



(Free translation from the original in Spanish)

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

(Free translation from the original in Spanish)

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S/ = Peruvian sol

US\$ = United States dollars



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INDEPENDENT AUDITOR'S REPORT

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

February 27, 2017

We have audited the attached consolidated financial statements of **Ferreycorp S.A.A. and subsidiaries** (altogether "the Group"), which comprise the consolidated statement of financial position at December 31, 2016 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information included in notes 1 to 29. The financial statements as of December 31, 2015, before giving effect to the adjustment referred to in note 3.6 to the consolidated financial statements, were audited by other independent auditors who, in their report dated February 19, 2016, issued an unqualified opinion on these financial statements.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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February 27, 2017
Ferreycorp S.A.A.

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

Opinion

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

Emphasis on consolidated information

Without qualifying our opinion, we draw your attention to the fact that, as explained in note 3.6 to the consolidated financial statements, during the course of 2016, Ferreycorp S.A.A. reviewed the carrying amount of its land properties at Group level, which were stated at their revalued amount in 2015 based on appraisals performed by independent experts in 2013. As a result, the Company arrived at the conclusion that their current market value is significantly higher than their related carrying amounts; and a large portion of this increase in market value occurred during 2014 and 2015. For comparison purposes, under the International Accounting Standard No.8 - Accounting policies, Changes in Accounting Estimates and Errors, Ferreycorp S.A.A. modified the consolidated financial statements for fiscal year 2015 to increase the carrying amount of its land properties by S/176 million and presented them at their revalued cost based on independent appraisals performed in fiscal year 2015.

CAVEGNO APARICIO Y ASOCIADOS

Countersigned by

(partner)

Hernán Aparicio P.
Peruvian Certified Public Accountant
Registration No. 01-020944

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At December 31			At December 31		
		2016	2015		2016	2015	
		S/000	S/000		S/000	S/000	
ASSETS							
Current assets							
Cash and cash equivalents	5	128,982	233,322	Borrowings	12	735,515	525,616
Receivables, net	6	1,080,058	956,964	Payables	13	507,286	459,976
Other receivables, net	7	188,651	140,887	Other payables	14	421,980	463,579
Inventories, net	8	1,232,981	1,379,362	Income tax liability		11,394	30,991
Prepaid expenses		21,928	22,259	Total current liability		1,676,175	1,480,162
Total current assets		2,652,600	2,732,794	Non-current liabilities			
Non-current assets							
Long-term receivables, net	6	45,017	47,876	Long-term borrowings	12	955,988	1,410,147
Other receivables in long-term, net	7	1,798	4,607	Other long-term payables	15	300	719
Investments in associates and joint venture	9	78,156	93,512	Deferred income tax liability		218,224	207,321
Property, plant and equipment	10	1,524,896	1,593,089	Deferred income		72	-
Intangible assets, net	11(a)	81,020	86,083	Non-controlling interests		3,929	-
Goodwill	11(e)	187,866	178,628	Total non-current liabilities		1,178,513	1,618,187
Deferred income tax asset	15	197,917	180,028	Total liabilities		2,854,688	3,098,349
Total non-current assets		2,116,670	2,183,823	Equity			
				Share capital	16	1,014,326	1,014,326
				Treasury shares		(50,208)	(27,046)
				Additional capital		73,536	73,536
				Share premium		(23,191)	(8,118)
				Legal reserve		139,384	123,207
				Other reserves		389,695	423,486
				Retained earnings		371,040	218,879
				Total equity		1,914,582	1,818,268
Total assets		4,769,270	4,916,617	Total liabilities and equity		4,769,270	4,916,617

The notes attached from pages 8 to 76 are part of the consolidated financial statements.

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	Note	For the year ended	
		December 31,	
		2016	2015
		S/000	S/000
Net sales	17	4,846,557	5,204,066
Other operating income		610	8,157
Total income		<u>4,847,167</u>	<u>5,212,223</u>
Cost of sales	17	<u>(3,666,304)</u>	<u>(3,920,084)</u>
Gross profit		1,180,863	1,292,139
Selling expenses	18	(537,925)	(576,095)
Administrative expenses	19	(258,707)	(243,752)
Other income and expenses, net		41,002	18,198
Operating profit		<u>425,233</u>	<u>490,490</u>
Finance income	21	26,092	21,315
Share of profit of associates and joint venture	9(b)	7,284	5,889
Finance expenses	22	(124,742)	(106,368)
Exchange difference, net	26(c)	484	(151,812)
Profit before income tax		<u>334,351</u>	<u>259,514</u>
Income tax	15	(103,916)	(97,748)
Net income		<u><u>230,435</u></u>	<u><u>161,766</u></u>
Basic and diluted earnings per share (expressed in soles)	23	<u>0.234</u>	<u>0.163</u>
Weighted average of shares outstanding (in thousands of units)	23	<u><u>984,139</u></u>	<u><u>991,536</u></u>

The notes attached from pages 8 to 76 are part of the consolidated financial statements.

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATE STATEMENT OF COMPREHENSIVE INCOME

	<u>Note</u>	For the year ended	
		December 31,	
		2016	2015
		S/000	S/000
Net income		<u>230,435</u>	<u>161,766</u>
Other comprehensive income to be reclassified to profits in subsequent periods:			
Exchange difference on translation of foreign operations	16(f)	(4,440)	28,090
Impact of change in tax rate on deferred tax	15(a)	(2,549)	(3,915)
Valuation of derivate hedging instruments	16(e)	-	34
Effect on income tax	16(e)	-	(10)
Others, net of the effect on income tax		<u>(1,405)</u>	<u>6,665</u>
		<u>(8,394)</u>	<u>30,864</u>
Other comprehensive income to be not reclassified to profits in subsequent periods:			
Revaluation of land		(21,669)	176,058
Effect on income tax		<u>6,392</u>	<u>(51,937)</u>
		<u>(15,277)</u>	<u>124,121</u>
Other comprehensive income for the year		<u>(23,671)</u>	<u>154,985</u>
Net comprehensive income for the year		<u><u>206,764</u></u>	<u><u>316,751</u></u>

The notes attached from pages 8 to 76 are part of the consolidated financial statements.

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Note	Number of shares In thousands	Share capital \$/1000	Treasury shares \$/1000	Additional capital \$/1000	Legal reserve \$/1000	Other equity reserves				Retained earnings \$/1000	Total \$/1000
						Revaluation surplus \$/1000	Unrealized profits \$/1000	Foreign currency transition \$/1000	Other reserves \$/1000		
Balances as of January 1, 2015	1,014,326	1,014,326	-	79,596	110,099	250,063	(7,894)	20,913	3,613	131,100	1,595,776
Net income	-	-	-	-	-	-	-	-	-	161,766	161,766
Other comprehensive income for the year:											
Effect on current fair value of land, deferred income tax net	3.6	-	-	-	-	124,121	-	-	-	19,819	124,121
Realization of surplus from sale of land	15(a)	-	-	-	-	(19,819)	-	-	-	-	-
Impact of change in tax rate on deferred tax	15(a)	-	-	-	-	(3,915)	-	-	-	-	(3,915)
Valuation of derivative hedging instruments	16(e)	-	-	-	-	-	6,065	-	24	-	6,089
Gain on valuation of available-for-sale investments	16(e)	-	-	-	-	-	-	28,109	-	(19)	28,090
Exchange differences derived from foreign operations	16(e)	-	-	-	-	-	-	28,109	-	181,566	316,751
Comprehensive income for the year	-	-	-	-	-	100,387	-	28,109	24	-	128,520
Transactions with shareholders:											
- Transfer to legal reserve	16(d)	-	-	-	13,109	-	-	-	-	(13,109)	-
- Increase in equity investments	16(e)	-	-	-	-	-	-	-	1,767	-	1,767
- Dividends distribution	16(f)	-	-	-	-	-	-	-	-	(60,860)	(60,860)
- Share repurchase	16(c)	-	(27,048)	(6,118)	-	-	-	-	-	-	(33,166)
Balances as of December 31, 2015	987,278	1,014,326	(27,048)	65,479	123,207	350,470	(1,229)	49,022	5,404	239,689	1,618,268
Balances as of January 1, 2016	987,278	1,014,326	(27,048)	65,418	123,207	350,470	(1,229)	49,022	5,404	239,689	1,618,268
Net income	-	-	-	-	-	-	-	-	-	239,689	239,689
Other comprehensive income for the year:											
Impact of change in tax rate on deferred tax	15(a)	-	-	-	-	(2,549)	-	-	-	-	(2,549)
Gain on valuation of investments available for sale	16(e)	-	-	-	-	-	(1,405)	-	-	-	(1,405)
Exchange differences derived from foreign operations	16(e)	-	-	-	-	-	-	(4,440)	-	5,438	(4,440)
Realization of surplus from sale of land	16(e)	-	-	-	-	(5,438)	-	-	-	-	(5,438)
Effect on current fair value of land, deferred income tax net	16(e)	-	-	-	-	(15,277)	-	-	-	-	(15,277)
Comprehensive income for the year	-	-	-	-	-	(23,264)	-	(4,440)	-	239,673	209,769
Transactions with shareholders:											
- Transfer to legal reserve	16(d)	-	-	-	16,177	-	-	-	-	(16,177)	-
- Increase in equity investments	16(e)	-	-	-	-	-	-	-	15,137	-	15,137
- Dividends distribution	16(f)	-	-	-	-	-	-	-	-	(67,354)	(67,354)
- Share repurchase	16(c)	-	(23,160)	(5,073)	-	-	-	-	-	-	(28,233)
Balances as of December 31, 2016	964,118	1,014,326	(50,208)	50,345	139,384	327,206	(2,634)	44,582	20,541	371,040	1,914,592

The notes attached from pages 8 to 76 are part of the consolidated financial statements.

FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the year ended	
		December 31,	
		2016	2015
		S/000	S/000
OPERATING ACTIVITIES			
Collections from customers and third parties		4,826,102	5,203,377
Payments to suppliers		(3,762,735)	(4,154,424)
Payments to workers and others		(409,637)	(444,990)
Income tax payments		(150,646)	(127,931)
Other tax payments		(11,388)	(11,771)
Net cash generated from operating activities		<u>491,696</u>	<u>464,261</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10(a)	(132,247)	(195,864)
Shares repurchase	16(c)	(38,233)	(35,166)
Purchase of intangibles assets	11(a)	(13,497)	(22,497)
Sale of investments	9(a)	26,821	-
Sale of property, plant and equipment		2,871	611
Net cash used in investing activities		<u>(154,285)</u>	<u>(252,916)</u>
FINANCING ACTIVITIES			
Obtaining of borrowings		2,085,619	1,248,875
Payment of borrowings		(2,329,879)	(1,144,583)
Interests paid		(120,083)	(100,853)
Dividends paid	16(f)	(87,354)	(60,860)
Non-controlling interests		3,929	-
Net cash used in financing activities		<u>(447,768)</u>	<u>(57,421)</u>
Net increase in cash and cash equivalents		(110,357)	153,924
Effect of exchange rate differences on cash and cash equivalents		6,017	(10,551)
Cash and cash equivalents balance at beginning of the year		<u>233,322</u>	<u>89,949</u>
Cash and cash equivalents balance at end of the year		<u>128,982</u>	<u>233,322</u>

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FERREYCORP S.A.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

1 ECONOMIC ACTIVITY

(a) General information -

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

(b) Distribution agreements -

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

(c) Approval of the consolidated financial statements -

The consolidated financial statements at December 31, 2015 were approved at the Shareholders' Meeting and Board of Directors' meeting held on February 19, 2016. The consolidated financial statements at December 31, 2016 were authorized by Company's Management on February 14, 2017 and will be submitted for their approval by the Board of Directors and Shareholders' Meeting that will take place during the first quarter of 2017. Management considers these consolidated financial statements will be approved at the Board of Directors and Shareholders' Meetings without any changes.

2 GROUP'S STRUCTURE IDENTIFICATION

At December 31, 2016 and 2015, the consolidated financial statements include the financial statement of Ferreycorp S.A.A. and subsidiaries in which it has control and an investment in a joint venture. The Group owns 100 percent interest in subsidiaries, either through its parent company (Ferreycorp S.A.A.) or through other subsidiaries. Major data of the consolidating companies at December 31, 2016 and 2015, before eliminations for consolidation purposes, are as follows:

Entity	Core activity	Percentage of interest		Assets		Liabilities		Net equity		Net profit (loss)	
		2016 %	2015 %	2016 \$/000	2015 \$/000	2016 \$/000	2015 \$/000	2016 \$/000	2015 \$/000	2016 \$/000	2015 \$/000
Ferreyros S.A.	Purchase and sale of plant, spare parts and workshop services	99.99	99.99	1,856,589	1,945,087	959,225	1,064,255	897,364	860,832	246,861	235,905
Inti Inversiones Interamericanas Corp. y subsidiarias (a)	Holding of the business in Central America	100.00	100.00	594,443	636,361	351,782	420,816	242,661	215,545	26,093	9,294
Unimaq S.A. and subsidiary (b)	Purchase and sale of plant, spare parts and workshop services	99.99	99.99	541,558	554,795	409,932	433,324	131,626	121,471	677	(2,514)
Inmobiliaria CDR S.A.C.	Real estate agency	99.99	99.99	99,759	103,279	24,817	30,378	74,942	72,901	3,441	1,615
Fargoline S.A.	Storage services	99.91	99.91	109,477	113,462	46,301	47,376	63,176	66,086	3,382	5,558
Motored S.A.	Purchase and sale of automotive line, spare parts and automotive services	99.99	99.99	200,017	187,741	165,822	156,727	34,195	31,014	701	(26,471)
Trex Latinoamérica SpA and subsidiaries (c)	Holding of the business in South America	100.00	100.00	188,095	180,520	145,614	125,840	42,481	54,680	(12,087)	(1,613)
Orvisa S.A. and subsidiaries	Purchase and sale of plant, spare parts and workshop services	99.37	99.37	143,284	178,579	101,799	140,818	41,485	37,761	4,064	(1,965)
Soltrak S.A.	Representative and distributor of tires, lubricants and safety equipment	99.99	99.99	215,504	166,799	180,093	126,251	35,411	40,548	(4,919)	646
Fiansa S.A. (common shares and investment)	Metallurgical services	99.76	99.76	60,522	52,218	44,805	24,769	15,717	27,449	(17,609)	(10,289)
Cresko S.A.	Purchase and sale of plant, equipment and chemical supplies	99.99	99.99	26,596	42,882	3,715	34,487	22,881	8,395	14,460	(4,304)
Soluciones Sitech Perú S.A.	Software marketing and technology-related equipment	99.80	99.80	7,615	5,175	4,326	5,186	3,289	(11)	951	(1,935)
Motiza S.A. (d)	Purchase, sale, distribution, Marketing and export of the Trex property line	99.00	-	94,882	-	79,995	-	14,887	-	15	-
Maquicentro S.A.(b)	Wholesale and retail of construction equipment, agricultural machinery and port equipment	99.00	-	27,297	-	21,995	-	5,302	-	(1,701)	-
Forbis Logistics S.A.	Cargo agent	99.98	99.98	8,411	8,082	5,130	4,513	3,281	3,569	2,157	2,655
Ferrenery S.A. (e)	Power generation and supply	50.00	50.00	27,254	34,885	4,129	13,911	23,125	20,974	2,152	2,752

- (a) This holding entity mainly includes subsidiaries in Central America and North America: Compañía General de Equipos S.A. (El Salvador), Corporación General de Tractores S.A. (Guatemala), General Equipment Company (Belice), Mercado Centroamericano de Lubricantes S.A. (Nicaragua) and Forbis Logistics Corp. (United States of America). The activities of the subsidiaries conforming Inti Group are purchase and sale of pant, spare parts and workshop services. On the other hand, on July 1, 2015, Inti Group acquired 100 percent of the voting shares of Transportes Pesados S.A.C. de C.V. (El Salvador), which is engaged in the sale of spare parts for heavy transport.
- (b) On August 9, 2016, the Company acquired from Unimaq S.A. 99 percent voting shares of Maquicentro S.A. (Ecuador).
- (c) This holding entity mainly includes subsidiaries in South America: Trex Latinoamérica SpA, which is parent Company of Equipos y Servicios Trex SpA and Trex Overseas Investment S.A. (both domiciled in Chile), the latter, in turn, has a subsidiary in Colombia (two subsidiaries domiciled in Ecuador and Colombia in 2015).
- (d) On January 14, 2016, Motriza S.A. was incorporated. This constitution was made through transfer of the TREX business lines of the subsidiaries Ferreyros S.A. and Cresko S.A. The economic activity of Motriza S.A. will be to buy, sell, distribute, market and export the TREX goods line.
- (e) On August 31, 2016, the Company sold to Ferreyros S.A. the shares held in Ferrenergy S.A. for S/11,440,000. Ferrenergy S.A. is a jointly controlled entity through an agreement signed by the Company with SoEnergy International Corporation and is dedicated to the generation and provision of electricity supply service.

Acquisitions in 2015 -

(a) Transportes Pesados S.A. de C.V.:

On July 1, 2015, the Group through its subsidiary Inti Inversiones Interamericanas Corp. acquired 100 percent of the voting shares of Transportes Pesados S.A. de C.V. This Company is engaged in selling parts for heavy transport in El Salvador for US\$9,720,000 approximately (equivalent on that date to S/30,858,000). The Group acquired this business in order to expand its operations in El Salvador and take advantage of the synergies that may arise from working together with other companies of the Ferreycorp Group.

Fair values of assets and liabilities acquired are the following:

	Fair value recognized at the date of acquisition
	<u>S/000</u>
Assets:	
Cash	1,146
Trade receivable, net	10,227
Inventories, net	11,277
Other assets	22,037
Liabilities:	
Trade payable	(3,898)
Provisions for contingencies	(20,139)
Total net assets acquired at fair value	<u>20,650</u>
Assets and liabilities identified:	
Brands	1,362
Customer relationship	5,174
Non-competition agreement	3,072
Deferred income tax liability	(3,072)
Total identifiable net assets measured at fair value	<u>6,536</u>
Total fair value of net assets acquired	27,186
Less: Purchase price at the date of acquisition	<u>30,858</u>
Goodwill, 11(d)	<u>3,672</u>
Cash flow at the date acquisition	
<u>S/000</u>	
Net cash included in the business	1,146
Cash payment	(30,858)
Net cash flows at the date of acquisition	<u>(29,712)</u>

Intangible assets acquired through business combination mainly include customer relationship, purchase orders, non-competence agreement, which are detailed in note 11(a).

Management has not determined a "pro-forma" on revenues and income that the Group had have if Transportes Pesados S.A. de C.V. would have been acquired in early 2015, because it considers that the amount does not have a significant impact on the Company's consolidated financial statements.

3 BASIS OF PREPARATION AND SUMMARY OF CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

The accounting policies adopted by the Group are consistent with those applied in previous years, except for the new revised IFRS and IAS that are mandatory for periods beginning on or after January 1, 2016.

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

3.2 Basis of consolidation -

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

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

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

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

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

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

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

3.3 Summary of significant accounting policies -

(a) Business combination and goodwill -

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

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

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

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

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

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

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

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

(b) Investment in associates and joint venture -

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

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

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

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

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

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

(c) Financial instruments: Recognition and measurement -

(c.1) Financial assets -

Initial recognition and measurement -

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

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

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

Subsequent measurement -

The subsequent measurement of financial assets depends on their classification. As of December 31, 2016 and 2015, the Group only maintains financial assets classified only in the categories of loans and receivable, and the criteria for these categories are explained below.

Loans and receivables -

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, so the Group does not intend to sell them immediately or in the near future, and they have no recovery risks other than their credit deterioration.

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

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

De-recognition of financial assets -

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

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

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

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

Impairment of financial assets -

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

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

Financial assets carried at amortized cost -

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

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

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

(c.2) Financial liabilities -

Initial recognition and measurement -

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

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

As of December 31, 2016 and 2015, the Group has only liabilities at amortized cost that include borrowings, trade payables and other payables.

Subsequent measurement -

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

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

De-recognition of financial liabilities -

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

(c.3) Offsetting of financial instruments -

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

(d) Derivative financial instruments -

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

- Fair value when hedging the exposure to changes in fair value of recognized assets or liabilities or unrecognized firm commitments.
- Cash flow when hedging exposure to variations in cash flows attributed either to a particular risk associated with a recognized asset or liability or a highly probable transaction, or at risk of exchange rate in unrecognized commitment;

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

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

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

Until December 31, 2015, the Group maintained only an interest rate "Swap" contract classified as cash flow hedge. As a result of such hedging, the effective portion of profit or loss on the hedging instrument was recognized directly as a hedge reserve for cash flows in the consolidated statement of comprehensive income.

Upon the settlement of the derivative instrument mentioned above, the accumulated gain or loss previously recognized in equity is reclassified in the consolidated statement of income.

(e) Foreign currency translation -

Functional and presentation currency -

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

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

Transactions and balances in foreign currency -

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

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

Translation into presentation currency -

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

- (i) The balances of assets and liabilities have been translated using the closing exchange rates at the date of each consolidated statement of financial position reported. The differences resulting from the opening balances of the presentation currency at a different exchange rate than the year-end are presented as a movement in each of the items to which it corresponds.
- (ii) Revenues and expenses have been translated using the average monthly exchange rate that approximates the exchange rates on the date of registry of such transactions.
- (iii) All resulting differences have been recognized as other comprehensive income in "Exchange differences from translation of foreign currency".

(f) Cash and cash equivalents -

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

(g) Inventories -

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

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

(h) Property, plant and equipment -

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

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

Land is measured at its revaluation value (fair value) using valuations made every two to three years by an independent expert appraiser to ensure that fair value does not differ significantly from its carrying amount. When changes in fair value are not significant, revaluations will be made every three or five years. As of December 31, 2016, changes in fair value of land have not been significant and therefore, it has not been necessary to change the carrying amount. The last land revaluation was in 2015, see note 3.6.

All revaluation increase is recognized in the consolidated statement of comprehensive income and accumulated in the consolidated equity under "Other equity reserves" for revaluation of assets in equity, unless such increase corresponds to the reversal of a revaluation decrease of the same asset previously recognized in the consolidated statement of income, in which that increase is recognized in the mentioned statement. A revaluation decrease is recognized in the consolidated statement of income, except to the extent that said decrease compensates a revaluation increase of the same asset previously recognized in the asset revaluation reserve. At the time of sale of the revalued asset, any revaluation reserve related to that asset is transferred to retained earnings.

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

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

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

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

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

(i) Leases -

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

Group as lessee -

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

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

Group as lessor -

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

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

(j) Intangible assets -

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

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

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

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

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

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

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

(k) Impairment of non-financial assets -

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

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

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

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

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

Goodwill and indefinite life brands -

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

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

(l) Borrowing costs -

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

During 2016 and 2015, the Group did not maintain current assets that qualify for capitalization of borrowing costs.

(m) Employee benefits -

Workers' profit-sharing -

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

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

Statutory bonuses -

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

Workers' severance indemnities -

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

Vacations period -

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

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

(n) Income tax -

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

Current income tax -

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

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

Deferred income tax -

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

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

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

(o) Revenues, costs and expenses recognition -

Revenues -

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

- Revenues from sale of machinery, vehicles, motors, motor vehicles and spare parts are recognized when all risks and benefits inherent in ownership are transferred to the buyer.
- Revenues from workshops, maintenance and repair and rental of machinery and equipment are recognized in profit or loss according to the progress degree of the service.
- Other Group's revenues are recognized as follows:
 - Revenue from rentals and interest on sales on credit: on an accrual basis.
 - Revenue from commissions on direct orders: when the foreign supplier serves order directly.
 - Revenue from financial income: under the effective interest method.
 - Revenue from income and expenses of construction contracts involving metal-mechanic work: under the percentage-of-completion method.
 - Revenue from warehousing service: recognized when the service is rendered.

Costs and expenses -

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

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

(p) Provisions -

General -

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

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

Guarantees -

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

(q) Contingent liabilities and assets -

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

(r) Share capital -

Common shares are classified as equity.

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

(s) Earnings per share -

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

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

(t) Fair value measurement -

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

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

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

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

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

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

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

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

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

(u) Segment information -

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

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

(v) Subsequent events -

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

3.4 Critical accounting judgments, estimates and assumptions -

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

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

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

(a) Judgments -

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

Operating leases, note 3.3(i) -

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

(b) Estimates and assumptions -

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

When possible, the inputs fed into these models are based on observable data; otherwise, the use of professional judgment is used to determine fair values. These judgments include considering inputs related to the liquidity risk, credit risk, and volatility. Changes in the related assumptions may affect the fair value of the financial instruments. For further detail, see note 26(b).

3.5 New accounting policies -

New standards and amendments to current standards for the financial statements for the annual period beginning on January 1, 2016 -

During 2016 some IFRS and IFRIC came into effect; however, they are not applicable to the Company or have not had a significant impact on the Group's consolidated financial statements.

New standards, amendments and interpretations effective for the financial statements for annual periods beginning on or after January 1, 2017, which have not been early adopted -

- IFRS 9, 'Financial instruments' -

This standard replaces IAS 39, 'Financial Instruments: Recognition and measurement' and modifies certain criteria for the classification and measurement of financial assets and liabilities. Moreover, it modifies the criteria for the recognition of losses for impairment of financial assets, proposing a focus based on a model which seeks to estimate the 'expected loss' of the credit portfolio which will replace the current model of IAS 39 which estimates the provision for impairment of financial assets on the basis of the concept of 'incurred losses'. IFRS 9 also amends the conditions that an entity must comply with in order to apply hedging accounting, seeking to align these conditions more closely with the entity's common risk management practices. IFRS 9 is effective for financial periods beginning on or after January 1, 2018 and early adoption is permitted.

- IFRS 15, 'Revenue from contracts with customers'-

This standard replaces IAS 18, 'Revenue' and IAS 11, 'Construction contracts' and applies a single principle for revenue recognition, which emphasizes the performance obligations acquired by the seller in order to determine the timing and amount of revenue recognition, attributing greater importance to the transfer of control than to the transfer of risks and benefits. Equally, it broadens the guidance that can be used as reference for their implementation. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and early adoption is permitted.

- IFRS 16, 'Leases'-

On January 13, 2016, IFRS 16, 'Leases' (IFRS 16) was issued, which replaces the current standards related to the treatment of leases (IAS 17, 'Leases, IFRIC 4, 'Contracts which may contain a lease' and other related interpretations). IFRS16 presents a new definition of leases and a new accounting model that will have a substantial impact on lessees. As a result of the new model, an entity will recognize in its balance sheet at the start of the lease an asset which represents its right of use of the leased asset and a debt for the obligation to make the future contractual payments. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and early adoption is permitted as long as IFRS 15 is also early adopted.

- Amendment to IAS 12 "Income tax" on recognition of deferred tax assets generated by unrealized gains -

The amendments to IAS 12 in January 2016 clarify the deferred income tax accounting when an asset is measured at fair value and that fair value is below the tax base of the asset. The amendments confirm the following:

- There is a temporary difference when the carrying amount of an asset is lower than its tax base at the end of the reporting period.
- An entity may assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- When tax laws restrict the source of taxable base against which particular types of deferred tax assets can be recovered, the recoverability of deferred tax assets can only be assessed in combination with other deferred income tax assets of the same type.
- Tax deductions resulting from reversing deferred income tax assets are excluded from the estimate of future taxable profit that will be used to assess the recoverability of those assets.

The estimated effective date of these changes for accounting periods beginning on or after January 1, 2017.

- IAS 7 "Statement of cash flows", changes in disclosure initiatives -

Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes (i) changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and (ii) non-cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences.

Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities.

The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

The estimated effective date of these changes is January 1, 2017.

The Group is currently evaluating the impact these standards may have on the preparation of its consolidated financial statements. No other IFRS or IFRICs not yet effective are expected to have a significant impact on the Company's consolidated financial statements.

3.6 Restatement of consolidated financial statements issued the previous year

In 2016, the Group performed a review of the commercial value of its land properties, which were shown at the revalued cost in 2015 based on independent appraisals conducted in 2013, and concluded that it is significantly higher than their current carrying amounts and a large portion of this higher value occurred during 2014 and 2015. In this sense, the Group modified its consolidated financial statements in 2015 to increase the carrying amount of its land properties by S/176 million to present them at the revalued cost as per independent appraisals for fiscal 2015. Also, it recognized the associated deferred income tax liability of S/52 million. In order to fairly present this situation, the 2015 consolidated financial statements were re-stated to give accounting effect.

The impact of the situation described in the previous paragraphs, on the consolidated financial statements as of January 1 and December 31, 2015 is as follows:

	<u>Balances audited as of December 31, 2015</u> S/000	<u>Adjustments</u> S/000	<u>Balance as of December 31, 2015 re-expressed</u> S/000
Consolidated statement of financial position -			
Assets:			
Property, plant and equipment, net	1,417,031	176,058	1,593,089
Liabilities:			
Deferred income tax liability	155,384	51,937	207,321
Equity:			
Other equity reserves	250,343	153,324	403,667
Translation result	49,022	(49,022)	-
Retained earnings	218,879	19,819	238,698
Consolidated statement of comprehensive income -			
Other comprehensive income that is not reclassified to income in subsequent periods:			
Other comprehensive income for the year	30,864	124,121	154,985
Total net comprehensive income for the year	192,630	124,121	316,751

The above-mentioned restatement had no impact on the profits or loss for 2015, total cash flows from operations, investments and financing or on the opening balances of fiscal 2015.

4 FINANCIAL INSTRUMENTS

4.1 Financial instruments by category -

The classification of financial instruments by category is as follows:

	<u>As of December 31,</u>	
	<u>2016</u> S/000	<u>2015</u> S/000
Assets according to consolidated statement of financial position -		
Loans and receivables:		
- Cash and cash equivalents	128,982	233,322
- Trade and other receivables (*)	<u>1,207,762</u>	<u>1,064,482</u>
	<u><u>1,336,744</u></u>	<u><u>1,297,804</u></u>
Liabilities as per consolidated statement of financial position -		
Other financial liabilities:		
- Borrowings	1,691,503	1,935,763
- Trade and other payables (*)	<u>931,322</u>	<u>924,274</u>
	<u><u>2,622,825</u></u>	<u><u>2,860,037</u></u>

(*) It does not include advances nor taxes.

4.2 Credit quality of financial assets -

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

The credit quality of financial assets is as follows:

	As of December 31,	
	2016	2015
	S/000	S/000
Cash and cash equivalents (*)		
Banco de Crédito del Perú S.A. (A+)	57,648	136,977
BBVA Banco Continental S.A. (A+)	9,219	4,665
Banco de la Nación (A)	7,172	17,404
Banco de América Central S.A. (B+)	5,342	555
Banco Industrial, S.A. (BB+)	4,274	2,132
Banco Agrícola S.A. (B+)	4,107	1,600
Scotiabank Belize (A)	3,670	4,405
Mercantil Commercenank, N.A. (BB+)	3,094	-
Citibank N.A. (A+)	3,027	-
Davivienda (B+)	2,958	1,934
Scotiabank Perú S.A.A. (A)	2,922	3,015
Banco Internacional del Perú S.A.A. (A)	2,578	7,934
Banco Inter Banco, S.A. (BBB+)	2,317	759
Citibank del Perú S.A. (A+)	1,419	12,609
Banco Davivienda Salvadoreño, S.A. (A+)	1,288	1,325
Heritage Bank Plc. (A+)	919	-
Scotiabank (B+)	691	761
Citibank (B+)	734	324
Banco Interamericano de Finanzas S.A. (A)	457	376
Banco Santander Perú S.A. (A)	315	19,499
JPMorgan Chase Bank, N.A. (A+)	-	7,000
Other minors	13,750	8,292
	<u>127,901</u>	<u>231,566</u>

Credit ratings in the previous chart, "A" and "A+", represent high quality ratings. For banks in Peru, this credit rating are obtained from credit rating agencies authorized by the Superintendence of Banking, Insurance and Private Pension Fund Administrators (SBS).

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

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

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

As of December 31, 2016 and 2015, the entire portfolio was rated as "B" risk category. Also, with respect to outstanding obligations that are meeting their contractual terms, there are none that have been re-negotiated.

5 CASH AND CASH EQUIVALENTS

(a) This item comprises:

	<u>2016</u> S/000	<u>2015</u> S/000
Fixed fund	588	669
Checking accounts (b)	91,263	117,586
Time deposit (c)	36,631	109,368
Savings account (b)	7	4,612
In-transit remittances	493	1,087
	<u>128,982</u>	<u>233,322</u>

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

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

6 TRADE RECEIVABLES, NET

(a) This item comprises:

	<u>2016</u> S/000	<u>2015</u> S/000
Invoices (b)	932,022	828,313
Bill of exchange (b)	310,253	295,622
Accrued interest	(11,971)	(12,742)
	1,230,304	1,111,193
Less - Estimate for doubtful accounts (d)	(105,229)	(106,353)
	1,125,075	1,004,840
Less:		
Non-current portion	(45,017)	(47,876)
Current portion	<u>1,080,058</u>	<u>956,964</u>

(b) Trade receivable are denominated in local and foreign currency, do not generate interest, except for bills of exchange receivables that accrue an annual interest rate in soles at rates that fluctuate from 6.00 to 22.00 percent.

Invoices and bills of exchange correspond mainly to receivables originating from sale of goods to various local and foreign companies.

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

	<u>Unimpaired</u> S/000	<u>Impaired</u> S/000	<u>Total</u> S/000
As of December 31, 2016			
Not past due:	873,333	-	873,333
Past due:			
- Up to 1 month	109,296	2,180	111,476
- From 1 to 3 months	59,122	2,284	61,406
- From 3 to 6 months	26,325	3,490	29,815
- More than 6 months	68,970	97,275	166,245
Total	<u>1,137,046</u>	<u>105,229</u>	<u>1,242,275</u>
As of December 31, 2015			
Not past due:	707,445	49	707,494
Past due:			
- Up to 1 month	132,177	1,316	133,493
- From 1 to 3 months	78,239	655	78,894
- From 3 to 6 months	55,202	1,968	57,170
- More than 6 months	44,519	102,365	146,884
Total	<u>1,017,582</u>	<u>106,353</u>	<u>1,123,935</u>

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

	<u>2016</u> S/000	<u>2015</u> S/000
Opening balance as of January 1	106,353	93,332
Estimate charged to income, note 18	15,653	15,473
Increase due to subsidiary purchase	-	322
Recoveries and write-off	(14,371)	(6,731)
Disposal of portfolio	(1,008)	-
Effect of translation	(1,398)	3,957
Final balance as of December 31	<u>105,229</u>	<u>106,353</u>

Management considers that the provision for doubtful receivables adequately covers the credit risk of these items as of December 31, 2016 and 2015.

7 OTHER RECEIVABLES, NET

(a) This item comprises:

	<u>2016</u> <u>S/000</u>	<u>2015</u> <u>S/000</u>
Income tax credit balance (b)	71,053	51,986
VAT credit balance (c)	28,395	24,076
Receivables from sale of investments, net (d)	26,219	-
Receivables from Caterpillar (e)	16,977	22,403
Receivables from staff	8,782	8,459
Tax withholdings from tax administration	6,208	6,834
Advances to suppliers	4,991	735
Receivables from program of work for taxes (f)	3,984	2,410
Reimbursement of customs duties and taxes (g)	2,106	2,956
Security deposit	2,247	2,132
Claims to insurance companies and third parties	2,208	2,880
Receivables from Marinazul S.A. (h)	1,695	4,487
Claims to suppliers	1,527	1,634
Receivables from business acquisition (i)	-	2,764
Other receivables (j)	<u>16,374</u>	<u>15,130</u>
	192,766	148,886
Less - Provision for doubtful accounts (k)	<u>(2,317)</u>	<u>(3,392)</u>
	190,449	145,494
Less: Non-current portion	<u>(1,798)</u>	<u>(4,607)</u>
Current portion	<u>188,651</u>	<u>140,887</u>

- (b) This balance is the income tax on-account payments which Management considers, will be recovered in the normal course of the Group's business.
- (c) The VAT credit balance mainly resulted from purchases of inventories, fixed assets and other expenditures relating to the Group's operations. Management considers the VAT (IGV in Peru) credit balance will be recovered in the normal course of the Group's business.
- (d) In December 2016, the subsidiary Inti Inversiones Interamericanas Corp. sold to a third party some investments, resulting in an account receivable of S/78,175,000 as of December 31, 2016. This is a non-recurring transaction with a non-traditional customer, so the subsidiary's Management recorded a provision for this account for S/51,956,000, that was estimated based on the information available, which is deemed reasonable to cover the collection risk.
- (e) At December 31, 2016, receivables from Caterpillar include balances related to the recognition of sales of Prime machinery and spare parts during 2016. It also includes receivables related to refunds of guarantees agreed with Caterpillar on the sales of machinery. These receivables do not generate interest and are current maturity.
- (f) In March 2014, Ferreyros S.A.A. signed an agreement under the provisions of Law No.29230 with the Regional Government of Junín by which Ferreyros S.A.A. grants financing through money contributions and implementation activities for the development of various projects in the region.

At December 31, 2016, this item includes the contributions made through the consortium comprising Ferreyros SA, Empresa Administradora Chungar S.A.C. and Unimaq S.A. with interest of 35 percent, 50 percent and 15 percent, respectively, to finance the project called "Ampliación y Mejoramiento del Sistema de Agua Potable en el C.P. San Agustín de Haychao, Distrito de Huayllay - Pasco" for S/380,000 and through the consortium comprising Ferreyros SA, Empresa Administradora Chungar S.A.C. and Minera Chinalco Perú S.A. with an interest of 45 percent, 45 percent and 10 percent, respectively, to finance the project called "Mejoramiento y ampliación de los servicios de agua potable, alcantarillado y tratamiento de aguas servidas de los Barrios Aguas Calientes, Santa Rosa, Bolognesi, Centro Yauli, Las Brisas, Manuel Montero y San Juan Bautista de Pachachaca, Distrito de Yauli - Junín" for S/3,604,000 (S/2,410,000 in 2015), both projects are in process of liquidation as of December 31, 2016. Accordingly and by virtue of said law, Ferreyros S.A.A. and Unimaq S.A. can use the tax credit balance resulting from the expenses made and apply them to future income tax settlements.

- (g) They consist of refunds for tax and customs duties, for which an application will be presented to Tax Authorities to be actually obtained during the next first half year.
- (h) This receivable consists of a loan given to Domingo Rodas S.A. (a former subsidiary of the Group) for S/5,150,000 in 2008. In 2010, the Group signed an agreement to transfer the capital stock it held in Domingo Rodas S.A. to Marinazul S.A., a subsidiary of a leading business group in the Peru's agro-industrial sector. As a result of this transaction, the new shareholders recognized the debt payable to Ferreyros S.A., which was refinanced and is being collected on a quarterly basis. It bears interest at an annual rate of 7.55 percent. This receivable is being recovered according to the payment schedule agreed by Ferreyros S.A. and Domingo Rodas S.A.; in addition, it has mortgage guarantees.
- (i) As of December 31, 2015, the balance consisted of a receivable from a former owner for the business acquisition indicated in note 2(a); such receivable balance has no guarantees and was collected during the first half of 2016.
- (j) The ageing of the other receivables is as follows:

	<u>2016</u> S/000	<u>2015</u> S/000
Current	190,379	138,379
Past due for up to 180 days	70	7,115
Past due for more than 180 days	<u>2,317</u>	<u>3,392</u>
	<u>192,766</u>	<u>148,886</u>

- (k) The annual movement of the estimate for other receivables from doubtful accounts is as follows:

	<u>2016</u> S/000	<u>2015</u> S/000
Opening balance as of January 1	3,392	2,962
Estimate charge to income, note 18	-	53
Write-offs of the year	(1,039)	-
Effect of translation	(36)	377
Final balance as of December 31	<u>2,317</u>	<u>3,392</u>

Management considers that the provision for doubtful receivables adequately covers the credit risk at December 31, 2016 and 2015.

8 INVENTORIES, NET

(a) This item comprises:

	<u>2016</u> S/000	<u>2015</u> S/000
Machinery, motors and vehicles	575,711	735,178
Spare parts	382,478	389,620
Merchandise	104,052	69,844
Workshop services in progress (b)	86,554	89,373
Advances to suppliers	13,825	16,601
Other supplies	5,464	6,439
Raw material and packaging material	3,027	1,720
Products in process	3,199	1,486
Finished products	175	112
Inventories in transit	<u>118,627</u>	<u>137,018</u>
	1,293,112	1,447,391
Less - Provision for impairment of inventories (c)	<u>(60,131)</u>	<u>(68,029)</u>
	<u>1,232,981</u>	<u>1,379,362</u>

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

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

	<u>2016</u> S/000	<u>2015</u> S/000
Opening balance as of January 1	68,029	48,071
Provision charged to income, note 17	31,479	55,350
Transfer from fixed assets	12,020	-
Recoveries, nota 17	(42,089)	(35,545)
Other recoveries	(2,004)	2,545
Destruction of spare parts and others	(3,478)	(2,259)
Transfer to fixed assets	(3,236)	(1,697)
Increase due to subsidiary purchase	-	1,444
Effect of translation	<u>(590)</u>	<u>120</u>
Final balance as of December 31	<u>60,131</u>	<u>68,029</u>

The provision for impairment of inventories is determined based on levels of inventory turnover and other characteristics, according to periodic evaluations conducted by Management and technical and financial areas. Group Management considers the balance of this estimate adequately covers the risk of impairment of inventories as of December 31, 2016 and 2015.

9 INVESTMENT IN ASSOCIATES AND JOINT VENTURE

(a) This item comprises:

Main activity	Percentage of interest in capital		Carrying amount	
	2016 %	2015 %	2016 S/000	2015 S/000
Common shares in associates (b):				
La Positiva Seguros y Reaseguros S.A.	14.96	14.96	56,703	45,489
La Positiva Vida Seguros y Reaseguros S.A.	2.10	3.01	8,413	9,728
Joint venture (b):				
Ferrenergy S.A.	50.00	50.00	12,139	10,461
Other investments, note 7(d):				
Inversiones Varesli S.A.	-	46.57	-	14,586
International Machinery Co. S.A.	-	46.67	-	12,235
Other minor investments	-	-	901	1,013
			<u>78,156</u>	<u>93,512</u>

(b) The Group has recognized a total profit of approximately S/7,284,000 (S/5,889,000 as of December 31, 2015) in the item "Profit-sharing in associates and joint ventures" in the consolidated statement of income, in accordance with the policy described in note 3.3(b).

These are the figures of the financial statements of La Positiva Seguros y Reaseguros S.A., La Positiva Vida Seguros y Reaseguros S.A. and Ferrenergy S.A. at December 31, 2016 and 2015:

	La Positiva Seguros y Reaseguros S.A.		La Positiva Vida Seguros y Reaseguros S.A.		Ferrenergy S.A.	
	2016	2015	2016	2015	2016	2015
	S/000	S/000	S/000	S/000	S/000	S/000
	Unaudited		Unaudited		Unaudited	
Statement of financial position:						
Total assets	1,151,709	1,141,611	3,414,283	3,058,307	27,254	34,885
Total liabilities	771,111	836,528	3,013,678	2,740,141	4,129	13,911
Equity	380,598	305,083	400,605	318,166	23,125	20,974
Statement of income:						
Total income	574,656	645,850	196,733	167,196	7,347	9,654
Operating profit	52,840	34,965	28,228	21,073	2,235	2,621
Net income	32,502	25,943	28,228	21,073	2,152	2,752

PROPERTY, PLANT AND EQUIPMENT, NET

(a) This item comprises the following:

Description	2016							2015	
	Lands S/000	Buildings and other constructions S/000	Plant and equipment S/000	Plant and fleet equipment for rent S/000	Vehicles S/000	Furniture and fixtures S/000	Work in progress S/000	Total S/000	Total S/000
Cost -									
Balance as of January 1	730,593	361,715	388,780	547,777	38,857	118,640	5,770	2,192,132	1,895,945
Additions (b)	11,279	10,944	16,559	49,611	3,520	5,494	34,840	132,247	195,864
Addition by purchase of subsidiary, see note 2(a)	-	-	-	-	-	-	-	-	18,454
Withdrawals and/or sales	-	(2,453)	(9,099)	(33,344)	(4,579)	(1,516)	(584)	(51,575)	(76,193)
Revaluation, note 3.6	-	-	16,126	132,256	-	-	-	(21,669)	176,058
Transfer of inventories	-	(14)	(15,333)	(258,220)	(575)	-	68	(148,554)	183,202
Transfer to inventories	-	4,944	(3,383)	2,909	172	-	-	(274,142)	(219,345)
Other transfers	(18)	(5,925)	(777)	(335)	(144)	(346)	(6,616)	(1,646)	-
Effect of translation	(339)	-	-	-	-	(354)	-	(7,874)	(8,213)
Balance as of December 31	719,846	369,211	392,873	440,654	37,355	122,810	33,478	2,116,027	2,192,132
Accumulated depreciation -									
Balance as of January 1	-	95,008	241,411	141,775	24,030	90,586	-	592,810	560,501
Additions (f)	-	16,732	35,186	50,902	4,454	8,734	-	116,008	139,626
Addition by purchase of subsidiary, see note 2(a)	-	-	-	-	-	-	-	-	4,353
Withdrawals and/or sales	-	(631)	(9,108)	(8,638)	(4,148)	(1,286)	-	(23,811)	(30,760)
Transfer of inventories	-	-	-	(2,242)	-	-	-	(2,242)	(2,526)
Transfer to inventories	-	(5)	(8,320)	(75,772)	(278)	-	-	(84,375)	(87,114)
Other transfers	-	(14)	(30)	(1,901)	(260)	(150)	-	(2,256)	(1,989)
Effect of translation	-	(2,181)	(3,461)	(102)	(2,664)	(1,163)	-	(9,571)	(10,119)
Balance as of December 31	-	108,909	255,678	104,122	21,134	96,721	-	586,564	592,810
Estimate for impairment -									
Balance as of January 1	-	87	1,098	5,048	-	-	-	6,233	7,197
Additions	-	-	133	6,898	-	-	-	7,031	2,024
Transfer of inventories	-	87	-	3,296	-	-	-	3,323	(964)
Transfer to inventories	-	-	-	(12,020)	-	-	-	(12,020)	(1,793)
Withdrawals, sales and others	-	-	-	-	-	-	-	-	(41)
Effect of translation	-	-	-	-	-	-	-	-	(190)
Balance as of December 31	-	174	1,231	3,162	-	-	-	4,567	6,233
Net carrying amount	719,846	260,128	135,964	333,370	16,220	25,890	33,478	1,524,896	1,593,089

- (b) In March 2015, the Company acquired an area of 176,493.32 m² in the Punta Negra district at an acquisition cost of approximately US\$19,414,000 (equivalent to S/61,135,000). Said asset is unencumbered, and will be used to carry out various operating and business activities of Ferreycorp Group.
- (c) As of December 31, 2016, the balances of work in progress mainly comprise disbursements made by the subsidiary Ferreyros S.A. in the construction of the new workshop "Centro de Reparación de Componentes - CRC" (Component Repair Center) located at la Joya - Arequipa for S/15,849,000, which is expected to be completed over the last quarter of 2017; as well as other extensions and general remodeling work for S/1,461,074 (S/2,554,000 at December 31, 2015).
- (d) As of December 31, 2016 the Group maintains buildings and facilities that were acquired under finance lease agreements at a cost of approximately S/2,365,000 and an accumulated depreciation of S/104,000 (S/32,134,000 and S/4,945,000 at December 31, 2015, respectively).
- (e) As of December 31, 2016 and 2015, the Group has insurance policies to cover all its assets. Management considers its insurance policies are consistent with the international practice in the industry and the risk of eventual losses from the risks contained in the insurance policy is reasonable considering the kind of assets owned by the Group.
- (f) During 2016, rental income amounted to approximately S/179,858,000 (S/275,410,000 during 2015), which are related to the rental of machinery and fleet equipment. These rental income is included in "Net sales" in the consolidated statement of income .
- (g) During 2015, the Group acquired 100 percent of the shares of Transportes Pesados S.A. de C.V., based in El Salvador, through its subsidiary Inti Inversiones Interamericanas Corp. As a result of this purchase, the Group received certain assets that comprise the item "property, plant and equipment", see note 2(a).
- (h) For the years ended December 31 the depreciation expense was recorded in the following items of the consolidated statement of income:

	<u>2016</u> S/000	<u>2015</u> S/000
Cost of sale, note 17	59,789	79,802
Selling expenses, note 18	41,945	42,435
Administrative expenses, note 19	14,274	14,698
Other expenses	-	2,691
	<u>116,008</u>	<u>139,626</u>

- (i) As of December 2016 and 2015, Management evaluated the condition of its property, plant and equipment and found no indications of impairment of those assets.
- (j) As of December 31, 2016 and 2015, the Group maintains outstanding mortgages on some of its properties for US\$ 8,420,000, in favor of financial entities, to secure repayment of borrowings.

11 INTANGIBLE ASSETS, NET AND GOODWILL

(a) This item comprises the following:

	2016							2015		
	Relationship with customers S/000	Trademark right S/000	Distribution agreement S/000	Purchase order (Order backlog) S/000	Right to use S/000	Relationship with suppliers S/000	Non-competition agreement S/000	Others S/000	Total S/000	Total S/000
Cost -										
Opening balance at January 1	63,524	8,919	12,325	692	17,552	2,470	4,997	46,096	156,575	132,255
Additions	-	-	-	-	-	-	-	13,497	13,497	22,497
Retirement and transfers	-	-	-	-	-	-	-	(2,640)	(2,640)	(716)
Effect of translation	(162)	(211)	(203)	(45)	-	(97)	68	(7)	(657)	2,539
Balance at December 31	63,362	8,708	12,122	647	17,552	2,373	5,065	56,946	166,775	156,575
Amortization -										
Opening balance at January 1	28,321	73	3,490	692	17,552	159	749	19,456	70,492	53,301
Additions (c)	7,530	145	1,230	-	-	84	989	5,806	15,784	16,143
Retirement and transfers	-	-	-	-	-	-	-	(340)	(340)	-
Effect of translation	(54)	(2)	(75)	(167)	-	-	117	-	(181)	1,048
Balance at December 31	35,797	216	4,645	525	17,552	243	1,855	24,922	85,755	70,492
Net carrying amount	27,565	8,492	7,477	122	-	2,130	3,210	32,024	81,020	86,083

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

At December 31, 2016 and 2015, Management prepared and reviewed the projected cash flows of the cash-generating units to which these assets were assigned, verifying that there is no evidence that the recoverable amounts of the intangible assets (trademark) are lower than their carrying amounts.

(c) At December 31, 2016, "other intangible assets" mainly consisted of the associated costs that are directly attributable to the design and testing of the project called "SAP Business Project" for S/7,378,000, which is expected to be completed in 2018; this balances also include licensing costs of computer programs acquired that are capitalized based on the costs incurred for S/593,000; and other minor projects for S/3,358,000.

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

	<u>2016</u> S/000	<u>2015</u> S/000
Cost of sales, note 17	211	263
Selling expenses, note 18	6,372	7,609
Administrative expenses, note 19	<u>9,201</u>	<u>8,271</u>
	<u>15,784</u>	<u>16,143</u>

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

	<u>2016</u> S/000	<u>2015</u> S/000
Ferreyros S.A. (Bucyrus)	83,396	83,396
Inversiones Interamericanas Corp.	62,452	61,977
Trex Latinoamérica SpA	13,912	19,343
Soltrak S.A. (before Mega Representaciones S.A.)	19,344	13,912
Ferreycorp S.A.A. (Inmobiliaria CDR S.A.C.)	3,473	-
Ferreycorp S.A.A. (Soltrak S.A.)	<u>5,289</u>	<u>-</u>
Total	<u>187,866</u>	<u>178,628</u>

Impairment testing of goodwill and intangible assets -

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

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

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

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

Major assumptions used in impairment testing by each CGU, at December 31, 2016 and 2015 is as follows:

<u>CGU</u>	<u>Carrying amount of net assets</u> S/000	<u>Recoverable amount</u> S/000	<u>Discount rate</u> %	<u>Cash flow period</u> (years)	<u>Growth rate</u> %
Year 2016:					
Bucyrus	101,478	204,742	10.5%	10	2.0%
Inti	71,062	425,631	10.5%	10	2.0%
Trex	25,741	132,176	10.5%	10	2.0%
Soltrak S.A.	18,374	170,707	10.0%	10	2.0%
Year 2015:					
Bucyrus	105,548	265,885	10.5%	10	2.0%
Inti	76,286	389,387	11.4%	10	2.0%
Trex	29,531	104,344	10.5%	10	2.9%
Soltrak S.A.	19,394	112,889	11.1%	10	0.5%

Key assumptions used in value-in-use calculations -

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

Gross margin -

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

Discount rate -

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

Long-term growth rate -

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

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

As of December 31, 2016 and 2015, the carrying amount of goodwill related to each CGU has been compared to the recoverable amount and Management has determined that it is not necessary to establish any provision for impairment.

12

BORROWINGS

(a) This item comprises:

	2016			2015		
	Current portion S/000	Non-current portion S/000	Total S/000	Current portion S/000	Non-current portion S/000	Total S/000
Bank loans (b)	527,403	-	527,403	221,370	-	221,370
Bonds and long-term debt with banks (c)	208,112	955,988	1,164,100	304,246	1,410,147	1,714,393
	735,515	955,988	1,691,503	525,616	1,410,147	1,935,763

(b) Bank loans -

	2016 %	2015 %	Original currency	2016 S/000	2015 S/000
Banco de Crédito del Perú S.A.A. - BCP	Between 5.55 and 6.57	Between 4.40 and 5.98	S/	162,671	54,965
BBVA Banco Continental	Between 0.70 and 2.30	1.05	US\$	146,454	14,334
Banco Crédito del Perú S.A.A. - BCP	Between 0.85 and 4.50	Between 1.46 and 2.00	US\$	62,259	18,862
BBVA Banco Continental	Between 4.78 and 6.10	Between 4.56 and 5.55	S/	58,720	57,600
Scotiabank del Perú	Between 0.83 and 0.90	-	US\$	41,328	-
Scotiabank del Perú	5.75	-	S/	16,300	-
Banco Santander - Perú	Between 6.85 and 6.96	6.85	S/	14,432	11,612
Banco de América Central - Guatemala and El Salvador	4.75	4.75	US\$	10,920	6,826
Interbanco	6.00	4.00	Q	5,878	11,263
Banco Bladex	Libor 6 months + 3.45	-	US\$	5,752	-
Banco Agrícola	4.25	-	US\$	2,689	-
Banco Santander - Chile	-	7.00	\$	-	17,162
Banco Internacional del Perú - Interbank	-	Between 1.37 and 6.00	US\$	-	11,341
Banco Reformador- Guatemala	-	4.00	\$	-	5,366
Banco Reformador- Guatemala	-	6.25	Q	-	3,354
Banco Davivienda Salvadoreño, S.A.	-	4.25	US\$	-	3,259
Scotiabank - El Salvador	-	3.47	US\$	-	2,730
Interbanco	-	4.00	\$	-	1,451
Banco Latinoamericano de Comercio Exterior S.A. - Bledex	-	4.25	US\$	-	1,245
				527,403	221,370

US\$ = US Dollars S/ = Peruvian Sol Q = Quetzal

Interest expense accrued over the year ended December 31, 2016, related to debts with banks, amounted to approximately S/30,511,000 (S/14,396,000 as of December 31, 2015) and is presented in "Financial expenses" of the consolidated statement of income, see note 22. Accrued interest outstanding amounted to approximately S/2,430,000 as of December 31, 2016 (S/2,016,000 as of December 31, 2015), see note 14.

As of December 31, 2016 and 2015, foreign currency bank loans obtained from local and foreign financial institutions were used primarily for working capital, expire between 6 and 360 days, and can be renewed at maturity date up to 360 days. Interest rates on such bank loans fluctuate between 0.7 and 4.75 percent.

As of December 31, 2016, the Group has credit lines for working capital up to S/3,465,385,320 (S/4,580,454,397 at December 31, 2015) with most banks in the Peruvian financial system, which are used to short-term financing. The Group does not have specific conditions to use such credit line.

(c) Bonds and debts with long-term banks

Creditor	Maturity date	Original currency	Annual effective interest rate %	2016		2015		Total S/000	
				Current portion S/000	Non-current portion S/000	Current portion S/000	Non-current portion S/000		
Ferreycorp S.A.A. bonds - Corporate bonds - Rule 144 A (i)	Until April 2020	US\$	4.934(*)	-	540,714	540,714	-	1,012,052	1,012,052
Promissory notes - Caterpillar Financial	Until August 2020	US\$	Between 5.19 and 6.35	937	9,955	10,892	14,540	36,626	51,166
Caterpillar Leasing Chile	Until January 2021	US\$	Between 3.45 and 7.80	35,602	54,492	90,094	41,190	113,272	154,462
Caterpillar Crédito S.A. de C.V.	Until February 2019	US\$	Between 3.01 and 6.0	12,625	15,719	28,344	29,096	27,492	56,568
Promissory notes with local and foreign Institutions	Until March 2019	PEN	Between 3.53 and 7.00	46,979	31,218	78,197	67,906	86,179	154,085
Promissory notes with local and foreign institutions	Until December 2022	US\$	Between 0.83 and 8.28 Libor 6 m +3.8%	86,814	273,741	360,555	146,307	127,461	273,768
Promissory notes with local and foreign Institutions		Q	Between 6.00 and 6.50	11,292	25,121	36,413	-	-	-
Financial leasing (ii)	Until May 2019	US\$	Between 3.50 and 6.80	13,863	5,028	18,891	5,207	7,065	12,272
				208,112	955,988	1,164,100	304,246	1,410,147	1,714,393

(*) Nominal rate of 4.875 percent.

At December 31, 2016, the accrued interest expense related to the promissory notes and long-term debt obligations amounting to approximately S/69,585,000 (S/76,070,000 at December 31, 2015), which are shown in "Financial expenses" in the consolidated statement of income, see note 22. At December 31, 2016 the accrued interest outstanding amounted to approximately S/8,079,000 (S/12,703,000 at December 31, 2015) and is presented in "Other payables" in the consolidated statement of financial position, see note 14.

- (i) On April 19, 2013, the first issuance of the Group's international corporate bonds was performed, The Bank New York Mellon acting as trustee. The issuance of bonds was conducted under the provisions of Rule 144A and Regulation S of the U.S. Securities Act of 1933, and consisted of a public offering directed to institutional investors in Peru. Such bond issue was for a total of US\$300 million (equivalent to S/835 million at that date) at a nominal annual interest rate of 4,875% (equivalent to 4,934% effective annually) and a term of 7 years with maturity date on April 24, 2020. Total amortization of bonds will be on the maturity date. The capital raised was used to repay debt and for corporate general purposes.

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

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

Compliance with the above-described ratios are monitored by Management and validated by the representative of the bondholders. In the event of non-compliance, an early termination event will triggered. Management considers that Ferreycorp S.A.A. has complied with these covenants as of December 31, 2016 and 2015.

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

In addition, during 2016, other bonds repurchases were completed for a total of US\$17,567,000, equivalent to S/60,260,000 (US\$100,000, equivalent to S/340,000, in 2015).

At December 31, 2016 and 2015 the principal is shown net of directly related costs of US\$162,333,000 (equivalent to S/545,439,000) and US\$1,406,000 (equivalent to S/4,725,000), respectively.

- (ii) These are the financial lease agreements entered into the Group with different financial institutions. Borrowings related to leases are secured with the ownership rights on the leased asset which is returned to the lessor in the event of default by the Group.
- (iii) At December 31, 2016 and 2015 the amortization schedule for the non-current portion of the long-term debt is as follows:

	<u>2016</u> S/000	<u>2015</u> S/000
2017	-	237,039
2018	140,885	94,957
2019	173,286	54,381
2020	621,967	1,023,770
2021 onwards	19,850	-
	<u>955,988</u>	<u>1,410,147</u>

13 TRADE PAYABLES

(a) This item comprises:

	<u>2016</u> S/000	<u>2015</u> S/000
Invoices (b)	449,117	396,735
Bill of exchange (b)	<u>58,169</u>	<u>63,241</u>
	<u>507,286</u>	<u>459,976</u>

(b) At December 31, 2016, the invoice balances and bills of exchange payable mainly include payables to the Caterpillar Group for approximately S/143,269,000 and S/48,762,000, respectively (equivalent to US\$42,639,000 and US\$14,513,000, respectively). At December 31, 2015, invoices and bills of exchange payable amounted to approximately S/172,062,000 and S/55,668,000, respectively (equivalent to approximately US\$50,414,000 and US\$16,310,000, respectively). These payables have current maturity; no specific guarantees have been granted and they are not interest-bearing.

14 OTHER PAYABLES

(a) This item comprises:

	<u>2016</u> S/000	<u>2015</u> S/000
Liabilities from other expenses (b)	111,882	129,184
Remunerations payable (c)	84,551	86,761
Advances from clients (d)	59,112	102,284
Provision for other services (e)	51,143	22,540
Workers' profit sharing	35,789	37,269
Provision of guarantees (f)	23,291	22,613
Provision for contingencies, note 24(e)	18,747	8,940
Labor-related contributions payable	14,545	11,048
Taxes payable	12,711	15,322
Interest payable, note 12(b) and (c)	10,509	14,719
Payables to Horseshoe (g)	<u>-</u>	<u>13,618</u>
	422,280	464,298
Less:		
Non-current portion	(<u>300</u>)	(<u>719</u>)
Current portion	<u>421,980</u>	<u>463,579</u>

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

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

- (c) Remunerations payable mainly include provisions for vacation periods and statutory bonuses.
- (d) Advances from customers mainly consist of advances received in respect of sales of goods and services mainly from mining customers, which will be delivered during the first half of the following year.
- (e) This item mainly includes provisions for freight and rents related to the acquisition of machinery and spare parts.
- (f) It relates to guarantees granted by the Group for sales of machinery and services, with an average of one year. Such provision is reviewed annually in accordance with the policy described in note 3.3(p).
- (g) This balance relates to a loan received by an unrelated party, which was settled in the second half of 2016.

15 DEFERRED INCOME TAX ASSETS AND LIABILITIES, NET

This item comprises the following:

	As of December 31,	
	2016	2015
	S/000	S/000
Deferred tax assets:		
Expected reversal in the next 12 months	10,783	10,611
Expected reversal after 12 months	187,134	169,417
	<u>197,917</u>	<u>180,028</u>
Deferred tax liabilities:		
Expected reversal in the next 12 months	(9,775)	(11,257)
Expected reversal after 12 months	(208,449)	(196,064)
	<u>(218,224)</u>	<u>(207,321)</u>
Total deferred tax assets, net	<u>(20,307)</u>	<u>(27,293)</u>

(a) Components that give rise to the deferred income tax asset and liability as of December 31, 2016 and 2015, are as follows:

	As of January 1, 2015		(Charge)/ payment to consolidated statement of profit or loss		(Charge)/ payment to consolidated statement of changes in equity		As of December 31, 2015		(Charge)/ payment to consolidated statement of profit or loss		(Charge)/ payment to consolidated statement of changes in equity		As of December 31, 2016	
	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
Deferred assets:														
Non-deductible provisions	25,289	7,007	-	-	-	-	32,296	1,371	-	-	-	33,667	-	67,628
Differences in depreciation rates	39,182	16,698	-	280	-	-	56,140	11,189	-	299	-	57,439	299	15,112
Estimate for doubtful accounts	11,626	915	(352)	-	-	12,189	2,042	-	881	-	13,070	881	10,783
Provision for holidays	10,081	486	-	-	-	-	10,567	169	-	47	-	10,736	47	33,584
Tax credits for losses carry-forward and fixed assets	29,967	10,735	-	-	-	-	40,702	(2,646)	-	(4,472)	-	36,230	(4,472)	311
Estimate for impairment of inventories	265	7	-	-	-	-	272	24	-	15	-	287	15	19,007
Estimate for impairment of inventories	11,848	2465	-	-	-	-	14,313	4,668	-	26	-	14,339	26	5,888
Other provisions	7,069	553	-	-	-	-	7,622	(1,815)	-	(81)	-	7,541	(81)	11,937
Others	1,567	3,143	-	1,217	-	-	5,927	9,358	-	(3,348)	-	11,937	(3,348)	197,917
Carried forward:	136,874	42,009	-	1,145	-	-	180,028	24,360	-	(6,471)	-	173,557	(6,471)	

	As of January 1, 2015 \$/000	(Charge)/ payment to consolidated statement of profit or loss \$/000	(Charge)/ payment to consolidated statement of changes in equity \$/000	(Charge)/ payment to consolidated statement of financial position \$/000	As of December 31, 2015 \$/000	(Charge)/ payment to consolidated statement of profit or loss \$/000	(Charge)/ payment to consolidated statement of changes in equity, 2016 \$/000	As of December 31, 2016 \$/000
Broad forward:	136,874	42,009	1,145	-	180,028	24,360	6,471	197,917
Deferred liabilities	3,406	(112)	-	-	3,294	(226)	-	3,068
Change of useful life of fixed assets	788	(162)	-	-	626	(290)	-	336
Exchange differences from liabilities related to inventories and fixed assets	1,939	(562)	-	-	1,377	124	-	1,501
Sales deferred earnings, net	5,555	(35)	-	-	5,520	2,315	(802)	7,033
Leasing transactions	1,916	(241)	-	-	1,675	(121)	-	1,554
Provision for indemnities	6,948	(376)	-	-	7,324	485	(217)	7,592
Revaluation of property, plant and equipment	91,590	(1,634)	56,428	-	146,384	(1,670)	9,386	154,100
Fair value of lands	5,471	15,515	1,400	-	22,386	7,870	(580)	29,676
Differences in depreciation rates	7,157	(1,002)	-	-	6,155	(4,681)	-	1,474
Valuation by business acquisition, note	15,037	882	(1,575)	-	12,580	(286)	(404)	11,890
Others	139,807	11,261	56,253	-	207,321	3,520	7,383	218,224
Deferred liabilities, net	(2,932)	30,748	(55,108)	-	(27,293)	20,840	(13,854)	(20,302)

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

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

	<u>2016</u> <u>S/000</u>	<u>2015</u> <u>S/000</u>
Current	124,472	125,220
Deferred	(20,840)	(30,748)
Others (*)	284	3,276
Income tax expense	<u>103,916</u>	<u>97,748</u>

(*) Comprising the adjustment for prior-year current income tax.

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

	<u>At December 31, 2016</u>		<u>At December 31, 2015</u>	
	<u>S/000</u>	<u>%</u>	<u>S/000</u>	<u>%</u>
Accounting profit before income tax	334,350	100.00	259,514	100.00
Income tax according to tax rate (*)	93,618	28.00	72,664	28.00
Net effect of non-deductible expenses				
Effect in change of rates, note 3.3(m) and 25	(7,261)	(2.17)	592	0.23
Non-deductible expenses	17,559	5.25	24,492	9.44
Income tax expense	<u>103,916</u>	<u>31.08</u>	<u>97,748</u>	<u>37.67</u>

(*) Weighted average tax rate of the Group.

16 EQUITY

(a) Share capital -

As of December 31, 2016 and 2015, the Company's issued capital is represented for 1,014,326,000 common shares entirely subscribed and paid-in with at S/1.00 par value each.

Price per share and trade frequency were as follows:

	<u>Price per share</u> <u>S/</u>	<u>Trade frequency</u> <u>%</u>
As of December 31, 2016	1.69	100.00
As of December 31, 2015	1.35	85.71

As of December 31, 2016 and 2015, the Company's shareholding structure is as follows:

<u>Percentage of individual interest in capital</u>	<u>Number of shareholders</u>		<u>Total percentage of interest in capital</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Up to 1.00	2,305	2,387	25.86	26.63
From 1.01 to 5.00	18	18	39.07	43.94
From 5.01 to 10.00	5	4	35.07	29.43
	<u>2,328</u>	<u>2,409</u>	<u>100.00</u>	<u>100.00</u>

(b) Treasury shares -

As of December 31, 2016 and 2015 the Company has 50,208,000 and 27,048,000, respectively, own shares in portfolio at S/1.00 par value each.

(c) Additional capital -

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

During 2016, the Company repurchased 23,160,000 of its own shares (27,048,000 in 2015) for a total amount of S/38,233,000 (S/35,166,000 in 2015). As of December 31, 2016, the issue premium primarily reflects the difference between the acquisition cost for the share repurchase and the par value of those shares for S/15,073,000 (S/8,118,000 in 2015).

(d) Legal reserve -

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

On March 30, 2016 and 2015, the General Shareholders Meeting agreed to transfer S/16,177,000 and S/13,108,000, respectively, from retained earnings to legal reserve.

(e) Other equity reserves -

Revaluation surplus -

This item reflects the increase in fair value of fixed assets based on appraisals performed by independent expert appraisers. At December 31, 2016, the revaluation surplus, net of its corresponding deferred income tax, amounted to S/324,855,000 (S/348,119,000 at December 31, 2015). The revaluation surplus is transferred to retained earnings to the extent it is realized through impairment or when the underlying assets are sold or retired. In 2016 and 2015, the Company has transferred to retained earnings the portion of the revaluation surplus by approximately S/5,438,000 (S/19,819,000 in 2015).

Foreign currency translation -

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

Unrealized gains -

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

(f) Dividend distribution -

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

At General Shareholders' Meeting held on March 30, 2016, the payment of cash dividends was approved for S/87,354,000. At General Shareholders' Meeting held on March 30, 2015, the payment of cash dividends was approved for S/60,860,000.

17 SALES AND COST OF SALES

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

	<u>2016</u> S/000	<u>2015</u> S/000
Sales:		
Sales of machinery, engine, equipment and vehicles	1,930,302	2,319,786
Sale of spare parts	1,770,236	1,801,225
Rental services of machinery, engines, equipment and workshop	804,918	819,939
Other incomes	<u>341,101</u>	<u>263,116</u>
	<u>4,846,557</u>	<u>5,204,066</u>
Cost of sales:		
Original balance of inventories, note 8	1,293,772	1,397,710
Purchase of inventories	2,914,251	3,085,809
Workforce, note 20(d)	178,166	178,605
Workshop expenses	128,794	117,080
Depreciation, note 10(h)	59,789	79,802
Amortization, note 11(d)	211	263
Impairment of inventories, note 8(c)	31,479	55,350
Recovery, note 8(c)	(42,089)	(35,545)
Operating expenses of fleet for rent	126,993	163,796
Rental fleet impairment	7,031	2,024
Services provided by third parties and other expenses	128,567	168,962
Final balance of inventories, note 8	<u>(1,160,660)</u>	<u>(1,293,772)</u>
	<u>3,666,304</u>	<u>3,920,084</u>

18 SELLING EXPENSES

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

	<u>2016</u> S/000	<u>2015</u> S/000
Personnel expenses, note 20(d)	278,797	292,234
Services provided by third parties	120,888	120,717
Other management charges	70,300	95,007
Depreciation, note 10(i)	41,945	42,435
Provision for doubtful accounts, note 6(d) and 7(j)	15,653	15,526
Intangibles amortization, note 11(c)	6,372	7,609
Taxes	<u>3,970</u>	<u>2,567</u>
	<u>537,925</u>	<u>576,095</u>

19 ADMINISTRATIVE EXPENSES

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

	<u>2016</u> <u>S/000</u>	<u>2015</u> <u>S/000</u>
Personnel expenses, note 20(d)	162,643	156,833
Services provided by third parties (b)	55,777	46,433
Depreciation, note 10(i)	14,274	14,698
Other management charges	12,333	13,881
Intangibles amortization, note 11(c)	9,201	8,271
Taxes	4,109	3,636
Provisions for the year	370	32
	<u>258,707</u>	<u>243,752</u>

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

20 PERSONNEL EXPENSES

(a) This item comprises:

	<u>2016</u> <u>S/000</u>	<u>2015</u> <u>S/000</u>
Remunerations	410,776	426,331
Statutory bonuses	99,178	85,589
Workers' contributions	47,521	44,497
Allowances to workers	23,360	21,338
Training	14,060	28,667
Vacations	5,978	10,103
Workers' profit sharing (b)	1,958	1,654
Other minors	16,775	9,493
	<u>619,606</u>	<u>627,672</u>

(b) For Peru, under the regime of workers' profit-sharing governed by Legislative Decree 677, Peruvian company workers have the right to profit-sharing at 8 percent of the taxable income obtained by an entity, which is to be distributed proportionally among all employees based on the actual days worked; and the balance, is distributed in proportion to the basic remunerations received over the year. Workers' profit-sharing is stated within "Other payables".

(c) The average number of workers in the Group was of 6,515 in 2016 and 6,665 in 2015.

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

	<u>2016</u> <u>S/000</u>	<u>2015</u> <u>S/000</u>
Cost of sales, note 17	178,166	178,605
Selling expenses, note 18	278,797	292,234
Administrative expenses, note 19	162,643	156,833
	<u>619,606</u>	<u>627,672</u>

(e) Remunerations to key personnel -

The total remuneration received by Directors and key executives of Management during 2016 amounted to approximately S/50,833,181 (approximately S/44,208,000 in 2015), which includes short-term benefits and employees' severance indemnities.

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

21 FINANCIAL INCOME

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

	<u>2016</u> S/000	<u>2015</u> S/000
Interest on bills of exchange receivable	15,441	15,281
Interest on arrears	1,516	2,279
Interest on bank deposits	1,026	1,146
Other financial income	<u>8,109</u>	<u>2,609</u>
	<u>26,092</u>	<u>21,315</u>

22 FINANCIAL EXPENSES

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

	<u>2016</u> S/000	<u>2015</u> S/000
Interest on corporate bonds and long-term loans, note 12(c)	69,585	76,070
Interest on overdrafts, overdraw and loans, note 12(b)	30,511	14,396
Financial transactions tax	4,585	5,515
Interest on financing from foreign suppliers	1,894	1,792
Other financial expenses	<u>18,167</u>	<u>8,595</u>
	<u>124,742</u>	<u>106,368</u>

(*) As of December 31, 2016, "other financial expenses" mainly correspond to expenses incurred for the repurchase of corporate bonds for US\$4,727,000, equivalent to approximately S/15,883,000 and other minor financial expenses for S/2,284,000.

23 EARNINGS PER SHARE

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

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

	<u>2016</u> S/000	<u>2015</u> S/000
Net profits attributable to owners of the Company	<u>230,434</u>	<u>161,766</u>
	<u>Thousands of shares</u>	<u>Thousands of shares</u>
Denominator		
Weighted average number of common shares	<u>984,139</u>	<u>991,536</u>

	<u>2016</u> <u>S/000</u>	<u>2015</u> <u>S/000</u>
Basic and diluted earnings per share	<u>0.234</u>	<u>0.163</u>

The weighted average number of shares in 2016 and 2015, takes into account the effect of the weighted average number of shares purchased and held in treasury, see note 16 (b).

24 COMMITMENTS AND CONTINGENCIES

(a) Commitments -

At December 31, 2016 and 2015, the Group has the following commitments:

Ferreycorp S.A.A.:

- At December 31, 2016, the Company has signed guarantees for US\$94,152,000 (US\$81,374,741 in 2015) to secure credit transactions of its subsidiaries and associates and US\$650,641 (US\$1,005,253 in 2015) to secure purchase transactions with third parties with several due dates.

Ferreyros S.A.:

- Letters of guarantee for US\$39,490,860 (US\$38,600,000 in 2015) to secure purchase transactions with third parties.
- Letter of guarantees signed with financial institutions for US\$20,710,376 (US\$24,000,000 in 2015) to secure the Company's firm commitment to deliver the products sold via public tenders and the payment of customs duties related to the import of the underlying goods.

Fargoline S.A.:

- This subsidiary has signed a surety policy in favor of the Peruvian customs authorities ("Superintendencia Nacional de Aduanas") for the goods subject to customs regime amounting to US\$2,600,000 (US\$1,200,000 in 2015).

Cresko S.A.:

- The subsidiary has signed letters of guarantee in favor of the Peruvian housing and construction ministry ("Ministerio de Vivienda, Construcción y Saneamiento") for S/34,920,000 and E.P.S. Sede Juliaca for S/35,980,000 to secure the firm commitment of the proposal of Cresko S.A. and delivery of the products sold through public tenders as well as indemnifications for damages under decision of a Pacasmayo court ("Juzgado de Paz Letrado de Pacasmayo") for S/16,670,000.

Soltrak S.A.:

- Letters of guarantee US\$7,291,574 and S/58,491,409 (US\$475,553 and S/49,245,391 in 2015) to secure purchase transactions with third parties and leases, respectively with different due dates.
- Letters of guarantee signed with financial institutions for US\$3,851,170 and S/2,233,519 (US\$2,565,000 and S/2,152,965 in 2015) mainly to secure the firm commitment of the Company's proposal and delivery of the products sold via public tenders, and the payment of customs duties related to the import of the underlying goods respectively.

Motored S.A.:

- Letters of guarantee for US\$13,070,185 (US\$17,237,958 in 2015) to secure on-credit purchase transactions with third parties.
- Bank letters of guarantee in favor of third parties for US\$83,700 and S/16,142 (S/2,516,065 in 2015) mainly to secure the firm commitment of the Company's proposal and delivery of the products sold via public tenders.

Orvisa S.A.:

- Letters of guarantee for US\$5,500,000 (US\$3,500,000 in 2015) to secure on-credit purchase transactions of subsidiaries and affiliates with third parties.

(b) Contingencies -

As of December 31, 2016, the Group maintains tax claims under appeal or administrative challenging proceedings under way for a total amount of approximately S/111,227,000 (including fines of S/13,901,000 and interest of S/75,051,000). These court actions remain to be resolved via administrative or court decisions and relate to observations made by the Peruvian Tax Administration to tax returns as follows: (i) income tax (including on-account payments) for fiscal years 2001 to 2008 for S/8,668,000; (ii) VAT (IGV in Peru) for fiscal years 2001 to 2006 for S/3,071,000; and (iii) income tax on non-domiciled legal entities for fiscal years 2002, 2003, 2005, 2006 and 2015 totaling S/ 5,708,000.

For all the above cases, as of December 31, 2016, the Group has sought the advice on experts on these tax issues who have determined together with Management, that tax assessments totaled approximately S/18,747,000 (S/8,940,000 as of December 31, 2015), in respect of which loss has been classified as probable. The Group has recorded a provision for that amount, within "Other payables" in the consolidated statement of financial position, see note 14.

Management, together with its legal and tax advisors consider that the Group has sufficient technical grounds to believe the Tax Court in Peru will issue a decision that will be favorable to the Group. Accordingly, they consider that the future resolution of these proceedings will not result in significant liabilities; and, consequently, there is no need to record additional liabilities at December 31, 2016 and 2015.

25 TAX SITUATION AND CONTINGENCIES

- (a) The Group is subject to tax regime of each country in which it operates and taxes are settled based on its non-consolidated profits. As of December 31, 2016 and 2015, the income tax rate on taxable income in the major countries in which the Company and its subsidiaries operate are:

	Tax rates	
	2016	2015
	%	%
Peru (*)	28	28
Ecuador	22	22
Colombia	24	25
Chile (**)	24	22.5
Guatemala	25	31
El Salvador	30	25
Belize	25	25
Nicaragua	30	30
United States of America	15 and 28	15 and 28

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

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

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

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

In accordance with legal provisions in force in some countries as of December 31, 2016 and 2015, cash dividends in favor of non-domiciled shareholders are levied at the following rates:

	Tax rates	
	2016	2015
	%	%
Peru (*)	6.8	6.8
Colombia	10	10
Chile	30	35
El Salvador	5	5

(*) In Peru, income tax on dividends and any other forms of profit distribution that is agreed by legal entities in favor of non-domiciled individuals or legal entities was increased from 8.8 to 5 per cent, from fiscal 2017 onward. Distribution of profits up to December 31, 2014 was subject to a 4.1 percent income tax rate even if the distribution is made in subsequent years. Also, profits obtained in fiscal years 2015 and 2016 are subject to an income tax rate of 6.8 percent.

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

Tax authorities are authorized to request this information from taxpayers. Based on the analysis of the Group's transactions, Management and its legal advisors consider that no material contingencies are expected to arise from the application of these rules to the Group as of December 31, 2016 and 2015.

- (c) Peruvian tax authorities have the right to review and, if necessary, amend the income tax determined by the Company in the last four years from January 1 of the year following the filing date of the related tax returns (years open to audit). Income tax and VAT tax returns for fiscal years 2013 to 2016 remain to be audited by the Peruvian tax authorities. Tax returns for fiscal years 2000 to 2009 have already been audited; the audit of fiscal year 2010 is currently in progress.

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

	<u>Fiscal year subject to tax audit</u>
Foreign subsidiaries (Country):	
Guatemala	2013 to 2016
El Salvador	2006 to 2016
Belize	2009 to 2016
Nicaragua	2010 to 2016
United States of America, Chile, Colombia and Ecuador	2011 to 2016
Local subsidiaries:	
Ferreyros S.A.	2013 to 2016
Unimaq S.A.	2012 to 2016
Cresko S.A.	2012 to 2016
Fiansa S.A.	2012 to 2016
Soltrak S.A.	2013 to 2016
Fargoline S.A.	2012 to 2016
Orvisa S.A. and subsidiaries	2012 to 2016
Motored S.A.	2012 to 2016
Inmobiliaria CDR S.A.	2013 to 2016
Forbis Logistic S.A.	2012 to 2016
Soluciones Sitech Perú S.A.	2013 to 2016

Since certain differences may arise over the interpretation that the tax authorities may have of the current tax laws and regulations, it is not possible to anticipate, at the present date, whether any additional liabilities will arise for the Group; and therefore, any additional tax or penalties that may arise from eventual tax audits would be applied against the profit or loss of the years in which the differences in interpretation with the tax authorities are resolved. Group Management and its legal advisors consider that any eventual additional taxes payable determined by the relevant tax authorities of each country would not be significant for the consolidated financial statements as of December 31, 2016 and 2015.

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

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

26 FINANCIAL RISK MANAGEMENT

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

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

(a) Risk management structure -

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

(a.1) Board of Directors -

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

(a.2) Risk Committee -

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

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

(a.3) Internal Audit -

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

(a.4) Administration and Finance Management -

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

(a.5) Corporate Risk Division -

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

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

(b) Risk mitigation -

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

(c) Risk concentration -

Credit risk -

Credit risk is the risk that a counterparty is unable not meet its borrowings in relation to a financial instrument or sales contract, generating a financial loss. The Group is exposed to credit risk for its operating activities (mainly receivables) and for its financing activities, including bank deposits. Regarding banks deposits, the Group accounts for 99.54 percent (99.89 percent in 2015) of its cash and cash equivalents at financial institutions as of December 31, 2016.

Credit risk related to receivables: Management manages credit risks of customers in accordance with policies, procedures and controls duly established. The outstanding balances of receivables are periodically reviewed to ensure their recovery. In addition, the Company has a larger customer base. At December 31, 2016 and 2015, the Group's average collection period is 40 days on credit risk, which controls and monitors on an ongoing basis.

Credit risk related to financial instruments and banks deposits: Management manages credit risks of bank balances in accordance with the Group's policies. Investments of cash surpluses are made with leading financial institutions. The maximum exposure to credit risk at December 31, 2016 and 2015 is the carrying amount of cash balances and cash equivalents shown in note 4.

As of December 31, 2016, Management has estimated that the maximum amount of credit risk to which the Group is exposed amounts to approximately S/1,466,262 (S/1,383,656 at December 31, 2015), which represents the carrying amount of financial assets.

As a result, Management considers that, the Group has no concentration that represents a significant credit risk at December 31, 2016 and 2015.

Interest rate risk -

The operating cash flows of the Group are substantially independent of changes in market interest rate, due to individual credit rating of the Group, it could obtain competitive interest rates in local markets where it operates. It should be noted that the Group has not made significant financial transactions with variable interest rates; therefore, in opinion of Management the Group has no significant risk to interest rate exposure.

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

	At December 31, 2016					Average fixed interest rate at 2016 %	Variable interest rate at 2016 %
	Fixed rate	From 3 to 12 months	From 1 to 5 years	Variable rate (*)	Non-interest bearing		
	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Variable rate (*)	Non-interest bearing	Total	
	S/000	S/000	S/000	S/000	S/000	S/000	%
Assets:							
Cash and cash equivalents	46,957	-	-	-	82,025	128,982	0.02-4.00
Trade receivables, net	136,640	96,363	49,180	-	842,892	1,125,075	10.90 - 17.5
Other receivables, net (**)	2,885	4,571	48	-	75,183	82,687	16.14
Total assets	186,482	100,934	49,228	-	1,000,100	1,336,744	
Liabilities:							
Trade payables	3,508	41,166	-	-	462,612	507,286	-
Other payables	2,059	1,096	32,641	-	388,240	424,036	-
Borrowings	403,751	215,611	1,047,147	5,752	19,242	1,691,503	Between 1.37 and 6.25
Total liabilities	409,318	257,873	1,079,788	5,752	870,094	2,622,825	
Margin gap	(222,836)	(156,939)	(1,030,560)	(5,752)	130,006	(1,286,081)	
Accumulated gap	(222,836)	(379,775)	(1,410,335)	(1,416,087)	(1,286,081)	-	

As of December 31, 2015							
	Fixed rate		Variable rate (*)		Non-interest bearing	Average fixed interest rate at 2015 %	Variable interest rate at 2015 %
	Up to 3 months	From 3 to 12 months	From 1 to 5 year	Total			
	S/000	S/000	S/000	S/000	S/000		
Assets:							
Cash and cash equivalents	113,084	-	-	120,238	233,322	0.02 - 4.00	-
Trade receivables, net	120,064	124,129	47,876	712,771	1,004,840	10.00 - 20.00	-
Other receivables, net (**)	-	6,251	1,283	52,108	59,642	7.55	-
Total assets	233,148	130,380	49,159	885,117	1,297,804		
Liabilities:							
Trade payables	6,907	41,461	-	407,484	459,976	1.82	-
Other payables	-	-	-	454,425	454,298	-	-
Borrowings +3.8%	100,604	425,012	1,308,658	101,489	1,935,763	Between 3.01 and 6.85	Libor 6
Total liabilities	107,511	466,473	1,308,658	861,909	2,860,037		
Margin gap	125,637	(336,093)	(1,259,499)	23,208	(1,562,233)		
Accumulated gap	125,637	(210,456)	(1,469,955)	(1,562,233)	-		

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

(**) At December 31, 2016, "Other receivables, net" included in this table do not consider an increase of S/107,762,000 (S/85,852,000 at December 31, 2015), corresponding to VAT payable, tax refunds and income tax, which, according to IFRS, do not qualify as financial instruments.

The following table shows the sensitivity to a possible change in interest rates, keeping all other variables constant in the consolidated statement of income before income tax. The sensitivity in the consolidated statement of income is the effect of the estimated changes in interest rates on net financial income for one year, based on financial assets and financial liabilities exposed to changes in interest rates at December 31, 2016 and 2015:

<u>Currency</u>	<u>2016</u>		<u>2015</u>	
	<u>Changes in basis point</u>	<u>Sensitivity in net income S/000</u>	<u>Changes in basis points</u>	<u>Sensitivity in net income S/000</u>
Soles	+/-50	2,937	+/-50	5,251
Soles	+/-100	5,873	+/-100	10,503
Soles	+/-200	11,747	+/-200	21,006
Soles	+/-300	17,620	+/-300	31,508

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

Liquidity risk -

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

The Group controls the liquidity required by properly managing the maturities of its assets and liabilities, so that it fits between the income flow and future payments, which allows it to carry out its activities normally.

The Group's main source of cash income is collections for local and imported merchandise sales. The average term of payment to its main suppliers was 60 days for 2016 and 2015. The Group considers that management of collection and payment periods tends to improve due to the improvements made in its collection management policies.

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

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

	<u>From 1 to 3 months S/000</u>	<u>From 3 to 12 months S/000</u>	<u>From 1 to 5 years S/000</u>	<u>5 years onwards S/000</u>	<u>Total S/000</u>
As of December 31, 2016 -					
Other financial liabilities:					
- Amortization of capital	417,693	317,822	955,988	-	1,691,503
- Amortization of interests	39,937	19,272	31,648	-	90,857
- Trade payables	440,604	47,263	19,419	-	507,286
- Other payables	333,508	9,828	80,700	-	424,036
	<u>1,231,742</u>	<u>394,185</u>	<u>1,087,755</u>	<u>-</u>	<u>2,713,682</u>
As of December 31, 2015 -					
Other financial liabilities:					
- Amortization of capital	153,429	372,187	1,410,147	-	1,935,763
- Amortization of interests	15,485	34,689	92,715	-	142,889
- Trade payables	399,511	40,908	5,102	14,455	459,976
- Other payables	432,440	30,004	978	876	464,298
	<u>1,000,865</u>	<u>477,788</u>	<u>1,508,942</u>	<u>15,331</u>	<u>3,002,926</u>

Exchange rate risk -

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

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

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

Transactions in foreign currency in Peru are made at the exchange rates of the free market published by the Superintendence of Banking, Insurance and Private Pension Fund Administrators (SBS). As of December 31, 2016, the exchange rates at the free market for transactions in US dollars, published by this institution were of S/3.352 and S/3.360 for assets and liabilities respectively (S/3.408 and S/3.413 for assets and liabilities respectively, as of December 31, 2015).

As of December 31, 2016 and 2015, the Group had the following monetary assets and liabilities in foreign currency presented in Peruvian Soles:

	2016						Total S/000
	Dollars S/000	Quetzal S/000	Cordoba S/000	Chilean Pesos S/000	Belize Dollar S/000		
Assets:							
Cash and cash equivalents	51,423	72,156	3,268	177	1,659	298	128,982
Trade receivables, net	146,338	972,698	318	46	5,675	-	1,125,075
Other receivables, net	154,043	31,276	4,473	-	499	157	190,449
	<u>351,804</u>	<u>1,076,130</u>	<u>8,059</u>	<u>223</u>	<u>7,834</u>	<u>455</u>	<u>1,444,506</u>
Liabilities:							
Other financial liabilities	(478,555)	(1,178,052)	(25,736)	(411)	(8,749)	()	(1,691,503)
Trade payables	(64,956)	(382,359)	(49,453)	(4,250)	(5,977)	(292)	(507,286)
Other payables	(324,261)	(97,848)	-	-	(171)	-	(422,280)
	<u>(867,772)</u>	<u>(1,658,259)</u>	<u>(75,189)</u>	<u>(4,661)</u>	<u>(14,896)</u>	<u>(292)</u>	<u>(2,621,069)</u>
Net liabilities position	<u>(515,968)</u>	<u>(582,129)</u>	<u>(67,130)</u>	<u>(4,437)</u>	<u>(7,063)</u>	<u>(164)</u>	<u>(1,176,563)</u>
	2015						Total S/000
	Dollars S/000	Quetzal S/000	Cordoba S/000	Chilean pesos S/000	Belize dollar S/000		
Peruvian Soles							
Assets:							
Cash and cash equivalents	49,637	182,372	350	314	254	395	233,322
Trade receivables, net	162,341	833,195	7,954	328	1,022	-	1,004,840
Other receivables, net	93,931	49,273	2,203	-	-	87	145,494
	<u>305,909</u>	<u>1,064,840</u>	<u>10,507</u>	<u>642</u>	<u>1,276</u>	<u>482</u>	<u>1,383,656</u>
Liabilities:							
Other financial liabilities	(365,700)	(1,539,216)	(16,909)	(90)	(13,536)	(312)	(1,935,763)
Trade payables	(45,911)	(400,532)	(9,487)	(1,130)	(2,092)	(734)	(459,886)
Other payables	(304,152)	(159,777)	-	-	(369)	-	(464,298)
	<u>(715,763)</u>	<u>(2,099,525)</u>	<u>(26,396)</u>	<u>(1,220)</u>	<u>(15,997)</u>	<u>(1,046)</u>	<u>(2,859,947)</u>
Net liabilities position	<u>(409,854)</u>	<u>(1,034,685)</u>	<u>(15,889)</u>	<u>(578)</u>	<u>(14,721)</u>	<u>(564)</u>	<u>(1,476,291)</u>

At December 31, 2016 and 2015, the Group's Management has decided to accept the exchange rate risk of this position, so it has not carried out transactions with derivative products for its coverage. At December 31, 2016, the Group recorded a net gain on exchange difference of approximately S/484,000 (net loss of approximately S/151,812,000 in 2015), which is presented in "Exchange difference, net" of the consolidated statement of income.

The table below shows the sensitivity analysis of US dollars, currency at which the Group has a significant exposure as of December 31, 2016 and 2015, in its monetary assets and liabilities and estimated cash flows. The analysis determines the effect of a reasonably possible change in the US dollar exchange rate, considering the other constant variables in the consolidated statement of comprehensive income before income tax.

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

<u>Sensitivity analysis</u>	<u>Change in rates</u> <u>US\$</u> <u>%</u>	<u>2016</u> <u>S/000</u>	<u>2015</u> <u>S/000</u>
Devaluation -			
Soles	5	33,239	51,888
Soles	10	66,478	103,777
Revaluation -			
Soles	5	(33,239)	(51,888)
Soles	10	(66,478)	(103,777)

(d) Capital management -

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

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

The Group also monitors its capital based on the gearing ratio. As of December 31, 2016 and 2015, the gearing ratio was as follows:

	<u>2016</u> <u>S/000</u>	<u>2015</u> <u>S/000</u>
Borrowings, note 12 (a)	1,691,503	1,935,763
Less: Cash and cash equivalents, note 5	<u>128,982</u>	<u>233,322</u>
Net financial debt (A)	1,562,521	1,702,441
Equity (B)	<u>1,914,582</u>	<u>1,818,268</u>
Gearing ratio (A) / (B)	<u>0.816</u>	<u>0.936</u>

Gearing ratio calculated by Management in 2016 was lower than in 2015, due to the payment of borrowings and equity increase.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Fair value -

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

Based on the criteria described above, Management estimates that there are no material differences between carrying amount and fair value of the Group's financial instruments at December 31, 2016 and 2015.

(b) Measurement of fair value -

Instruments measured at fair value according to their hierarchy -

Level 1 -

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

Level 2 -

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

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

	<u>2016</u>		<u>2015</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>
Other current financial liabilities	735,515	735,515	525,616	525,616
Other non-current financial liabilities	955,988	772,251	1,410,147	1,150,601

The carrying amounts of other short-term financial liabilities (borrowings) approximate their fair value. At December 31, 2016, the fair values of bonds have been determined by applying the annual rate of 4.875 percent, medium and long-term promissory notes at the annual rate of 3 percent and 6.75 percent, respectively, and financial leases at the annual rate of 6.4 percent (4.875 percent for bonds, 4.88 percent and 6.75 percent for medium and long-term promissory notes, respectively and 6.4 percent for financial leases in 2015).

28 INFORMATION BY OPERATING SEGMENTS

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

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

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

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

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

	Sales and services \$/000	Other operating income \$/000	Total income \$/000	Gross margin \$/000	Selling expenses \$/000	Administrative expenses \$/000	Other income and expenses, net \$/000	Financial expenses \$/000	Financial income \$/000	Net exchange difference \$/000	Profit sharing in associates and joint ventures \$/000	Profit before income tax \$/000	Income tax \$/000	Net income \$/000
2016:														
Heavy equipment, spare parts and services	4,126,636	539	4,127,175	1,029,861	(458,602)	(220,279)	35,733	(106,213)	22,217	410	-	303,127	(94,127)	209,000
Vehicles, spare parts and services	193,131	-	193,131	34,697	(21,460)	(10,308)	1,413	(4,970)	1,040	19	-	431	(136)	293
Rental equipment	111,192	-	111,192	20,238	(12,355)	(5,935)	814	(2,862)	599	10	-	509	(163)	346
Agricultural equipment	74,497	71	74,568	21,246	(8,286)	(3,980)	546	(1,919)	401	8	-	8,016	(2,569)	5,447
spare parts and services	341,101	-	341,101	74,821	(37,222)	(18,205)	2,496	(8,778)	1,835	37	7,284	22,267	(6,919)	15,349
Others	4,846,557	610	4,847,167	1,180,863	(537,925)	(258,707)	41,002	(124,742)	26,092	484	7,284	334,350	(103,916)	230,435
Total consolidated														
2015:														
Heavy equipment, spare parts and services	4,520,310	7,822	4,528,132	1,087,960	(455,020)	(185,051)	15,808	(92,392)	18,514	(131,865)	-	257,954	(97,160)	160,794
Vehicles, spare parts and services	203,333	-	203,333	35,317	(17,346)	(9,097)	711	(4,156)	833	(5,932)	-	330	(124)	206
Rental equipment	144,970	-	144,970	67,974	(44,500)	(16,522)	507	(2,963)	594	(4,229)	-	861	(324)	537
Agricultural equipment	72,337	335	72,672	22,899	(11,597)	(4,490)	253	(1,479)	296	(2,110)	-	3,772	(1,421)	2,351
spare parts and services	263,116	-	263,116	77,989	(47,632)	(28,992)	919	(5,378)	1,078	(7,676)	5,889	(3,403)	(1,281)	(2,122)
Others	5,204,066	8,157	5,212,223	1,292,139	(576,095)	(243,752)	18,198	(106,368)	21,315	(151,812)	5,889	259,514	(97,748)	161,766
Total consolidated														

	Sales and services S/000	Other operating income S/000	Total income S/000	Gross margin S/000	Selling expenses S/000	Administrative expenses S/000	Other income and expenses, net S/000	Financial expenses S/000	Financial income S/000	Net exchange difference S/000	Profit sharing in associates and joint ventures S/000	Profit before income tax S/000	Income tax S/000	Net income S/000
2016:														
Peru	4,559,577	445	4,560,022	1,060,845	(460,898)	(273,401)	76,380	(145,714)	61,822	(26)	7,284	326,292	(98,193)	228,099
Guatemala	253,778	-	253,778	58,996	(40,583)	(8,446)	(19)	(5,355)	721	524	-	5,838	(1,448)	4,390
El Salvador	156,630	165	156,795	44,053	(26,526)	(7,398)	1,451	(2,861)	862	-	-	9,761	(3,431)	6,330
Belize	15,343	-	15,343	3,830	(1,385)	(1,537)	99	(23)	37	219	-	1,240	(287)	953
United States of America	38,062	-	38,062	6,104	(5,120)	(235)	29	(1)	14	-	-	791	(254)	537
Nicaragua	24,443	-	24,443	5,889	(2,396)	(2,310)	38	(68)	21	(233)	-	941	(268)	673
Honduras	4,453	-	4,453	1,146	(1,017)	(46)	(10)	(105)	12	-	-	(20)	(35)	(55)
Panama	-	-	-	-	-	(4,729)	25,999	(10,467)	2,275	-	-	13,078	-	13,078
Chile	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany transactions	(205,729)	-	(205,729)	-	-	39,395	(62,865)	39,672	(39,672)	-	-	(23,571)	-	(23,570)
Total consolidated	4,846,557	610	4,847,167	1,180,863	(537,925)	(258,707)	41,002	(124,742)	26,082	484	7,284	334,351	(103,916)	230,435
2015:														
Peru	4,525,492	7,950	4,533,442	1,133,148	(490,066)	(207,910)	18,629	(90,647)	23,773	(148,473)	5,889	244,343	(90,258)	154,085
Guatemala	350,309	-	350,309	79,662	(42,761)	(10,047)	-	(6,329)	1,954	(427)	-	22,052	(5,270)	16,782
El Salvador	137,110	75	137,185	37,837	(21,171)	(5,590)	439	(1,912)	511	-	-	10,124	(3,640)	6,484
Belize	14,106	-	14,106	3,835	(1,477)	(1,440)	50	(63)	80	327	-	1,312	(249)	1,063
United States of America	37,572	-	37,572	4,964	(3,874)	(312)	(286)	(16)	-	-	-	476	(132)	344
Nicaragua	23,201	-	23,201	4,600	(2,537)	(1,994)	83	(29)	7	(211)	-	(81)	(222)	(303)
Panama	-	-	-	-	-	(4,371)	(1,637)	(9,072)	359	(3,028)	-	(15,076)	-	(15,076)
Chile	152,170	132	152,302	28,093	(14,209)	(12,098)	920	(3,673)	5,373	-	-	(3,636)	(2,023)	(1,613)
Intercompany transactions	(35,894)	-	(35,894)	-	-	12,098	-	5,373	(5,373)	-	-	-	-	-
Total consolidated	5,204,066	8,157	5,212,223	1,292,139	(576,085)	(243,752)	18,198	(106,368)	21,315	(151,812)	5,889	259,514	(97,748)	161,766

29 SUBSEQUENT EVENTS TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Between December 31, 2016 and the date of approval of the financial statements, there have been no significant subsequent events that Management considers that required any additional disclosure or any adjustment to the balances stated in the consolidated financial statements.