments).
- Financial assets designated at fair value through OCI with not recycling of cumulative gains and losses upon derecognition (equity instruments).
- Financial assets at fair value through profit or loss.

The classification depends on the business model of the Company and the contractual terms of the cash flows.

Financial assets at amortized cost (debt instruments) -

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to collect contractual cash flows and not sale or trade it, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets are not reclassified after their initial recognition, unless the Group changes its business model for its management.

The Group's financial assets at amortized cost includes trade and other receivables.

*Financial assets at fair value through OCI (debt instruments) -*The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

The Group does not have debt instruments classified in this category.

Financial assets at fair value through OCI (equity instruments) -

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category, see note 9.

Financial assets at fair value through profit or loss -

Financial assets at fair value through profit or loss include financial assets held for trading assets for trading derivate financial instruments, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value and net changes in such fair value are presented as financial costs (net negative changes in fair value) or financial income (net positive changes in fair value) in the consolidated statement of profit or loss.

As of December 31,2019, the Group did not have instruments classified in this category. As of December 31, 2018, the Group held assets for trading derivate financial instruments classified in this category.

Derecognition -

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(ii) Impairment of financial assets -

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 360 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before considering any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(iii) Financial liabilities -

Initial recognition and measurement -

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest-bearing loans and borrowings.

Subsequent measurement -

The subsequent measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss -

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term; gains or losses on liabilities held for trading are recognized in the statement of profit or loss. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

As of December 31, 2019, the Group held liabilities for trading derivatives financial instruments classified in this category.

Loans and borrowings -

After their initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of profit or loss.

This category includes trade and other payables and interest-bearing loans and borrowings. For more information refer to notes 13 and 15.

Derecognition -

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amount is recognized in the consolidated statement of profit or loss.

- (iv) Offsetting of financial instruments -
Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.
- (v) Derivative financial instruments and hedge accounting –
Initial recognition and subsequent measurement:
The Group uses derivative financial instruments, cross currency swaps (CCS), to hedge its foreign currency exchange rate risk. These derivative financial instruments are initially recognized at their fair values on the date on which the derivative contract is entered into and subsequently are remeasured at their fair value. Derivatives are accounted for as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

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

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges expect to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are recorded as cash flow hedges.

Cash flow hedges

In case the cross currency swaps contracts are designated as hedging instrument, any gains or losses arising from changes in the fair value of derivatives is taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

In addition, we have cash flow hedges for trading, its changes in fair value are recorded directly in profit or loss.

In the case that the cash flow hedge is discontinued, the amount accumulated in other comprehensive income must remain in other comprehensive income accumulated if the covered cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the covered cash flows are given, any amount that remains in other comprehensive accumulated results must be recorded considering the nature of the underlying transaction.

(vi) Fair value measurement

The Group measures financial instruments such as derivatives, and equity investment, at fair value at each balance sheet date.

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

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

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

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

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

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

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

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

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

The Group's management determines the policies and procedures for recurring and non-recurring fair value measurements.

At each reporting date, the Management of the Company analyzes the changes in the values of the assets and liabilities that must be measured or determined on a recurring and non-recurring basis according to the Group's accounting policies. For this analysis, Management contrasts the main variables used in the latest assessments made with updated information available from valuations included in contracts and other relevant documents.

Management also compares the changes in the fair value of each asset and liability with the relevant external sources to determine whether the change is reasonable.

For purposes of disclosure of fair value, the Group has determined classes of assets and liabilities based on the inherent nature, characteristics and risks of each asset and liability, and the level of the fair value accounting hierarchy as explained above.

2.3.3 Foreign currencies -

The functional and presentation currency for the consolidated financial statements of the Group is soles, which is also the functional currency for its subsidiaries.

Transactions and balances

Transactions in foreign currencies are initially recorded at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

2.3.4 Inventories -

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

Raw materials

- Purchase cost determined using the weighted average method.

Finished goods and work in progress

- Cost of direct materials and supplies, services provided by third parties, direct labor and a proportion of manufacturing overheads based on normal operating capacity, excluding borrowing costs and exchange currency differences.

Inventory in transit

- Purchase cost.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the estimated costs necessary to make the sale.

2.3.5 Borrowing costs -

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

Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period. All other borrowing costs are recognized in the consolidated statement of profit or loss in the period in which they are incurred.

2.3.6 Leases -

The Group applied IFRS 16 for the first time on January 1, 2019, using the modified retroactive transition method, see effects of adoption in note 2.3.19. Under IFRS 16, the Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration

Group as a lessee:

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right of use assets

The Group recognizes right-of-use assets at the commencement date of the lease (the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are subject to impairment assessment if indications of impairment are presented.

ii) Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the assessment of an option to purchase the underlying asset, a change in the amounts expected to be paid under residual value guarantee or changes to future payments resulting from a change in an index or rate used to determine such lease payments.

The Group's lease liabilities are included in "lease liabilities" in the consolidated statement of financial position.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value.

Group as a lessor:

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

During 2017 and 2018, the Group applied previous lease standard (IAS17), the main difference is that under this standard, payments for operating expenses in the consolidated statement of profit or loss on a lineal amortization basis throughout the lease period. The criteria for accounting for financial leases and income for leases when the Group acts as lessor were similar to those established in IFRS 16.

2.3.7 Property, plant and equipment -

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met (see note 2.3.6). The capitalized value of a finance lease is also included within property, plant and equipment. When significant parts of plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciated them separately based on their specific useful lives. Likewise, when major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Reference is made to significant accounting judgments, estimates and assumptions (note 3) and decommissioning provisions (note 14).

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

	Years
Buildings and other constructions:	
Administrative facilities	Between 35 and 48
Main production structures	Between 30 and 49
Minor production structures	Between 20 and 35
Machinery and equipment:	
Mills and horizontal furnaces	Between 42 and 49
Vertical furnaces, crushers and grinders	Between 23 and 36
Electricity facilities and other minors	Between 12 and 35
Furniture and fixtures	10
Transportation units:	
Heavy units	Between 11 and 21
Light units	Between 8 and 11
Computer equipment	4
Tools	Between 5 and 10

The asset's residual value, useful lives and methods of depreciation are reviewed at each reporting period and adjusted prospectively if appropriate.

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

2.3.8 Mining concessions -

Mining concessions correspond to the exploration rights in areas of interest acquired. Mining concessions are stated at cost, net of accumulated amortization and/or accumulated impairment losses, if any, and are presented within "Property, plant and equipment" on the consolidated statement of financial position. Those mining concessions are amortized starting from the production phase following the units-of-production method based on proved reserves to which they relate. The unit-of-production rate for the amortization of mining concessions considers expenditures incurred to the date of the calculation. If the Group abandons the concession, the costs associated are written-off in the consolidated statement of profit or loss.

As of December 31, 2019 and 2018, mining concessions of the Group corresponded to areas that contain raw material necessary for cement production.

2.3.9 Quarry development costs and stripping costs -

Quarry development costs -

Quarry development costs incurred are stated at cost and are the next step in development of quarries after exploration and evaluation stage. Quarry development costs are, upon commencement of the production phase, presented net of accumulated amortization and/or accumulated impairment losses, if any, and are presented within the property, plant and equipment caption. The amortization is calculated using the straight-line method based on useful live of the quarry to which relate. Expenditures that increase significantly the economic life of the quarry under exploitation are capitalized.

Stripping costs -

Stripping costs incurred in the development of a mine before production commences are capitalized as part of mine development costs and subsequently amortized it's the life on a units-of-production basis, using the proved reserves.

Stripping costs incurred subsequently during the production phase of its operation are recorded as part of cost of production.

2.3.10 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite live are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization 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 the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

The Group's intangible assets with finite useful lives are amortized in an average term of ten years.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. As of December 31, 2019 and 2018, the Company maintained as intangible assets with an indefinite useful the fair value of the brand acquired in the transaction described in note 1.1.

Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Exploration and evaluation assets -

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- Researching and analyzing historical exploration data.
- Gathering exploration data through geophysical studies.
- Exploratory drilling and sampling.
- Determining and examining the volume and grade of the resource.
- Surveying transportation and infrastructure requirements.
- Conducting market and finance studies.

License costs paid in connection with a right to explore in an existing exploration area are capitalized and amortized over the term of the license.

Once the legal right to explore has been acquired, exploration and evaluation costs are charged to the consolidated statement of profit or loss, unless management concludes that a future economic benefit is more likely than not to be realized, in which case such costs are capitalized. These costs include directly attributable employee remuneration, materials and fuel used, surveying costs, drilling costs and payments made to contractors.

In evaluating if costs meet the criteria to be capitalized, several different sources of information are used, including the nature of the assets, extension of the explored area and results of sampling, among others. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

Exploration and evaluation costs are capitalized when the exploration and evaluation activity is within an area of interest for which it is expected that the costs will be recouped by future exploitation and active and significant operations in relation to the area are continuing or planned for the future.

The main estimates and assumptions the Group uses to determine whether it is likely that future exploitation will result in future economic benefits include: expected operational costs, committed capital expenditures, expected mineral prices and mineral resources found. For this purpose, the future economic benefit of the project can reasonably be regarded as assured when mine-site exploration is being conducted to confirm resources, mine-site exploration is being conducted to convert resources to reserves or when the Group is conducting a feasibility study, based on supporting geological information.

As the capitalized exploration and evaluation costs asset is not available for use, it is not amortized. These exploration costs are transferred to mine development assets once the work completed to date supports the future development of the property and such development receives appropriate approvals. In this phase, the exploration costs are amortized in accordance with the estimated useful life of the mining property from the time the commercial exploitation of the reserves begins. All capitalized exploration and evaluation costs are monitored for indications of impairment. Where a potential impairment is indicated, assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit) to which the exploration is attributed.

Exploration areas in which resources have been discovered but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of resources exist or to ensure that additional exploration work are under way or planned. To the extent that capitalized expenditure is no longer expected to be recovered it is charged to the consolidated statement of profit or loss. The Group assesses at each reporting date whether there is an indication that an exploration and evaluation assets may be impaired. The following facts and circumstances are considered in this assessment:

- (i) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future and is not expected to be renewed.
- (ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- (iii) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- (iv) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

2.3.11 Ore reserve and resource estimates -

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties and concessions. The Group estimates its ore reserves and mineral resources, based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs, along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, provision for rehabilitation and depreciation and amortization charges.

2.3.12 Impairment of non-financial assets –

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required (goodwill and Intangible assets with indefinite useful lives), the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are considered. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group supports its impairment calculation with detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the consolidated statement of profit or loss in expense categories consistent with the function of the impaired asset.

In addition, an assessment is made at each reporting date to determine whether there is any indication that previously recognized impairment losses may no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit or loss.

Exploration and evaluation assets are tested for impairment annually as of December 31, either individually or at the cash-generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2.3.13 Provisions -
General -

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as finance cost in the consolidated statement of profit or loss.

Rehabilitation provision -

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. Rehabilitation costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at a current risk-free pre-tax rate. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of profit or loss as a finance cost. The estimated future costs of rehabilitation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

Environmental expenditures and liabilities -

Environmental expenditures that relate to current or future revenues are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed.

Liabilities for environmental costs are recognized when a clean-up is probable, and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure.

2.3.14 Employees benefits -

The Group has short-term obligations for employee benefits including salaries, severance contributions, legal bonuses, performance bonuses and profit sharing. These obligations are monthly recorded on an accrual basis.

Additionally, the Group has a long-term incentive plan for key management. This benefit is settled in cash, measured on the salary of each officer and upon fulfilling certain conditions such as years of experience within the Group and permanency. According to IAS 19 "Employee benefits", the Group recognizes the long-term obligation at its present value at the end of the reporting period using the projected credit unit method. To calculate the present value of these long-term obligations the Group uses a government bond discount rate at the date of the consolidated financial statements. This liability is annually reviewed on the date of the consolidated financial statements, and the accrual updates and the effect of changes in discount rates are recognized in the consolidated statement of profit or loss, until the liability is extinguished.

2.3.15 Revenue recognition -

The group is dedicated to the production and trading of cement, precast, concrete and quicklime, as well as trade of construction supplies. These goods are sold in contracts with customers. The Group has concluded that it is principal in its sales agreements because it controls the goods or services before transferring to the customer.

Revenue is measured at the fair value of the consideration received or receivable, considering contractually defined terms of payment and excluding taxes or duty.

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

Sales of goods -

Revenue from sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

Rendering of services -

In the business segments of cement, quicklime, concrete, precast and construction supplies, the Group provides transportation services. These services are sold together with the sale of the goods to the customer.

Transportation services are satisfied when the transport service is concluded, which coincides with the moment of delivery of the goods to the customers.

Operating lease income -

Income from operating lease of land and office was recognized on a monthly accrual basis during the term of the lease.

Interest income -

For all financial instruments measured at amortized cost and interest-bearing financial assets, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated statement of profit or loss.

2.3.16 Taxes -

Current income tax -

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in Peru, where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax -

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in subsidiaries, where deferred assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax related to items recognized outside profit or loss is recognize outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

Mining royalties -

Mining royalties are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on taxable net income, rather than based on quantity produced or as a percentage of revenue, after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for income tax. Obligations arising from royalty arrangements that do not satisfy these criteria are recognized as current provisions and included in results of the year.

2.3.17 Investment shares holds in treasury -

Owned equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

2.3.18 Business combinations and goodwill -

A business consists of inputs and processes applied to those inputs that have the ability to create contribute to the creation of outputs. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses of the consolidated statement of profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognized in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill

Goodwill is the excess of the aggregate of the consideration transferred on the asset's acquisitions described in note 1.1, over the fair value of the acquire assets.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The Group perform impairment tests of the goodwill annually. The impairment of the goodwill is determined estimating the recoverable amount of the cash generating units related to it. When the recoverable amount of the cash generating units is lower than the carrying value, an impairment is recognized. Impairment related to goodwill cannot be reversed in future periods.

2.3.19 New amended standards and interpretations –
IFRS 16 Leases

The Group applied IFRS 16 for the first time on January 1, 2019 through the modified retroactive transition method, the criteria for the recognition of asset for use rights and liabilities for leases are those described in note 2.3.6.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.23 percent per year in soles.

The change in the accounting policy affected the following items of the interim condensed consolidated statement of financial position:

- Increase in right-of-use assets ("Other assets" caption) by S/124,000.
- Increase in lease liabilities by S/137,000.
- Reduction of accumulated results in equity by S/13,000.

Several other amendments and interpretations, including IFRIC 23 "Uncertainty over Income Tax Treatments" apply for the first time as of January 1, 2019, but do not have an impact on the consolidated financial statements of the Group.

The Group has not adopted early any standard, interpretation or modification that has been issued but is not yet in force

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

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Capital management, note 29.
- Financial instruments risk management and policies, note 29.
- Sensitivity analyses disclosures, note 29.

Estimates and assumptions -

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

The significant areas are summarized below:

- Determination of useful lives of assets for depreciation and amortization purposes – notes 2.3.7, 2.3.8, 2.3.9 and 2.3.10.
- Recognition of exploration and evaluation assets and mine development costs – notes 2.3.9, 2.3.10 and note 11.
- Ore reserve and resource estimates – note 2.3.11.
- Review of asset carrying values and impairment charges – notes 2.3.2, 2.3.12, 10 and 11.
- Income tax – notes 2.3.16 and 16.
- Cash flow hedges – notes 2.3.2(v) and 30(b).

4. Standards issued but not yet effective

The standards and interpretations relevant to the Group, that are issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective:

- *Amendments to IAS 1 and IAS 8: Definition of Material*
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity’.

The amendments to the definition of material is not expected to have a significant impact on the Group’s consolidated financial statements.

Amendments to IFRS 3: Business definition

In October 2018, the IASB issued amendments to IFRS 3 “Business combinations” to help entities determine when a set of acquired activities and assets is a business or not. The minimum requirements for a business are clarified, the evaluation of whether a market participant is capable of replacing any missing element is eliminated, a guide is added to help entities assess whether an acquired process is significant, specifies definition of business and products and introduces an optional test of fair value concentration. New illustrative examples were provided along with the modifications.

These modifications are applied prospectively to transactions or events that occur on or after the entry into force, the consolidated financial statements of the Group will not be affected by these modifications.

5. Transactions in foreign currency

Transactions in foreign currency take place at the open-market exchange rates published by the Superintendence of Banks, Insurance and Pension Funds Administration (the “SBS”). As of December 31, 2019 the exchange rates for transactions in U.S. dollars, published by the SBS, were S/3.311 for purchase and S/3.317 for sale (S/3.369 for purchase and S/3.379 for sale as of December 31, 2018).

As of December 31, 2019 and 2018, the Group had the following assets and liabilities in U.S. dollars:

	2019	2018
	US\$(000)	US\$(000)
Assets		
Cash and cash equivalents	993	4,007
Trade and other receivables	5,741	5,135
Advances to suppliers	2,586	1,250
	<u>9,320</u>	<u>10,392</u>
Liabilities		
Trade and other payables	(5,975)	(29,618)
Interest-bearing loans and borrowings	(157,263)	(149,612)
	<u>(163,238)</u>	<u>(179,230)</u>
Cross currency swap position	150,000	150,000
	<u>(3,918)</u>	<u>(18,838)</u>
Net monetary position		

As of December 31, 2019 and 2018, the Group had cross currency swap agreements for its bonds (denominated in U.S. dollars), see note 15. Of the US\$150,000,000 shown in the cross currency swap position, there are underlying liabilities for US\$131,612,000. The difference of US\$18,388,000 is maintained as trading derivative financial instruments.

During 2019, the net gain originated by the exchange difference was approximately S/729,000 (net loss from exchange difference of approximately S/8,377,000 during 2018), all these results are presented in "Gain (loss) from exchange difference, net" in the consolidated statement of profit or loss. The net loss from exchange difference for the year 2018 included a loss of S/4,293,000 originated by cash flow hedging instruments that changed to trading condition.

6. Cash and cash equivalents

(a) This item comprised the following:

	2019	2018
	S/(000)	S/(000)
Cash on hand	149	152
Cash at banks (b)	16,617	18,821
Short-term deposits (c)	<u>51,500</u>	<u>30,094</u>
	<u><u>68,266</u></u>	<u><u>49,067</u></u>

- (b) Cash at banks is denominated in local currency and U.S. dollars, is deposited in local and foreign bank are freely available. The demand deposits interest yield is based on daily bank deposit rates.
- (c) As of December 31, 2019 and 2018, the short-term deposits held in local banks were freely available and earned interest at the respective short-term deposits rates. These short-term deposits, with original maturities of less than three months, were collected in January 2020 and January and February 2019, respectively.

7. Trade and other receivables

(a) This item comprised the following:

	Current		Non-current	
	2019	2018	2019	2018
	S/(000)	S/(000)	S/(000)	S/(000)
Trade receivables (b)	100,201	80,328	-	-
Other accounts receivable (c)	12,973	3,353	386	-
Other receivables from sale of fixed assets	1,023	3,967	732	923
Loans granted	1,566		198	
Loans to employees	1,398	1,032	-	-
Accounts receivable from Parent company and affiliates, note 26	1,171	3,209	-	-
Interest receivables, note 6(c)	408	164	-	-
Indemnification from insurance	231	10,366	-	-
Funds restricted to tax payments	-	331	-	-
Allowance for expected credit losses (d)	(3,747)	(2,295)	-	-
Financial assets classified as receivables (e)	115,224	100,455	1,316	923
Value-added tax credit	4,956	2,308	3,157	3,402
Tax refund receivable	350	206	9,242	9,241
Allowance for expected credit losses (d)	-	-	(9,034)	(9,034)
Non-financial assets classified as receivables	5,306	2,514	3,365	3,609
	<u>120,530</u>	<u>102,969</u>	<u>4,681</u>	<u>4,532</u>

(b) Trade account receivables have current maturities (30 to 90 days) and those overdue interest bearing.

(c) As of December 31, 2019, includes principally accounts receivable from a third party for the sale of regional and local public investment certificates (CIPRL) for S/9,900,000. These certificates were delivered to the Group by the Peruvian Government as compensation for the investment made in a public work and constitute a security that can be used for the payment of taxes by any entity.

- (d) The movement of the allowance for expected credit losses is as follows:

	<u>2019</u> S/(000)	<u>2018</u> S/(000)	<u>2017</u> S/(000)
Opening balance	11,329	1,685	781
Additions	1,452	9,717	1,190
Recoveries	-	(62)	-
Write-off	-	(11)	(286)
Ending balance	<u>12,781</u>	<u>11,329</u>	<u>1,685</u>

As of December 31, 2019, the additions included S/1,452,000 related to the allowance for expected credit losses for trade receivables (S/683,000 as of December 31, 2018), which are presented in "Selling and distribution expenses" in the consolidated statement of profit or loss, see note 21.

As of December 31, 2018, the additions included S/9,034,000 related to the allowance for expected credit losses for tax refund receivable, see note 23.

- (e) The aging analysis of trade and other accounts receivable as of December 31, 2019 and 2018, is as follows:

	<u>Total</u> S/(000)	<u>Neither past due nor impaired</u> S/(000)	<u>Past due but not impaired</u>				
			<u>< 30 days</u> S/(000)	<u>30-60 days</u> S/(000)	<u>61-90 days</u> S/(000)	<u>91-120 days</u> S/(000)	<u>> 120 days</u> S/(000)
2019	116,540	92,325	12,525	531	1,635	-	9,524
2018	101,378	32,591	43,441	9,303	3,364	620	12,059

8. Inventories

(a) This item comprised the following:

	2019	2018
	S/(000)	S/(000)
Goods and finished products	22,133	16,832
Work in progress	166,999	133,972
Raw materials	167,159	118,816
Packages and packing	3,721	2,025
Fuel	3,159	2,715
Spare parts and supplies	168,241	163,540
Inventory in transit	4,845	1,858
	<u>536,257</u>	<u>439,758</u>
Less - Provision for inventory obsolescence (b)	<u>(17,253)</u>	<u>(14,975)</u>
	<u>519,004</u>	<u>424,783</u>

(b) Movement in the provision for inventory obsolescence value is set forth below:

	2019	2018	2017
	S/(000)	S/(000)	S/(000)
Opening balance	14,975	11,167	8,449
Additions	2,498	3,808	3,183
Recoveries	(220)	-	(465)
Final balance	<u>17,253</u>	<u>14,975</u>	<u>11,167</u>

9. Financial investment designated at fair value through OCI

(a) Movement in financial investment designated at fair value through OCI is as follow:

	2019	2018	2017
	S/(000)	S/(000)	S/(000)
Beginning balance	26,883	21,206	657
Fair value change recorded in other comprehensive income	(8,659)	5,677	37
Investment shares from spin-off, note 1.2	-	-	21,206
Disposals	-	-	(694)
Ending balance	<u>18,224</u>	<u>26,883</u>	<u>21,206</u>

(b) As of December 31, 2019 and 2018, corresponded to 9,148,373 investment shares of Fossal S.A.A., as a result of the execution of the spin-off project, explained in note 1.2. These shares represented 7.76% of equity of Fossal S.A.A., see characteristics of investment shares in note 17(b).

10. Property, plant and equipment, net

(a) The composition and movement in this caption as of the date of the consolidated statement of financial position is presented below:

	Mining concessions (b)	Mine development costs (b)	Land	Buildings and other construction	Machinery, equipment and related spare parts	Furniture and accessories	Transportation units	Computer equipment and tools	Mine rehabilitation costs	Capitalized interest	Work in progress and units in transit	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Cost												
As of January 1, 2018	76,808	45,247	228,558	676,937	1,591,059	31,401	122,318	58,413	6,089	64,904	42,872	2,944,606
Additions	194	4,838	12,701	-	19,993	534	3,294	742	-	-	37,178	79,474
Disposals	-	-	(2,325)	(691)	(6,588)	(3)	(10,089)	(11,547)	(4,574)	-	(699)	(36,516)
Transfers, note 11	(98)	(2,235)	1,490	(1,400)	17,913	209	306	979	-	-	(20,225)	(3,061)
As of December 31, 2018	76,904	47,850	240,424	674,846	1,622,377	32,141	115,829	48,587	1,515	64,904	59,126	2,984,503
Additions	-	6,497	9,014	-	10,177	295	10,739	1,119	-	-	43,910	81,751
Disposals	(854)	-	(386)	-	(2,038)	(25)	(3,137)	-	-	-	(94)	(6,534)
Transfers, note 11	85	(2,642)	2,603	9,492	36,526	428	137	1,245	-	-	(55,493)	(7,619)
As of December 31, 2019	76,135	51,705	251,655	684,338	1,667,042	32,839	123,568	50,951	1,515	64,904	47,449	3,052,101
Accumulated depreciation												
As of January 1, 2018	12,119	9,750	-	85,794	382,634	27,915	72,979	42,766	1,434	2,936	-	638,327
Additions	-	551	-	17,782	89,644	732	12,408	3,967	52	1,522	-	126,658
Disposals	-	-	-	(161)	(5,443)	(2)	(8,627)	(11,541)	(1,431)	-	-	(27,205)
Transfers and reclassifications, note 11	-	(326)	-	-	-	-	-	-	-	-	-	(326)
As of December 31, 2018	12,119	9,975	-	103,415	466,835	28,645	76,760	35,192	55	4,458	-	737,454
Additions	65	424	-	18,047	90,385	760	9,098	3,589	44	1,520	-	123,932
Disposals	-	-	-	-	(1,636)	(25)	(2,631)	-	-	-	-	(4,292)
Transfers and reclassifications	-	(328)	-	(266)	563	-	-	31	-	-	-	-
As of December 31, 2019	12,184	10,071	-	121,196	556,147	29,380	83,227	38,812	99	5,978	-	857,094
Impairment mining assets (b)												
As of January 1, 2018	42,858	24,048	258	13,837	12,166	201	26	454	3,143	-	735	97,726
Additions	-	-	(258)	-	-	-	-	-	(3,143)	-	-	(3,401)
As of December 31, 2018	42,858	24,048	-	13,837	12,166	201	26	454	-	-	735	94,325
Reclassifications	-	-	-	(259)	259	-	-	-	-	-	-	-
As of December 31, 2019	42,858	24,048	-	13,578	12,425	201	26	454	-	-	735	94,325
Net book value												
As of December 31, 2018	21,927	13,827	240,424	557,594	1,143,376	3,295	39,043	12,941	1,460	60,446	58,391	2,152,724
As of December 31, 2019	21,093	17,586	251,655	549,564	1,098,470	3,258	40,315	11,685	1,416	58,926	46,714	2,100,682

- (b) Mining concessions mainly included net acquisition costs of S/15,367,000 related to coal concessions acquired through a purchase option executed from 2011 to 2013. This item also includes some concessions acquired by the Group for exploration activities related to the cement business.

In previous years, Management recognized a full impairment charge of approximately S/97,726,000 related to the total net book value of a closed zinc mining unit which includes concession costs, development costs and related facilities and equipment. From this amount, S/42,858,000 corresponds to concessions costs. According to the management's expectation the recovery amount of this zinc mining unit is zero.

During 2017, the Group recognized an impairment on the brine project, as explained in note 1.3, derecognized mining concessions and other assets related to said project for S/1,732,000.

- (c) There were no additions under leases during 2019 neither under finance leases during 2018.
- (d) The Group has assessed the recoverable amount of its remaining long-term assets and did not find indicators of an impairment loss of these assets as of December 31, 2019 and 2018.
- (e) Work in progress included in property, plant and equipment as of December 31, 2019 amounted to S/46,714,000 (S/58,391,000 as of December 31, 2018) and is mainly related to complementary facilities of the cement plants.
- (f) As of December 31, 2019, the Group maintained accounts payable related to the acquisition of property, plant and equipment for S/8,698,000 (S/4,627,000 as of December 31, 2018), see note 13.

11. Intangible assets

(a) The composition and movement of this caption as of the date of the consolidated statement of financial position is presented below:

	IT applications S/(000)	Finite life intangible S/(000)	Indefinite life intangible S/(000)	Exploration cost and mining evaluation (b) S/(000)	Total S/(000)
Cost					
As of January 1, 2018	10,225	1,025	341	45,659	57,250
Additions	1,569	23,518	1,634	1,129	27,850
Transfers, note 10	2,020	-	-	1,041	3,061
As of December 31, 2018	13,814	24,543	1,975	47,829	88,161
Additions	3,712	-	-	1,623	5,335
Disposals	-	-	-	(726)	(726)
Transfers and reclassifications, note 10	7,619	-	-	-	7,619
As of December 31, 2019	25,145	24,543	1,975	48,726	100,389
Accumulated amortization					
As of January 1, 2018	4,703	111	37	5,513	10,364
Additions	2,003	691	34	393	3,121
Transfers, note 10	-	-	-	326	326
As of December 31, 2018	6,706	802	71	6,232	13,811
Additions	2,470	2,454	-	878	5,802
Disposals	-	-	-	(59)	(59)
As of December 31, 2019	9,176	3,256	71	7,051	19,554
Impairment of assets (b)					
As of January 1, 2018	-	-	-	33,469	33,469
As of December 31, 2018	-	-	-	33,469	33,469
As of December 31, 2019	-	-	-	33,469	33,469
Net Value					
As of December 31, 2018	7,108	23,741	1,904	8,128	40,881
As of December 31, 2019	15,969	21,287	1,904	8,206	47,366

- (b) As of December 31, 2019 and 2018, the exploration and evaluation assets included mainly capital expenditures related to the coal project and to other minor projects related to the cement business.
- (c) During 2019, additions and transfers mainly comprised the implementation of the SAP system. During 2018, the Group acquired brand and other intangibles for an amount of S/25,152,000 from a third party, which were recorded using the acquisition method reflecting their fair values at the acquisition date, see note 1.1.
- (d) As of December 31, 2019 and 2018, the Group evaluated the conditions of use of the projects related to the exploration and mining evaluation costs and its other intangibles, not finding any indicators of impairment in said assets.

12. Goodwill

As of December 31, 2019 and 2018, the amount for goodwill was to S/4,459,000, from the acquisition of assets made by the subsidiary Distribuidora Norte Pacasmayo S.R.L., see note 1.1.

The Group has assessed the recoverable amount of its goodwill and has determined that there are no indicators of an impairment loss of this asset as of December 31, 2018 and 2019.

13. Trade and other payables

This item comprised the following:

	2019	2018
	S/(000)	S/(000)
Trade payables	84,894	68,066
Dividends payable, note 17(g)	52,523	19,331
Remuneration payable	18,007	15,605
Interest payable	24,809	10,390
Taxes and contributions	12,047	8,715
Board of Directors' fees	5,917	6,167
Hedge finance cost payable	5,922	6,033
Guarantee deposits	5,799	4,332
Advances from customers	11,775	5,536
Account payable to the principal and affiliates, note 26	1,772	209
Accounts payable related to the acquisition of property, plant and equipment, note 10(f)	8,698	4,627
Other accounts payable	5,136	5,554
	237,299	154,565

Trade accounts payable result from the purchases of material, services and supplies for the Group's operations, and mainly corresponded to invoices payable to domestic suppliers. These invoices are non-interest bearing and are normally settled in 60 to 120 days.

Other payables are non-interest bearing and have an average term of 3 months.

Interest payable is normally settled semiannually throughout the financial year.

14. Provisions

This item comprised the following:

	Workers' profit-sharing	Long-term incentive plan	Rehabilitation provision	Total
	<u>S/(000)</u>	<u>S/(000)</u>	<u>S/(000)</u>	<u>S/(000)</u>
At January 1, 2019	14,341	36,000	1,489	51,830
Additions, note 22	15,169	6,523	-	21,692
Unwinding of discounts, note 25	-	118	340	458
Payments and advances	(15,607)	(34,127)	-	(49,734)
At December 31, 2019	<u>13,903</u>	<u>8,514</u>	<u>1,829</u>	<u>24,246</u>
Current portion	13,903	2,700	-	16,603
Non-current portion	<u>-</u>	<u>5,814</u>	<u>1,829</u>	<u>7,643</u>
	<u>13,903</u>	<u>8,514</u>	<u>1,829</u>	<u>24,246</u>
At January 1, 2018	20,147	30,322	2,399	52,868
Additions, note 22	15,712	9,495	-	25,207
Unwinding of discounts, note 25	-	767	-	767
Change in estimates, note 23	-	-	(910)	(910)
Payments and advances	(21,518)	(4,584)	-	(26,102)
At December 31, 2018	<u>14,341</u>	<u>36,000</u>	<u>1,489</u>	<u>51,830</u>
Current portion	14,341	32,112	-	46,453
Non-current portion	<u>-</u>	<u>3,888</u>	<u>1,489</u>	<u>5,377</u>
	<u>14,341</u>	<u>36,000</u>	<u>1,489</u>	<u>51,830</u>

Workers' profit sharing -

In accordance with Peruvian legislation, the Group is obliged to distribute between 8% and 10% of annual taxable income to employees. Distributions to employees under the plan are based 50% on the number of days that each employee worked during the preceding year and 50% on proportionate annual salary levels.

Long-term incentive plan -

In 2011, the Group implemented a compensation plan for its key management. This long-term benefit is payable in cash, based on the salary of each officer and depends on the years of service of each officer in the Group. Under the plan, the executive would receive the equivalent of an annual salary for each year of service beginning to accrue from 2011. This benefit accrues and accumulates for each officer and is payable in two moments: to a group on the sixth year since the creation of this bonuses plan, to a second group on the seventh year since the creation of this bonuses plan and the last payment at the end of the ninth year from the creation of the plan. If the executive decides to voluntarily leave the Group before a scheduled distribution, he will not receive this compensation. In accordance with IAS 19, the Group used the Projected Unit Credit Method to determine the present value of this deferred obligation and the related current deferred cost, considering the expected increases in salary base and the corresponding current government bond discount rate.

Rehabilitation provision -

As of December 31, 2019 and 2018, the rehabilitation provision corresponded to the provision for the future costs of rehabilitating the quarries exploited in Company's operations and the zinc mine site (fully impaired in 2011 and closed in 2018), located in the Region of Amazonas. The provision has been created based on studies made by internal specialists. Management believes that the assumptions used, based on current economic environment, are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to consider any material change to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required to reflect future economic conditions.

Future cash flows were estimated from financial budgets approved by Management. The range of sol risk free discount rates used in the calculation of the present value of this provision as of December 31, 2019 and 2018 was 6.52 to 7.65 percent, respectively.

Management expects to incur a significant part of this obligation in the medium and long-term. The Group estimates that this liability is sufficient according to the current environmental protection laws approved by the Ministry of Energy and Mines.

15. Financial obligations

This item comprised the following:

	Currency	Nominal interest rate %	Maturity	2019 S/(000)	2018 S/(000)
Short-term promissory notes					
BBVA	US\$	2.70	May 8, 2020	8,293	-
Banco de Crédito del Perú	S/	4.64	June 18, 2020	13,689	-
Banco de Crédito del Perú	US\$	3.36	August 6, 2020	5,307	-
Banco de Crédito del Perú	US\$	3.23	August 14, 2020	4,864	-
Banco de Crédito del Perú	US\$	3.16	October 9, 2020	16,867	-
Scotiabank Perú S.A.A.	US\$	3.00	October 10, 2020	43,121	-
Scotiabank Perú S.A.A.	US\$	2.35	November 27, 2020	6,633	-
Banco de Crédito del Perú	US\$	3.43	April 15, 2019	-	16,895
Scotiabank Perú S.A.A.	US\$	3.40	October 10, 2019	-	43,927
Total current				98,774	60,822
Senior Notes					
Principal, net of issuance costs	US\$	4.50	February 8, 2023	434,380	441,786
Principal, net of issuance costs	S/	6.69	February 1, 2029	259,440	-
Principal, net of issuance costs	S/	6.84	February 1, 2034	309,310	-
Mid-term promissory notes (bridge loans)					
Banco de Crédito del Perú	S/	5.70	-	-	169,000
Banco de Crédito del Perú	S/	5.70	-	-	411,769
Total non-current				1,003,130	1,022,555
Current portion				98,774	60,822
Non-current portion				1,003,130	1,022,555

Short-term promissory notes

Financing with Banco de Crédito del Perú, BBVA Perú and Scotiabank was obtained for working capital and with the purpose of resolving the acquisition of the business described in note 1.1. The short-term promissory notes have a current maturity and maintain an effective interest rate of 2.35 to 4.64 percent per year.

Senior Notes denominated in U.S. dollars

The General Shareholder's Meeting held on January 7, 2013 approved a financing transaction for the Company. In connection with this approval, the Board of Directors' Meeting held on January 24, 2013 approved the issuance of Senior Notes (the "Senior Notes") through a private offering under Rule 144A and Regulation S of the U.S. Securities Act of 1933, as amended, and the listing of the Senior Notes on the Global Exchange Market of the Irish Stock Exchange. Consequently, on February 1, 2013, the Company issued Senior Notes denominated in U.S. dollars with a face value of US\$300,000,000, with a nominal annual interest rate of 4.50%, and maturity in 2023, obtaining total net proceeds of US\$293,646,000 (S/762,067,000). The Company used a portion of the net proceeds from the offering to prepay certain of its existing debt and the difference in capital expenditures in connection with its cement business. The Senior Notes are guaranteed by the following subsidiaries of the Company: Cementos Selva S.A., Distribuidora Norte Pacasmayo S.R.L., Empresa de Transmisión Guadalupe S.A.C., Dinoseña Iquitos S.A.C and Calizas del Norte S.A.C. (in liquidation).

The Board of Directors' Meeting held on November 26, 2018 approved the repurchase of a portion of the Senior Notes. As a result, the Company acquired senior notes for an amount of US\$168,388,000. Consequently, as of December 31, 2018, US\$131,612,000 (S/436,557,000) in Senior Notes was outstanding. To finance this repurchase, the Company obtained medium-term promissory notes from Banco de Crédito del Perú (bridge loans) for a total of S/580,769,000, which were paid with the proceeds from the issuance of senior notes denominated in soles in January 2019, as described below.

As a result of the purchase of the Senior Notes described above, the Company's Management determined that it was not necessary to continue with all of the derivative financial instruments to hedge those liabilities. Accordingly, during December 2019, the Company settled US\$150,000,000 of a total of US\$300,000,000 of the previously outstanding derivative hedges that it had entered into in connection with the issuance of the Senior Notes. The loss from this settlement amounted to S/34,887,000, which is presented in "cumulative net loss on settlement of derivative financial instruments" in the consolidated statement of profit and loss for the year ended December 31, 2018. As of December 31, 2019 and 2018, the Company had hedged cash flow contracts to reduce the foreign currency risk of corporate bonds, which are denominated in U.S. dollars, see note 29.

Senior Notes denominated in Soles

The General Shareholders' Meeting held on January 8, 2019 approved the issuance of senior notes denominated in soles (the "Soles Senior Notes") in the local market up to a maximum amount of S/1,000,000,000 through the Second Corporate Bonds Program of the Company, with the proceeds to be used to pay the bridge loans described in second preceding paragraph. On January 31, 2019, Soles Senior Notes were issued for: i) S/260,000,000 at an interest rate of 6.688 percent per year and maturity of 10 years and ii) S/310,000,000 at an interest rate of 6.844 percent per year and maturity of 15 years.

The Soles Senior Notes issued in January 2019 are guaranteed by the following subsidiaries of the Company: Cementos Selva S.A., Distribuidora Norte Pacasmayo S.R.L., Empresa de Transmisión Guadalupe S.A.C. and Dinoseña Iquitos S.A.C.

Financial covenants

The financial covenants related to the Senior Notes and the Soles Senior Notes provide that in order for the Company and its guarantor subsidiaries to issue debt or equity instruments or merge with another company or dispose or lease all or substantially all of their assets, the Company and Guarantee Subsidiaries must comply with the following ratios:

- The fixed charge covenant ratio of at least 2.5 to 1.
- The consolidated debt-to-EBITDA ratio of no greater than 3.5 to 1.

As of December 31, 2019 and 2018, the Company was in compliance with all the covenants in force under the Senior Notes and Soles Senior Notes.

As of December 31, 2019 and 2018, accrued interest on the Senior Notes and Soles Senior Notes was recognized in the consolidated statement of profit or loss in the amounts of S/56,081,000 and S/45,358,000, respectively, see note 25.

16. Deferred income tax assets and liabilities

	As of January 1, 2018 S/(000)	Effect on profit or loss S/(000)	Effect on OCI S/(000)	Effect on equity S/(000)	Effect on asset S/(000)	As of December 31, 2018 S/(000)	Effect on profit or loss S/(000)	Effect on OCI S/(000)	As of December 31, 2019 S/(000)
Movement of deferred income tax assets:									
Deferred income tax assets									
Effect of tax-loss carry forward	-	-	-	-	-	-	2,614	-	2,614
Provision of discounts and bonuses to customers	-	137	-	-	-	137	1,895	-	2,032
Provision for vacations	76	13	-	-	-	89	1,640	-	1,729
Allowance for expected credit losses for other receivables	-	2,665	-	-	-	2,665	(1,691)	-	974
Effect of differences between book and tax bases of inventories.	-	-	-	-	-	-	922	-	922
Allowance for expected credit losses for trade receivables	4	65	-	-	-	69	763	-	832
Effect of differences between book and tax bases of fixed assets and in the depreciation rates used for book purposes	34	82	-	-	-	116	82	-	198
Other	28	(6)	-	-	-	22	367	-	389
	<u>142</u>	<u>2,956</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,098</u>	<u>6,592</u>	<u>-</u>	<u>9,690</u>
Deferred income tax liabilities									
Effect of differences between book and tax bases of fixed assets and in the depreciation rates used for book purposes	-	-	-	-	-	-	(2,259)	-	(2,259)
Other	-	-	-	-	-	-	(12)	-	(12)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,271)</u>	<u>-</u>	<u>(2,271)</u>
Total deferred income tax assets	<u>142</u>	<u>2,956</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,098</u>	<u>4,321</u>	<u>-</u>	<u>7,419</u>
Movement of deferred income tax liabilities:									
Deferred income tax assets									
Impairment on brine project assets, note 1.3	17,087	-	-	-	-	17,087	-	-	17,087
Impairment of mining assets	8,217	(571)	-	-	-	7,646	(523)	-	7,123
Provision for spare parts and supplies obsolescence	3,192	1,039	-	-	-	4,231	732	-	4,963
Provision for vacations	3,829	296	-	-	-	4,125	(1,054)	-	3,071
Long-term incentive plan	8,945	1,675	-	-	-	10,620	(8,109)	-	2,511
Financial instruments designated at fair value through OCI	2,253	-	-	(2,253)	-	-	-	879	879
Rehabilitation provision	507	(269)	-	-	-	238	301	-	539
Allowance for expected credit losses for trade receivables	489	107	-	-	-	596	(495)	-	101
Effect of differences between book and tax bases of inventories	-	-	-	-	922	922	(922)	-	-
Provision of discounts	1,093	(99)	-	-	-	994	(994)	-	-
Other	1,441	180	-	-	-	1,621	(1,272)	-	349
	<u>47,053</u>	<u>2,358</u>	<u>-</u>	<u>(2,253)</u>	<u>922</u>	<u>48,080</u>	<u>(12,336)</u>	<u>879</u>	<u>36,623</u>
Deferred income tax liabilities									
Effect of differences between book and tax bases of fixed assets and in the depreciation rates used for book purposes	(153,265)	(12,101)	-	-	-	(165,366)	(12,082)	-	(177,448)
Net gain on cash flow hedge	(144)	8,137	(11,612)	-	-	(3,619)	(354)	754	(3,219)
Effect of costs of issuance of senior notes	(2,422)	1,558	-	-	-	(864)	(146)	-	(1,010)
Financial instruments designated at fair value through OCI	-	-	(1,675)	-	-	(1,675)	-	1,675	-
Other	(45)	-	-	-	-	(45)	-	-	(45)
	<u>(155,876)</u>	<u>(2,406)</u>	<u>(13,287)</u>	<u>-</u>	<u>-</u>	<u>(171,569)</u>	<u>(12,582)</u>	<u>2,429</u>	<u>(181,722)</u>
Total deferred income tax liabilities, net	<u>(108,823)</u>	<u>(48)</u>	<u>(13,287)</u>	<u>(2,253)</u>	<u>922</u>	<u>(123,489)</u>	<u>(24,918)</u>	<u>3,308</u>	<u>(145,099)</u>

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

A reconciliation between tax expenses and the product of the accounting profit multiplied by Peruvian tax rate for the 2019, 2018 and 2017 is as follows:

	2019 S/(000)	2018 S/(000)	2017 S/(000)
Profit before income tax from continuing operations	194,353	116,141	128,417
Loss before income tax from discontinued operations	-	-	(1,305)
Accounting profit before income tax	<u>194,353</u>	<u>116,141</u>	<u>127,112</u>
At statutory income tax rate of 29.5%	(57,334)	(34,262)	(37,498)
Permanent differences			
Non-deductible expenses, net	(4,181)	(6,546)	(8,776)
Effect of tax-loss carry forward non-recognized	(791)	(187)	(246)
Dividends obtained from available-for-sale investments	-	-	39
At the effective income tax rate of 32% in 2019 (2018: 35% and 2017: 37%)	<u>(62,306)</u>	<u>(40,995)</u>	<u>(46,481)</u>
Income tax from continuing operations	(62,306)	(40,995)	(47,032)
Income tax from discontinued operations	-	-	551
	<u>(62,306)</u>	<u>(40,995)</u>	<u>(46,481)</u>

The income tax expenses shown for the years ended December 31, 2019, 2018 and 2017 are:

	2019 S/(000)	2018 S/(000)	2017 S/(000)
Consolidated statement of profit or loss			
Current	(41,702)	(42,959)	(58,161)
Deferred	<u>(20,604)</u>	<u>1,964</u>	<u>11,129</u>
	<u>(62,306)</u>	<u>(40,995)</u>	<u>(47,032)</u>

The income tax recorded directly to other comprehensive income represents a gain of S/3,308,000 for 2019, a loss of S/13,287,000 for 2018 and a gain of S/11,339,000 for 2017.

Following is the composition of deferred income tax related to items recognized in OCI and equity during the year:

	<u>2019</u> S/(000)	<u>2018</u> S/(000)	<u>2017</u> S/(000)
Tax effect on unrealized gain (loss) on available-for-sale financial asset	2,554	(1,675)	62
Tax effect on unrealized gain (loss) on derivative financial asset	754	(2,354)	11,277
Transfer to profit or loss hedge derivative financial instruments which changed to a trading condition.	-	(9,258)	-
Total deferred income tax in OCI	<u>3,308</u>	<u>(13,287)</u>	<u>11,339</u>
Other	-	(2,253)	2,253
Total deferred income tax in equity	<u>-</u>	<u>(2,253)</u>	<u>2,253</u>

As of December 31, 2019, 2018 and 2017, it was not necessary to recognize deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's subsidiaries. The Group determined that the timing differences will be reversed by means of dividends to be received in the future that, according to the tax rules in effect in Peru, are not subject to income tax.

For information purposes, the temporary difference associated with investments in subsidiaries, would generate an aggregate deferred tax liability amounting to S/83,822,000 (2018: S/72,140,000), which should not be recognized in the consolidated financial statements according with IAS 12.

17. Equity

(a) Capital stock -

As of December 31, 2019 and 2018, share capital was represented by 423,868,449 authorized common shares subscribed and fully paid, with a nominal value of one sol per share. As of December 31, 2019 from the total outstanding common shares, 31,066,186 were listed on the New York Stock Exchange and 392,802,263 in the Lima Stock Exchange. As of December 31, 2018, 60,577,811 common shares were listed on the New York Stock Exchange and 363,290,638 common shares were listed on the Lima Stock Exchange.

- (b) Investment shares -
Investment shares do not have voting rights or participate in shareholder's meetings or the appointment of directors or officers of the Company. Investment shares confer upon the holders thereof the right to participate in dividends distributed according to their nominal value, in the same manner as common shares. Investment shares also confer the holders thereof the right to:
- (i) maintain the current proportion of the investment shares in the case of capital increase by new contributions;
 - (ii) increase the number of investment shares upon capitalization of retained earnings, revaluation surplus or other reserves that do not represent cash contributions;
 - (iii) participate in the distribution of the assets resulting from liquidation of the Company in the same manner as common shares; and,
 - (iv) redeem the investment shares in case of a merger and/or change of business activity of the Company.
- As of December 31, 2019 and 2018, the Company had 40,278,894 investment shares subscribed and fully paid, with a nominal value of one sol per share.
- (c) Treasury shares -
As of December 31, 2019 and 2018, the Company maintained 36,040,497 investment shares held in treasury amounting to S/121,258,000.
- In January 2017 and October 2015, the Company acquired 7,911,845 and 37,276,580 investment shares for S/34,216,000 and S/108,248,000, respectively. In March 2017, as a result of the execution of the spin-off project described in note 1.2, the Company obtained 9,148,373 of its treasury investment shares, see note 9.
- (d) Additional paid-in capital -
As of January 1, 2017, additional paid-in capital was represented mainly by S/561,191,000 obtained as a result of the issue of 111,484,000 common shares and 928,000 investment shares corresponding to a public offering of American Depositary Shares (ADS) listed on the New York Stock Exchange and Lima Stock Exchange in 2012. This amount corresponds to the excess of the total proceeds obtained by this transaction in relation to the nominal value of the listed shares.
- In March and December 2017, the Company recognized a debit for S/118,569,000 and a credit for S/6,759,000 in this caption as a result of the spin-off of the interest in Fosfatos del Pacífico S.A. and the impairment of the brine project, respectively, see notes 1.2 and 1.3.
- (e) Legal reserve -
Provisions of the Peruvian General Corporation Law require that a minimum of 10% of the distributable earnings for each period, after deducting the income tax, be transferred to a legal reserve until such is equal to 20% of the capital. This legal reserve can offset losses or can be capitalized, and in both cases, there is the obligation to replenish it.

- (f) Other accumulated comprehensive results -
This reserve records fair value changes on available-for-sale financial assets and the unrealized results on cash flow hedge.

- (g) Distributions made and proposed –

	2019	2018	2017
	November 18, 2019	September 21, 2018	October 26, 2017
Approval date in Board of Directors			
Declared dividends per share to be paid in cash S/	0.36000	0.38000	0.35000
Declared dividends S/(000):	154,119	161,396	149,837

As of December 31, 2019 and 2018, dividends payable amounted to S/52,523,000 and S/19,331,000 respectively. During 2019 and 2017, in order to comply with Peruvian law, S/280,000 and S/189,000, respectively, corresponding to dividends payable with aging greater than ten years were transferred from “Dividends payable” to “Legal reserve” in the consolidated statement of changes in equity.

18. Sales of goods

This item comprised the following:

	As of December 31, 2019						
	Cement	Concrete	Precast	Quicklime	Construction supplies	Other	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Segments							
Sale of cement, concrete and precast	1,065,857	197,268	25,909	-	-	-	1,289,034
Sale of construction supplies	-	-	-	-	67,225	-	67,225
Sale of quicklime	-	-	-	36,109	-	-	36,109
Sale of other	-	-	-	-	-	333	333
	<u>1,065,857</u>	<u>197,268</u>	<u>25,909</u>	<u>36,109</u>	<u>67,225</u>	<u>333</u>	<u>1,392,701</u>
Moment of the revenue recognition							
Goods transferred at a point in time	<u>1,065,857</u>	<u>197,268</u>	<u>25,909</u>	<u>36,109</u>	<u>67,225</u>	<u>333</u>	<u>1,392,701</u>
As of December 31, 2018							
	Cement	Concrete	Precast	Quicklime	Construction supplies	Other	Total
	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)
Segments							
Sale of cement, concrete and precast	975,577	136,705	22,414	-	-	-	1,134,696
Sale of construction supplies	-	-	-	-	68,982	-	68,982
Sale of quicklime	-	-	-	57,564	-	-	57,564
Sale of other	-	-	-	-	-	1,692	1,692
	<u>975,577</u>	<u>136,705</u>	<u>22,414</u>	<u>57,564</u>	<u>68,982</u>	<u>1,692</u>	<u>1,262,934</u>
Moment of the revenue recognition							
Goods transferred at a point in time	<u>975,577</u>	<u>136,705</u>	<u>22,414</u>	<u>57,564</u>	<u>68,982</u>	<u>1,692</u>	<u>1,262,934</u>

	As of December 31, 2017						
	<u>Cement</u>	<u>Concrete</u>	<u>Precast</u>	<u>Quicklime</u>	<u>Construction supplies</u>	<u>Other</u>	<u>Total</u>
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Segments							
Sale of cement, concrete and precast	944,091	110,202	17,466	-	-	-	1,071,759
Sale of construction supplies	-	-	-	-	66,442	-	66,442
Sale of quicklime	-	-	-	80,707	-	-	80,707
Sale of other	-	-	-	-	-	1,842	1,842
	<u>944,091</u>	<u>110,202</u>	<u>17,466</u>	<u>80,707</u>	<u>66,442</u>	<u>1,842</u>	<u>1,220,750</u>
Moment of the revenue recognition							
Goods transferred at a point in time	<u>944,091</u>	<u>110,202</u>	<u>17,466</u>	<u>80,707</u>	<u>66,442</u>	<u>1,842</u>	<u>1,220,750</u>

For all segments, performance obligations are met at the time of delivery of the goods and the terms of payment are usually between 30 and 90 days from the date of delivery.

19. Cost of sales

This item comprised the following:

	2019	2018	2017
	<u>S/(000)</u>	<u>S/(000)</u>	<u>S/(000)</u>
Beginning balance of goods and finished products, note 8(a)	16,832	27,386	21,427
Beginning balance of work in progress, note 8(a)	133,972	105,882	107,882
Consumption of miscellaneous supplies	307,057	265,576	232,840
Maintenance and third-party services	225,467	181,128	167,735
Depreciation and amortization	115,245	117,273	109,262
Shipping costs	123,989	107,221	103,928
Personnel expenses, note 22(b)	101,185	84,190	76,523
Costs of packaging	44,416	38,483	32,011
Other manufacturing expenses	26,775	19,871	14,616
Ending balance of goods and finished products, note 8(a)	(22,133)	(16,832)	(27,386)
Ending balance of work in progress, note 8(a)	(166,999)	(133,972)	(105,882)
	<u>905,806</u>	<u>796,206</u>	<u>732,956</u>

20. Administrative expenses

This item comprised the following:

	2019	2018	2017
	<u>S/(000)</u>	<u>S/(000)</u>	<u>S/(000)</u>
Personnel expenses, note 22(b)	84,359	84,660	94,437
Third-party services	52,974	51,553	65,435
Depreciation and amortization	14,573	12,046	14,949
Donations	8,796	9,934	7,305
Board of Directors compensation	6,696	6,815	6,555
Taxes	4,980	4,760	3,756
Consumption of supplies	1,671	1,826	2,743
Environmental expenditures, note 28	433	547	437
	<u>174,482</u>	<u>172,141</u>	<u>195,617</u>

21. Selling and distribution expenses

This item comprised the following:

	2019 S/(000)	2018 S/(000)	2017 S/(000)
Personnel expenses, note 22(b)	26,818	21,707	17,982
Third-party services	8,636	7,549	7,392
Advertising and promotion	6,981	13,149	14,066
Allowance for expected credit losses, note 7 (d)	1,452	683	1,190
Other	646	1,029	1,048
	44,533	44,117	41,678

22. Employee benefits expenses

(a) Employee benefits expenses are made up as follow:

	2019 S/(000)	2018 S/(000)	2017 S/(000)
Wages and salaries	128,809	107,128	95,684
Legal bonuses	16,837	15,156	14,133
Vacations	15,461	14,305	12,572
Workers' profit sharing, note 14	15,169	15,712	21,554
Social contributions	25,468	21,523	20,626
Long-term compensation, note 14	6,523	9,495	11,401
Cessation payments	2,044	3,524	9,201
Training	860	2,344	2,557
Others	1,191	1,370	1,214
	212,362	190,557	188,942

(b) Employee benefits expenses are allocated as follows:

	2019 S/(000)	2018 S/(000)	2017 S/(000)
Cost of sales, note 19	101,185	84,190	76,523
Administrative expenses, note 20	84,359	84,660	94,437
Selling and distribution expenses, note 21	26,818	21,707	17,982
	212,362	190,557	188,942

23. Other operating income (expense), net

(a) This item comprised the following:

	2019 S/(000)	2018 S/(000)	2017 S/(000)
Income from management and administrative services provided to related parties, note 26	1,744	1,765	1,560
Income from land rental and office lease, note 26	722	707	682
Recovery of expenses	525	534	796
Changes in the estimation of rehabilitation provision, note 14	-	910	-
Net gain (loss) on disposal of property, plant and equipment and intangible	(1,846)	4,599	42
Write-off for disasters (b)	(357)	(784)	(9,688)
Allowance for expected credit losses, note 7(d)	-	(9,034)	-
Reconstruction of public road network destroyed by the Coastal El Niño	-	(5,675)	(1,209)
Other minor, net	1,857	(1,719)	3,460
	2,645	(8,697)	(4,357)

- (b) During the first quarter of 2017, Peru was affected by the natural phenomenon called Coastal El Niño, which caused heavy rains, floods and mudslides in northern Peru. The economic losses associated with damage to inventories, machinery and equipment and cost overruns for damage to roads necessary for the distribution of merchandise to customers, which as of December 31, 2018 and 2017 amounted to S/784,000 and S/9,688,000 respectively, this amount is presented net of the compensation recognized by the insurance company.

Of the total amount recognized by the insurance company, S/231,000 pending collection as of December 31, 2019 (S/7,876,000 as of December 31, 2018).

24. Finance income

This item comprised the following:

	2019 S/(000)	2018 S/(000)	2017 S/(000)
Interest on term deposits	1,014	1,111	1,342
Interest on accounts receivable	715	745	954
Credit value adjust on cross currency swaps	99	-	3,307
Other finance income	748	511	239
	2,576	2,367	5,842

25. Finance costs

This item comprised the following:

	2019 S/(000)	2018 S/(000)	2017 S/(000)
Interest on senior notes, note 15	56,081	45,380	45,358
Finance cost on cross currency swaps	14,958	26,185	26,140
Interest on promissory notes	5,537	2,505	-
Expenses for the purchase and amortization of issuance costs of senior notes	807	9,874	1,644
Counterparty credit risk in cross currency swaps	-	2,306	-
Other	145	321	95
Total interest expense	77,528	86,571	73,237
Unwinding of discount of provisions, note 14	458	767	522
Total finance costs	77,986	87,338	73,759

26. Related party disclosure

Transactions with related entities -

During 2019, 2018 and 2017, the Company carried out the following transactions with its parent company Inversiones ASPI S.A. and its affiliates:

	2019 S/(000)	2018 S/(000)	2017 S/(000)
Income			
Inversiones ASPI S.A. (ASPI)			
Income from office lease	12	12	12
Fees for management and administrative services	544	548	595
Compañía Minera Ares S.A.C. (Ares)			
Income from land lease, note 28	344	339	336
Income from office lease	323	318	315
Fossal S.A.A. (Fossal)			
Income from office lease	15	12	16
Fees for management and administrative services	40	42	46
Fosfatos del Pacífico S.A. (Fospac)			
Income from office lease	28	26	40
Fees for management and administrative services	1,160	1,175	917
Expense			
Security services provided by Compañía Minera Ares	1,989	2,059	1,195

As a result of these transactions, the Company had the following rights and obligations as of December 31, 2019 and 2018:

	2019		2018	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
	S/(000)	S/(000)	S/(000)	S/(000)
Fosfatos del Pacífico S.A.	543	-	1,487	-
Inversiones ASPI S.A.	157	-	1,240	-
Compañía Minera Ares S.A.C.	207	1,772	242	209
Otros	264	-	240	-
	<u>1,171</u>	<u>1,772</u>	<u>3,209</u>	<u>209</u>

Terms and conditions of transactions with related parties -

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances with related parties at the year-end are unsecured and interest free and settlement occurs in cash. For the years ended December 31, 2019, 2018 and 2017, the Group did not record allowance for expected credit losses relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group -

The compensation paid to key management personnel includes expenses for profit-sharing, compensation and other concepts for members of the Board of Directors and the key management. As of December 31, 2019, the total short-term compensation amounted to S/23,692,000 (2018: S/24,129,000) and the total long-term compensation amounted to S/6,523,000 (2018: S/9,495,000), and there were no post-employment or contract termination benefits or share-payments.

27. Earnings per share (EPS)

Basic earnings per share (EPS) amounts are calculated by dividing the profit for the year by the weighted average number of common shares and investment shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted EPS computations:

	2019	2018	2017
	S/(000)	S/(000)	S/(000)
Numerator			
Net profit from continuing operations attributable to ordinary equity holders of the Parent	132,047	76,699	94,171
Net loss from discontinued operations attributable to ordinary equity holders of the Parent	-	-	(389)
Net profit attributable to ordinary equity holders of the Parent	<u>132,047</u>	<u>76,699</u>	<u>93,782</u>
Denominator			
Weighted average number of common and investment shares (thousands of shares)	<u>428,107</u>	<u>428,107</u>	<u>446,062</u>

	<u>2019</u> S/	<u>2018</u> S/	<u>2017</u> S/
Basic profit for common and investment shares from continuing operations	0.31	0.18	0.21
Basic loss for common and investment shares from discontinued operations	-	-	-
Basic profit for common and investment shares from continuing and discontinued operations	<u>0.31</u>	<u>0.18</u>	<u>0.21</u>

The weighted average number of shares in 2017, includes the weighted average effect of changes in treasury shares, as explained in note 17(c).

The Group had no dilutive potential ordinary shares as of December 31, 2019 and 2018.

There were no other transactions involving common shares or investment shares between the reporting date and the date of the authorization of these consolidated financial statements.

28. Commitments and contingencies

Operating lease commitments – Group as lessor

As of December 31, 2019, 2018 and 2017, the Group, as lessor, had a land lease with Compañía Minera Ares S.A.C. a related party of Inversiones ASPI S.A. This lease is annually renewable, and provided an annual rent of S/344,000, S/339,000 and S/336,000, respectively; see note 26.

Capital commitments

As of 31 December 2019, the Group had no significant capital commitments.

Other commitments

On August 29, 2018, the Company signed a gas supply contract with Olympic Peru that entered in force during 2019 by which the Company started to use gas in our Piura plant. The supply contract is for 18 years and covers most of the Company's energy needs in the Piura plant. The contract has two phases: 1) the "spot phase", in which the Company pays for the gas it uses; and the contract can be terminated at any time by either party without penalties and 2) the "take or pay phase", in which the Company is required to pay for a minimum amount of gas established as a percentage of maximum gas requested to Olympic Peru (this percentage varies from 60 to 70% depending on the year), this phase has penalties by either party if any cancel the contract. The unit prices of the gas are fixed for each year despite it is in the "spot" or the "take or pay" phase. We are currently in the spot phase. The contract enters in "take or pay" phase when the following conditions are met by Olympic Peru: 1) The Peruvian Government signs a gas distribution contract with a concessionaire (third party) in the Piura region, 2) Olympic Peru transfers the pipe to said concessionaire, and 3) commercial conditions to transport the gas between Olympic Peru and the distribution concessionaire are agreed. These three conditions are not under our control and we cannot reasonably estimate when they will be met.

Mining royalty

Third parties

In December 2013, the Company signed an agreement with a third party, related to the use of the Virrilá concession, to carry out other non-metallic mining activities related to cement production. This agreement has a term of 30 years, with fixed annual payments of US\$600,000 for the first three years and variable payments for the rest of the contract. The related expense as of December 31, 2019 and 2018 amounted to S/7,039,000 and S/6,023,000, respectively, and was recognized as part of the cost of inventory production. As part of this agreement, the Company is required to pay the equivalent of S/4.5 each for each metric ton of calcareous extracted, and the annual royalty may not be less than the equivalent to 850,000 metric tons since the fourth year of production.

Peruvian government

According to the Royalty Mining Law in force since October 1, 2011, the royalty for the exploitation of metallic and nonmetallic resources is payable on a quarterly basis in an amount equal to the greater of: (i) an amount determined in accordance with a statutory scale of rates based on operating profit margin that is applied to the quarterly operating profit, adjusted by certain items, and (ii) 1% of net sales, in each case during the applicable quarter. These amounts are estimated based on the unconsolidated financial statements of Cementos Pacasmayo S.A.A. and the subsidiaries affected by this mining royalty, prepared in accordance with IFRS. Mining royalty payments will be deductible for income tax purposes in the fiscal year in which such payments are made.

Mining royalty expense paid to the Peruvian Government for 2019, 2018 and 2017 amounted to S/1,012,000, S/1,179,000 and S/841,000, respectively, and was recognized as part of the cost of inventory production.

Tax situation

The Company is subject to Peruvian tax law. As of December 31, 2019 and 2018 and 2017, the income tax rate was 29.5 percent of the taxable profit after deducting employee participation, which is calculated at a rate of 8 to 10 percent of the taxable income.

For purposes of determining income tax, transfer pricing transactions with related companies and companies resident in territories with low or no taxation, must be supported with documentation and information on the valuation methods used and the criteria considered for determination. Based on the operations of the Group, Management and its legal advisors believe that as a result of the application of these standards would not result in significant contingencies for the Group as of December 31, 2019 and 2018.

The tax authority has the power to review and, if applicable, correct the income tax calculated by each company in the four years after the year of filing the tax return.

It should be noted that of January 1, 2019, a series of tax benefits for Loreto region was eliminated, eliminating the tax refund of the value added tax (VAT) and the exemption of VAT for the importation of goods that are destined for consumption in the Amazon.

The statements of income tax and VAT corresponding to the years indicated in the attached table are subject to review by the tax authorities:

Entity	Years open to review by Tax Authority	
	Income tax	Value-added tax
Cementos Pacasmayo S.A.A.	2015-2019	Dec. 2015-2019
Cementos Selva S.A.	2015-2019	Dec. 2015-2019
Distribuidora Norte Pacasmayo S.R.L.	2015-2019	Dec. 2015-2019
Empresa de Transmisión Guadalupe S.A.C.	2015-2019	Dec. 2015-2019
Salmueras Sudamericanas S.A.	2015-2019	Dec. 2015-2019
Calizas del Norte S.A.C. (in liquidation)	2015-2019	Dec. 2015-2019
Soluciones Takay S.A.C.	2019	Mar.2019-Dec.2019

Due to possible interpretations that the tax authority may give to legislation in effect, it is not possible to determine whether or not any of the tax audits will result in increased liabilities for the Group. For that reason, tax or surcharge that could arise from future tax audits would be applied to the income of the period in which it is determined. However, in Management's opinion, any possible additional payment of taxes would not have a material effect on the consolidated financial statements as of December 31, 2019 and 2018.

Environmental matters

The Group's exploration and exploitation activities are subject to environmental protection standards.

Environmental remediation -

Law No. 28271 regulates environmental liabilities in mining activities. This Law has the objectives of ruling the identification of mining activity's environmental liabilities and financing the remediation of the affected areas. According to this law, environmental liabilities refer to the impact caused to the environment by abandoned or inactive mining operations.

In compliance with the above-mentioned laws, the Group presented environmental impact studies (EIS), declaration of environmental studies (DES) and Environmental Adaptation and Management Programs (EAMP) for its mining concessions.

The Peruvian authorities approved the EIS and EAMP presented by the Group for its mining concessions and exploration projects. A detail of plans and related expenses approved is presented as follows:

Project unit	Resource	Resolution Number	Year of approval	Program approved	Year expense		
					2019 S/(000)	2018 S/(000)	2017 S/(000)
Rioja	Limestone	RD186-2014-PRODUCE/DVMYPE-I/DIGGAM	2014	EIS	244	345	236
Tembladera	Limestone	RD304-18-PRODUCE/DVMYPE-I/DIGAAMI	2018	EAMP	189	202	201
					<u>433</u>	<u>547</u>	<u>437</u>

The Group incurs in environmental expenses related to environmental damages caused by current operations. These expenses amounted to S/433,000, S/547,000 and S/437,000 during 2019, 2018 and 2017, respectively. They were recorded as expenses in the year in which the expenses were incurred and are recognized in the administrative expenses item, see note 20. As of December 31, 2019 and 2018, the Group had no liabilities related to these expenses because all were liquid before the end of the year.

Rehabilitation provision -

Additionally, Law No. 28090 regulates the obligations and procedures that must be met by the holders of mining activities for the preparation, filing and implementation of Mine Closure Plans, as well as the establishment of the corresponding environmental guarantees to secure fulfillment of the investments that this includes, subject to the principles of protection, preservation and recovery of the environment. In connection with this obligation, as of December 31, 2019 and 2018, the Group maintains a provision for the closing of the quarries exploited in operations amounting to S/1,829,000 and S/1,489,000, respectively. The Group believes that this liability is adequate to meet the current environmental protection laws approved by the Ministry of Energy and Mines, refer to note 14.

Legal claim contingency

The Group has received claims from third parties in relation with its operations which in the aggregate represent S/12,884,000. From this total amount, S/2,905,000 corresponded to labor claims from former employees, S/7,681,000 related to property tax assessment for the periods 2009 to 2014 received from the municipality of Pacasmayo, Peru; S/2,298,000 related to the tax assessments received from the tax administration corresponding to 2009 tax period, which was reviewed by the tax authority during 2012.

Management expects that these claims will be resolved within the next five years based on prior experience; however, the Group cannot assure that these claims will be resolved within this period because the authorities do not have a maximum term to resolve cases. The Group has been advised by its legal counsel that it is only possible, but not probable, that these actions will succeed. During 2019, a provision was recorded for legal claims in the consolidated financial statements of S/693,085 (S/420,076 in 2018).

29. Financial risk management, objectives and policies

The Group's main financial liabilities, comprise loans and borrowings, trade payables and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's main financial assets include cash and short-term deposits and trade and other receivables that derive directly from its operations. The Group also holds financial instruments designated at fair value through OCI, cash flow hedges instruments and derivative financial instruments of negotiation.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management is supported by financial management that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial management provides assurance to the Group's senior management that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives.

The Management reviews and agrees policies for managing each of these risks, which are summarized below.

Market risk -

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include deposits, financial instruments designated at fair value through OCI and derivative financial instruments.

The sensitivity analyses shown in the following sections relate to the Group's consolidated position as of December 31, 2019 and 2018. The sensitivity analyses have been prepared on the basis that the amount of net debts and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place as of December 31, 2019 and 2018.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant statement of profit or loss items is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held as of December 31, 2019 and 2018, including the effect of hedge accounting.

Interest rate risk -

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As of December 31, 2019 and 2018, all of the Group's borrowings were at a fixed rate of interest; consequently, Management determined that is not necessary to do an interest rate sensitivity analysis.

Foreign currency risk -

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

The Group hedges its exposure to fluctuations on the translation into soles of its Senior Notes which are denominated in U.S. dollars, by using cross currency swaps contracts, see note 30 (a).

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. dollar/sol exchange rate, with all other variables held constant. The impact on the Group's profit before income tax is due to changes in the fair value of monetary assets and liabilities.

	Change in US\$ rate	Effect on consolidated profit before tax
2019	%	S/(000)
U.S. Dollar		
	+5	(650)
	+10	(1,299)
	-5	650
	-10	1,299
2018	Change in US\$ rate	Effect on consolidated profit before tax
U.S. Dollar	%	S/(000)
	+5	(3,183)
	+10	(6,365)
	-5	3,183
	-10	6,365

Equity price risk -

The Group's listed equity securities measured at level three of the fair value hierarchy are susceptible to market price risk arising from uncertainties about future values of the investment securities, see note 30.

Credit risk -

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to a credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed, and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit. As of December 31, 2019 and 2018, the Group had 6 customers, that owed the Group more than S/3,000,000, with each accounting for approximately 43% and 33% for all receivables owing, respectively. As of December 31, 2019, there were 22 customers with balances smaller than S/700,000 and less S/3,000,000, with each accounting for approximately 31% and 37% of the total amount receivable, respectively. The evaluation for allowance for expected credit losses is updated at the date of the consolidated financial statements and individually for the main customers. This calculation is based on actual historical data incurred.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 7. The Group does not hold collateral as security.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties of first level. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. As of December 31, 2019 and 2018, the Group's maximum exposure to credit risk for the components of carrying amounts is shown in note 6. The Group's maximum exposure relating to financial derivative instruments is noted in the liquidity table.

Liquidity risk -

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and debentures of long term. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over under the same conditions with existing lenders, if this is necessary.

As of December 31, 2019 and 2018 no portion of Senior Notes will mature in less than one year.

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

	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
As of December 31, 2019					
Interest-bearing loans adjusted by hedge	-	98,774	400,671	570,000	1,069,445
Interest	29,124	31,265	203,525	232,057	495,971
Hedge finance cost payable	-	14,703	36,757	-	51,460
Trade and other payables	174,888	50,364	-	-	225,252
As of December 31, 2018					
Interest-bearing loans adjusted by hedge	-	60,822	981,440	-	1,042,262
Interest	10,006	44,436	101,243	-	155,685
Hedge finance cost payable	7,489	7,489	52,422	-	67,400
Trade and other payables	120,947	24,903	-	-	145,850

The disclosed financial derivative instruments in the table below are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding reconciliation to those amounts to their carrying amounts:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
As of December 31, 2019						
Inflows	-	-	-	44,527	-	44,527
Outflows	-	(1,601)	(7,394)	(36,210)	-	(45,205)
Net	-	(1,601)	(7,394)	8,317	-	(678)
Discounted at the applicable interbank rates	-	(1,595)	(7,280)	7,573	-	(1,302)
As of December 31, 2018						
Inflows	1,470	-	-	75,955	-	77,425
Outflows	-	(1,631)	(7,448)	(50,025)	-	(59,104)
Net	1,470	(1,631)	(7,448)	25,930	-	18,321
Discounted at the applicable interbank rates	1,470	(1,625)	(7,336)	19,759	-	12,268

Changes in liabilities arising from financing activities:

	Balance as of January 1, 2018	Distribution of dividends	Finance cost on cross currency swaps	Cash inflow	Cash outflow	Movement of foreign currency	Amortization of costs of issuance of senior notes	Others	Balance as of December 31, 2018
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
2019									
Hedge finance cost payable	6,033	-	14,824	-	(14,935)	-	-	-	5,922
Dividends payable	19,331	154,119	-	-	(120,647)	-	-	(280)	52,523
Interest- bearing loans	1,083,377	-	-	638,281	(610,999)	(9,562)	807	-	1,101,904
2018									
Hedge finance cost payable	10,505	-	21,971	-	(26,443)	-	-	-	6,033
Dividends payable	29,725	161,396	-	-	(171,790)	-	-	-	19,331
Interest- bearing loans	965,290	-	-	661,390	(588,150)	39,520	5,327	-	1,083,377

Capital management -

For the purpose of the Group's capital management, capital includes capital stock, investment shares, additional paid-in capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximize the shareholders' value.

In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the creditors to immediately call senior notes. There have been no breaches in the financial covenants of the Senior Notes in the current period.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2019 and 2018.

30. Fair value financial assets and liabilities

Financial assets -

Except derivative financial instruments and financial instruments designated at fair value through other comprehensive income, all financial assets which included cash and cash equivalents and trade and other receivables are classified in the category of loans and receivables, are which non-derivative financial assets carried at amortized cost, held to maturity, and generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

Financial liabilities -

All financial liabilities of the Group including trade and other payables and interest-bearing loans and borrowings are classified as loans and borrowings and are carried at amortized cost.

(a) Derivative financial instruments -

Derivates liabilities of hedging -

Foreign currency risk -

As of December 31, 2019 and 2018, the Company maintained cross currency swaps agreements for an amount of US\$150,000,000. Of this total, US\$131,612,000 were designated as hedging instruments for Senior Notes denominated in U.S. dollars, with the intention of reducing the foreign exchange risk.

The cash flow hedge of the expected future payments was assessed to be highly effective and an unrealized loss of S/2,556,000 was included in OCI as of December 31, 2019 (unrealized gain of S/201,000 as of December 31, 2018). The amounts retained in other comprehensive income as of December 31, 2019 are expected to mature and affect the consolidated statement of profit or loss in 2023.

Liabilities assets from trading -

Cross currency swaps that do not have an underlying relationship amounted to US\$18,388,000 and were designated as trading. The effect on profit or loss of the change on their fair value amounted to S/1,483,000 as of December 31, 2019 (S/1,324,000 as of December 31, 2018). In addition, the derivative trading instrument acquired by the Company in December 2018 for a nominal amount of US\$70,000,000 was liquidated in January 2019 and the result was a gain presented in "Finance income" in the consolidated statement of profit or loss for a value of S/1,458,000.

(b) Fair values and fair value accounting hierarchy -

Set out below is a comparison of the carrying amounts and fair values of financial instruments as of December 31, 2019 and 2018, as well as the fair value accounting hierarchy.

	Carrying amount		Fair value		Fair value hierarchy
	2019	2018	2019	2018	2019/2018
	S/(000)	S/(000)	S/(000)	S/(000)	
Financial assets					
Cash and cash equivalents	68,266	49,067	68,266	49,067	Level 1
Trade and other receivables	125,211	107,501	125,211	107,501	Level 1
Derivatives financial assets – Cross currency swaps	-	12,268	-	12,268	Level 2
Financial investment at fair value through other comprehensive income	18,224	26,883	18,224	26,883	Level 3
Total financial assets	211,701	195,719	211,701	195,719	
Financial liabilities					
Trade and other payables	237,299	154,565	237,299	154,565	Level 1
Derivatives financial liabilities – “Cross currency swaps”	1,302	-	1,302	-	Level 2
Senior notes	1,003,130	441,786	1,048,484	442,142	Level 1
Promissory notes	98,774	641,591	99,333	643,308	Level 2
Total financial liabilities	1,340,505	1,237,942	1,386,418	1,240,015	

All financial instruments for which fair value is recognized or disclosed are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy. As of December 31, 2019 and 2018, there were no transfers between the fair value hierarchies.

Management assessed that cash and term deposits, trade and other receivables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

- The fair value of cross currency swaps is measured by using valuation techniques where inputs are based on market data and present value calculations. The models incorporate various inputs, including the credit quality of counterparties, foreign exchange, forward rates and interest rate curves.

A credit valuation adjustment (CVA) is applied to the “Over-The-Counter” derivative exposures to take into account the counterparty’s risk of default when measuring the fair value of the derivative. CVA is the mark-to market cost of protection required to hedge credit risk from counterparties in this type of derivatives portfolio. CVA is calculated by multiplying the probability of default (PD), the loss given default (LGD) and the expected exposure (EE) at the time of default.

A debit valuation adjustment (DVA) is applied to incorporate the Group’s own credit risk in the fair value of derivatives (that is the risk that the Group might default on its contractual obligations), using the same methodology as for CVA.

- The fair value of the quoted senior notes is based on the current quotations value at the reporting date.
- The fair value of fixed rate promissory note it is calculated using the results of cash flow discounted at the average indebtedness rates effective as of the date of estimation.
- The fair value of financial instruments designated at fair value through other comprehensive income has been determined using the income approach/discounted cash flow method. The quantitative information about the significant unobservable inputs used in level 3 fair value measurements as of December 31, 2019 and 2018 are described as follows:

	Weighted average	Fair value sensitivity
Earning growth factor	4%	5% (2018: 5%) increase or decrease in the factor would result in an increase (decrease) in fair value of S/11,012,000 and (S/11,381,000), respectively (2018: S/10,790,000 and (S/8,783,000), respectively).
WACC discount rate	8.9%	10% (2018: 10%) increase or decrease in the discount rate would result in an increase (decrease) in fair value at (S/11,222,000) and S/15,352,000, respectively (2018: (S/12,942,000) and S/19,969,000, respectively).

31. Segment information

For management purposes, the Group is organized into business units based on their products and activities and have three reportable segments as follows:

- Production and marketing of cement, concrete and precast in the northern region of Peru.
- Sale of construction supplies (steel rebar and building materials) in the northern region of Peru.
- Production and marketing of quicklime in the northern region of Peru.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the profit before income tax of each business unit separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit before income tax and is measured consistently with profit before income tax in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

	Revenues from external customers	Cost of sales	Gross profit margin	Other operating income, net	Administrative expenses	Selling and distribution expenses	Impairment on brine project	Finance costs	Finance income	Net loss on settlement of derivative financial instruments	Gain (loss) from exchange difference, net	Profit (loss) before income tax	Income tax expense	Net income (loss) from continuing operations	Net loss from discontinued operations	Profit (loss) for the year
	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)	S/(000)	S/(000)
2019																
Cement, concrete and precast	1,289,034	(808,568)	480,466	2,701	(165,758)	(42,306)	-	(77,947)	2,553	(1,491)	718	198,936	(63,775)	135,161	-	135,161
Construction supplies	67,225	(64,422)	2,803	(25)	(3,490)	(891)	-	(37)	23	-	6	(1,611)	516	(1,094)	-	(1,094)
Quicklime	36,109	(32,564)	3,545	-	(1,745)	(445)	-	-	-	-	4	1,359	(436)	923	-	923
Other (*)	333	(252)	81	(31)	(3,489)	(891)	-	(2)	-	-	1	(4,331)	1,389	(2,943)	-	(2,943)
Consolidated	1,392,701	(905,806)	486,895	2,645	(174,482)	(44,533)	-	(77,986)	2,576	(1,491)	729	194,353	(62,306)	132,047	-	132,047
2018																
Cement, concrete and precast	1,134,696	(675,218)	459,478	(8,191)	(166,127)	(43,015)	-	(87,327)	4,945	(34,887)	(8,227)	116,649	(41,214)	75,435	-	75,435
Construction supplies	68,982	(67,249)	1,733	(322)	(553)	(1,066)	-	(11)	25	-	(26)	(220)	116	(104)	-	(104)
Quicklime	57,564	(52,313)	5,251	-	(2,186)	-	-	-	-	-	(111)	2,954	(1,043)	1,911	-	1,911
Other (*)	1,692	(1,426)	266	(184)	(3,275)	(36)	-	-	-	-	(13)	(3,242)	1,146	(2,096)	-	(2,096)
Consolidated	1,262,934	(796,206)	466,728	(8,697)	(172,141)	(44,117)	-	(87,338)	4,970	(34,887)	(8,377)	116,141	(40,995)	75,146	-	75,146
2017																
Cement, concrete and precast	1,071,759	(599,729)	472,030	(4,127)	(174,087)	(39,334)	-	(73,759)	5,779	-	(2,012)	184,490	(67,568)	116,922	-	116,922
Construction supplies	66,442	(64,569)	1,873	36	(1,499)	(2,287)	-	-	48	-	(17)	(1,846)	676	(1,170)	-	(1,170)
Quicklime	80,707	(67,036)	13,671	-	(15,613)	-	-	-	-	-	(183)	(2,125)	778	(1,347)	-	(1,347)
Other (*)	1,842	(1,622)	220	(266)	(4,418)	(57)	(47,582)	-	15	-	(14)	(52,102)	19,082	(33,020)	(754)	(33,774)
Consolidated	1,220,750	(732,956)	487,794	(4,357)	(195,617)	(41,678)	(47,582)	(73,759)	5,842	-	(2,226)	128,417	(47,032)	81,385	(754)	80,631

- (*) The "other" segment includes activities that do not meet the threshold for disclosure under IFRS 8.13 and represent non-material operations of the Group (including brine project).

	Segment assets	Other assets (*)	Total assets	Operating liabilities	Capital expenditure (**)	Depreciation and amortization	Provision of inventory net realizable value and obsolescence
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
2019							
Cement, concrete and precast	2,714,888	-	2,714,888	1,409,596	87,086	(122,911)	(2,498)
Construction supplies	51,376	-	51,376	99,934	-	(879)	-
Quicklime	93,812	-	93,812	-	-	(5,820)	-
Other	53,258	18,224	71,482	377	-	(208)	-
Consolidated	2,913,334	18,224	2,931,558	1,509,907	87,086	(129,818)	(2,498)
2018							
Cement, concrete and precast	2,634,102	9,474	2,643,576	1,377,769	113,365	(124,070)	(3,808)
Construction supplies	29,363	-	29,363	34,788	284	(1,100)	-
Quicklime	111,072	-	111,072	-	-	(4,433)	-
Other	50,936	29,677	80,613	704	-	(176)	-
Consolidated	2,825,473	39,151	2,864,624	1,413,261	113,649	(129,779)	(3,808)

(*) As of December 31, 2019, corresponded to the financial investment designated at fair value through OCI for approximately S/18,224,000. As of December 31, 2018 corresponded to the financial investment designated at fair value through OCI and fair value of the derivative financial instruments (cross currency swap) for approximately S/26,883,000 and S/12,268,000, respectively. The fair value of derivative financial instruments of hedging is allocated to the segment of cement, and the financial investment designated at fair value through OCI and fair value of derivate financial instrument from trading are not assigned to any segment.

(**) Capital expenditure consists of S/87,086,000 and S/113,649,000 during the years ended as of December 31, 2019 and 2018, respectively, and are related to additions of property, plant and equipment, intangible and other minor non-current assets. During 2019 and 2018, there were no purchases of assets through leases.

Geographic information

As of December 31, 2019 and 2018, all non-current assets were located in Peru and all revenues are from clients located in the north region of the country.

32. Subsequent event

Subsequent to end of the year ended December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. We have seen a significant impact on our business to the date of the financial statements. The outbreak and the response of the Peruvian Government in dealing with the pandemic is interfering with general activity levels within the community, the economy and the operations of our business, and in March and April 2020, Peruvian Government issued Supreme Decrees No. 044-2020-PCM, 051-2020-PCM, 064-2020-PCM and 075-2020-PCM with exceptional measures aimed at strengthening the surveillance and response of the sanitary system against COVID-19 in the national territory. However, these extraordinary measures, which includes the closure of our production and selling facilities since March 17, 2020, will have a negative impact on our earnings, cash flows and financial condition.

It is not possible to estimate the impact of the outbreak's near-term and longer effects or Peruvian Government's varying efforts to combat the outbreak and support businesses. This being the case, we do not consider it practicable to provide a quantitative or qualitative estimate of the potential impact of this outbreak on the Group at this time.

The financial statements have been prepared based upon conditions existing at December 31, 2019 and considering those events occurring subsequent to that date, that provide evidence of conditions that existed at the end of the reporting period. As the outbreak of COVID-19 occurred after December 31, 2019, its impact is considered an event that is indicative of conditions that arose after the reporting period and accordingly, no adjustments have been made to financial statements as at December 31, 2019 for the impacts of COVID-19.

Description of Securities Registered under Section 12(b) of the Exchange Act

As of December 31, 2019, Cementos Pacasmayo S.A.A. (the “Company,” “we,” “us” or “our”) had one class of securities registered under Section 12(b) of the U.S. Securities Exchange Act of 1934, as amended – American Depositary Shares (“ADS”), each representing five common shares issued by the Company, each of which has a par value of 1.00 Peruvian Sol per share.

The following is a summary of the terms of our ADS and our common shares, and certain material provisions of our by-laws. We have filed copies of our by-laws as exhibit 1.1 to our annual report on Form 20-F filed on May 1, 2017. As well, our by-laws are available in our website (www.cementospacasmayo.com.pe).

DESCRIPTION OF AMERICAN DEPOSITARY SHARES

General

The depositary for the ADSs is JPMorgan Chase Bank, N.A. Each ADS represents an ownership interest in five common shares which have been deposited with the custodian, Citibank del Perú S.A., as agent of the depositary, under the deposit agreement among us, the depositary and all registered holders from time to time of ADSs issued under the deposit agreement. In the future, each ADS will also represent any securities, cash or other property deposited with the depositary but which they have not distributed directly to holders of ADSs. Unless specifically requested by an ADS holder, all ADSs will be issued on the books of our depositary in book-entry form and periodic statements will be mailed to ADS holders which reflect such holders’ ownership interest in such ADSs.

The depositary’s offices are located at 383 Madison Avenue, Floor 11 New York, NY 10179.

ADSs may be held either directly or indirectly through brokers or other financial institutions. If a holder holds ADSs directly, by having an ADS registered in such holder’s name on the books of the depositary, such person is a holder of American Depositary Receipts (“ADRs”). This description assumes that ADSs are held directly. If a holder holds ADSs through its broker or financial institution nominee, such holder must rely on the procedures of such broker or financial institution to assert the rights of an ADR holder described in this section. Holders should consult with their brokers or financial institutions to find out what those procedures are.

ADR holders have no direct ownership interest in our common shares and only have the rights of an ADR holder specified in the deposit agreement. Such rights derive from the terms of the deposit agreement to be entered into among us, the depositary and all registered holders from time to time of ADSs issued under the deposit agreement. The obligations of the depositary and its agents are also set out in the deposit agreement. Because the depositary or its nominee will actually be the registered owner of the common shares, a holder of ADSs must rely on the depositary or its nominee to exercise the rights of a shareholder on behalf of such holder. The deposit agreement and the ADSs are governed by New York State law. However, our obligations to the holders of common shares represented by the ADSs will continue to be governed by the laws of Peru, which may be different from the laws of the State of New York.

The following is a summary of what we believe to be the material terms of the deposit agreement. This summary is qualified in its entirety by reference to, and should be read in conjunction with, the entire deposit agreement and the form of ADR which contains the complete terms of the ADSs. You can read a copy of the deposit agreement, which was filed as exhibit 99(A)(2) to our registration statement on Form F-6 filed on January 19, 2012, as amended by Amendment No. 1 thereto filed as exhibit 99(A)(2) to our registration statement on Form F-6 filed on February 21, 2012. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330. You may also find our annual reports on Form 20-F and the deposit agreement on the SEC’s website at <http://www.sec.gov>.

Dividends and Other Distributions

We may make various types of distributions with respect to our securities. The depositary has agreed that, to the extent practicable, it will pay to holders of ADSs the cash dividends or other distributions it or the custodian receives on common shares or other deposited securities, after converting any cash received into U.S. dollars and, in all cases, making any necessary deductions provided for in the deposit agreement. Each ADS holder will receive these distributions in proportion to the number of underlying securities that such holder's ADSs represent.

Except as stated below, the depositary will deliver such distributions to ADR holders in proportion to their interests in the following manner:

Distribution of cash. The depositary will distribute any U.S. dollars available to it resulting from a cash dividend or other cash distribution or the net proceeds of sales of any other distribution or portion thereof (to the extent applicable), on an averaged or other practicable basis, subject to (i) appropriate adjustments for taxes withheld, (ii) such distribution being impermissible or impracticable with respect to certain registered ADR holders, and (iii) deduction of the depositary's expenses in (1) converting any foreign currency to U.S. dollars to the extent that it determines that such conversion may be made on a reasonable basis, (2) transferring foreign currency or U.S. dollars to the United States by such means as the depositary may determine to the extent that it determines that such transfer may be made on a reasonable basis, (3) obtaining any approval or license of any governmental authority required for such conversion or transfer, which is obtainable at a reasonable cost and within a reasonable time and (4) making any sale by public or private means in any commercially reasonable manner. If exchange rates fluctuate during a time when the depositary cannot convert a foreign currency, a holder may lose some or all of the value of the distribution.

Distribution of common shares. In the case of a distribution of common shares, the depositary will issue additional ADRs to evidence the number of ADSs representing such common shares. Only whole ADSs will be issued. Any common shares which would result in fractional ADSs will be sold and the net proceeds will be distributed in the same manner as cash to the ADR holders entitled thereto.

No distribution of ADRs as described above will be made if it violates U.S. securities laws, or any other law, or if it is not operationally practicable. If the depositary does not distribute new ADRs as described above, it will use its best efforts to sell the common shares received and distribute the proceeds of the sale in the same manner as a cash distribution.

Rights to receive additional common shares. In the case of a distribution of rights to subscribe for additional common shares or other rights, if we provide evidence satisfactory to the depositary that it may lawfully distribute such rights, the depositary will distribute warrants or other instruments in the discretion of the depositary representing such rights. If we do not furnish such evidence, the depositary may:

- sell such rights if practicable and distribute the net proceeds in the same manner as cash distributions to the ADR holders entitled thereto; or
- if it is not reasonably practicable to sell such rights, do nothing and allow such rights to lapse, in which case ADR holders will receive nothing

We have no obligation to file a registration statement under the Securities Act in order to make any rights available to ADR holders.

Other Distributions. In the case of a distribution of securities or property other than those described above, the depositary may either (i) distribute such securities or property in any manner it deems equitable and practicable or (ii) to the extent the depositary deems distribution of such securities or property not to be equitable and practicable, sell such securities or property and distribute any net proceeds in the same manner it distributes cash.

If the depositary determines that any distribution described above is not practicable with respect to any specific registered ADR holder, the depositary may choose any method of distribution that it deems practicable for such ADR holder, including the distribution of foreign currency, securities or property, or it may retain such items, without paying interest on or investing them, on behalf of the ADR holder as deposited securities, in which case the ADSs will also represent the retained items.

U.S. dollars will be distributed by checks drawn on a bank in the United States for whole U.S. dollars and cents. Fractional cents will be withheld without liability and dealt with by the depositary in accordance with its then current practices.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders.

There can be no assurance that the depositary will be able to convert any currency at a specified exchange rate or sell any property, rights, common shares or other securities at a specified price, nor that any of such transactions can be completed within a specified time period.

Issuance of ADSs upon Deposit of Common Shares

The depositary will issue ADSs if an ADS holder or such holder's broker deposits common shares or evidence of rights to receive common shares with the custodian and pays the fees and expenses owing to the depositary in connection with such issuance.

Common shares deposited in the future with the custodian must be accompanied by certain delivery documentation and shall, at the time of such deposit, be registered in the name of the depositary for the benefit of holders of ADRs or in such other name as the depositary shall direct.

The custodian will hold all deposited common shares for the account of the depositary. ADR holders thus have no direct ownership interest in our common shares and only have such rights as are contained in the deposit agreement. The custodian will also hold any additional securities, property and cash received on or in substitution for the deposited common shares. The deposited common shares and any such additional items are referred to as "deposited securities."

Upon each deposit of common shares, receipt of related delivery documentation and compliance with the other provisions of the deposit agreement, including the payment of the fees and charges of the depositary and any taxes or other fees or charges owing, the depositary will issue an ADR or ADRs in the name or upon the order of the person entitled thereto evidencing the number of ADSs to which such person is entitled. All of the ADSs issued will, unless specifically requested to the contrary, be part of the depositary's direct registration system, and a registered holder will receive periodic statements from the depositary which will show the number of ADSs registered in such holder's name. An ADR holder can request that the ADSs not be held through the depositary's direct registration system and that a certificated ADR be issued.

The term "common shares" in this description of the ADSs also refers to preliminary stock certificates (*certificados provisionales*), which are subsequently converted to common shares once the applicable capital increase is registered with the Peruvian public registry and new common shares are listed on the Lima Stock Exchange and registered in the book-entry settlement system of CAVALI S.A. ICLV.

Withdrawal of Common Shares upon Cancellation of ADSs

When a holder turns in its ADR certificate at the depositary's office, or when a holder provides proper instructions and documentation in the case of direct registration ADSs, the depositary will, upon payment of certain applicable fees, charges and taxes, deliver the underlying common shares to such holder upon such holder's written order. At such holder's risk, expense and request, the depositary may deliver deposited securities at such other place as such holder may request.

The depositary may only restrict the withdrawal of deposited securities in connection with:

- temporary delays caused by closing our transfer books or those of the depositary or the deposit of common shares in connection with voting at a shareholders' meeting, or the payment of dividends;
- the payment of fees, taxes and similar charges; or
- compliance with any Peruvian, U.S. or other foreign laws or governmental regulations relating to the ADRs or to the withdrawal of deposited securities.

Notwithstanding the foregoing, no withdrawal of deposited securities in the form of preliminary stock certificates (*certificados provisionales*) will be permitted until such preliminary stock certificates have been converted into common shares once the applicable capital increase has been recorded with the Peruvian public registry.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Record Dates

The depositary may, after consultation with us if practicable, fix record dates for the determination of the registered ADR holders who will be entitled (or obligated, as the case may be):

- to receive any distribution on or in respect of common shares;
- to give instructions for the exercise of voting rights at a meeting of holders of common shares;
- to pay the fee assessed by the depositary for administration of the ADR program and for any expenses as provided for in the ADR; or
- to receive any notice or to act in respect of any other matter,

in each case, subject to the provisions of the deposit agreement.

Voting Rights

A holder of an ADR representing common shares will generally have the right under the deposit agreement to instruct the depositary to exercise the voting rights for the underlying common shares represented by such ADRs. The voting rights of holders of common shares are described under "Description of Our By-laws and Shares—Voting Rights and Dividends" in this exhibit to our annual report on Form 20-F.

If the depositary asks an ADR holder to provide it with voting instructions, such holder may instruct the depositary how to exercise the voting rights for the common shares which underlie such holder's ADSs. As soon as practicable after receiving notice of any meeting or solicitation of consents or proxies from us, the depositary will distribute to the registered ADR holders a notice stating such information as is contained in the voting materials received by the depositary and describing how holders may instruct the depositary to exercise the voting rights for the common shares which underlie such holders' ADSs, including instructions for giving a discretionary proxy to a person designated by us. For instructions to be valid, the depositary must receive them in the manner and on or before the date specified. The depositary will try, as far as is practical, subject to the provisions of and governing the underlying common shares or other deposited securities, to vote or to have its agents vote the common shares or other deposited securities as holders instruct. The depositary will only vote or attempt to vote as instructed by holders. The depositary will not itself exercise any voting discretion. Furthermore, neither the depositary, nor its agents, are responsible for any failure to carry out any voting instructions, for the manner in which any vote is cast or for the effect of any vote, other than for failure caused directly by gross negligence, bad faith or willful misconduct on the part of the depositary or its agents. Notwithstanding anything contained in the deposit agreement or any ADR, the depositary may, to the extent not prohibited by law or applicable regulations, or by the requirements of the stock exchange on which the ADSs are listed, in lieu of distribution of the materials provided to the depositary in connection with any meeting of, or solicitation of consents or proxies from, holders of deposited securities, distribute to the registered holders of ADRs a notice that provides such holders with, or otherwise publicizes to such holders, instructions on how to retrieve such materials or receive such materials upon request (i.e., by reference to a website containing the materials for retrieval or a contact for requesting copies of the materials).

There is no assurance that holders will receive voting materials in time to instruct the depositary to vote and it is possible that holders, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

Reports and Other Communications

The depositary will make available for inspection by ADR holders at the offices of the depositary and the custodian the deposit agreement, the provisions of or governing deposited securities, and any written communications from us which are both received by the custodian or its nominee as a holder of deposited securities and made generally available to the holders of deposited securities.

Additionally, if we make any written communications generally available to holders of our common shares, and we furnish copies thereof (or English translations or summaries) to the depositary, it will distribute the same to registered ADR holders.

Fees and Expenses

The depositary may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of common shares, issuances in respect of common share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities or whose ADRs are cancelled or reduced for any other reason, US\$5.00 for each 100 ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, as the case may be. The depositary may sell (by public or private sale) sufficient securities and property received in respect of a common share distribution, rights and/or other distribution prior to such deposit to pay such charge.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing common shares or by any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADRs or the deposited securities or a distribution of ADSs), whichever is applicable:

- a fee of US\$1.50 per ADR or ADRs for transfers of certificated or direct registration ADRs;
- a fee of US\$0.05 or less per ADS for any cash distribution made pursuant to the deposit agreement;
- a fee of US\$0.05 or less per ADS per calendar year (or portion thereof) for services performed by the depositary in administering the ADRs (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);
- reimbursement of such fees, charges and expenses as are incurred by the depositary and/or any of the depositary's agents (including, without limitation, the custodian and expenses incurred on behalf of holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the common shares or other deposited securities, the delivery of deposited securities or otherwise in connection with the depositary's or its custodian's compliance with applicable law, rule or regulation (which charge shall be assessed on a proportionate basis against holders as of the record date or dates set by the depositary and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions);

- a fee for the distribution of securities (or the sale of securities in connection with a distribution), such fee being in an amount equal to US\$0.05 per ADS issuance fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were common shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the depositary to those holders entitled thereto;
- stock transfer or other taxes and other governmental charges;
- cable and facsimile transmission and delivery charges incurred at the request of a holder in connection with the deposit or delivery of common shares;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities; and
- expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars.

We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The charges described above may be amended from time to time by agreement between us and the depositary.

Our depositary has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADR program, including investor relations expenses and exchange application and listing fees. The amounts of reimbursements available to us are not based upon the amounts of fees the depositary collects from investors. The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing common shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting on their behalf. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary will generally set off the amounts owing from distributions made to holders of ADSs. If, however, no distribution exists and payment owing is not timely received by the depositary, the depositary may refuse to provide any further services to holders that have not paid those fees and expenses owing until such fees and expenses have been paid. At the discretion of the depositary, all fees and charges owing under the deposit agreement are due in advance and/or when declared owing by the depositary.

Payment of Taxes

ADS holders or ADR holders, as the case may be, must pay any tax or other governmental charge payable by the custodian or the depositary on any ADS or ADR, deposited security or distribution. If an ADS holder or ADR holder, as the case may be, owes any tax or other governmental charge, the depositary may (i) deduct the amount thereof from any cash distributions, or (ii) sell deposited securities (by public or private sale) and deduct the amount owing from the net proceeds of such sale. In either case the ADS holder or ADR holder, as the case may be, remains liable for any shortfall. Additionally, if any taxes or other governmental charges (including any penalties and/or interest) shall become payable by or on behalf of the custodian or the depositary with respect to any ADR, any deposited securities represented by the ADSs evidenced thereby or any distribution thereon, such tax or other governmental charge shall be paid by the holder thereof to the depositary. By holding or having held an ADS or an ADR, as the case may be, a holder agrees to indemnify, defend and save harmless each of the depositary, its agents and us in respect thereof. If any tax or governmental charge is unpaid, the depositary may also refuse to effect any registration, registration of transfer, split up or combination of deposited securities or withdrawal of deposited securities until such payment is made. If any tax or governmental charge is required to be withheld on any cash distribution, the depositary may deduct the amount required to be withheld from any cash distribution or, in the case of a non-cash distribution, sell the distributed property or securities (by public or private sale) to pay such taxes and distribute any remaining net proceeds to the ADS holders or the ADR holders entitled thereto.

By holding an ADR or an ADS, as the case may be, or an interest therein, holders agree to indemnify us, the depositary, its custodian and any of our or their respective directors, employees, agents and affiliates against, and hold each of them harmless from, any claims by any governmental authority with respect to taxes, additions to tax, penalties or interest arising out of any refund of taxes, reduced rate of withholding at source or other tax benefit obtained.

Reclassifications, Recapitalizations and Mergers

If we take certain actions that affect the deposited securities, including (i) any change in par value, split up, consolidation, cancellation or other reclassification of deposited securities or (ii) any distributions not made to holders of ADRs or (iii) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all of our assets, then the depositary may choose to:

- amend the form of ADR;
- distribute additional or amended ADRs;
- distribute cash, securities or other property it has received in connection with such actions;
- sell any securities or property received and distribute the proceeds as cash; or
- none of the above.

If the depositary does not choose any of the above options, any of the cash, securities or other property it receives will constitute part of the deposited securities and each ADS will then represent a proportionate interest in such property.

Amendment and Termination

We may agree with the depositary to amend the deposit agreement and the ADSs without the consent of holders for any reason. ADR holders must be given at least 30 days' notice of any amendment that imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or otherwise prejudices any substantial existing right of ADR holders. Such notice need not describe in detail the specific amendments effectuated thereby, but must give ADR holders a means to access the text of such amendment. If an ADR holder continues to hold an ADR or ADRs after being so notified, such ADR holder is deemed to agree to such amendment and to be bound by the deposit agreement as so amended. Notwithstanding the foregoing, if any governmental body or regulatory body should adopt new laws, rules or regulations which would require amendment or supplement of the deposit agreement or the form of ADR to ensure compliance therewith, we and the depositary may amend or supplement the deposit agreement and the ADR at any time in accordance with such changed laws, rules or regulations, which amendment or supplement may take effect before a notice is given or within any other period of time as required for compliance. No amendment, however, will impair the right of a holder to surrender its ADSs and receive the underlying securities, except in order to comply with mandatory provisions of applicable law.

The depositary may, and shall at our written direction, terminate the deposit agreement and the ADRs by mailing notice of such termination to the registered holders of ADRs at least 30 days prior to the date fixed in such notice for such termination; provided, however, if the depositary shall have (i) resigned as depositary under the deposit agreement, notice of such termination by the depositary shall not be provided to registered holders unless a successor depositary shall not be operating under the deposit agreement within 60 days of the date of such resignation, and (ii) been removed as depositary under the deposit agreement, notice of such termination by the depositary shall not be provided to registered holders of ADRs unless a successor depositary shall not be operating under the deposit agreement on the 60th day after our notice of removal was first provided to the depositary. After termination, the depositary's only responsibility will be (i) to deliver deposited securities to ADR holders who surrender their ADRs, and (ii) to hold or sell distributions received on deposited securities. As soon as practicable after the expiration of six months from the termination date, the depositary will sell the deposited securities which remain and hold the net proceeds of such sales (as long as it may lawfully do so), without liability for interest, in trust for the ADR holders who have not yet surrendered their ADRs. After making such sale, the depositary shall have no obligations except to account for such proceeds and other cash.

Limitations on Obligations and Liability

Prior to the issue, registration, registration of transfer, split-up, combination, or cancellation of any ADRs, or the delivery of any distribution in respect thereof, and from time to time, we or the depositary or its custodian may require:

- payment with respect thereto of (i) any stock transfer or other tax or other governmental charge, (ii) any stock transfer or registration fees in effect for the registration of transfers of common shares or other deposited securities upon any applicable register and (iii) any applicable fees and expenses described in the deposit agreement;
- the production of proof satisfactory to it of (i) the identity of any signatory and genuineness of any signature and (ii) such other information, including, without limitation, information as to citizenship, residence, exchange control approval, beneficial ownership of any securities, compliance with applicable law, regulations, provisions of or governing deposited securities and terms of the deposit agreement and the ADRs, as it may deem necessary or proper; and
- compliance with such regulations as the depositary may establish consistent with the deposit agreement.

The issuance of ADRs, the acceptance of deposits of common shares, the registration, registration of transfer, split-up or combination of ADRs or the withdrawal of common shares, may be suspended, generally or in particular instances, when the ADR register or any register for deposited securities is closed or when any such action is deemed advisable by the depositary or when reasonably requested by us in order to enable us to comply with applicable law; provided that the ability to withdraw common shares may only be limited under the following circumstances: (i) temporary delays caused by closing transfer books of the depositary or our transfer books or the deposit of common shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes, and similar charges, and (iii) compliance with any laws or governmental regulations relating to ADRs or to the withdrawal of deposited securities.

The deposit agreement expressly limits the obligations and liability of the depositary, ourselves and our respective agents. Neither we nor the depositary nor any such agent will be liable if:

- any present or future law, rule, regulation, fiat, order or decree of the United States, Peru or any other country, or of any governmental or regulatory authority or securities exchange or market or automated quotation system, the provisions of or governing any deposited securities, any present or future provision of our charter, any act of God, war, terrorism or other circumstance beyond our, the depositary's or our respective agents' control shall prevent or delay, or shall cause any of them to be subject to any civil or criminal penalty in connection with, any act which the deposit agreement or the ADRs provide shall be done or performed by us, the depositary or our respective agents (including, without limitation, voting);
- it exercises or fails to exercise discretion under the deposit agreement or the ADRs issued thereunder;

- it performs its obligations under the deposit agreement and ADRs issued thereunder without gross negligence or bad faith;
- it takes any action or refrains from taking any action in reliance upon the advice of or information from legal counsel, accountants, any person presenting common shares for deposit, any registered holder of ADRs, or any other person believed by it to be competent to give such advice or information; or
- it relies upon any written notice, request, direction or other document believed by it to be genuine and to have been signed or presented by the proper party or parties.

Neither the depositary nor its agents have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs. We and our agents shall only be obligated to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs, which in our opinion may involve us in expense or liability, if indemnity satisfactory to us against all expense (including fees and disbursements of counsel) and liability is furnished as often as may be required. The depositary and its agents may fully respond to any and all demands or requests for information maintained by or on its behalf in connection with the deposit agreement, any registered holder or holders of ADRs, any ADRs or otherwise related to the deposit agreement or ADRs to the extent such information is requested or required by or pursuant to any lawful authority, including, without limitation, laws, rules, regulations, administrative or judicial processes, banking, securities or other regulators. The depositary shall not be liable for the acts or omissions made by any securities depository, clearing agency or settlement system in connection with or arising out of book-entry settlement of deposited securities or otherwise. Furthermore, the depositary shall not be responsible for, and shall incur no liability in connection with or arising from, the insolvency of any custodian that is not a branch or affiliate of JPMorgan Chase Bank, N.A. The depositary and the custodian(s) may use third party delivery services and providers of information regarding matters such as pricing, proxy voting, corporate actions, class action litigation and other services in connection with the ADRs and the deposit agreement, and use local agents to provide extraordinary services such as attendance at annual meetings of issuers of securities.

The depositary shall be under no obligation to inform holders of ADSs regarding the requirements of Peruvian law, rules or regulations or any changes therein or thereunder.

Additionally, none of us, the depositary or the custodian shall be liable for the failure by any registered holder of ADRs or beneficial owner therein to obtain the benefits of credits on the basis of non-U.S. tax paid against such holder's or beneficial owner's income tax liability. Neither we nor the depositary shall incur any liability for any tax consequences that may be incurred by holders or beneficial owners on account of their ownership of ADRs or ADSs.

Neither the depositary nor its agents will be responsible for any failure to carry out any instructions to vote any of the deposited securities, for the manner in which any such vote is cast or for the effect of any such vote. None of us, the depositary, or our agents shall be liable to registered holders of ADRs or beneficial owners of interests in ADSs for any indirect, special, punitive or consequential damages (including, without limitation, lost profits) of any form incurred by any person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought.

The depositary may own and deal in any class of our securities and in ADSs.

Disclosure of Interest in ADSs

To the extent that the provisions of, or governing, any deposited securities may require disclosure of or impose limits on beneficial or other ownership of deposited securities, other common shares and other securities and may provide for blocking transfer, voting or other rights to enforce such disclosure or limits, each holder agrees to comply with all such disclosure requirements and ownership limitations and to comply with any reasonable instructions we may provide in respect thereof. We reserve the right to instruct each holder to deliver such holder's ADSs for cancellation and withdrawal of the deposited securities so as to permit us to deal with such holder directly as a holder of common shares and, by holding an ADS or an interest therein, each holder agrees to comply with such instructions.

Books of Depositary

The depositary or its agent will maintain a register for the registration, registration of transfer, combination and split-up of ADRs, which register shall include the depositary's direct registration system. Registered holders of ADRs may inspect such records at the depositary's office at all reasonable times, but solely for the purpose of communicating with other holders in the interest of the business of our company or a matter relating to the deposit agreement. Such register may be closed from time to time, when deemed expedient by the depositary.

The depositary will maintain facilities for the delivery and receipt of ADRs.

Pre-release of ADSs

In its capacity as depositary, the depositary shall not lend common shares or ADSs; provided, however, that the depositary may (i) issue ADSs prior to the receipt of common shares and (ii) deliver common shares prior to the receipt of ADSs for withdrawal of deposited securities, including ADSs which were issued under (i) above but for which common shares may not have been received (each such transaction a "pre-release"). The depositary may receive ADSs in lieu of common shares under (i) above (which ADSs will promptly be canceled by the depositary upon receipt by the depositary) and receive common shares in lieu of ADSs under (ii) above. Each such pre-release will be subject to a written agreement whereby the person or entity (the "applicant") to whom ADSs or common shares are to be delivered (a) represents that at the time of the pre-release the applicant or its customer owns the common shares or ADSs that are to be delivered by the applicant under such pre-release, (b) agrees to indicate the depositary as owner of such common shares or ADSs in its records and to hold such common shares or ADSs in trust for the depositary until such common shares or ADSs are delivered to the depositary or the custodian, (c) unconditionally guarantees to deliver to the depositary or the custodian, as applicable, such common shares or ADSs, and (d) agrees to any additional restrictions or requirements that the depositary deems appropriate. Each such pre-release will be at all times fully collateralized with cash, U.S. government securities or such other collateral as the depositary deems appropriate, terminable by the depositary on not more than five business days' notice and subject to such further indemnities and credit regulations as the depositary deems appropriate. The depositary will normally limit the number of ADSs and common shares involved in such pre-release at any one time to 30% of the ADSs outstanding (without giving effect to ADSs outstanding under (i) above), provided, however, that the depositary reserves the right to change or disregard such limit from time to time as it deems appropriate. The depositary may also set limits with respect to the number of ADSs and common shares involved in pre-release with any one person on a case-by-case basis as it deems appropriate. The depositary may retain for its own account any compensation received by it in conjunction with the foregoing. Collateral provided in connection with pre-release transactions, but not the earnings thereon, shall be held for the benefit of the registered holders of ADRs (other than the applicant).

Appointment

In the deposit agreement, each registered holder of ADRs and each person holding an interest in ADSs, upon acceptance of any ADSs (or any interest therein) issued in accordance with the terms and conditions of the deposit agreement will be deemed for all purposes to:

- be a party to and bound by the terms of the deposit agreement and the applicable ADR or ADRs; and
- appoint the depositary as its attorney-in-fact, with full power to delegate, to act on its behalf and to take any and all actions contemplated in the deposit agreement and the applicable ADR or ADRs, to adopt any and all procedures necessary to comply with applicable laws and to take such action as the depositary in its sole discretion may deem necessary or appropriate to carry out the purposes of the deposit agreement and the applicable ADR and ADRs, the taking of such actions to be the conclusive determinant of the necessity and appropriateness thereof.

Governing Law

The deposit agreement and the ADRs shall be governed by and construed in accordance with the laws of the State of New York. In the deposit agreement, we have submitted to the jurisdiction of the courts of the State of New York and appointed an agent for service of process on our behalf.

DESCRIPTION OF OUR BY-LAWS AND SHARES

Set forth below is certain information relating to our share capital, including brief summaries of the material provisions of our by-laws, Peruvian corporate law and certain related laws and regulations of Peru, all as in effect as of the date of the annual report on Form 20-F to which this summary is an exhibit.

General

We are a publicly held corporation under Peruvian Law No. 26887 (the “Peruvian Corporate Law”) registered with the Public Registry of Corporations in Lima. We are currently listed on the Lima Stock Exchange.

The second article of our by-laws provides that our principal corporate purpose is mining and the production and sale of cement, quicklime and other construction materials in Peru and internationally.

We have common shares and investment shares.

Common Shares

Common shares represent 100% of our voting shares. As of March 31, 2020, 423,868,449 of our common shares were outstanding. As of March 31, 2020, there were 6,972 owners of record of our common shares (considering the ADSs listed in the New York Stock Exchange are held by one registered owner). Our common shares have a par value of S/1.00 per share and have been fully subscribed and are fully paid. Our common shares are registered in the Securities Public Registry of the Peruvian Securities Commission and are listed on the Lima Stock Exchange.

Investment Shares

As of March 31, 2020, 4,238,397 of our investment shares were outstanding excluding 36,040,497 investment shares that were held in treasury. Investment shares have no voting rights and are not, under Peruvian law and accounting regulations, characterized as share capital. However, investment shares are still considered part of a company’s equity. As of March 31, 2020, there were 399 owners of record of our investment shares. Our investment shares have a par value of S/1.00 per share and have been fully subscribed and are fully paid. Our investment shares are registered in the Securities Public Registry of the Peruvian Securities Commission and are listed on the Lima Stock Exchange.

Shareholders' Liability

Under Peruvian Corporate Law, holders of our common shares cannot vote on matters with respect to which they have a conflict of interest.

Under Article 133 of the Peruvian Corporate Law, a shareholder must abstain from voting if such shareholder has a conflict of interest. A resolution approved in disregard of this provision may be challenged under Article 139 of the Peruvian Corporate Law and any shareholder that participated in the determination in breach of this provision, if such shareholder's vote was key in attaining the required majority, may be held liable individually, or jointly with any other shareholder voting in breach of the provision.

Redemption and Rights of Withdrawal

Under Article 200 of the Peruvian Corporate Law, holders of our common shares have redemption rights if: (i) we change our corporate purpose; (ii) a change occurs in the place of organization to a foreign country; or (iii) any transformation, merger or significant spin-off occurs with respect to our company.

Preemptive and Accretion Rights

If we increase our share capital, holders of our common shares and investment shares have the right to subscribe to new common shares and investment shares, respectively, on a pro rata basis. Holders of common shares have preemptive rights in order to maintain their share interest in our share capital, unless the capital increase (i) results from a conversion of debt to common shares; (ii) is approved by shareholders representing at least 40% of the subscribed voting shares provided that the capital increase does not favor, directly or indirectly, certain shareholders to the detriment of others; and (iii) results from a corporate reorganization. Holders of investment shares have preemptive rights to maintain their proportional ownership in our share capital.

Shareholders who are in default of any payments relating to a capital call may not exercise their preemptive rights.

Preemptive rights are exercised in two rounds. During the first round, shareholders may subscribe to the new shares on a pro rata basis. During the second round, shareholders who participated in the first round may subscribe to any remaining shares on a pro rata basis up to the amount of shares such shareholders subscribed for in the first round. The first round must remain open for at least 15 business days. The second round must remain open for at least three business days.

Voting Rights and Dividends

Common Shares

Holders of common shares are entitled to one vote per share, with the exception of the election of the board of directors, where each holder is entitled to one vote per share per nominee. Each holder's votes may be cast for a single nominee or distributed among the nominees at the holder's discretion. To that effect, each of our common shares gives the holder the rights to as many votes as there are directors to be elected. Shareholders may pool votes in favor of one person or distribute them among various persons. Those candidates for the board who receive the most votes are elected directors. Holders of common shares may attend and vote at shareholders' meetings either in person or through a proxy.

Holders of common shares have the right to participate in the distribution of dividends and shareholder equity resulting from liquidation. Our by-laws do not establish a maximum time limit for the payment of the dividends. However, according to Article 232 of the Peruvian Corporate Law, the right to collect past-due dividends in the case of companies that are publicly held companies, such as ours, expires 10 years after the date on which the dividend payment was due.

Our share capital may be increased by a decision of holders of common shares at a shareholders' meeting. Capital reductions may be voluntary or mandatory and must be approved by holders of common shares at a shareholders' meeting. Capital reductions are mandatory when accumulated losses exceed 50% of the capital and to the extent such accumulated losses are not offset by accumulated earnings and capital increases within the following fiscal year. Capital increases and reductions must be communicated to the Peruvian Securities Commission, the Lima Stock Exchange and the Peruvian Tax Superintendence (*Superintendencia Nacional de Administración Tributaria*). Voluntary capital reductions must also be published in the official gazette *El Peruano* and in a widely circulated newspaper in the city in which we are located.

Investment Shares

Under Peruvian Corporate Law, investment shares do not represent share capital. Accordingly, our balance sheet reflects the investment shares as a separate account from our share capital. Holders of investment shares are neither entitled neither to vote nor to participate in shareholders' meetings. However, investment shares confer upon the holders thereof the right to participate in the dividends distributed according to their par value, in the same manner as common shares. Investment shares also confer to the holders thereof the preemptive right to (i) maintain the current proportion of the investment shares in the case of a capital increase through new contributions; (ii) increase the number of investment shares upon capitalization of retained earnings, revaluation surplus or other reserves that do not represent cash contributions; (iii) participate in the distribution of assets resulting from a liquidation in the same manner as common shares; and, (iv) redeem the investment shares in case of a merger and/or change of business activity.

Liquidation Rights

If we are liquidated, our shareholders have the right to receive net assets resulting from the liquidation, after we comply with our obligation to pay all our creditors and after discounting any existing dividend liabilities. For this reason, we cannot assure that we will be able to reimburse 100% of the book value of the common shares and investment shares in case of bankruptcy or liquidation.

Ordinary and Extraordinary Meetings

Pursuant to Peruvian Corporate Law and our by-laws, the annual shareholders' meeting must be held during the three-month period after the end of each fiscal year. However, in 2020, due to the outbreak of COVID-19, the *Superintendencia Nacional de Valores* extended this period due to the inability to hold meetings during the state of emergency que social distancing enacted by the Peruvian Government. As of the date of the annual report on Form 20-F to which this summary is an exhibit, we do not have a new date for the meeting since we do not know when and how meetings will be allowed. Additional shareholders' meetings may be held during the year. Because we are a publicly-held corporation, we are subject to the special control of the Peruvian Securities Commission, as provided in Article 253 of the Peruvian Corporate Law. If we do not hold the annual shareholders' meeting during the three-month period after the end of each fiscal year or any other shareholders' meeting required by our by-laws, a public notary or a competent judge shall call for such a meeting at the request of at least one shareholder of the common shares. Such meeting will take place within a reasonable period of time.

Other shareholders' meetings are convened by the board of directors when deemed convenient by our company or when it is requested by the holders of at least 20% of our common shares. If, at the request of holders of 20% of the common shares, the shareholders' meeting is not convened by the board of directors within 15 business days of the receipt of such request, or the board expressly or implicitly refuses to convene the shareholders' meeting, a public notary or a competent judge will call pursuant to Law No. 29560 for such meeting at the request of holders of at least 20% of our common shares. If a public notary or competent judge calls for a shareholders' meeting, the place, time and hour of the meeting, the agenda and the person who will preside shall be indicated on the meeting notice. If the meeting called is other than the annual shareholders' meeting or a shareholders' meeting required by the Peruvian Corporate Law or the by-laws, the agenda will contain those matters requested by the shareholders who requested the meeting.

Holders of investment shares have no right to request the board to call a shareholders' meeting.

Notices of Meetings

Since we are a publicly held corporation, notice of shareholders' meetings must be given by publication of a notice. The publication shall occur at least 25 days prior to any shareholders' meeting in the Peruvian Official Gazette, *El Peruano*, and in a widely circulated newspaper in the city in which we are located. The notice requirement may be waived at the shareholders' meeting by agreement of the holders of 100% of the outstanding common shares.

Quorum and Voting Requirements

According to Article 25 of our by-laws and Article 257 of the Peruvian Corporate Law, shareholders' meetings called for the purpose of considering a capital increase or decrease, the issuance of obligations, a change in the by-laws, the sale in a single act of assets with an accounting value that exceeds 50% of our share capital, a merger, division, reorganization, transformation or dissolution, are subject to a first, second and third quorum call, each of the second and third quorum call to occur upon the failure of the preceding one. A quorum for the first call requires the presence of shareholders holding 50% of our total common shares. For the second call, the presence of shareholders holding at least 25% of our total common shares is adequate, while for the third call there is no quorum requirement. These decisions require the approval of the majority of the common shares represented at the shareholders' meeting. Shareholders' meetings convened to consider all other matters are subject to a first and second quorum call, the second quorum call to occur upon the failure of the first quorum.

In accordance with Peruvian Corporate Law, only those holders of common shares whose names are registered in our stock ledger not less than 10 days in advance of a meeting will be entitled to attend the shareholders' meeting and to exercise their rights.

Limitations on the Rights of Non-residents or Foreign Shareholders

There are no limitations under our by-laws or Peruvian Corporate Law on the rights of nonresidents or foreign shareholders to own securities or exercise voting rights with respect to our securities.

Disclosure of Shareholdings and Tender Offer Regulations

Disclosure of Shareholdings

There are no provisions in our by-laws governing the ownership threshold above which share ownership must be disclosed.

However, according to Stock Market Superintendency (*Superintendencia del Mercado de Valores*) Resolution No. 019-2015-SMV.01, as amended, we must inform the Stock Market Superintendency of the members of our economic group and a list of our holders of common shares owning more than a 0.5% share interest, as well as any change to such information.

Tender Offer Regulations

Peruvian security regulations include mandatory takeover rules applicable to the acquisition of control of a listed company.

Subject to certain conditions, such regulations generally establish the obligation to make a tender offer when a person or group of persons acquires a relevant interest in a listed company. According to Peruvian law, a person acquires a relevant interest in a listed company when such person (a) holds or has the power to exercise directly or indirectly 25%, 50% or 60% of the voting rights in a listed company, or (b) has the power to appoint or remove the majority of the board members or to amend its by-laws.

In general, the tender offer must be launched prior to the acquisition of the relevant interest. The tender offer may be launched after the “relevant interest” is acquired if it is acquired (a) by means of an indirect transaction, (b) as a consequence of a public sale offer, or (c) in no more than four transactions within a three-year period.

This mandatory procedure has the effect of alerting other shareholders and the market that an individual or financial group has acquired a significant percentage of a company’s voting shares, and gives other shareholders the opportunity to sell their shares at the price offered by the purchaser. The purchaser is required to launch a tender offer unless: (a) shareholders representing 100% of the voting rights consent in writing, (b) voting shares are acquired by a depositary in order to subsequently issue ADSs, or (c) voting shares are acquired pursuant to the exercise of preemptive rights.

Changes in Capital

Our by-laws do not establish special conditions to increase or reduce our share capital beyond what is required under Peruvian Corporate Law.

Anti-Takeover Provisions

Our by-laws do not contain any provision that would have the effect of delaying, deferring or preventing a change of control. However, acquisitions of shares of our capital stock that involve a change of control may be subject to Peruvian securities and exchange regulations (*Ley de Mercado de Valores y Reglamento de Oferta Pública de Adquisición y de Compra de Valores por Exclusión*) applicable to tender offers.

Form and Transfer

Common shares and investment shares may be either physical share certificates in registered form or book-entry securities in the CAVALI S.A. ICLV book-entry settlement system, also in registered form.

Furthermore, the Peruvian Corporate Law forbids publicly held corporations, such as us, from including in their by-laws stipulations limiting the transfer of their shares or restraining their trading in other ways. In addition, pursuant to our by-laws, we cannot recognize a shareholders’ agreement that contemplates limitations, restrictions or preferential rights on the transfer of shares, even if such an agreement is recorded in our stock ledger (*matrícula de acciones*) or in CAVALI S.A. ICLV.

Addendum, effective January 1, 2020, to Power Supply Agreement dated June 3, 2010
(ELECTRICITY SUPPLY CONTRACT AT FREE MARKET PRICES BETWEEN
ELECTROPERÚ AND CEMENTOS PACASMAYO)

Term: Through May 31, 2026

Maximum contracted power:

	MAXIMUM POWER (MW)																
	2012					2015											
		Jan. 1 To	Jul. 1 to			Jan. 1 to Dec. 14	15-31 Dec.										
Delivery point	2011	Jun. 30	Dec. 31	2013	2014	(STAGE I)	(STAGE I)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
GUADALUPE SUBSTATION 80 KV																	
- Peak hours	16.0	16.0	33.0	42.0	37.5	40.0	28.0	28.0	34.0	28.0	36.5	28.0	28.0	28.0	28.0	28.0	28.0
- Off-peak hours	24.0	24.0	40.0	50.0	50.0	40.8	31.0	30.0	30.0	40.0	43.0	44.0	44.0	44.0	44.0	44.0	44.0
PIURA OESTE SUBSTATION 220 KV																	
- Peak hours						4.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
- Off-peak hours						14.2	24.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
TOTAL																	
- Peak hours	16.0	16.0	33.0	42.0	37.5	44.0	44.0	44.0	50.0	44.0	52.5	44.0	44.0	44.0	44.0	44.0	44.0
- Off-peak hours	24.0	24.0	40.0	50.0	50.0	55.0	55.0	52.0	52.0	62.0	65.0	66.0	66.0	66.0	66.0	66.0	66.0

Additionally, a 5% tolerance on the maximum contracted power is allowed.

Minimum power (purchase obligation): Equivalent to 30% of maximum contracted power:

	MAXIMUM POWER (MW)																
Delivery point	2012					2015		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	2011	Jan. 1	Jul. 1	2013	2014	Jan. 1	15-31										
		To	to			to											
	Jun. 30	Dec. 31				(STAGE I)	(STAGE I)										
GUADALUPE SUBSTATION 60 KV																	
- Peak hours																	
- Off-peak hours	4.8	4.8	9.9	12.6	11.3	12.0	8.4	8.4	10.2	8.4	11.0	8.4	8.4	8.4	8.4	8.4	8.4
PIURA OESTE SUBSTATION 220 KV																	
- Peak hours																	
- Off-peak hours						1.2	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
TOTAL																	
- Peak hours																	
- Off-peak hours	4.8	4.8	9.9	12.6	11.3	13.2	13.2	13.2	15.0	13.2	15.8	13.2	13.2	13.2	13.2	13.2	13.2

Exclusivity: Exclusive electricity supply (up to the maximum power supply contractually agreed).

Pricing:

From February 1, 2016 to December 31, 2020:

Delivery point	Active energy	Off-peak hours	Power
	US\$/MWh		US\$/kW-month
	Peak hours		Peak hours
Delivery point: 60 kV busbar in the Guadalupe Substation			
● Generation prices on the Reference Generation Busbar (RGB): 60 kV Busbar in the Guadalupe Substation	38,93	35,76	5,96
● Generation prices on the delivery point	38,93	35,76	5,96
Delivery point: 220 kV busbar in the Piura Oeste Substation			
● Generation prices on the RGB: 220 kV busbar in the Piura Oeste Substation	39,67	36,45	6,00
● Generation prices on the delivery point	39,67	36,45	6,00

From January 2021 to May 31, 2026:

Delivery point	Active energy	Off-peak hours	Power
	US\$/MWh		US\$/kW-month
	Peak hours		Peak hours
Delivery point: 60 kV busbar in the Guadalupe Substation			
● Generation prices on the Reference Generation Busbar (RGB): 60 kV Busbar in the Guadalupe Substation	42,73	39,25	5,96
● Generation prices on the delivery point	42,73	39,25	5,96
Delivery point: 220 kV busbar in the Piura Oeste Substation			
●Generation prices on the RGB: 220 kV busbar in the Piura Oeste Substation	43,55	40,00	6,00
● Generation prices on the delivery point	43,55	40,00	6,00

Transmission prices will also be added (fee for connection toll to the Main Transmission System and the toll corresponding to the Secondary Transmission Systems and Complementary Transmission Systems assigned to Demand Areas no. 3 and 15).

Generation prices will be adjusted each month according to a formula (for power: Based on the US Producer Price Index; and for energy: Based on the US Producer Price Index, Natural Gas Price, Reference Import Price for Bituminous Coal and Net Price on Residual Oil no. 6).

Tariff periods:

For power:

- Peak hours: from 18:00 to 21:00 hours, Monday through Saturday, except for nonworking holidays nationwide.
- Off-peak hours: from 00:00 to 18:00 hours and from 21:00 to 24:00 hours, Monday through Saturday, except for nonworking holidays nationwide; and from 00:00 to 24:00 hours, Sundays and nonworking holidays nationwide.

For energy:

- Peak hours: from 18:00 to 23:00 hours, Monday through Saturday, except for nonworking holidays nationwide.
- Off-peak hours: from 23:00 to 18:00 hours, Monday through Saturday, except for nonworking holidays nationwide; and from 00:00 to 24:00 hours, Sundays and nonworking holidays nationwide.

Penalty on power excess: 25% of the price.

Delivery point: 60 kV busbar in the Guadalupe Substation and 220 kV busbar in the Piura Oeste Substation.

Termination without cause: Either party may terminate the contract without cause, with a prior notice of 90 calendar days and a payment equivalent to 18 times the average monthly total billing of the last 12 months billed for the supply

SUMMARY OF KEY TERMS
GAS SUPPLY CONTRACT BETWEEN OLYMPIC PERU AND CEMENTOS PACASMAYO

General

On August 29, 2018, Cementos Pacasmayo S.A.A. (the “Company”) entered into an agreement with Olympic Peru pursuant to which Olympic Peru will supply natural gas to the Company. Under the terms of the agreement, natural gas, to be used exclusively for consumption by the Company, is extracted from lot XIII, located in Vice district, in the Province of Sechura, Piura. transmitted through a pipeline and delivered by Olympic Peru to a delivery point at our Piura plant.

Term

The agreement will enter into force on the date natural gas is first supplied to the Company and will remain in force until the earlier of (i) the 18-year anniversary of such date and (ii) the termination of the license agreement for the exploration and exploitation of hydrocarbons from Lot XIII, dated May 30, 1996, between Olympic Peru and Perupetro S.A., as amended, unless earlier terminated by either party pursuant to the terms of the agreement or as provided by applicable law.

Agreement Phases

The agreement contemplates two phases: the “Spot Phase” and the “Firm Phase.”

Spot Phase

The *Spot Phase* is the first phase of the agreement, and will apply until the following conditions are met:

- a. Olympic Peru obtains the necessary permits for extracting and collecting natural gas at a station at our Piura plant (which has already been set up); and
- b. Olympic Peru builds a gas pipeline and installs all the necessary equipment to provide gas at the point of sale at our Piura plant.

During this phase, all risk is for the account of Olympic Peru, the Company is not required to make any purchases, and there is no requirement of exclusivity.

During this phase, the Company or Olympic Peru may terminate the agreement at any time without any liability of any kind to the other party.

During this phase, the Company will pay Olympic Peru a fixed price per MMBTU that is adjusted in year 6, year 9 and year 12.

Firm Phase

The *Firm Phase* is the second phase of the agreement, and will commence upon the termination of the Spot Phase, and satisfaction of the conditions set forth below. Upon commencement of the Firm Phase, the agreement will cease to be a spot supply contract, and will become a “take or pay” contract until it expires or is terminated pursuant to its terms. The following conditions must be met in order to begin this phase:

- a) The Peruvian government must grant a concession to a concessionaire for the distribution of natural gas through pipelines in Piura, where the Company’s Piura plant is located.
- b) Olympic Peru must transfer part of the system for extraction and collection of natural gas to the distribution concessionaire; and
- c) The Company must sign a distribution contract with the distribution concessionaire, on terms and conditions acceptable to Olympic Peru. Likewise, by virtue of the terms of the supply agreement, Olympic Peru will assume the Company’s interest in the distribution contract.

During the Firm Phase, the Company will be required to take and to pay, even if the Company does not take the natural gas supplied by Olympic Peru, for the amount of the maximum contacted volume (MCV) described below:

- For the first five years from the first date that natural gas is supplied to the Company under the agreement, the minimum daily volume of 60% of the MCV (including any increases in the MCV); and
- For the remainder of the term of the agreement, the minimum daily volume of 70% of the MCV (including any increases of the MCV).

From the commencement of the Firm Phase, the penalty for terminating the agreement prior to its expiration or termination of the license agreement is equal to approximately US\$8 million for the first five years, and after that time, the penalty is equal to approximately US\$4 million.

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Humberto Nadal Del Carpio, certify that:

1. I have reviewed this annual report on Form 20-F (the “report”) of Cementos Pacasmayo S.A.A. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 30, 2020

/s/ Humberto Nadal Del Carpio

Humberto Nadal Del Carpio
Chief Executive Officer

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Manuel Ferreyros Peña, certify that:

1. I have reviewed this annual report on Form 20-F (the “report”) of Cementos Pacasmayo S.A.A. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 30, 2020

/s/ Manuel Ferreyros Peña

Manuel Ferreyros Peña
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Cementos Pacasmayo S.A.A. (the “Company”) on Form 20-F for the fiscal year ended December 31, 2019, as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), I, Humberto Nadal Del Carpio, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2020

/s/ Humberto Nadal Del Carpio

Humberto Nadal Del Carpio
Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Cementos Pacasmayo S.A.A. (the “Company”) on Form 20-F for the fiscal year ended December 31, 2019, as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), I, Manuel Ferreyros Peña, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2020

/s/ Manuel Ferreyros Peña

Manuel Ferreyros Peña
Chief Financial Officer