

Translation of the independent auditors' report and the consolidated financial statements originally issued in Spanish - Note 27

Ferreyros S.A.A. and Subsidiaries

Consolidated financial statements as of December 31, 2011
and 2010 together with the independent auditors' report

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Independent auditors' report

To the shareholders and Board of Directors of Ferreyros S.A.A. and Subsidiaries

We have audited the accompanying consolidated financial statements of Ferreyros S.A.A. and Subsidiaries (collectively the "Group"), which comprise the consolidated statements of financial position as of December 31, 2011, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Generally Accepted Auditing Standards in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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Independent auditors' report (continued)

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 accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Ferreyros S.A.A. and Subsidiaries as of December 31, 2011, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

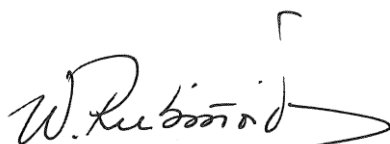
Other matters

The consolidated financial statements of Ferreyros S.A.A. as of and for the year ended December 31, 2010 and the consolidated statement of financial position as of December 31, 2009 (January 1, 2010), before transition adjustments to International Financial Reporting Standards, presented in note 2.3, were audited by other independent auditors whose report dated February 22, 2011 expressed an unqualified opinion.

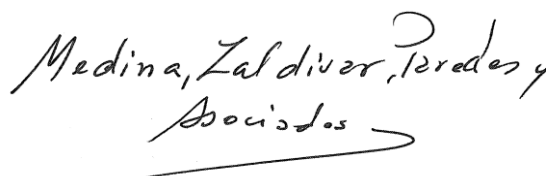
As part of our 2011 audit of the consolidated financial statements, we have audited the transition adjustments to International Financial Reporting Standards included in the 2010 consolidated financial statements and in the 2009 consolidated statement of financial position, presented in note 2.3. In our opinion, such adjustments are fair and were duly recognized. We were not engaged to audit, review or apply audit procedures to the 2010 and 2009 financial statements, other than those related to the transition adjustments and consequently, we do not express an audit opinion on the 2010 and 2009 consolidated financial statements taken as a whole.

Lima, Peru
February 15, 2012

Countersigned by:



Wilfredo Rubinos
C.P.C.C. Register No 9943



Ferreyros S.A.A. and Subsidiaries

Consolidated statement of financial position

As of December 31, 2011 and 2010 and as of January 1, 2010

	Note	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)		Note	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)
Asset					Liability and equity				
Current assets					Current liabilities				
Cash and cash equivalents	4	68,228	66,459	108,415	Other financial liabilities	10	738,555	580,301	299,177
Trade accounts receivable, net	5	647,619	512,788	410,156	Trade accounts payable	11	394,206	304,786	217,087
Other accounts receivable, net	6	88,407	65,887	49,113	Salaries, workers' profit sharing, taxes and other accounts payable	12	419,660	310,405	148,127
Inventories, net	7	1,223,181	940,078	596,192	Income tax payable		23,409	5,124	13,050
Prepaid expenses		17,870	8,928	6,905	Total current liabilities		<u>1,575,830</u>	<u>1,200,616</u>	<u>677,441</u>
Total current assets		<u>2,045,305</u>	<u>1,594,140</u>	<u>1,170,781</u>	Other financial liabilities	10	676,632	563,514	508,495
					Deferred income tax liability	13	33,551	15,724	5,259
					Deferred income		7,525	10,875	551
					Total liability		<u>2,293,538</u>	<u>1,790,729</u>	<u>1,191,746</u>
					Equity	14			
Trade accounts receivable, net	5	77,718	92,389	36,993	Issued capital		623,635	530,961	467,298
Other accounts receivable, net	6	8,138	8,646	-	Share premium		26,090	-	-
Investments in associates	8	78,294	35,314	33,810	Retained earnings		221,324	164,659	143,795
Property, machinery and equipment, net	9	1,103,883	832,041	649,766	Other capital reserves		63,692	49,855	39,805
Other assets, net		45,586	41,214	14,697	Other equity reserves		129,443	66,016	63,403
					Foreign currency translation		1,202	1,524	-
					Total equity		<u>1,065,386</u>	<u>813,015</u>	<u>714,301</u>
Total asset		<u>3,358,924</u>	<u>2,603,744</u>	<u>1,906,047</u>	Total liability and equity		<u>3,358,924</u>	<u>2,603,744</u>	<u>1,906,047</u>

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Ferreyros S.A.A. and Subsidiaries

Consolidated statement of income

For the years ended December 31, 2011 and 2010

	Note	2011 S/.(000)	2010 S/.(000)
Net sales	16	3,826,001	2,950,213
Other operating income		<u>1,723</u>	<u>195</u>
Total operating income		3,827,724	2,950,408
Cost of sales	16	<u>(3,021,509)</u>	<u>(2,350,641)</u>
Gross profit		<u>806,215</u>	<u>599,767</u>
Selling expenses	17	(381,922)	(279,629)
Administrative expenses	18	(155,122)	(126,935)
Other income and expenses		<u>8,579</u>	<u>2,134</u>
Operating profit		277,750	195,337
Financial income	20	30,505	34,280
Financial expenses	21	(79,687)	(73,325)
Exchange difference, net	3	47,560	21,714
Equity income in associated companies under the equity method	8	<u>8,260</u>	<u>1,916</u>
Profit before income tax		284,388	179,922
Income tax	13	<u>(89,357)</u>	<u>(58,555)</u>
Net profit		<u>195,031</u>	<u>121,367</u>
Basic and diluted earnings per share (in nuevos soles)	22	<u>0.313</u>	<u>0.195</u>
Weighted average shares outstanding (in thousands of units)		<u>623,635</u>	<u>623,635</u>

The accompanying notes are an integral part of this consolidated statement.

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Ferreyros S.A.A. and Subsidiaries

Consolidated statement of comprehensive income

For the years ended December 31, 2011 and 2010

	Note	2011 S/.(000)	2010 S/.(000)
Net profit		<u>195,031</u>	<u>121,367</u>
Other comprehensive income	14(c)		
Revaluation of lands		88,781	-
Valuation of hedging derivatives		1,832	5,515
Income tax effect		(27,183)	(1,654)
Exchange differences on foreign currency translation		<u>(322)</u>	<u>1,524</u>
Other comprehensive income for the year, net of income tax		<u>63,108</u>	<u>5,385</u>
Total comprehensive income		<u>258,139</u>	<u>126,752</u>

The accompanying notes are an integral part of this consolidated statement.

Ferreyros S.A.A. and Subsidiaries

Consolidated statement of changes in equity

For the years ended December 31, 2011 and 2010

	Number of shares outstanding (en thousands)	Issued capital S/.(000)	Share premium S/.(000)	Other capital reserves S/.(000)	Foreign currency translation S/.(000)	Retained earnings S/.(000)	Other equity reserves S/.(000)	Total S/.(000)
Balance as of January 1, 2010	424,816	467,298	-	39,805	-	143,795	63,403	714,301
Net profit	-	-	-	-	-	121,367	-	121,367
Transfer to retained earnings	-	-	-	-	-	1,248	(1,248)	-
Translation results, note 14 (d)	-	-	-	-	1,524	-	-	1,524
Other comprehensive income, note 14 (c)	-	-	-	-	-	-	3,861	3,861
Total comprehensive income	-	-	-	-	1,524	122,615	2,613	126,752
Transfer to other capital reserves, note 14(b)	-	-	-	10,050	-	(10,050)	-	-
Dividends, note 14(e)	-	-	-	-	-	(28,038)	-	(28,038)
Capitalization of retained earnings, note 14(a)	57,876	63,663	-	-	-	(63,663)	-	-
Balance as of December 31, 2010	<u>482,692</u>	<u>530,961</u>	<u>-</u>	<u>49,855</u>	<u>1,524</u>	<u>164,659</u>	<u>66,016</u>	<u>813,015</u>
Net profit	-	-	-	-	-	195,031	-	195,031
Revaluation of lands	-	-	-	-	-	-	62,147	62,147
Translation results, note 14 (d)	-	-	-	-	(322)	-	-	(322)
Other comprehensive income, note 14 (c)	-	-	-	-	-	-	1,283	1,283
Total comprehensive income	-	-	-	-	(322)	195,031	63,430	258,139
Share premium, note 14 (f)	-	-	26,090	-	-	-	-	26,090
Transfer to other capital reserves, note 14(b)	-	-	-	13,837	-	(13,837)	-	-
Dividends, note 14(e)	-	-	-	-	-	(31,858)	-	(31,858)
Capitalization of retained earnings, note 14(a)	84,249	92,674	-	-	-	(92,671)	(3)	-
Change in number of shares upon variation of nominal value, note 14(a)	56,694	-	-	-	-	-	-	-
Balance as of December 31, 2011	<u>623,635</u>	<u>623,635</u>	<u>26,090</u>	<u>63,692</u>	<u>1,202</u>	<u>221,324</u>	<u>129,443</u>	<u>1,065,386</u>

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Ferreyros S.A.A. and Subsidiaries

Consolidated statement of cash flows

For the years ended December 31, 2011 and 2010

	2011 S/.(000)	2010 S/.(000)
Operating activities		
Collections from customers and third parties	3,889,172	3,077,884
Payments to suppliers	(3,427,217)	(2,683,394)
Payments to employees and others	(259,887)	(261,162)
Taxes paid	(86,320)	(143,489)
Net cash provided by (used in) operating activities	<u>115,748</u>	<u>(10,161)</u>
Investing activities		
Purchase of property, machinery and equipment	(269,010)	(254,791)
Acquisition of investments	(12,489)	(25,653)
Purchase of other assets	(4,548)	(954)
Net cash used in investing activities	<u>(286,047)</u>	<u>(281,398)</u>
Financing activities		
Proceeds from financial liabilities	271,372	336,143
Dividends paid	(31,858)	(28,038)
Interest paid	(67,446)	(58,502)
Net cash provided by financing activities	<u>172,068</u>	<u>249,603</u>
Net increase (decrease) in cash and cash equivalents	1,769	(41,956)
Cash and cash equivalents at the beginning of the period	<u>66,459</u>	<u>108,415</u>
Cash and cash equivalents at the end of the period	<u>68,228</u>	<u>66,459</u>
Non-cash transactions		
Capitalization of retained earnings	92,674	63,663

The accompanying notes are an integral part of this consolidated statement.

Ferreyros S.A.A. and Subsidiaries

Notes to the consolidated financial statements

As of December 31, 2011 and 2010

1. Economic activity

Ferreyros S.A.A. (hereinafter "the Company") was incorporated in Lima, Peru on September 1922 under the legal name of Enrique Ferreyros y Cía. Sociedad en Comandita. Subsequently, made several changes in its legal name up to June 1998 when modified its by-law to comply with the current Peruvian General Corporation Law, currently its legal name is Ferreyros S.A.A. The Company's main activity is importing and selling machinery, engines, vehicles and spare parts, rental of machinery and equipment, and workshop services. The Company's legal address is Avenida Cristóbal de Peralta Norte No.820, Surco, Lima, Peru.

The 2011 and 2010 consolidated financial statements and the statement of financial position as of January 1, 2010 prepared in accordance with International Financial Reporting Standards ("IFRS") have been approved by the Group's Management on February 8, 2012 and will be submitted for approval to the Board of Directors and the General Shareholders' Meeting within the deadlines established by law. In Management's opinion, these consolidated financial statements will be approved without modifications.

As of December 31, 2011, the consolidated financial statements comprise the Company's financial statements and the financial statements of the following subsidiaries: Orvisa S.A., Unimaq S.A., Fiansa S.A. (common shares), Fiansa S.A. (investment shares), Mega Representaciones S.A., Fargoline S.A., Cresko S.A., Intl Inversiones Interamericanas Corp., Inmobiliaria CDR S.A.C. y Motorindustria S.A. Also, the Company has a 50 percent participation in a joint venture in Ferrenergy S.A.

Notes to the consolidated financial statements (continued)

The consolidated financial statements include the financial statements of Ferreyros S.A.A. and its subsidiaries in which it holds more than 50 percent direct or indirect interest. The table below presents the main financial information of the Group that participates in the process of consolidation as of December 31, 2011 and 2010, before eliminations:

Entity	Activity and country	Percentage of participation			Assets			Liabilities			Equity			Net profit/(loss)	
		2011 %	2010 %	01.01.2010 %	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)	2011 S/.(000)	2010 S/.(000)
Orvisa S.A. and Subsidiaries	Purchase and sale of machinery, spare parts and workshop services	100	100	100	103,360	84,103	84,739	76,693	49,463	47,564	26,667	34,640	37,175	7,962	5,226
Unimaq S.A.	Purchase and sale of machinery, spare parts and workshop services	100	100	100	346,271	297,457	213,982	262,772	220,236	150,573	83,499	77,221	63,409	19,842	13,981
Fiansa S.A.	Metalworking services	100	100	100	54,592	62,271	39,107	34,336	57,558	22,440	20,256	4,713	16,667	(7,447)	(13,074)
Mega Representaciones S.A.	Representative and distributor of marketer of tires	100	100	100	58,410	32,749	24,756	42,237	20,723	15,969	16,173	12,026	8,787	4,047	3,237
Fargoline S.A.	Warehouse	100	100	100	78,475	59,053	60,433	44,456	30,260	33,247	34,019	28,793	27,186	2,309	1,545
Cresko S.A.	Purchase and sale of machinery and chemical supplies	100	100	100	63,090	45,294	44,576	47,854	28,739	28,010	15,236	16,555	16,566	(1,801)	811
Intl Inversiones Interamericanas Corp.	Holding grouping businesses abroad (*)	100	100	-	434,136	359,632	-	365,117	344,264	-	69,019	15,368	-	19,102	10,115
Inmobiliaria CDR S.A.C.	Real estate	100	100	-	61,642	46,568	-	21,127	10,858	-	40,515	35,710	-	(34)	-
Ferrenergy S.A.	Power generation and supply	50	50	50	8,894	10,741	15,118	4,621	5,915	10,496	4,273	4,826	4,622	(554)	170
Motorindustria S.A.	Commercial	100	100	100	1,925	2,027	2,114	2	9	33	1,923	2,018	2,081	(95)	(63)

(*) This Holding mainly includes subsidiaries in Central and North America: Compañía General de Equipos S.A. (El Salvador), Corporación General de Tractores S.A. (Guatemala), General Equipment Company (Belize) and Forbis Logistics Corp. (Miami).

Notes to the consolidated financial statements (continued)

2. Basis of presentation and preparation, accounting principles and practices

2.1 Basis of preparation -

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective as of December 31, 2011.

The consolidated financial statements for the year ended December 31, 2011 are the first the Group has prepared in accordance with IFRS. Note 2.3 includes information on how the Group adopted IFRS. For all prior periods and up to the year ended December 31, 2010, the Group prepared its consolidated financial statements in accordance with Peruvian generally accepted accounting principles ("Peru GAAP").

The consolidated financial statements have been prepared on an historical cost basis, except for land and derivative financial instruments that have been measured at fair value. The carrying values of recognized assets and liabilities that are designated as hedged items at fair value hedges that would otherwise be carried at amortized cost, are adjusted to record changes in the fair value attributable to the risks that are being hedge in effective hedge relationships.

The consolidated financial statements are presented in nuevos soles (functional and presentation currency), except when otherwise indicated.

2.2 Basis for consolidation -

The consolidated financial statements comprise the financial statement of the Group and its subsidiaries as of December 31, 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Notes to the consolidated financial statements (continued)

2.3 Basis of accounting principles and practices -

The accounting principles and practices of the Group for the preparation of its consolidated financial statements are described below:

(a) Financial instruments: Initial recognition and subsequent measurement -

(a.1) Financial assets -

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as: (i) financial assets at fair value through profit or loss (ii), loans and receivables, (iii) available-for-sale financial assets, and (iv) held-to-maturity investments, as appropriate. The Group determines the classification of its financial assets at initial recognition.

The classification of the financial instruments at initial recognition depends on the intention for which the financial instruments were acquired and their characteristics. All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs or issuance of the instrument.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Group commits to purchase 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. The Group's financial assets include loans and receivables and available-for-sale financial investments, which subsequent measurement criteria for is 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, for which the entity does not intend to sell them immediately or in the near future and have no recovery risk other than credit deterioration.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. The losses arising from Impairment are recognized in the consolidated statement of income.

The Group maintains in this category cash and cash equivalents and accounts receivable, which are expressed at the transaction value, net of its estimated allowance for doubtful accounts when applicable.

Notes to the consolidated financial statements (continued)

An allowance for doubtful accounts is established if there is objective evidence that the Group will not be able to collect the amounts due to the original contractual terms of the receivables. Group's Management calculates its allowance for doubtful accounts, based upon historical experience, considering and applying, to assess risks differentiated percentages depending on the customer's credit risk. Likewise, for those individually significant accounts, the Group makes specific assessments to determine whether there is objective evidence of loss in the value of accounts receivable. The allowance for doubtful accounts estimation is recognized with charge to the consolidated statement of income. In the Group's Management opinion, this procedure allows to reasonably estimate the loss for doubtful accounts, taking into consideration the customers' characteristics in Peru and the criteria established by IAS 39, in order to adequately cover the risk of loss in accounts receivable according to the market conditions where the Group operates.

- Available-for-sale investments -

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, available-for-sale investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated statement of income in finance costs and removed from the available-for-sale reserve.

The Group evaluates its available-for-sale financial assets to determine if its classification is still appropriate. The Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

Notes to the consolidated financial statements (continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of other comprehensive income.

The Group maintains investments in shares as available-for-sale financial investments as of December 31, 2011.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when: (i) the rights to receive cash flows from the asset have expired, (ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and (iii) the Group has transferred substantially all the risks and rewards of the asset, or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(a.2) Financial liabilities -

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as: (i) financial liabilities at fair value through profit or loss, (ii) loans and borrowings, and (iii) as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, carried at amortised cost. This includes directly attributable transaction costs or issuance of the instrument.

As of December 31, 2011 and 2010 and as of January 1, 2010, financial liabilities include trade accounts payable, salaries and other accounts payable and other financial liabilities.

Subsequent measurement -

Financial liabilities are recognized when the Group is part of the contractual agreement of the instrument. After initial measurement, financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on issuance and costs that are an integral part of the effective interest rate. Gains

Notes to the consolidated financial statements (continued)

and losses are recognized in the consolidated statement of income when the liabilities are derecognized.

Financial liabilities are classified as short-term unless the Group has the irrevocable right to defer the payment for more than twelve months after the date of the consolidated statement of financial position. Borrowing costs are recognized using the accrual method, including fees related to the financing.

Derecognition -

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

(a.3) Offsetting of financial instruments -

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(a.4) Fair value of financial instruments -

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; the discounted cash flows analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 27.6.

Notes to the consolidated financial statements (continued)

(b) Derivative financial instruments -

Derivative financial instruments within the scope of IAS 39 are classified as held for trading and hedge. The most important aspects of each category are described below:

Hedge -

Hedge derivative financial instruments are used to manage the Group's exposure to interest rate and foreign currency risks. Under IAS 39, hedge accounting is applied to manage particular risks for transactions which meet the specific criteria for it.

The Group uses derivative financial instruments such as interest rate swaps and foreign currency forwards to manage its exposure to the risk associated with fluctuations in the interest rate and foreign currency risks, respectively. To manage the risk mentioned, the Group applies hedge accounting for transactions that meet the specific criteria. Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value and recorded as an asset when its value is positive and as a liability when the value is negative.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship between the hedge item and the hedging instrument, including the nature of the risk, the objective and the strategy for undertaking the hedge, and the method that will be used to assess the effectiveness of the hedging relationship.

Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed at the end of each statement of financial position, and are regarded as highly effective if the changes in fair value or cash flows, attributable to the hedged risk during the period for which the hedge is designated, is expected to offset in a range of 80 to 125 percent. Such changes in fair value are calculated based on interest rates and exchange rates at the assessment date for similar contracts.

The Group's hedges are cash flows and consequently, the effective portion of the changes in the fair value of hedging instruments are recognized in the statement of comprehensive income, and the ineffective portion is recognized immediately in the consolidated statement of income. The amounts recognized in equity are transferred to the consolidated statement of income when the hedge transaction affects profit or loss, such as when the hedged financial income or expense is recognized when a forecast sale occurs. If the item to hedge is a non-financial asset or liability, the amount recognized in equity will be added to the cost of the non-financial asset or liability.

Notes to the consolidated financial statements (continued)

Any gain or loss resulting from changes in the fair value of derivative financial instruments during the year, not qualifying as hedges, is recognized directly in the consolidated statement of income. If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognized in equity are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement, or if its designation as a hedge is revoked, amounts previously recognized remain in equity until the forecast transaction or firm commitment occur.

(c) Foreign currency transaction -

The Group's consolidated financial statements are presented in Nuevos Soles, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances -

Transactions in foreign currencies are initially recorded by the Group entities at the functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income or other comprehensive income if certain criteria is met.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Foreign subsidiary - Financial statements remeasurement to Nuevos Soles

The financial statements of the subsidiary Inversiones Interamericanas Corp. are denominated in U.S. dollars, the functional and presentation currency, and are subsequently translated to Nuevos Soles, converting all assets and liabilities, both monetary and non-monetary, at the exchange rate (buying and selling) prevailing at the reporting date; equity is translated at the exchange rate prevailing at the date of the transactions. Items of income and expenses are translated at the average selling exchange rate at the end of each month when the transactions were performed. Translation differences generated are shown in the consolidated statement of comprehensive income.

(d) Cash and cash equivalents -

For purposes of preparation and presentation of the cash flow statement, cash and cash equivalents comprise, cash, demand deposits, remittances in transit and deposits with original maturities shorter than 90 days, all recorded in the consolidated statement of financial position. These accounts do not have any significant valuation risk.

Notes to the consolidated financial statements (continued)

(e) Inventories -

Inventories are valued at the lower of cost or net realizable value, net of any impairment. Cost is determined using the specific identification method, except for spare parts which are recognized using the weighted average cost method. The net realizable value is the estimated selling price in the ordinary course of business, net of discounts and other costs and expenses incurred to bring inventories into sale condition.

The estimate for impairment is determined based upon an analysis performed on the inventory's condition and turnover. In the case of damaged equipment and those with no movement in average 2 years, a provision equivalent to its carrying value is made. The estimate is recognized with charge to the results of the year when determined.

(f) Investment in an associate and joint venture -

Investment in an associate -

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence. Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of an associate is shown on the face of the consolidated income statement. This is the profit attributable to equity holders of the associate and therefore it corresponds to profit after tax and non-controlling interests of the Group in the of the associate.

The consolidated financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its

Notes to the consolidated financial statements (continued)

carrying value and recognises the amount in the 'share of profit of an associate' in the consolidated income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

Interest in a joint venture -

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements.

The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies of the joint venture in line with those of the Group. Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealised gains and losses on such transactions between the Group and its jointly controlled entity. Losses on these transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

(g) Property, machinery and equipment -

Property, machinery and equipment, except lands, are stated at historical acquisition cost net of accumulated depreciation and/or impairment losses, if applicable. Such cost includes the cost of replacing component parts of the property, machinery and equipment.

When significant parts of property, machinery and equipment are required to be replaced at intervals, the Group derecognizes the replaced component and recognizes the new part as individual asset with specific useful life and depreciates it accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the machinery and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred.

Lands are measured at fair value less impairment losses recognized after the date of the revaluation. Revaluations are performed with sufficient frequency to ensure that the fair value of a revaluated asset does not differ significantly from its carrying amount.

Notes to the consolidated financial statements (continued)

Any revaluation surplus is recognized in the consolidated statement of comprehensive income and accumulated in equity in the "Other equity reserves" caption as revaluation of assets, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated statement of income, in which case the increase is recognized in the consolidated statement of income. A revaluation deficit is recognized in the consolidated statement of income, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets and as function of the machine-hours used as follows:

	Years
Buildings and other constructions	
Structural work	Between 78 and 80
Finishes and additional work	20
Installations	20
Machinery and equipment	Between 5 and 15
Rental feet - Machinery and equipment (*)	
Vehicles	5
Furniture and fixtures	4 and 10

(*) As function of machine-hours used.

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

The assets' residual value, the useful lives and the selected depreciation methods are periodically reviewed at each financial year end and adjusted prospectively, if appropriate.

(h) Leases -

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee -

Finance leases that substantially transfer to the Group all the risks and benefits inherent to the ownership of the leased item, are capitalized at the beginning of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease

Notes to the consolidated financial statements (continued)

payments. Lease payments are apportioned between financial charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as financial expenses in the consolidated statement of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

Group as a lessor -

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

Contingent rents are recognized as revenue in the period in which they are earned.

(i) Intangible assets -

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. After initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives (software) are amortized over their useful economic lives, which are four and ten years, and they are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the caption "Administrative expenses".

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

Notes to the consolidated financial statements (continued)

(j) Business combinations -

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in "Administrative expenses" caption in the consolidated statement of income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

(k) Impairment of long-term assets -

The net book value of property, machinery and equipment and finite live intangible assets are reviewed to determine if there is no impairment. Every year, the Group evaluates the indication of signs of possible impairment of non-current assets. If such indication exists, the Group estimates the recoverable amount, being the higher of fair value less costs to sell and value in use. When the value of an asset is below its carrying value is considered impaired in value.

The goodwill's impairment assessment is performed at the end of each period. Impairment is determined by assessing the recoverable amount, considering that when the recoverable amount is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

The recoverable value is the highest between the net sale price and its value in use. The net sale price is the amount that can be obtained from the sale of an asset in a free market, while the value in use is the present value of the estimated future cash flows

Notes to the consolidated financial statements (continued)

provided by the continuous use of an asset and its disposal at the end of its useful life. In measuring the value in use, the future cash flows, net are discounted to net present value using a discount rate before tax that reflects the current market assessment of the time value of money and the risks specific to the asset.

When there are new events or changes in existing circumstances, that evidence that an impairment loss recorded in an earlier period might have disappeared or been reduced, the Group made a new estimate of the profitability of the related asset, this evaluation is made in each year. The impairment losses previously recognized are reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the date of the last recognized an impairment loss. If this is the case, the value of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, if he had not recognized an impairment loss for the asset in prior years. Such reversal is recognized in consolidated income. After the reversal, the depreciation charge is adjusted in future periods to distribute the asset's carrying value over its remaining useful life.

(l) Financing costs -

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily requires a considerable period of preparation to be available for use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are recognized as additional expense in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurred in connection with the borrowing of funds.

During 2011 and 2010, the Group did not have assets that qualified for the capitalization of financing costs.

(m) Income tax and workers' profit sharing -

Current income tax and workers' profit sharing -

The asset or liability for current income tax is measured as the amount expected to be recovered from or paid to the tax authorities. The income tax is calculated on the basis of individual financial information of the Group. According to legal regulations, the workers' profit sharing is calculated on the same basis as is used to calculate the current income tax. The rate of income tax and the percentage of workers' profit sharing applicable to the Group are 30 percent and 8 percent, respectively.

Deferred income tax -

The deferred income tax reflects the effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and those determined for tax purposes. Deferred assets and liabilities are measured using the tax rates expected to be applied to taxable income in the years when these differences are recovered or eliminated. The measurement of deferred assets and liabilities reflects the

Notes to the consolidated financial statements (continued)

tax consequences that arise from the manner in which the Group expects to recover or settle the carrying amount of assets and liabilities at the date of the consolidated statement of financial position.

Deferred tax assets and liabilities are recognized regardless of when the temporary differences will be written off. Deferred assets are recognized when sufficient future tax benefits are probable to exist to apply the deferred assets. As of the date of the statement of financial position, the Group assesses the non-recognized deferred assets as well as the carrying amount of the recognized deferred assets.

(n) Recognition of revenues, costs and expenses -

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group. Revenue is measured at the 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 an income:

- Revenues from sales of machinery, engines, vehicles and spare parts are recognized when all the significant risks and rewards of ownership are transferred to the buyer.
- Revenues from workshop services, maintenance and repair, and rental of machinery and equipment are recognized in the period in which the services are rendered.
- The Group's other revenues are recognized as follows:
 - Rental income and interest on installment sales: on accrual basis.
 - Fee income from direct requests: when the supplier fulfills the order.
 - Financial interest income: on effective performance basis.
 - Dividend income: when the Group's right to receive such payment is established.
 - Construction contracts: under the percentage of completion method. Under this method, revenue is recognized in the accounting period in which the work contracted is performed.
 - Storage service: when the service is provided.

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

Notes to the consolidated financial statements (continued)

(o) Provisions -

General:

A provision is recognized only when the Group has a present obligation (legal or constructive) as a result of a past event, it is likely that resources will be required to settle the obligation and its amount can be reasonably estimated. Provisions are reviewed at each period and are adjusted to reflect the best estimate as to the date of the statement of financial position. When the effect of the value of money over time is important, the amount of the provision is the present value of expenditures expected to settle the obligation.

When the Group expects some or all of the provision to be recovered, these recoveries are recognized as assets, provided to have the certainty of recovery. The amount accrued is presented in the consolidated statement of income, net of recoveries.

Possible contingencies are not recognized in the financial statements. These are disclosed in notes to the consolidated financial statements, except that the possibility of an outflow of economic benefits is remote.

Warranty:

Provisions for warranty-related costs are recognized when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

(p) Earnings per share -

Basic and diluted earnings per share are calculated by dividing the net profit by the weighted average number of common shares outstanding during the period. Shares that are issued due to the capitalization of profits, or similar transactions, are deemed to be a stock split, thus for the computation of the weighted average number of shares are considered as had always been issued.

As of December 31, 2011 and 2010, the Group has no financial instruments with dilutive effects so basic and diluted earnings per share are the same.

(q) Subsequent events -

Events occurred subsequent to the year-end which provide additional information about the financial status of the Group as of the date of the consolidated statement of financial position (adjustment events) are included in the consolidated financial statements. Significant subsequent events, that are not adjustment events, are disclosed in notes to the consolidated financial statements.

Notes to the consolidated financial statements (continued)

2.3.1 First application of International Financial Reporting Standards ("IFRS") -

As part of the adoption of International Financial Reporting Standards ("IFRS") in Peru, on October 14, 2010, through Resolution No. 102-2010-EF/94.01.1, the Superintendency of Securities Market (hereinafter the "SMV" for its acronym in Spanish) required to the corporations, under the scope of its supervision, to adopt IFRS starting fiscal year 2011.

In order to comply with Peruvian law, the Group has adopted IFRS in year 2011. The standards are applied retrospectively at the transition date starting and all the adjustments to assets and liabilities carried under Generally Accepted Accounting Principles in Peru ("Peru GAAP") were recorded in "Retained earnings", less certain exemptions listed in the standard.

Until the year ended December 31, 2010, the Group prepared its consolidated financial statements in accordance with generally accepted accounting principles in Peru. The consolidated financial statements for the year ended December 31, 2011, are the Group's first prepared in accordance with International Financial Reporting Standards. By preparing these financial statements under IFRS, the Group has considered as transition date January 1, 2010 and therefore has adjusted the information for that year in accordance with IFRS.

The exemptions set out in IFRS 1 and that the Group has decided to apply in their first adoption of IFRS are as follows:

- (i) Measurement of investments in subsidiaries taking the carrying value as of January 1, 2010 in accordance with Peru GAPP (paragraph D15 of IFRS) as deemed cost, which corresponded to the equity value at that time, approximately S/.193,595,000.
- (ii) Measurement of property, machinery and equipment -
The Group has taken the exemption specified in paragraph D5 of IFRS 1, using fair value as deemed cost as of January 1, 2010 for buildings and other constructions.

Explanatory notes provide a detailed description of the main differences between generally accepted accounting principles in Peru ("Peru GAAP") and International Financial Reporting Standards ("IFRS") applied by the Group and its effect on equity as of December 31, 2011 and 2010 and January 1, 2010, and the net profit for the year 2010.

Notes to the consolidated financial statements (continued)

(a) Reconciliation of the consolidated statement of financial position -

(a.1) Reconciliation between the consolidated statement of financial position under Peru GAAP and IFRS as of January 1, 2010 (date of transition to IFRS) is as follows:

	Peru GAAP as of 01.01.2010 (*) S/.(000)	Adjustments S/.(000)	IFRS as of 01.01.2010 S/.(000)
Asset			
Current assets			
Cash and cash equivalents	108,415	-	108,415
Trade accounts receivable, net	410,937	(781)	410,156
Other accounts receivable, net	51,323	(2,211)	49,112
Inventories, net	598,452	(2,260)	596,192
Prepaid expenses	6,905	-	6,905
Total current asset	1,176,032	(5,252)	1,170,780
Trade accounts receivable, net	36,993		36,993
Investment in associates	41,968	(2,868)	39,100
Property, machinery and equipment, net	533,905	115,861	649,766
Deferred tax assets	22,027	(22,027)	-
Other assets, net	8,917	491	9,408
Total asset	1,819,842	86,205	1,906,047
Liability and equity			
Current liabilities			
Other financial payables	299,177	-	299,177
Trade accounts payable	220,113	(3,026)	217,087
Salaries, workers' profit sharing, taxes and other accounts payable	143,883	4,244	148,127
Income tax payable	13,050	-	13,050
Total current liabilities	676,223	1,218	677,441
Other financial liabilities	508,495	-	508,495
Deferred tax liabilities	1,370	3,889	5,259
Deferred income	551	-	551
Total liability	1,186,639	5,107	1,191,746
Equity			
Issued capital	467,298	-	467,298
Other capital reserves	39,805	-	39,805
Other equity reserves	103,856	39,939	143,795
Retained earnings	22,244	41,159	63,403
Total equity	633,203	81,098	714,301
Total liability and equity	1,819,842	86,205	1,906,047

(*) Balances as of December 31, 2009 (January 1, 2010), as reported under Peru GAAP, were audited by other independent auditors whose report dated February 16, 2010 expressed an unqualified opinion.

Notes to the consolidated financial statements (continued)

(a.2) Reconciliation between the consolidated statement of financial position under Peru GAAP and IFRS as of December 31, 2010 is as follows:

	Peru GAAP as of 01.01.2010 (*) S/.(000)	Adjustments S/.(000)	IFRS as of 01.01.2010 S/.(000)
Asset			
Current assets			
Cash and cash equivalents	66,459	-	66,459
Trade accounts receivable, net	512,043	745	512,788
Other accounts receivable, net	66,851	(964)	65,887
Inventories, net	953,899	(13,821)	940,078
Prepaid expenses	8,928	-	8,928
Total current assets	<u>1,608,180</u>	<u>(14,040)</u>	<u>1,594,140</u>
Trade accounts receivable, net	92,389		92,389
Other accounts receivable, net	9,263	(617)	8,646
Investment in associates	100,852	(56,776)	44,076
Property, machinery and equipment, net	687,337	144,704	832,041
Other assets, net	30,235	2,217	32,452
Total assets	<u>2,528,256</u>	<u>75,488</u>	<u>2,603,744</u>
Liability and equity			
Current liabilities			
Other financial payables	580,301	-	580,301
Trade accounts payable	304,786	-	304,786
Salaries, workers' profit sharing, taxes and other accounts payable	310,405	-	310,405
Income tax payable	5,124	-	5,124
Total current liabilities	<u>1,200,616</u>	<u>-</u>	<u>1,200,616</u>
Other financial liabilities	567,261	(3,747)	563,514
Deferred tax liabilities	(16,838)	32,562	15,724
Deferred income	10,875		10,875
Total liability	<u>1,761,914</u>	<u>28,815</u>	<u>1,790,729</u>
Equity			
Issued capital	530,961	-	530,961
Other capital reserves	49,855	-	49,855
Retained earnings	170,527	(5,868)	164,659
Other equity reserves	13,463	52,553	66,016
Foreign currency translation	1,536	(12)	1,524
Total patrimonio neto	<u>766,342</u>	<u>46,673</u>	<u>813,015</u>
Total pasivo y patrimonio neto	<u>2,528,256</u>	<u>75,488</u>	<u>2,603,744</u>

(*) Balances as of December 31, 2010, as reported under Peru GAAP, were audited by other independent auditors whose report dated February 22, 2011 expressed an unqualified opinion.

Translation of the consolidated financial statements originally issued in Spanish -
Note 27

Notes to the consolidated financial statements (continued)

- (b) Reconciliation of the consolidated statement of income -
Reconciliation between the consolidated statement of income under Peru GAAP and IFRS
for the year 2010 is as follows:

	Peru GAAP as of 01.01.2010 (*) S/.(000)	Adjustments S/.(000)	IFRS as of 01.01.2010 S/.(000)
Net sales	2,950,213	-	2,950,213
Other operating income	195	-	195
Total operating income	2,950,408	-	2,950,408
Cost of sales	(2,338,307)	(12,334)	(2,350,641)
Gross profit	612,101	(12,334)	599,767
Selling expenses	(264,037)	(15,592)	(279,629)
Administrative expenses	(124,023)	(2,912)	(126,935)
Other income	7,160	(5,026)	2,134
Operating profit	231,201	(35,864)	195,337
Financial income	34,221	59	34,280
Equity in associated companies under the equity method	1,916	-	1,916
Financial expenses	(71,961)	(1,364)	(73,325)
Exchange difference, net	21,714	-	21,714
Profit before income tax	217,091	(37,169)	179,922
Workers' profit sharing	(16,644)	16,644	-
Income tax	(61,497)	2,942	(58,555)
Net profit	138,950	(17,583)	121,367

- (*) Balances as of December 31, 2010, as reported under Peru GAAP, were audited by other independent auditors whose report dated February 22, 2011 expressed an unqualified opinion.

Translation of the consolidated financial statements originally issued in Spanish -
Note 27

Notes to the consolidated financial statements (continued)

- (c) Reconciliation of the consolidated statement of changes in equity -
(i) Reconciliation of consolidated equity from Peru GAAP and IFRS as of January 1 and December 31, 2010 is as follows:

	As of December 31, 2010 S/.(000)	As of January 01, 2010 S/.(000)
Equity as of December 31, 2010 according to Peru GAAP (*)	765,486	632,844
Add (less) adjustment to retained earnings:		
Revaluation of buildings and installations	55,162	56,033
Fair value of trade accounts receivable	2,700	1,948
Lower value of deferred income tax	(6,369)	(4,031)
Lower amortization of intangible assets	1,547	490
Elimination of equity in subsidiaries' profits	(11,774)	-
Elimination of deferred workers' profits sharing	(6,711)	(5,455)
Fair value of trade accounts payable	(4,884)	(4,244)
Higher depreciation of property, machinery and equipment	(2,737)	(2,302)
Provision for obsolescence of inventories	(2,000)	(1,565)
Reversal of provision for workers' termination benefits	2,584	-
Fair value of other accounts payable and receivable	(1,582)	(672)
Other adjustments	(101)	96
	<u>791,321</u>	<u>673,142</u>
Add (less) adjustments to unrealized:		
Revaluation of land	64,332	59,298
Deferred income tax liability	(23,150)	(17,127)
Elimination of equity in unrealized gain/losses from subsidiaries	(19,488)	(1,012)
	<u>21,694</u>	<u>41,159</u>
Equity according to IFRS	<u>813,015</u>	<u>714,301</u>

(*) Balances as of December 31, 2010, as reported under Peru GAAP, were audited by other independent auditors whose report dated February 22, 2011 expressed an unqualified opinion.

Notes to the consolidated financial statements (continued)

- (ii) Reconciliation of consolidated net income from Peru GAAP and IFRS for the year ended December 31, 2010 is as follows:

	Por el año terminado el 31 de diciembre de 2010 S/.(000)
Net income as of December 31, 2010 according to Peru GAAP (*)	138,950
Add (less):	
Impairment of inventories	(8,974)
Cost of sale of property, machinery and equipment	(4,182)
Deferred tax liability	(2,171)
Elimination of deferred workers' profit sharing	(1,321)
Other accounts receivable, from related parties and inventories	(895)
Fair value of other accounts payable	(640)
Higher depreciation of machinery and equipment, buildings and other constructions	(283)
Provision for obsolescence of inventories	(39)
Lower amortization of intangible assets	588
Fair value of trade accounts receivable	289
Others	45
	<u>(17,583)</u>
Net income according to IFRS	<u>121,367</u>

- (*) Balances as of December 31, 2010, as reported under Peru GAAP, were audited by other independent auditors whose report dated February 22, 2011 expressed an unqualified opinion.

- (d) Reconciliation of consolidated cash flow statement -
The adoption of IFRS has no effect on the cash flows generated by the Group; however some not significant account movements occurred as consequence of the transition adjustments.

Notes to the consolidated financial statements (continued)

- (e) Notes to the reconciliation of the consolidated statement of financial position and consolidated statement of income -
Opening balances -
Opening balances are derived from financial statements in accordance with Peru GAAP, which include the IFRS formalized through resolutions issued by the National Accounting Standards Board ("CNC" for its acronym in Spanish) at the date of the issuance of the financial statements.

Adjustments -

The first-time adoption of IFRS required transition adjustments to the balances of the financial statements under generally accepted accounting principles in Peru. The most important adjustments are the following:

- (i) Inventories -
As part of the first-time adoption process, the Group conducted a specific assessment of their inventories in order to assess whether there was slow moving and impaired inventory.

As result of the above mentioned, there was a decrease in the "Inventories" caption as of January 1, 2010 of approximately S/.2,000,000 (approximately S/.1,565,000 as of December 31, 2010) and IFRS transition adjustment with credit to the "Retained earnings" caption in equity.

- (ii) Property, machinery and equipment -
As part of the first-time adoption of IFRS process, the Group elected to measure its fixed assets, other than land, at its fair value based upon appraisals performed by an independent appraiser and used this value as deemed cost, applying the exemption permitted by IFRS 1. Assets carried at fair value relate mainly to buildings and facilities. The Group also performed a review of the cost and the composition of its major assets, reviewing residual values, useful lives and depreciation methods.

As a result, of the above mentioned there was an increase in the "Property, machinery and equipment" caption of approximately S/.56,033,000, as of January 1, 2010, recorded as an IFRS transition adjustment with credit to the "Retained earnings" caption in equity.

- (iii) Workers' profit sharing-
On its November 2010 session, the International Financial Reporting Interpretations Committee (IFRIC), hereinafter the "Committee", agreed that workers' profit sharing must be recorded following IAS19 "Employees' benefits" and not IAS 12 "Income tax". Consequently, an entity must only recognize a liability when the employee has rendered a service; therefore, the deferred

Notes to the consolidated financial statements (continued)

workers' profit sharing should not be calculated due to temporary differences; given that these differences would be attributable to future services that must not be considered as obligations or rights under IAS 19. In Peru the standard practice was to calculate and record the deferred workers' profit sharing on the financial statements.

As result of the transition adjustment to IFRS, a decrease in deferred tax assets for workers' profit sharing of approximately S/.6,711,000 as of January 1, 2010 was recorded (approximately S/.5,455,000 as of December 31, 2010). These decreases were recorded with charge to "Retained earnings".

Following the IAS 19 application, the current workers' profit sharing expense is distributed in the following captions of the consolidated statement of income for 2010:

- "Selling expenses" caption increased in approximately S/.12,982,000 for personnel costs related to sales, note 17.
- "Administrative expenses" caption increased in approximately S/.3,622,000 for personnel costs related to the administrative area, note 18.

(iv) Equity -

Equity is the difference between assets and liabilities after transition adjustments for the first-time adoption of IFRS, as detailed in the preceding paragraphs. The distribution of the adjustments in the net equity items was conducted in accordance with IFRS 1 and taking into consideration the following: i) items of issued capital, additional capital and other capital reserves, have remained unchanged, because their amounts correspond to the application of the Peruvian laws and allocation decisions made by the shareholders, and ii) all remaining effects were recognized in retained earnings as of January 1, 2010.

2.4 Significant accounting judgments, estimates and assumptions -

The preparation of consolidated financial statements in accordance with the International Financial Reporting Standards requires management to make judgments, significant estimates and assumptions in determining the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the years ended December 31, 2011 and 2010.

In Management's opinion, these estimates were made based on their best knowledge of relevant facts and circumstances at the time of preparation of the consolidated financial statements, but results could differ from those estimates. The Groups's Management does not expect significant changes if any, on the consolidated financial statements.

Notes to the consolidated financial statements (continued)

The most significant estimates considered by Management in relation to the consolidated financial statements relate primarily to:

- Allowance for doubtful accounts
- Allowance for impairment of inventories
- Depreciation of property, machinery and equipment
- Amortization of intangible assets
- Allowance for impairment of long-lived assets
- Deferred tax assets and liabilities
- Provision for contingencies
- Estimated fair value of derivative financial instruments

Any differences in the estimates in subsequent actual results are recorded in the statements of income in the year in which it occurs.

2.5 New accounting pronouncements-

The following list corresponds to the IFRS issued but not yet effective at the date of issuance of the Group's consolidated financial statements. In this regard, the following list includes the standards that the Group reasonably expects to be applicable in the future. The Group intends to adopt these standards when effective.

- IAS 12 "Income Taxes – Recovery of Underlying Assets"
The amendment clarified the determination of deferred tax in investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement to calculate deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16, always be measured on the sale basis of the asset. The amendment is effective for annual periods beginning on or after January 1, 2012.
- IFRS 7 "Financial Instruments: Disclosures – Transfers of Financial Assets"
The amendment requires additional disclosures about financial assets that have been transferred but not derecognized, to enable the users of the financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing

Notes to the consolidated financial statements (continued)

involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment is effective for annual periods beginning on or after July 1, 2011. This amendment only affects disclosures and has no effect on the financial position or the financial performance of the Group.

- IFRS 9 "Financial Instruments: Classification and Measurement"
IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effects in conjunction with the other phases, when issued, to present a comprehensive picture.
- IFRS 10 "Consolidated Financial Statements"
Issued in May, 2011 by the IASB, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC 12 "Consolidation - Special Purpose Entities" and IAS 27 "Consolidated and Separate Financial Statements" and is effective for annual periods beginning on or after January 1, 2013. The Group is still evaluating the effects, if any, of the adoption of this standard.
- IFRS 12 "Disclosure of Interest in Other Entities"
Issued in May, 2011 by the IASB, is a new comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Group is still evaluating the effects, if any, of the adoption of this standard.
- IFRS 13 "Fair Value Measurements"
Issued in May 2011, sets new requirements on how to measure fair value and required disclosures. The standard is effective for annual periods beginning on or after January 1, 2013. The Group is still evaluating the effects, if any, of the adoption of this standard.

3. Foreign currency transactions

Foreign currency transactions are made at free market exchange rates. As of December 31, 2011, the weighted average market exchange rate for transactions in U.S. Dollars published by the Superintendency of Banks, Insurance and Private Funds Managers (Superintendencia de Banca, Seguros y AFP or "SBS" for its acronym in Spanish) was S/.2.695 per US\$1 for buying and S/.2.697 per US\$1 for selling (S/.2.808 per US\$1 buying and S/.2.809 per US\$1 for selling as of December 31, 2010).

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Note 27

Notes to the consolidated financial statements (continued)

As of December 31, 2011 and 2010, the Group had the following assets and liabilities in U.S. Dollars:

	2011 US\$(000)	2010 US\$(000)
Assets		
Cash and cash equivalents	17,716	14,175
Trade accounts receivable, net	203,747	159,474
Other accounts receivable, net	<u>28,040</u>	<u>25,706</u>
	<u>249,503</u>	<u>199,355</u>
Liabilities		
Other financial liabilities	(447,987)	(322,450)
Trade accounts payable	(100,994)	(74,385)
Salaries, taxes and other accounts payable	<u>(95,944)</u>	<u>(67,639)</u>
	<u>(644,925)</u>	<u>(464,474)</u>
Net liability position	<u>(395,422)</u>	<u>(265,119)</u>

As of December 31, 2011 and 2010, the Group has inventory and rental machinery fleet for US\$601,000,000 and US\$ 436,000,000, respectively, which offsets the net liabilities in foreign currency as all these transactions are made in foreign currency. Management has assessed the risks on its inventory and rental machinery fleet position, not identifying an exchange rate risk on this position.

During 2011 and 2010, the Group has recognized a net gain for exchange difference of approximately S/.47,560,000 and S/.21,714,000, respectively, which is presented in the "Exchange difference, net" caption of the consolidated statement of income.

4. Cash and cash equivalents

(a) This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)
Demand deposits (b)	62,269	59,408	20,674
Remittances in transit	5,016	585	1,316
Petty cash	943	890	8,888
Time deposits	<u>-</u>	<u>5,576</u>	<u>77,537</u>
	<u>68,228</u>	<u>66,459</u>	<u>108,415</u>

(b) Demand deposits are kept in domestic and foreign banks, in local currency and in U.S. Dollars. These deposits are freely available and do not earn interest.

Notes to the consolidated financial statements (continued)

5. Trade accounts receivable, net

(a) This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)
Invoices and bills of exchange (b)	795,234	670,389	510,455
Unearned interests	<u>(13,529)</u>	<u>(13,124)</u>	<u>(17,860)</u>
	781,705	657,265	492,595
Less - Allowance for doubtful accounts receivable (d)	<u>(56,368)</u>	<u>(52,088)</u>	<u>(45,446)</u>
	725,337	605,177	447,149
Less:			
Non-current portion -	<u>(77,718)</u>	<u>(92,389)</u>	<u>(36,993)</u>
	<u>647,619</u>	<u>512,788</u>	<u>410,156</u>

Trade accounts receivable are denominated in local and foreign currency, do not earn interest, with exception of the bills of exchange which earn an annual interest rate between 14 and 20 percent.

(b) Corresponds to trade accounts receivable from sales of inventories to various domestic companies.

(c) As of December 31, 2011 and 2010 and January 1, 2010, the trade accounts receivable aging is as follows:

	Not impaired S/.(000)	Impaired S/.(000)	Total S/.(000)
As of December 31, 2011 -			
Outstanding	579,317	3,287	582,604
Past due			
- Up to 1 month	152,494	9,540	162,034
- From 1 to 3 months	7,757	2,125	9,882
- From 3 to 6 months	-	7,651	7,651
- More than 6 months	<u>-</u>	<u>33,063</u>	<u>33,063</u>
Total	<u>739,568</u>	<u>55,666</u>	<u>795,234</u>

Notes to the consolidated financial statements (continued)

	Not impaired S/.(000)	Impaired S/.(000)	Total S/.(000)
As of December 31, 2010 -			
Outstanding	524,001	5,872	529,873
Past due			
- Up to 1 month	80,344	7,953	88,297
- From 1 to 3 months	5,709	2,673	8,382
- From 3 to 6 months	-	6,293	6,293
- More than 6 months	-	37,544	37,544
Total	<u>610,054</u>	<u>60,335</u>	<u>670,389</u>
As of January 1, 2010 -			
Outstanding	373,896	7,419	381,315
Past due			
- Up to 1 month	76,136	455	76,590
- From 1 to 3 months	12,956	843	13,799
- From 3 to 6 months	6,289	1,317	7,606
- More than 6 months	342	30,803	31,145
Total	<u>469,619</u>	<u>40,836</u>	<u>510,455</u>

- (d) The movement in the allowance for doubtful accounts receivable for the year ended December 31, 2011 and 2010 and January 1, 2010 is as follows:

	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)
Beginning balance	52,088	45,446	40,787
Provision charged to results, notes 17 and 18	10,709	13,203	8,435
Recoveries	(300)	(68)	(58)
Sale of accounts receivable	(3,426)	(565)	-
Exchange difference	(2,606)	(1,780)	(3,718)
Write-offs of the year	(97)	(4,148)	-
Ending balance	<u>56,368</u>	<u>52,088</u>	<u>45,446</u>

In Management's opinion, the allowance for doubtful accounts receivable adequately covers the credit risk for the years ended December 31, 2011 and 2010, respectively. Trade accounts receivable are collateralized with the inventory sold and, in some cases, depending on the significance of the transaction, additional collateral is requested.

Notes to the consolidated financial statements (continued)

6. Other accounts receivable, net

(a) This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)
Accounts receivable from Caterpillar	30,015	14,272	23,072
Value added tax credit (c)	27,134	19,106	9,574
Accounts receivable, Domingo Rodas Inc. (b)	9,256	9,057	-
Accounts receivable from employees	8,495	5,852	2,696
Drawback and other taxes (e)	4,690	4,106	2,091
Income tax credit	3,077	2,780	881
Advances to suppliers	2,277	468	78
Claims to insurance companies and third parties	2,602	1,076	1,384
Warranty deposits	267	1,502	544
Other accounts receivable	9,346	17,026	11,091
	<u>97,159</u>	<u>75,245</u>	<u>51,411</u>
Less - Allowance for other doubtful accounts receivable (f)	(614)	(712)	(2,298)
	<u>96,545</u>	<u>74,533</u>	<u>49,113</u>
Less:			
Non-current portion (b)	(8,138)	(8,646)	-
	<u>88,407</u>	<u>65,887</u>	<u>49,113</u>

(b) This account receivable was originated in previous years, back in 2008 the Company granted a loan to Domingo Rodas S.A. (former subsidiary) for S/.5,150,000. In 2010, the Company subscribed a contract to transfer its shares in Domingo Rodas S.A. to a subsidiary of a leading agribusiness group in the country. As consequence of such transaction, the new shareholders recognized the loan payable to the Company; the loan was duly refinanced and will be repaid starting in 2012. This account receivable earns interest at an annual rate of 7.55 percent and has no specific guarantees.

(c) The value added tax credit mainly corresponds to the expenditures on the purchase of inventory, fixed assets and others related to the Group's operations. In Management's opinion, the value added tax credit will be recovered through the development of the Group's current business operations.

Translation of the consolidated financial statements originally issued in Spanish -
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Notes to the consolidated financial statements (continued)

- (d) As of December 31, 2011 and 2010 and January 1, 2010, the other accounts receivable aging is as follows:

	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)
Outstanding	95,311	73,345	48,250
Past due - up to 30 days	1,234	1,188	863
Past due - more than 181 days	<u>614</u>	<u>712</u>	<u>2,298</u>
	<u>97,159</u>	<u>75,245</u>	<u>51,411</u>

- (e) Corresponds to refunds of tax and customs duties which will be requested in return to the relevant tax authorities, and shall be paid during the first quarter of 2012, thus disclosed in current assets.

- (f) The movement in the allowance for other doubtful accounts receivable is as follows:

	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)
Beginning balance	712	2,298	2,497
Provision charged to results, notes 17 and 18	-	67	-
Write-offs of the year	(59)	(1,715)	-
Exchange difference	<u>(39)</u>	<u>62</u>	<u>(199)</u>
Ending balance	<u>614</u>	<u>712</u>	<u>2,298</u>

In Management's opinion, the allowance for other doubtful accounts receivable adequately covers the credit risk as of December 31, 2011 and 2010, and January 1, 2010.

Notes to the consolidated financial statements (continued)

7. Inventories, net

(a) This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)
Machinery, engines and vehicles	755,629	601,162	362,385
Spare parts	256,271	201,071	128,283
Merchandise	22,964	11,045	8,759
Products in process	2,257	3,242	1,025
Workshop services in process (b)	62,906	60,548	33,720
Miscellaneous supplies	119	90	822
Raw material and packing	2,707	4,681	5,131
Inventories in transit	137,502	77,281	69,091
	<u>1,240,355</u>	<u>959,120</u>	<u>609,216</u>
Allowance for obsolescence of inventories (c)	(17,174)	(19,042)	(13,024)
	<u>1,223,181</u>	<u>940,078</u>	<u>596,192</u>

(b) Mainly corresponds to the Group's workshop and repair services provide to customers (inventory in progress). As of December 31, 2011 and 2011 and January 1, 2010, such services were pending of completion.

(c) The movement in the allowance for obsolescence of inventories is as follows:

	2011 S/.(000)	2010 S/.(000)
Beginning balance	19,042	13,024
Provision charged to results	10,252	19,170
Transfer to fixed assets	248	1,059
Applications for sales	(10,736)	(10,485)
Applications for destruction of inventory	(135)	(3,302)
Applications for missing inventory	99	-
Recoveries	(1,302)	(7)
Conversion difference	(175)	(68)
Applications for the destruction of inventories	(119)	(349)
Ending balance	<u>17,174</u>	<u>19,042</u>

The allowance for obsolesces of inventories is calculated based upon the inventory's rotation levels and other assumptions based on periodical assessments made by Management and its technical and financial areas. In Management's opinion, this provision adequately covers the risk of impairment of inventory as of December 31, 2011 and January 1, 2010 and respectively.

Notes to the financial statements (continued)

8. Investments in associates

(a) This item is made up as follows:

	Main activity	Percentage of capital participation			Book value		
		2011	2010	01.01.2010	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)
Common shares:							
Listed companies (b)							
La Positiva Seguros y Reaseguros S.A.	Insurance	13.79	13.79	13.79	37,165	30,237	28,035
La Positiva Vida Seguros y Reaseguros S.A.	Insurance	3.51	3.51	3.51	5,722	4,040	4,327
Not listed (c)							
International Machinery co S.A.	Holding	46.67	-	-	9,675	-	-
Gondomar S.A.	Holding	48.21	-	-	12,747	-	-
Inversiones Varseli S.A.	Holding	46.57	-	-	11,535	-	-
Others		-	-	-	1,450	1,037	1,448
					<u>78,294</u>	<u>35,314</u>	<u>33,810</u>

(b) As of December 31, 2011, the Group has recognized in the "Equity income in associated companies under the equity method" caption in the consolidated statement of income approximately S/.8,260,000 (S/.1,916.000 as of December 31, 2010), according to the policy described in Note 2.3 (f).

(c) These available-for-sale investments are represented by the Group's participatias in these companies, which are presented at cost, because these investments do not have quoted market.

Notes to the financial statements (continued)

9. Property, machinery and equipment, net

(a) This item is made up as follows:

Description	Lands S/.(000)	Buildings and other constructions S/.(000)	Machinery and equipment S/.(000)	Rental fleet - Machinery and equipment S/.(000)	Vehicles S/.(000)	Furniture and fixtures S/.(000)	Equipment in transit S/.(000)	Work in progress S/.(000)	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)
Cost -											
Balance as of January 1	254,126	197,765	238,940	381,382	21,048	71,148	3,131	15,198	1,182,738	960,450	777,962
Additions (b)	70,405	17,586	48,639	104,937	4,303	10,702	5,907	6,531	269,010	254,791	149,353
Disposals and/or sales	(90)	(370)	(4,882)	(37,098)	(1,662)	(1,446)	-	-	(45,548)	(54,756)	(34,290)
Other additions	33,494	-	-	-	-	-	-	-	33,494	51,339	38,647
Transfers from inventories	-	8,357	19,387	211,985	841	846	(2,768)	(8,336)	230,312	136,846	91,213
Transfers to used inventories	-	-	(12,511)	(156,656)	-	-	-	-	(169,167)	(166,303)	(62,435)
Transfers	-	727	(344)	-	-	300	(364)	(2,769)	(2,450)	(243)	-
Foreign currency translation	148	63	256	(663)	57	62	-	-	(77)	614	-
Balance as of December 31	358,083	224,128	289,485	503,887	24,587	81,612	5,906	10,624	1,498,312	1,182,738	960,450
Acumulated depreciaties											
Balance as of January 1	-	42,702	149,815	90,925	11,324	53,200	-	-	347,966	306,894	257,166
Additions (f)	-	7,711	24,410	67,232	2,481	6,681	-	-	108,515	120,702	71,799
Other additions	-	217	342	-	(105)	65	-	-	519	-	3,378
Disposals and/or sales	-	(28)	(3,906)	(14,429)	(1,028)	(1,033)	-	-	(20,424)	(25,144)	(10,264)
Transfers from inventories	-	-	2,784	1,632	135	784	-	-	5,335	2,402	3,306
Transfers to used inventories	-	-	(6,047)	(41,304)	-	-	-	-	(47,351)	(57,222)	(18,554)
Adjustments	-	(1,699)	(503)	(1,228)	12	20	-	-	(3,398)	334	63
Balance as of December 31	-	48,903	166,895	102,828	12,819	59,717	-	-	391,162	347,966	306,894
Allowance for impairment											
Balance as of January 1	-	-	-	2,731	-	-	-	-	2,731	3,790	1,425
Additions	-	-	-	865	-	-	-	-	865	-	1,321
Disposals and/or sales	-	-	-	(81)	-	-	-	-	(81)	-	-
Transfers from inventories	-	-	-	368	-	-	-	-	368	1,951	1,383
Transfers to used inventories	-	-	-	(616)	-	-	-	-	(616)	(3,010)	(339)
Balance as of December 31	-	-	-	3,267	-	-	-	-	3,267	2,731	3,790
Net book value	358,083	175,225	122,590	397,792	11,768	21,895	5,906	10,624	1,103,883	832,041	649,766

Notes to the consolidated financial statements (continued)

- (b) As of December 31, 2011 and 2010, the Group has buildings and installations acquired through finance leases for a net book value of approximately S/.74,828,000 and S/.47,397,000, respectively.
- (c) In Management's opinion, the Group has insurance policies that sufficiently cover all of its fixed assets.
- (d) During 2011 and 2010, rental income from machinery operating leases, included in the consolidated statement of income, amounted to S/.134,023,000 and S/.97,375,000, respectively.
- (e) As of December 31, 2011, the Group does not maintain liens on the buildings.
- (f) Depreciation expense for the year was recorded in the following captions of the consolidated statement of income:

	2011 S/.(000)	2010 S/.(000)
Cost of sales, note 16	60,075	77,990
Selling expenses, note 17	34,558	30,337
Administrative expenses, note 18	<u>13,882</u>	<u>12,375</u>
	<u>108,515</u>	<u>120,702</u>

Notes to the consolidated financial statements (continued)

10. Other financial liabilities

(a) This item is made up as follows:

	2011			2010			01.01.2010		
	Current portion S/.(000)	Non-current portion S/.(000)	Total S/.(000)	Current portion S/.(000)	Non-current portion S/.(000)	Total S/.(000)	Current portion S/.(000)	Non-current portion S/.(000)	Total S/.(000)
Due to banks (b)	423,538	-	423,538	196,769	-	196,769	102,237	-	102,237
Bank overdrafts (b)	300	-	300	-	-	-	499	-	499
Bonds (c)	59,334	207,731	267,065	162,922	174,158	337,080	50,593	231,280	281,873
Long-term debt (c)	255,383	468,901	724,284	220,610	389,356	609,966	145,848	277,215	423,063
	<u>738,555</u>	<u>676,632</u>	<u>1,415,187</u>	<u>580,301</u>	<u>563,514</u>	<u>1,143,815</u>	<u>299,177</u>	<u>508,495</u>	<u>807,672</u>

(b) Bank overdrafts and due to banks -
This item is made up as follows:

	Average annual effective interest rate-fixed		Original currency	2011 S/.(000)	2010 S/.(000)
	2011 %	2010 %			
Bank overdrafts			S/.	<u>300</u>	<u>-</u>
Due to banks					
Mercantil Commercebank	Between 1.53% and 1.80%	1.44%	US\$	72,819	30,308
Banco de Crédito del Perú S.A.	Between 1.90% and 7.50%	Between 3.08% and 3.18%	US\$	125,734	43,115
Caterpillar Americas CO.	2.15%	-	US\$	37,384	-
Scotiabank	Between 1.10% and 3.24%	Between 2.74% and 4.55%	US\$	10,607	20,712
Banco Interamericano de Finanzas	3.5%	Between 2.97% and 9.00%	US\$	11,130	15,512
BBVA Banco Continental	Between 3.93% and 8.75	Between 3.60% and 3.93%	US\$	48,040	37,228
Banco Financiero	Between 4% and 5.35%	-	US\$	7,974	3,652
Banco HSBC	Between 2.74% and 3.69%	2.75%	US\$	22,401	10,168
Banco Internacional del Perú - Interbank	Between 2.00% and 9.90%	Between 3.08% and 6.00%	US\$	72,814	27,900
HSBC Bank El Salvador	Between 4.00% and 9.00%	Between 5.00% and 6.00%	US\$	4,185	1,924
Banco de América Central	Between 4.00% and 9.00%	Between 5.00% and 6.00%	US\$	6,882	5,126
Citibank - Sucursal El Salvador	Between 4.00% and 9.00%	Between 5.00% and 6.00%	US\$	3,511	1,124
Ford Credi	Between 4.00% and 9.00%	Between 5.00% and 6.00%	US\$	57	-
				<u>423,538</u>	<u>196,769</u>
				<u>423,838</u>	<u>196,769</u>

As of December 31, 2011 and 2010, foreign currency due to banks were granted by domestic and foreign financial institutions, primarily used as working capital, have maturities between 6 and 176 days, and could be renewed at maturity for up to 180 days.

Notes to the consolidated financial statements (continued)

Accrued interest expense on due to banks, during the years ended December 31, 2011 and 2010, amounts to approximately S/.7,921,000 y S/.3,376,000, respectively and are presented in the "Financial expenses" caption of the consolidated statement of income, note 21. Accrued interest outstanding as of December 31, 2011, amounted to approximately S/.1,366,000 (S/.639,000 as of December 31, 2010), note 12.

As of December 31, 2011, the Company and Subsidiaries has working capital credit lines with several banks in the Peruvian financial system for up to S/.107,880,000, which are intended for short-term financing.

Based on cash flows from the Group's normal business activities, Management estimates will meet the payment of its obligations within the deadlines previously set with the financial institutions.

- (c) Bonds and long-term debt
This item is made up as follows:

Creditor	Maturity	Original currency	Annual effective interest rate	Balance as of December 31, 2011			Balance as of December 31, 2010		
				Current portion S/ .(000)	Non-current portion S/ .(000)	Total S/ .(000)	Current portion S/ .(000)	Non-current portion S/ .(000)	Total S/ .(000)
Ferreyros bonds (c) -									
First corporate bond program									
Fourth issuance, Series A	Up to September, 2011	US\$	6.250	-	-	-	42,135	-	42,135
Fourth issuance, Series B	Up to November, 2011	US\$	6.125	-	-	-	28,090	-	28,090
First issuance, Series B	Up to March, 2011	US\$	6.500	-	-	-	42,135	-	42,135
First issuance, Series C	Up to September, 2011	US\$	6.313	-	-	-	21,068	-	21,068
Sixth issuance, Series A	Up to December, 2011	US\$	8.000	-	-	-	29,494	-	29,494
Sixth issuance, Series B	Up to February, 2012	US\$	7.313	32,364	-	32,364	-	33,708	33,708
Second corporate bond program									
First issuance, Series A	Up to November, 2012	US\$	4.625	26,970	-	26,970	-	28,090	28,090
First issuance, Series B	Up to May, 2013	US\$	4.688	-	40,455	40,455	-	42,135	42,135
First issuance, Series C	Up to June, 2013	US\$	4.563	-	26,970	26,970	-	28,090	28,090
First issuance, Series D	Up to August, 2013	US\$	4.000	-	40,455	40,455	-	42,135	42,135
Seventh issuance, Series A	Up to May, 2016	US\$	5.563	-	50,860	50,860	-	-	-
Seventh issuance, Series B	Up to October, 2016	US\$	5.750	-	48,991	48,991	-	-	-
Caterpillar Financial	Quarterly up to 2016	US\$	Between 5.19% and 6.35%	97,209	170,485	267,694	95,098	133,325	228,423
Caterpillar Crédito S.A. de C.V.	Monthly up to 2016	US\$		14,140	56,560	70,700	17,608	70,432	88,040
Promissory notes and borrowings with domestic and foreign institutions	Quarterly up to 2016	US\$	Between 3.01% and 9.90%	115,958	186,752	302,710	90,544	162,599	253,143
Financial leaseings	Monthly up to 2015	US\$	Between 3.80% and 8.56%	28,076	39,515	67,591	17,360	23,000	40,360
Other borrowings (ii)	Up to 2013	US\$	5.05%	-	15,589	15,589	-	-	-
				<u>314,717</u>	<u>676,632</u>	<u>991,349</u>	<u>383,532</u>	<u>563,514</u>	<u>947,046</u>

- (i) Interest expense on promissory notes and long-term debt accrued during the years ended December 31, 2011 and 2010 amounted approximately to S/.58,084,000 and S/.52,882,000, respectively, and is presented in the "Financial expenses" caption of the consolidated statement of income, note 21. Accrued interest outstanding as of December 31, 2011 and 2010 amounted approximately to S/.4,100,000 and S/.3,624,000, respectively, note 12.

- (ii) Corresponds to a loan from Horseshoe Bay Limited (unrelated) use as working capital and to cancel several liabilities, bears interest at 5.05 percent, matures in 2013, and does not have specific guarantees.

Notes to the consolidated financial statements (continued)

The composition of corporate bonds debt is as follows:

Description	Amount issued S/.(000)	Date of placement	Maturity	Fixed annual interest rate %	Interest payment
First Corporate Bond Program					
Sixth issuance, Series B	32,364	February, 2009	February, 2012	7.3125	Quarterly
Second Corporate Bond Program					
First issuance, Series A	26,970	November, 2009	November, 2012	4.6250	Quarterly
First issuance, Series B	40,455	May, 2010	May, 2013	4.6875	Quarterly
First issuance, Series C	26,970	June, 2010	June, 2013	4.5625	Quarterly
First issuance, Series D	40,455	August, 2010	August, 2013	4.0000	Quarterly
Seventh issuance, Series A	50,860	May, 2011	May, 2016	5.5625	Quarterly
Seventh issuance, Series B	48,991	October, 2011	October, 2016	5.7500	Quarterly
	<u>267,065</u>				

Notes to the consolidated financial statements (continued)

On March 28, 2007, the General Shareholder's Meeting agreed to structure the issuance of the First Corporate Bond Program for a maximum amount of US\$90,000,000 or its equivalent in local currency, which is valid for five years starting with its registration in the Public Registry of Securities and renewable for one or more similar periods. Likewise, on March 30, 2010, the General Shareholders' Meeting agreed to structure the issuance of the Second Corporate Bond Program for a maximum amount of US\$130,000,000, valid for five years. The purpose of this issuance is to raise funds to finance the Group's investments in short and medium term.

Bonds are backed up by a generic guarantee on the Group's equity and must meet the following ratios (covenants):

- Maintain a debt ratio no greater than 3.2.
- Maintain an interest service coverage ratio not lower than 1.5.

Covenants compliance is monitored by the Group's Management and approved by the representative of the bondholders. In case of not compliance with the covenants above mentioned the Group will incur in early termination event. In Management's opinion, the Group has complied with these covenants as of December 31, 2011 and 2010.

The Group has been complying with the bond's amortization schedule and during 2011 and 2010 has repaid approximately S/.159,786,000 and S/.49,458,000, respectively. As of December 31, 2011 and 2010, there is an outstanding balance of approximately S/.267,065,000 and S/.337,080,000, respectively, net of structuring commissions.

- (d) Corresponds to finance leases entered into by the Group with certain financial entities. As of December 31, 2011 and 2010, the carrying value of these contracts amounted to S/.74,828,000 and S/.47,397,000, respectively.

As of December 31, 2011 and 2010, the long-term debt repayment schedule is as follows:

Years	2011 S/.(000)	2010 S/.(000)
2011	-	386,345
2012	252,311	232,946
2013	267,211	202,535
2014 onwards	471,827	125,220
	<u>991,349</u>	<u>947,046</u>

Lease financial obligations are guaranteed by the property rights over the assets, which will return to the lessor in case of default event by the Group.

Notes to the consolidated financial statements (continued)

11. Trade accounts payable

(a) This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)
Invoices (b)	303,980	252,429	129,845
Bills of exchange (b)	<u>90,226</u>	<u>52,357</u>	<u>87,242</u>
	<u>394,206</u>	<u>304,786</u>	<u>217,087</u>

(b) As of December 31, 2011, invoices and bills of exchange payable, primarily, include accounts payable to Caterpillar Americas Co. for US\$26,663,000 and US\$26,300,000, respectively (US\$33,386,000 and \$11,300,000, respectively, as of December 31, 2010). Promissory notes for financed invoices bear interest at annual average rate of 2.34 percent.

12. Salaries, workers' profit sharing, taxes and other accounts payable

(a) This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)	01.01.2010 S/.(000)
Advances from customers (c)	211,658	147,286	21,212
Salaries payable	56,977	51,077	40,149
Sundry provisions (d)	39,969	11,934	13,477
Provisions for warranty (e)	29,471	15,412	8,431
Workers' profit sharing	21,858	15,163	13,728
Payroll taxes payable	13,284	8,455	16,645
Provision for contingencies	5,503	4,167	4,244
Interest payable, note 10(b) and (c)	5,466	4,263	4,227
Pacific Services & Trading inc.	2,360	3,136	7,624
Provision for severance indemnities	5,640	4,915	5,396
Account payable for acquisition of subsidiary	2,969	29,590	-
Taxes	2,360	803	-
Other accounts payable	<u>22,145</u>	<u>14,204</u>	<u>12,994</u>
	<u>419,660</u>	<u>310,405</u>	<u>148,127</u>

(b) Accounts comprised in this caption have current maturities, do not bear interest and have no specific guarantees.

(c) Advances from customers, mainly, correspond to the advances received for sales of mining trucks that will be delivered in the following years.

(d) Mainly corresponds to provisions recorded by the Group in accordance with the accounting practice described in note 2.3 (o), based on its best estimates of the cash withdrawal that would

Notes to the consolidated financial statements (continued)

require to settle some obligations as of the date of the consolidated statement of financial position.

- (e) Corresponds to guarantees given by the Group in connection with the sales of machinery and services, such provision is annually reviewed in accordance with the accounting policy described in note 2.3(o).

Notes to the consolidated financial statements (continued)

13. Assets and liabilities for deferred income tax

(a) The following table presents the composition of the deferred income tax asset and liability as of December 31, 2011 and 2010:

	As of January 1, 2010 S/.(000)	Credit (charge) to the consolidated statement of income S/.(000)	As of December 31, 2010 S/.(000)	Credit (charge) to the consolidated statement of income S/.(000)	Credit (charge) to equity S/.(000)	As of December 31, 2011 S/.(000)	As of January 1, 2010 S/.(000)
Deferred asset -							
Tax credit from accumulated income tax losses	-	3,044	-	3,044	1,766	-	4,810
Difference in depreciation rates	16,476	1,107	-	17,583	2,236	-	19,819
Allowance for doubtful accounts receivable	5,906	1,054	-	6,960	1,785	-	8,746
Allowance for impairment of investments, inventories and fixed assets	7,122	(1,867)	-	5,255	(926)	-	4,329
Provision for warranty and delivery expenses	-	280	-	280	588	-	868
Allowance for obsolescence of inventory	-	610	-	610	321	-	930
Provision for vacation	4,108	731	-	4,839	288	-	5,127
Provision for rental fleet repairs	601	(478)	-	123	1,383	-	1,506
Non deductible provisions	10,367	2,594	-	12,961	7,855	-	20,816
Provision for sundry expenses	-	5	-	5	(5)	-	-
Other	282	103	-	385	303	-	688
Total	44,862	7,183	-	52,045	15,594	-	67,639
Deferred liability -							
Change in assets useful lives	61	517	-	578	182	-	760
Borrowing costs on buildings and assets acquired under financial leases	553	223	-	776	548	-	1,324
Depreciation of installations	-	67	-	67	(67)	-	-
Exchange difference from liabilities related to inventories and fixed assets	1,203	(1,531)	-	(328)	3,083	-	2,755
Deferred gains on sales, net	2,444	(1,274)	-	1,170	(288)	-	882
Financial leases	3,244	1,768	-	5,012	(117)	-	4,895
Provision for workers' termination benefits	-	1,114	-	1,114	181	-	1,295
Provision for deferred gains on sales	(667)	1,209	-	542	749	-	1,291
Recalculation of assets' depreciation	-	132	-	132	16	-	148
Revaluation of buildings and other constructions	9,304	-	6,119	15,423	-	402	15,825
Voluntary revaluation of land	33,883	-	9,321	43,204	-	28,747	71,951
Valuation of financial instruments	96	(16)	-	80	(48)	-	32
Other	-	(1)	-	(1)	33	-	32
Total	50,121	2,208	15,440	67,769	4,272	29,149	101,190
Total deferred liability, net	(5,259)	4,975	(15,440)	(15,724)	11,322	(29,149)	(33,551)

Notes to the consolidated financial statements (continued)

- (b) The Income tax recorded in the consolidated statement of income is made up as follows:

	2011 S/.(000)	2010 S/.(000)
Income tax -		
Current	101,478	66,414
Deferred	(11,322)	(4,975)
Adjustments for IFRS transition	(799)	(2,884)
Total income tax	<u>89,357</u>	<u>58,555</u>

- (c) The table below presents the reconciliation of the effective tax rate to the legal tax rate for the years ended December 31, 2011 and 2010:

	2011		2010	
	S/.(000)	%	S/.(000)	%
Profit before income tax	<u>284,388</u>	<u>100.00</u>	<u>179,922</u>	<u>100.00</u>
Theoretical expense	85,316	30.00	53,977	30.00
Effect on non-deductible (income) expenses				
Non-deductible expenses, net	<u>4,041</u>	<u>1.42</u>	<u>4,578</u>	<u>2.54</u>
Expense for income tax	<u>89,357</u>	<u>31.42</u>	<u>58,555</u>	<u>32.54</u>

- (d) Income tax payable is presented net of the tax payments made in advance during the year.

14. Equity

- (a) Issued capital -

As of December 31, 2011, the Group's capital is represented by 623,635,177 common shares fully subscribed and paid with a nominal value of S/.1.00 each (530,961,159 common shares fully subscribed and paid as of December 31, 2010 with a value nominal of S/.1.10 each). In March 31, 2011, the General Shareholders' Meeting agreed to amend the common share par value from S/.1.10 to S/.1.00. Of the total shares, 86.63 percent is owned by domestic investors and 13.37 percent by foreign investors.

In March 31, 2011, the General Shareholders' Meeting agreed the capitalization of the results of the year 2010 for S/.92,674,018. Likewise, in March 31, 2010, the General Shareholders' Meeting agreed the capitalization of the results of the year 2009 for S/.63,663,376.

Notes to the consolidated financial statements (continued)

As of December 31, 2011, the shareholding structure of the Group was as follows:

Percentage of individual share capital	Shareholders number	Total participation %
Up to 1.00	2,505	24.54
From 1.01 to 5.00	16	50.66
From 5.01 to 10.00	3	24.80
	<u>2,524</u>	<u>100.00</u>

(b) Other capital reserves -

Under the terms of the General Corporation Law, it is required that at least 10 percent of the distributable profit for each year, less income tax, has to be transferred to a legal reserve until such reserve equals to 20 percent of the share capital. The legal reserve may offset any losses or may be capitalized, existing in both cases the obligation to replenish it.

(c) Other equity reserves -

Mainly corresponds to the revaluation surplus, net of its deferred income tax. Additionally, includes the net gains and losses from changes in the estimated fair value of cash flows hedge derivative financial instruments, where the change in value is initially shown in equity, subsequently affecting the consolidated statement of income depending on how it is influenced by the underlying hedged.

(d) Foreign currency translation -

Corresponds to the exchange difference resulting from the translation of foreign subsidiaries' financial statements into the Group's presentation currency.

(e) Dividend distribution -

General Shareholders' Meeting held on March 31, 2011, approved the distribution of dividends with charge to previous years retained earnings for an amount of S/.31,857,670, which were paid in May 2011.

General Shareholders' Meeting held on March 31, 2010, approved the distribution of dividends with charge to previous years retained earnings for an amount of S/.28,037,867, which were paid in May 2010.

(f) Share premium -

On May 31 and June 13, 2011, the Board of Directors of a subsidiary of the Company agreed to make payments of share premiums amounting to S/.16,602,000 and S/.9,488,000 (equivalent to US\$6,000,000 and US\$3,450,000), respectively.

Notes to the consolidated financial statements (continued)

15. Tax situation

- (a) The Group is subject to taxation in the country in which it operates and it is taxed on the basis on its non consolidated results. As of December 31, 2011 and 2010, the income tax rate is 30, 31, 25 and 25 percent on taxable income in Peru, Guatemala, El Salvador and Belize, respectively.

According to the laws, in force in Peru as of December 31, 2011 and 2010, not domiciled legal entities and individuals must pay an additional tax of 4.1 percent on the dividends received. Central America countries are exempt of such tax.

- (b) By Law No. 29308, the income tax exemption on capital gains generated through centralized trading mechanisms and from loans to the national public sector was extended until December 31, 2009. Starting 2010, the tax cost of such investments or loans has been established as the market value as of December 31, 2009.
- (c) For income tax and value added tax purposes, the transfer prices agreed in transactions between related parties and with entities residing in territories with little or no taxation must be substantiated with documentation and information on the valuation methods used and the criteria considered for their determination. Based on the analysis of the Group's operations, in the Management and its legal advisors' opinion, no significant contingencies will result for the Group as of December 31, 2011 and 2010.
- (d) As of the date of the consolidated financial statements, transfer price rules are effective in Peru; in Guatemala, El Salvador and Belize these rules establish that transactions agreed between domestic or foreign related parties should be performed at market values.

The tax authorities are legally entitled to request such information. Based on an analysis of the Group's operations, the Management and its legal advisors believe that as consequence of the application of the above mentioned rules, no significant contingencies will result for the Group as of December 31, 2011 and 2010.

- (e) The Tax Authority is legally entitled to review and, if necessary, amend the income tax calculated by the Group up to four years after the tax return was filed. The income tax and value added tax returns for the years 2007 to 2011 are pending of reviewing by the Tax Authority.

Notes to the consolidated financial statements (continued)

Likewise, the income tax and value added tax returns of the main subsidiaries are pending of reviewing by the Tax Authority as follows:

	Fiscal years subject to review
Country	
Guatemala	2007-2011
El Salvador	2007-2011
Belize	2004-2010
Local subsidiaries	
Unimaq S.A.	2007-2011
Cresko S.A.	2007-2011
Fiansa S.A.	2009-2011
Mega Representaciones S.A.	2007-2011
Fargoline S.A.	2007-2011
Orvisa S.A. y Subsidiarias	2007-2011

Due to the interpretations likely to be given by the Tax Authority on current legal regulations, it is not possible to determine, as of this date, if whether the reviews to be conducted will result or not in liabilities for the Group, therefore, any increased tax or surcharge that could arise from possible tax reviews will be applied to the results of the year in which is determined.

In the Group's Management opinion, any additional tax settlement would not be significant for the consolidated financial statements as of December 31, 2011 and 2010.

16. Sales and cost of sales

This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)
Sales -		
Sales of machinery, engines, equipment and vehicles	2,283,800	1,598,900
Sales of spare parts	1,252,200	1,064,000
Rental services of machinery, engines and equipment and workshop	<u>290,001</u>	<u>287,313</u>
	<u>3,826,001</u>	<u>2,950,213</u>

Notes to the consolidated financial statements (continued)

	2011 S/.(000)	2010 S/.(000)
Cost of sales -		
Opening balance of inventory, note 7	881,839	540,125
Purchase of inventory	2,852,177	2,331,459
Labor and workshop expenses	202,690	172,669
Depreciation, note 9(g)	60,075	77,990
Operating costs of rental fleet	100,886	78,618
Services provided by third parties	26,695	31,619
Ending balance of inventory, note 7	<u>(1,102,853)</u>	<u>(881,839)</u>
	<u>3,021,509</u>	<u>2,350,641</u>

17. Selling expenses

(a) This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)
Personnel expenses, note 19	179,901	138,014
Miscellaneous operational expenses (b)	82,807	68,161
Services provided by third parties (c)	69,397	36,345
Depreciation, note 9(g)	34,558	30,337
Severance indemnities	7,332	3,492
Sundry provisions	4,213	1,205
Allowance for obsolescence of inventories	1,979	692
Taxes	1,011	698
Allowance for doubtful accounts receivable, notes 5(d) and 6(f)	525	345
Amortization of intangible assets	6	58
Others	<u>193</u>	<u>282</u>
	<u>381,922</u>	<u>279,629</u>

(b) Mainly corresponds to sundry expenses related to supporting services, fleet repair and machinery workshop.

(c) Primarily includes expenses related to the workshop equipment and buildings maintenance, freight and advertising.

Notes to the consolidated financial statements (continued)

18. Administrative expenses:

This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)
Personnel expenses, note 19	79,986	64,050
Services provided by third parties	30,503	22,753
Depreciation, note 9 (g)	13,882	12,375
Allowance for doubtful accounts receivable, notes 5(d) and 6(f)	10,184	12,925
Miscellaneous operational expenses	8,634	5,887
Severance indemnities	4,318	3,284
Taxes	2,195	1,705
Sundry provisions	1,033	1,359
Amortization of intangible assets	972	715
Others	3,415	1,882
	<u>155,122</u>	<u>126,935</u>

19. Personnel expenses

This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)
Salaries	184,414	142,336
Legal bonuses	35,576	32,550
Payroll taxes	18,089	14,466
Other payment to workers	8,357	5,392
Vacations	5,268	2,604
Others	8,183	4,716
	<u>259,887</u>	<u>202,064</u>

Under the current workers' profit sharing system regulated by Legislative Decree No 677, workers are entitled to receive a profit sharing equivalent to 8 per cent of the taxable income, ratably distributed among all workers based upon the number of days worked, and the remaining balance in proportion to the basic pay received during the year. Workers' profit sharing is recorded in the "Salaries, workers' profit sharing, taxes and other account payables" caption.

Group's average number of directors and employees was 5,538 and 4,737 in 2011 and 2010, respectively.

Translation of the consolidated financial statements originally issued in Spanish -
Note 27

Notes to the consolidated financial statements (continued)

Personnel expenses have been recorded in the following captions of the consolidated statement of income:

	2011 S/.(000)	2010 S/.(000)
Selling expenses, note 17	179,901	138,014
Administrative expenses, note 18	79,986	64,050
	<u>259,887</u>	<u>202,064</u>

20. Financial income

This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)
Interest on installment sales	14,477	17,158
Interest on arrears	5,891	6,959
Interest on bank deposits	1,854	2,467
Other financial income	8,283	7,696
	<u>30,505</u>	<u>34,280</u>

21. Financial expenses

This item is made up as follows:

	2011 S/.(000)	2010 S/.(000)
Interest on overdrafts and borrowings, note 10(b) and (c)	46,292	36,192
Interest on corporate bonds, note 10(b) and (c)	19,713	20,066
Tax on financial transactions	2,823	5,840
Interest on foreign suppliers financing	1,441	2,244
Other financial expenses	9,418	8,983
	<u>79,687</u>	<u>73,325</u>

Notes to the consolidated financial statements (continued)

22. Earnings per share

Earnings per share calculation as of December 31, 2011 and 2010 is as follows:

	As of December 31, 2011		
	Net profit (numerator) S/.(000)	Shares (denominator)	Earnings per share S/.
Earnings per share - basic and diluted	<u>195,031,000</u>	<u>623,635,177</u>	<u>0.313</u>
	As of December 31, 2010		
	Net profit (numerator) S/.(000)	Shares (denominator)	Earnings per share S/.
Earnings per share - basic and diluted	<u>121,367,000</u>	<u>623,635,177</u>	<u>0.195</u>

23. Commitments

As of December 31, 2011, the Group has the following commitments:

- (a) Guarantees for US\$41,706,000 and US \$6,988,000, which guarantee subsidiaries and affiliates' credit operations and third parties purchase transactions, respectively.
- (b) Bank guarantees in favor of financial institutions for US\$23,527,000 to, mainly, guarantee the Group's offer, the faithful fulfillment of the delivery of the goods sold through public tenders, and payment of custom duties related to the importation of goods.

24. Contingencies

- (a) As of December 31, 2011, the Group has several tax assessments received from the Tax Authority for income and value added taxes as a result of 2001 to 2006 reviews for approximately S/.115,025,000, including fines and interests. The Group has filed appeals before the National Superintendency of Tax Administration ("SUNAT" for its acronym in Spanish) and the Tax Court.

Regarding the review processes resulting on the above mentioned tax assessments, in accordance with the established procedures, the Tax Authority, before issuing its report, notified the results of each review to the Group giving time to assess and amend the alleged omissions and tax offenses. In this sense, the Group opportunely complied with amending and paying for the omissions and tax offenses that, in accordance with a detailed review by its tax advisors, were considered appropriate.

As of December 31, 2011, the Group has claims in process for US\$42,000 and S/.214,728, as compensation for damages brought by third parties.

Notes to the consolidated financial statements (continued)

In Group's Management and its legal and tax advisors opinion, such tax assessments and judgments are inadmissible and the final result would be favorable to the Group; therefore has not considered necessary to record additional liabilities to those recorded in the financial statements for these processes.

25. Financial risk management

By the nature of its activities, the Group is exposed to credit risk, interest-rate risk, liquidity risk, exchange-rate risk and operating risk, which are managed through a process of ongoing identification, measurement and monitoring, subject to the risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual is accountable for the risk exposures relating to his or her responsibilities.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Group's strategic planning process.

(a) Risk management structure -

The risk management structure has the Board of Directors as a basis, which is responsible for identifying and controlling risks in coordination with other supporting areas as follows.

(i) Boards of Directors -

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

(ii) Internal audit -

The Group's risk management processes are monitored by the internal audit function, which examines both the adequacy of the procedures and the compliance of them. Internal audit discusses the results of all assessments with Management, and reports its findings and recommendations to the Board of Directors.

(iii) Finance department -

The finance department is responsible for managing the Group's assets and liabilities its and the overall financial structure. It is primarily responsible for managing the Group's funds and liquidity risks; assuming the related liquidity, interest rate and exchange-rate risk under the policies and limits currently effective.

Notes to the consolidated financial statements (continued)

(b) Risk mitigation -

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risk and credit risk. The risk profile is assessed before entering into hedge transactions, which are authorized by the appropriate level of seniority within the Group.

(c) Excessive risk concentration -

Concentrations arise when a number of counterparties are engaged in similar business activities, or have similar economic or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

Identified concentrations of credit risk are controlled and monitored continuously.

25.1. Credit risk -

The Group takes on positions subject to credit risk, which is the risk that a customer will cause a financial loss by not complying with an obligation. The Group's financial assets potentially exposed to concentrations of credit risk primarily consist of bank deposits and trade accounts and order accounts receivable.

As of December 31, 2011, Management has estimated the maximum amount of credit risk to which the Group is exposed in approximately S/.859,899,000 (S/.724,283,000 as of December 31, 2010), which represents the book value of the financial assets. In Management's opinion, there are no significant concentrations of credit risk as of December 31, 2011 and 2010.

Notes to the consolidated financial statements (continued)

25.2. Interest rate risk -

The Group policy is to maintain financial instruments that accrue interest at a fixed rate and, as of December 31, 2011 and 2010, maintains financing from financial institutions. Operating cash flows of the Group are substantially independent of changes in market interest rate; due to the individual credit rating, the Group gets competitive interest rates in local markets. It should be noted that the Group hedge its variable interest rate with derivative financial instruments (swaps). In Management's opinion, the Group has no significant exposure to interest rate risk.

The following table summarizes the Group's exposure to interest rate risk. The Group's financial instruments are shown at their carrying amounts, classified according to their different contractual terms:

	As of December 31, 2011					Average interest rate at 2011 %
	Up to 3 months S/.(000)	From 3 to 12 months S/.(000)	From 1 to 5 years S/.(000)	Non-interest bearing S/.(000)	Total S/.(000)	
Assets						
Cash and cash equivalents	-	-	-	68,228	68,228	
Trade accounts receivable, net	82,310	9,956	77,718	555,353	725,337	14% y 20%
Other accounts receivable, net (*)	-	-	-	70,000	70,000	
Total assets	82,310	9,956	77,718	693,581	863,565	
Liabilities						
Trade accounts payable	40,088	39,933	-	314,185	394,206	2.34%
Salaries, workers' profit sharing, taxes and other accounts payable	-	-	-	419,660	419,660	-
Other financial liabilities	481,087	257,468	676,632	-	1,415,187	4.78%,libor+6.6%,5.24%,6.69%, 5.63%, Libor +2.27%, 14%, 20% and 7.55%
Total liability	521,175	297,401	676,632	733,845	2,229,053	
Marginal gap	(438,865)	(287,445)	(598,914)	(40,264)	(1,365,488)	
Cumulative gap	(438,865)	(726,310)	(1,325,224)	(1,365,488)	-	

Notes to the consolidated financial statements (continued)

	As of December 31, 2010					Average interest rate at 2010 %
	Up to 3 months S/.(000)	From 3 to 12 months S/.(000)	From 1 to 5 years S/.(000)	Non-interest bearing S/.(000)	Total S/.(000)	
Assets						
Cash and cash equivalents	1,685	-	-	64,774	66,459	1%
Trade accounts receivable, net	64,092	11,996	92,389	436,700	605,177	14% y 18%
Other accounts receivable, net (*)	-	-	-	53,530	53,530	
Total assets	<u>65,777</u>	<u>11,996</u>	<u>92,389</u>	<u>555,004</u>	<u>725,166</u>	
Liabilities						
Trade accounts payable	39,817	1,276	-	263,693	304,786	2.34%
Salaries, workers' profit sharing, taxes and other accounts payable	-	-	-	310,405	310,405	-
Other financial liability	55,152	525,149	563,514	-	1,143,815	4.32%, Libor + 6.6%, 5.78%, 6.80%, 6.40%, 4.63% and Libor + 2.05%
Total liabilities	<u>94,969</u>	<u>526,425</u>	<u>563,514</u>	<u>574,098</u>	<u>1,759,006</u>	
Marginal gap	<u>(29,192)</u>	<u>(514,429)</u>	<u>(471,125)</u>	<u>(19,094)</u>	<u>(1,033,840)</u>	
Cumulative gap	<u>(29,192)</u>	<u>(543,621)</u>	<u>(1,014,746)</u>	<u>(1,033,840)</u>	<u>-</u>	

(*) As of December 31, 2011, other accounts receivable included in this chart does not consider approximately S/.26,545,000 (S/.21,003,000 as of December 31,2010) corresponding to value added tax credit, which in accordance with IFRS does not qualify as financial instrument.

Notes to the consolidated financial statements (continued)

The following chart shows the sensitivity to a possible change in interest rates, with all other variables held constant, in the consolidated statement of income before taxes. The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year before income tax, based on financial assets and liabilities exposed to changes in interest rates as of December 31, 2011 and 2010:

Currency	As of December 31, 2011		As of December 31, 2010	
	Change in basis points	Sensitivity in net profit S/.(000)	Change in basis points	Sensitivity in net profit S/.(000)
Nuevos Soles	+/-50	3,111	+/-50	1,704
Nuevos Soles	+/-100	6,222	+/-100	3,408
Nuevos Soles	+/-200	12,443	+/-200	6,817
Nuevos Soles	+/-300	18,665	+/-300	10,225

The interest rate sensitivity set out in the chart above is illustrative only and is based on simplified scenarios. The figures represent the effect of the pro-forma movements in the net interest income based on the projected scenarios of the yield curve and the interest rate risk profile. However, this effect does not incorporate actions that would be taken by Management to mitigate the impact of these interest rates. Likewise, the Group seeks proactively to change the interest rate risk profile to minimize losses and optimize net revenues. The earlier projections above also assume that the interest rate of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged. The projections make other simplifying assumptions too, including that all positions are held to maturity or, if mature within the year, are renewed for the same amount.

25.3. Liquidity risk -

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with financial liabilities when due and to replace funds when they are withdrawn. The consequence may be the default of payment of its obligations to third parties.

The Group controls the liquidity required by the proper management of the maturities of assets and liabilities, so as to achieve the fit between the revenue stream and future payments, allowing it to carry out its activities normally.

The main source of cash income for the Group is the collections from sales of national and imported merchandise. The average payment term to its main suppliers was 60 days for fiscal years 2011 and 2010. The Group considers that the management of the collection and payment periods tends to improve due to improvements made to its policies for managing its collections.

Notes to the consolidated financial statements (continued)

In the event that the Group does not count, at any given time, with the necessary resources to meet its obligations in the short term, it counts with credit lines with financial institutions and because of its economic solvency has managed to acquire short and medium term loans at lower rates than the market average.

The following chart shows 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 are the cash flows according to contracted terms undiscounted and include their respective interests:

	From 1 to 3 months S/.(000)	From 3 to 12 months S/.(000)	From 1 to 5 years S/.(000)	Total S/.(000)
As of December 31, 2011				
Other financial liabilities:				
Amortization of capital	481,087	257,468	676,632	1,415,187
Trade accounts payable	358,446	35,760	-	394,206
Salaries, workers' profit sharing, taxes and other accounts payable	351,751	67,909	-	419,660
Total	1,191,284	361,137	676,632	2,229,053
As of December 31, 2010				
Other financial liabilities:				
Amortization of capital	55,152	525,129	563,514	1,143,815
Trade accounts payable	197,842	106,944	-	304,786
Salaries, workers' profit sharing, taxes and other accounts payable	258,010	52,395	-	310,405
Total	511,004	684,468	563,514	1,759,006

25.4. Exchange rate risk -

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

Notes to the consolidated financial statements (continued)

Assets and liabilities transactions are mainly performed in local currency. Foreign currency transactions are performed at exchange rates of supply and demand and are detailed in note 3.

The Group manages its foreign exchange risk by monitoring and controlling the position values not in Nuevos Soles (functional currency) and exposed to changes in exchange rates. The Group measures its performance in Nuevos Soles, so if the net foreign exchange position is positive, any depreciation of the U.S. Dollar would affect negatively the Group's consolidated statement of financial position. The current position in a foreign currency comprises exchange-rate linked assets and liabilities in that currency, note 3. Any depreciation/appreciation of the foreign exchange would affect the consolidated statement of comprehensive income.

The foreign currency net liabilities exchange risk is economically covered with inventory and rental fleet with selling prices set out in U.S. Dollars.

The chart below shows the sensitivity analysis of the U.S. Dollars, the currency to which the Group had significant exposure as of December 31, 2011 and 2010 on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement in of U.S. Dollar exchange rate, with all other variables held constant in the statement of comprehensive income, before income taxes.

A negative amount in the chart reflects a potential net reduction in the statement of income, while a positive amount reflects a net potential increase:

Sensitivity analysis	Change in currency rates %	2011 S/.(000)	2010 S/.(000)
Devaluation -			
Soles	5%	53,348	37,246
Soles	10%	106,695	74,492
Revaluation -			
Soles	5%	(53,348)	(37,246)
Soles	10%	(106,695)	(74,492)

25.5. Capital management -

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

The Group's objectives when managing capital, which is a broader concept than "Equity" on the face of the consolidated statements of financial position, are: (i) to safeguard the Groups's ability to continue as a going concern so that it can continue to provide returns for shareholders and

Notes to the consolidated financial statements (continued)

benefits for the other stakeholders; and (ii) to maintain a strong capital base to support the development of its business activities.

As of December 31, 2011 and 2010, there were no changes in the Group's activities and capital management's policies.

25.6. Fair value of financial instruments -

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's length transaction, under the assumption of a going concern entity.

When a financial instrument is traded in an active and liquid market, its quoted market price in an actual transaction provides the best evidence of its fair value. When a quoted market price is not available, or may not be indicative of the fair value of the instrument, to determine such fair value, the current market value of another instrument that is substantially similar, discounted cash flow analysis or other estimation techniques may be used all of which are significantly affected by the assumptions used. Although Management uses its best judgment in estimating the fair values of these financial instruments, there are inherent weaknesses in any estimation technique; as a result the estimated fair value may not be indicative of net realizable or liquidation value.

The methodologies and assumptions used to determine the estimated market values depend on the terms and risk characteristics of various financial instruments and include the following:

- (a) Assets whose fair value is similar to the book value - For financial assets and liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the book value is similar to their fair value. This assumption is also applied to time deposits, savings accounts without a specific maturities, and financial instruments at variable rate.
- (b) Fixed rate financial instruments - The fair value of fixed rate financial assets and liabilities carried at amortized cost is estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of interest-bearing deposits is determined by discounting cash flows using market interest rates in the prevailing currency, with similar maturity and credit risk.

Based on the aforementioned, set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are presented in the consolidated statement of financial position (the table does not include the fair value of non-financial assets and liabilities):

Notes to the consolidated financial statements (continued)

	2011		2010	
	Book value S/.(000)	Fair value S/.(000)	Book value S/.(000)	Fair value S/.(000)
Assets				
Cash and cash equivalents	68,228	68,228	66,459	66,459
Trade accounts receivable, net	725,337	725,337	605,177	605,177
Other accounts receivable, net	66,948	66,948	62,747	62,747
	860,513	860,513	734,383	734,383
Liabilities				
Trade accounts payable	394,206	394,206	304,786	304,786
Salaries, workers' profit sharing, taxes and other accounts payable	419,660	419,660	310,405	310,405
Other financial liabilities	1,415,187	1,415,187	1,143,815	1,143,815
	2,229,053	2,229,053	1,759,006	1,759,006

26. Segment information

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

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

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on income before taxes and is measured consistently with income before taxes in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Notes to the consolidated financial statements (continued)

	Sales and services S/.(000)	Other operating income S/.(000)	Total operating income S/.(000)	Gross profit S/.(000)	Administrative expenses S/.(000)	Selling expenses S/.(000)	Other income S/.(000)	Equity income in associates S/.(000)	Financial expenses S/.(000)	Financial income S/.(000)	Gain on exchange difference S/.(000)	Profit before income tax S/.(000)	Income tax S/.(000)	Net profit S/.(000)
2011														
Heavy machinery, spare parts and services	3,195,372	1,173	3,196,545	-	(125,380)	(308,694)	6,775	-	(64,279)	24,606	38,364	-	(72,079)	-
Vehicles, spare parts and services	176,600	498	177,098	-	(7,781)	(19,158)	420	-	(3,561)	1,363	2,125	-	(3,993)	-
Rental equipment	219,123	-	219,123	-	(7,864)	(19,362)	425	-	(4,406)	1,687	2,630	-	(4,941)	-
Agricultural equipment, spare parts and services	83,184	52	83,236	-	(4,547)	(11,194)	246	-	(1,674)	641	999	-	(1,877)	-
Other	286,800	-	286,800	-	(13,194)	(32,485)	713	8,260	(5,767)	2,208	3,442	-	(6,467)	-
Adjustments and eliminations	(135,078)	-	(135,078)	-	3,644	8,971	-	-	-	-	-	-	-	-
Total consolidated	3,826,001	1,723	3,827,724	806,215	(155,122)	(381,922)	8,579	8,260	(79,687)	30,505	47,560	284,388	(89,357)	195,031
2010														
Heavy machinery, spare parts and services	2,365,667	30	2,365,697	-	(107,590)	(237,013)	1,771	-	(57,197)	26,740	16,938	-	(45,675)	-
Vehicles, spare parts and services	175,320	32	175,352	-	(2,372)	(5,226)	39	-	(4,240)	1,982	1,255	-	(3,386)	-
Rental equipment	189,516	-	189,516	-	(9,016)	(19,860)	148	-	(4,582)	2,142	1,357	-	(3,659)	-
Agricultural equipment, spare parts and services	50,414	133	50,547	-	(981)	(2,161)	16	-	(1,222)	571	362	-	(976)	-
Other	251,665	-	251,665	-	(9,714)	(21,399)	160	1,916	(6,084)	2,845	1,802	-	(4,859)	-
Adjustments and eliminations	(82,369)	-	(82,369)	-	2,738	6,030	-	-	-	-	-	-	-	-
Total consolidated	2,950,213	195	2,950,408	599,767	(126,935)	(279,629)	2,134	1,916	(73,325)	34,280	21,714	179,922	(58,555)	121,367

Notes to the consolidated financial statements (continued)

27. Explanation added for English translation

The accompanying financial statements were originally issued in Spanish and are presented on the basis of generally accepted accounting principles in Peru, as described in Note 2. Certain accounting practices applied by the Group that conform to those accounting principles may not conform to generally accepted accounting principles in other countries. In the event of a discrepancy, the Spanish language version prevails.

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