Translation of the independent auditors' report and the consolidated financial statements originally issued in Spanish – Note 29

Ferreycorp S.A.A. and Subsidiaries

Consolidated financial statements as of December 31, 2013 and 2012 together with the independent auditors' report

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Medina, Zaldívar, Paredes & Asociados
Sociedad Civil de Responsabilidad Limitada

Translation of the independent auditors' report and the consolidated financial statements originally issued in Spanish – Note 29

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Ferreycorp S.A.A. and Subsidiaries (collectively the "Group"), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the corresponding statements of income, statements of comprehensive income, statements of changes in net equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

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.

Inscrita en la partida 11397283 del Registro de Personas Jurídicas de Lima y Callao
Miembro de Ernst & Young Global

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 Ferreycorp S.A.A. and Subsidiaries as of December 31, 2013 and 2012, and its financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Lima, Peru
February 24, 2014

Countersigned by:

Medina, Zaldívar, Paredes y Asociados

Wilfredo Rubiños Valiente
C.P.C.C. Register No. 9943

Ferreycorp S.A.A. and Subsidiaries

Consolidated statement of financial position

As of December 31, 2013 and 2012

	Note	2013 S/.(000)	2012 S/.(000)
Assets			
Current assets			
Cash and cash equivalent	5	119,413	172,724
Trade accounts receivable, net	6	826,055	751,565
Other accounts receivable, net	7	119,374	119,653
Inventories, net	8	1,580,128	1,534,684
Prepaid expenses		15,868	20,516
		2,660,838	2,599,142
Trade accounts receivable, net	6	36,042	29,126
Other accounts receivable, net	7	5,874	6,811
Investments	9	85,446	74,750
Property, machinery and equipment, net	10	1,291,336	1,160,277
Intangible, net	11(a)	78,031	73,271
Goodwill	11(c)	156,272	115,261
Deferred income tax asset	15(a)	117,268	85,159
Total asset		4,431,107	4,143,797

	Note	2013 S/.(000)	2012 S/.(000)
Liabilities and net equity			
Current liabilities			
Financial liabilities	12	620,395	957,352
Trade accounts payable	13	406,383	445,314
Other accounts payable	14	437,415	467,147
Income tax payable	15(d)	382	2,893
		1,464,575	1,872,706
Other non- current financial liabilities	12	1,240,311	727,917
Other accounts payable	14	3,381	3,450
Deferred income tax liability	15(a)	159,924	116,331
Total liabilities		2,868,191	2,720,404
Net equity	16		
Issued capital		945,227	803,235
Additional capital		105,366	137,266
Legal reserve		99,766	82,179
Other equity reserves		211,880	124,188
Retained earnings		200,677	276,525
Total net equity		1,562,916	1,423,393
Total liability and net equity		4,431,107	4,143,797

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements

Translation of the independent auditors' report and the consolidated financial statements originally issued in Spanish – Note 29

Ferreycorp S.A.A. and Subsidiaries

Consolidated statement of income

For the years ended December 31, 2013 and 2012

	Note	2013 S/.(000)	2012 S/.(000)
Net sales	17	4,998,740	4,648,573
Other operating income		15,209	2,009
		5,013,949	4,650,582
Cost of sales	17	(3,905,925)	(3,731,090)
Gross profit		1,108,024	919,492
Selling expenses	18	(559,624)	(482,150)
Administrative expenses	19	(189,472)	(170,198)
Other operating income and expenses, net		31,661	35,866
Operating profit		390,589	303,010
Financial income	21	21,737	23,111
Financial expenses	22	(102,865)	(89,656)
Exchange difference, net	4	(146,140)	79,081
Participation in associated companies and joint ventures under the equity method	9	2,178	(363)
Profit before income tax		165,499	315,183
Income tax	15(b)	(65,474)	(94,760)
Net income		100,025	220,423
Basic and diluted earnings per share (in nuevos soles)	23	0.106	0.233
Weighted average of shares outstanding (in thousands of units)	23	945,227	945,227

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements

Ferreycorp S.A.A. and Subsidiaries

Consolidated statement of comprehensive income

For the years ended December 31, 2013 and 2012.

	Note	2013 S/.(000)	2012 S/.(000)
Net income		100,025	220,423
Other comprehensive income for the year			
Other comprehensive income to be reclassified to earnings in subsequent periods			
Change in hedging derivatives		177	-
Income tax effect		(54)	-
		123	-
Difference in foreign currency translation	16(e)	12,100	(5,075)
Income tax effect		-	-
		12,100	(5,075)
Other minor ítems	16(d)	(541)	(1,382)
Income tax effect		-	-
		(541)	(1,382)
Other comprehensive income to be reclassified to earnings in subsequent periods		11,682	(6,457)
Other comprehensive income to be not reclassified to earnings in subsequent periods			
Land revaluation	16(d)	108,587	-
Income tax effect		(32,577)	-
		76,010	-
Other comprehensive income to be not reclassified to earnings in subsequent periods		76,010	-
Other comprehensive income for the year, net		87,692	(6,457)
Net comprehensive income for the year		187,717	213,966

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements

Ferreycorp S.A.A. and Subsidiaries

Consolidated statement of changes in net equity

For the years ended December 31, 2013 and 2012

	Number of shares outstanding (in thousands)	Issued capital S/.(000)	Additional capital S/.(000)	Legal reserve S/.(000)	Other equity reserves S/.(000)	Currency translation adjustment S/.(000)	Retained earnings S/.(000)	Total S/.(000)
Balance as of January 1, 2012	623,635	623,635	26,090	63,692	129,443	1,202	221,324	1,065,386
Net income	-	-	-	-	-	-	220,423	220,423
Other comprehensive income, net income tax	-	-	-	-	(1,382)	(5,075)	-	(6,457)
Total comprehensive income	-	-	-	-	(1,382)	(5,075)	220,423	213,966
Purchase of non-controlling interest in cash, note 16(b)	-	-	15,474	-	-	-	-	15,474
Transfer to legal reserve, note 16(c)	-	-	-	18,487	-	-	(18,487)	-
Dividends, note 16(f)	-	-	-	-	-	-	(41,903)	(41,903)
Capitalization of retained earnings, note 16(a)	104,832	104,832	-	-	-	-	(104,832)	-
Change in number of shares upon variation of nominal value, note 16(a)	74,768	74,768	95,702	-	-	-	-	170,470
Balance as of December 31, 2012	803,235	803,235	137,266	82,179	128,061	(3,873)	276,525	1,423,393
Net income	-	-	-	-	-	-	100,025	100,025
Measurement of the fair value of lands, net of deferred income tax	-	-	-	-	76,010	-	-	76,010
Other comprehensive income, net of income tax	-	-	-	-	(418)	12,100	-	11,682
Total comprehensive income	-	-	-	-	75,592	12,100	100,025	187,717
Transfer to legal reserve, note 16(c)	-	-	-	17,587	-	-	(17,587)	-
Dividends, note 16(f)	-	-	-	-	-	-	(48,194)	(48,194)
Capitalization of retained earnings, note 16(a)	141,992	141,992	(31,900)	-	-	-	(110,092)	-
Balance as of December 31, 2013	945,227	945,227	105,366	99,766	203,653	8,227	200,677	1,562,916

Ferreycorp S.A.A. and Subsidiaries

Consolidated statement of cash flows

For the years ended December 31, 2013 and 2012

	2013 S/.(000)	2012 S/.(000)
Operating activities		
Collections from customers and third parties	5,047,963	4,707,561
Payments to suppliers	(4,186,920)	(4,165,844)
Payments to employees and others	(355,953)	(355,448)
Payments of income tax	(111,304)	(136,447)
Taxes paid	(11,934)	(8,284)
Net cash provided from used for operating activities	381,852	41,538
Investing activities		
Purchase of property, machinery and equipment	(247,533)	(105,289)
Acquisition of businesses	(92,437)	(186,435)
Purchase of intangible assets	(2,437)	(3,978)
Sale of property, plant and equipment	5,756	-
Acquisition of investments	-	(3,891)
Net cash used in investing activities	(336,651)	(299,593)
Financing activities		
Issuance of financial obligations	821,845	361,387
Payments of financial obligations	(634,509)	(127,195)
Interest paid	(95,528)	(85,225)
Dividends paid	(48,194)	(41,903)
Capital contributions	-	74,768
Purchase of non-controlling interest in cash	-	111,176
Net cash provided from financing activities	43,614	293,008
Net increase in cash and cash equivalent	88,815	34,953
Translation results	12,100	(5,075)
Effect of movements in exchange rates on cash and cash equivalent	(155,438)	74,618
Cash and cash equivalent transferred from business combination	1,212	-
Cash and cash equivalent at beginning of the year	172,724	68,228
Cash and cash equivalent at end of the year	119,413	172,724
Non-cash transactions		
Capitalization of retained earnings	2,753	35,890

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements

Notes to the consolidated financial statements

As of December 31, 2013 and 2012

1. **Economic activity**

Ferreycorp 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, it made several changes to its legal name up to June 1998 when it modified its by-laws to comply with the current Peruvian General Corporation Law, and changing its legal name to Ferreyros S.A.A. The Shareholders' Meeting of Ferreyros S.A.A. held on March 28, 2012, approved the corporate reorganization to split its investor role from its role as operating company, distributor of capital goods, and thus better organize the company's various lines of businesses. Accordingly, the Shareholders approved changing the corporate name form Ferreyros S.A.A. to Ferreycorp S.A.A.

Ferreycorp S.A.A. acts as a holding company for the group of companies operating in Peru and abroad named "Ferreycorp Group"; coordinating their policies and management. The Company's legal address is Cristóbal de Peralta Norte Avenue No. 820, Surco, Lima, Peru.

The consolidated financial statements for the year ended as of December 31, 2012 were approved by the Shareholders' Meeting held on March 26, 2013. The accompanying consolidated financial statements for the year ended December 31, 2013, were approved by the Company's Management on February 24, 2014 and will be submitted for their approval by the Board of Directors and the Shareholders' Meeting that will occur within the first quarter of 2013. In Management's opinion, these consolidated financial statements will be approved by the Board of Directors and Shareholders' Meeting without modifications.

2. **Group Identification**

At December 31, 2013, the consolidated financial statements comprise the financial statements of the Company and the following subsidiaries: Ferreyros S.A. (before Motorindustria S.A.) Orvisa S.A. and subsidiaries, Unimaq S.A., Fiansa S.A. (common stock), Fiansa S.A. (investment shares), Mega Representaciones S.A., Fargoline S.A., Cresko S.A., Inti Inversiones Interamericanas Corp. and subsidiaries, Inmobiliaria CDR S.A.C., Forbis Logistics S.A., Motored S.A., Soluciones Sitech Peru S.A. and Investment and Operating Lease (Compass). In addition, the Company has a joint venture in Ferrenergy S.A. whose share is 50 percent.

Simple reorganization -

During the General Meeting of Shareholders held on March 28, 2012, the Company agreed to make a simple reorganization in order to better organize the various businesses of the Group, for which Ferreycorp contributed two blocks to two of its subsidiaries.

An equity block derived primarily from the sale of machinery, equipment and services corresponding to the Caterpillar business unit ("CAT unit") and allied lines, transferred to current Ferreyros S.A. subsidiary and a second equity block derived primarily from the automotive business division was transferred to the subsidiary Motored S.A.

This reorganization has no effect on the consolidated financial statements of the Group, as all businesses are kept in the group under common control in the years 2013 and 2012.

Acquisitions 2013 -

(a) ExxonMobil business unit (Guatemala) -

On January 31, 2013, through its subsidiary in Central America (Inti Inversiones Interamericanas Corp.), the Group acquired the share distribution and marketing business unit of ExxonMobil lubricants in Guatemala for approximately US$16,374,000 (equivalent to S/.45,751,000 to that date), being Corporación General de Tractores S.A. – GENTRAC, subsidiary of INTI, in charge of such business unit since effective date January 2013. The Group acquired the business in order to expand their participation in the Central American market share related to operations already being developed.

The fair values of assets and liabilities acquired in the business unit of ExxonMobil to the acquisition date are as follows:

	Fair value recognized at the acquisition date S/.(000)
Assets	
Inventories	11,726
Other assets	497
Net assets acquired	12,223
Assets and liabilities identified	
Customer relationship	2,827
Distribution agreement	6,854
Deferred income tax liability	(3,001)
Total net assets identified measured at fair value	6,680
Fair value of the total net assets identified	18,903
Less: Purchase price at the date of acquisition	45,751
Goodwill arising from the acquisition, note 11 (c)	26,848

	Cash flows at the date of acquisition S/.(000)
Net cash from acquire	-
Cash payment	(45,751)
Net cash at the date of acquisition	(45,751)

(b) Mercadeo Centroamericano de Lubricantes S.A.- Mercalsa (Nicaragua)

On February 28, 2013, the Group acquired 100 percent of the voting shares of Mercalsa (Nicaragua), for approximately US$5,205,000 (equivalent to S/.14,544,000 at that time). The Mercalsa's main activity is the commercialization of Exxon Mobil lubricants. This acquisition allows the Group to expand its participation in the Central American market.

The fair values of assets and liabilities at the date of acquisition are as follows:

	Fair value recognized at the acquisition date S/.(000)
Assets	
Cash	452
Trade accounts receivable, net	3,890
Inventories	4,539
Other assets	1,197
	10,078
Liabilities	
Trade accounts payable	(2,348)
Provisions	(612)
Net assets acquired	7,118
Assets and liabilities identified	
Customer relationship	1,168
Branding rights	2,277
Distribution agreement	3,250
Deferred income tax liability	(2,053)
Total net assets identified measured at fair value	4,642
Fair value of the total net assets identified	11,760
Less: Purchase price at the date of acquisition	14,544
Goodwill arising from the acquisition, note 11(c)	2,784

	Cash flows at the date of acquisition S/.(000)
Net cash from acquire	452
Cash payment	(14,544)
Net cash at the date of acquisition	(14,092)

(c) TECSEG S.A.C. (Peru) -

On January 31, 2013, the Group, through its subsidiary Mega Representaciones S.A., acquired 100 percent of the shares of TECSEG S.A.C., for approximately US$12,303,000 (equivalent to S/.32, 142,000), a Peruvian company dedicated to the commercialization of industrial secure supplies, incorporated on March 17, 1999. The amount paid was adjusted in 2013 on the basis of the variations presented in TECSEG's equity as of December 31, 2012. This acquisition allows the Group to begin into the business of industrial security in Peru and thus complement the portfolio of consumables of Mega Representaciones S.A.C.

The fair values of assets and liabilities at the date of acquisition are as follows:

	Fair value at the acquisition date S/.(000)
Assets	
Cash	760
Trade accounts receivable, net	13,214
Inventories	9,308
Other assets	3,403
	26,685
Liabilities	
Trade accounts payable	(6,143)
Provisions	(4,523)
Net assets acquired	16,019
Assets and liabilities identified	
Customer relations	5,083
Branding rights	3,313
Back logs	254
Deferred income tax liability	(2,595)
Total net assets identified measured at fair value	6,055
Fair value of the total net assets identified	22,074
Less: Purchase price at the date of acquisition	32,142
Goodwill arising from the acquisition, note 11 (c)	10,068

	Cash flows at the date of acquisition S/.(000)
Net cash from acquire	760
Cash payments	(32,142)
Net cash at the date of acquisition	(31,382)

Acquisitions 2013 -

(d) Bucyrus business unit –

On June 1, 2012, the Group, through its subsidiary Ferreyros S.A., acquired for US$69,050,000 million (equivalent to S/.186,435,000 at that time) the entire business unit of commercialization of Bucyrus in Peru; acquiring inventory, fixed assets and other assets associated with the business unit. This acquisition was made as part of the overall acquisition made Caterpillar Inc. This will allow the Group to expand its portfolio of products and brands in the importation and sale of heavy machinery and equipment for diverse extractive industries and construction.

The fair values of assets and liabilities at the date of acquisition are as follows:

	Fair value at the acquisition date S/.(000)
Assets	
Fixed assets, net	40,411
Inventories	209
Net assets acquired	40,620
Assets identified:	
Customer relationships	44,867
Right of use	17,555
Total assets identifies measured at fair value	62,422
Fair value of the total net assets identified	103,042
Less: Purchase price at the date of acquisition	186,435
Goodwill arising from the acquisition, note 11 (c)	83,393

	Cash flow at the date of acquisition S/.(000)
Net cash acquire	-
Cash payment	(186,435)
Net cash at the date of acquisition	(186,435)

3. Basis of preparation and summary of significant accounting principles and practices

3.1 Basis of preparation and presentation-

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

The consolidated financial statements have been prepared on the historical cost basis, from the accounting records kept by the Group, except for the lands, that have been measured at fair value. The consolidated financial statements are presented in thousands of Nuevos Soles (functional and presentation currency), except where noted otherwise.

The accounting policies adopted are consistent with those applied in previous years, except that the Group has adopted the new IFRS and revised IAS that are mandatory for periods beginning on or after January 1, 2013, as described below. Based on the structure of the Group and the nature of its operations, the adoption of these rules, except for the application of IFRS 11 "Joint Arrangements", had no significant effect on its financial position and results, therefore, has not been necessary to modify the comparative consolidated financial statements.

- IAS 1 "Presentation of items of other comprehensive income - Amendments to IAS 1"
  Change the grouping of items presented in Other Comprehensive Income (OCI, for its acronym in English). Items that may be reclassified ('recycled') to results in a future time will be presented separately from items that will never be reclassified. This change affects only the presentation of financial statements and has no effect on the financial position or results of operations.

- IAS 19 "Employee Benefits (as amended)"
  The amendment eliminates the option to defer the recognition of actuarial gains and losses, that is to say, the mechanism of the corridor. All changes in the value of the defined benefit plans are recognized in the statement of comprehensive income.

- IAS 28 "Investments in Associates and Joint Ventures (revised)"
  As a result of the new IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities', IAS 28 has been renamed" Investments in Associates and Joint

Ventures", and describes the application of the equity method for joint ventures investments and associates investments.

- IFRS 7 "Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendment)"
  The amendment requires entities to disclose the gross amounts subject to rights of compensation and net exposure resulting. This information will help to understand the extent to which an entity has net positions reflected in their financial statements the effects of compensation rights in the rights and obligations of the entity.

- IFRS 10 "Consolidated Financial Statements"
  IFRS 10 replaces the portion of IAS 27 "Consolidated and Separate Financial Statements" which describes the consolidation of financial statements. It also includes considerations raised in SIC-12 "Consolidation - Special Purpose Entities". IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and, therefore, are required to be consolidated by the parent, compared with the requirements that were in IAS 27.

- IFRS 11 "Joint Arrangements"
  IFRS 11 supersedes IAS 31 "Interests in Joint Ventures and SIC 13" jointly-controlled non-monetary contributions of the participating institutions". "IFRS 11 removes the option to register to jointly controlled entities (ECC) using proportionate consolidation. Instead, the ECC that meet the definition of a joint venture must be recorded by the equity method.

  The application of IFRS 11 had effects on the Group's accounting regarding their participation in a joint venture, Ferrenergy S.A. - "Ferrenergy" (see note (p)). The Group has a 50% of participation in Ferrenergy, entity dedicated to the generation and supply of energy. Before the first application of IFRS 11, Ferrenergy was classified as a jointly controlled entity and the Group's share of assets, liabilities, revenues, earnings and expenses were proportionately consolidated in the consolidated financial statements of the Group.

  When first adopted IFRS 11 (1 January 2013), the Group has determined that its participation in Ferrenergy is classified as a joint venture under IFRS 11,so your registration is required by the method of participation (see note 3.2 (b) above).

  The accounting change was applied retrospectively, as required by IFRS 11, therefore, it was restated the comparative information for the immediately preceding period. The effect of applying IFRS 11 on its consolidated financial statements is as follows:

Notes to the consolidated financial statements (continued)

Impact on the consolidated statement of income - increase (decrease) in profit:

	2012 S/.(000)
Sales of services	(21,257)
Cost of services	24,619
Gross loss	3,362
Administrative expenses	2,429
Other operating income	(2,539)
Operating loss	3,252
Finance costs	348
Exchange difference	(113)
Equity in loss of joint venture	(3,487)
Loss before income tax	-
Income tax	-
Net impact on net income for the year	-

Impact on the consolidated equity - increase (decrease):

	At December 31, 2012 S/.(000)	At January 1, 2012 S/.(000)
Inventories	(1,504)	(2,525)
Accounts receivable, net	(9,265)	(962)
Other current assets	(1,751)	(1,371)
Total current asset	(12,520)	(4,858)
Property, plant and equipment	(3,140)	(3,305)
Investment in joint venture	3,748	4,273
Other non-current assets	-	(732)
Total asset	(11,912)	(4,622)
Financial obligations	1,758	651
Accounts payable	10,154	3,971
Total liabilities	11,912	4,622
Net effect on equity	-	-

The transition had no impact on other comprehensive income in the period or earnings per basic and diluted share.

- IFRS 12 "Disclosure of Interests in Other Entities"
  IFRS 12 includes all disclosures that were previously in IAS 27, IAS 28 and IAS 31 in relation to the consolidated financial statements, the entity interests in subsidiaries, joint arrangements, associates and structured entities. It also includes a number of new disclosures are shown in note 9.

- IFRS 13 "Fair Value Measurement"
  IFRS 13 establishes a single guide for all fair value measurements in accordance with IFRS, giving guidelines on how to perform these measurements; but does not change when an entity is required to use fair value. IFRS 13 defines fair value as an exit price.

  As part of the implementation process of IFRS 13, the Company has reassessed its policies for measuring the fair values of assets and liabilities; as a result has not significantly affected the fair value measurement of assets and liabilities. Also, additional disclosures are made in the individual notes of assets and liabilities for which fair values were determined. The fair value hierarchy is presented in note 27.

- Annual Improvements to IFRSs (issued in May 2012)
  The IASB published a preview of the changes and improvements to IFRSs in May 2012. The amendments made to IAS 1, IAS 16, IAS 32, IAS 34 and IFRS 1, including improvements in this cycle, has no significant effect on the accompanying consolidated financial statements.

Due to the structure of the Company and nature of its operations, the adoption of these standards had no significant effect on its financial position and results, therefore, it has not been necessary to modify the comparative financial statements of the Company.

Transactions with entities under common control -
Simple reorganization
IFRS does not prescribe a specific accounting treatment for reorganizations with legal entities under common control of a parent company with its subsidiaries, as such the Company, based on permitted by IAS 8 and the Framework, adopted the following accounting policy:

A legal reorganization where the Company transfers and equity block to its subsidiaries is substantially a redemption of shares in exchange for the assets and liabilities of these subsidiaries. Accordingly, the assets and liabilities transferred are recognized to the carrying amounts that remain in the consolidated financial statements at the date of the legal reorganization merger. The difference between (i) the amounts assigned to assets and liabilities in the separate financial statements of the Company after the reorganization and (ii) the carrying amount of investments in the subsidiaries is recognized in the income statement.

The split described in Note 2 has been carried out between companies under common control, and has impact on the effective change of control of subsidiaries grouped within Ferreycorp Group; therefore, the accompanying financial statements have been prepared assuming that companies were reorganized in each of the periods presented.

3.2 Basis for consolidation –

At December 31, 2013, the consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Control is achieved where the Company and its subsidiaries are exposed, or are entitled to variable returns from its involvement in the entity receiving the investment and have the ability to affect those returns through its power in the entity receiving investment. Specifically, the investor controls an entity receiving the investment if and only if you have: i) power over the entity receiving the investment (there are rights that give it the current ability to direct the relevant activities of the same), ii) exposure or rights to variable returns from its involvement in the entity receiving the investment, and iii) the ability to use its power over the entity receiving the investment affect yields.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including: i) the existence of a contractual arrangement between the Group and other holders of the voting rights of the entity receiving the investment, ii) rights arising from other contractual arrangements, iii) the voting rights of the Group and potential voting rights.

The Group shall reassess whether it has control over an entity receiving the investment, if facts and circumstances indicate that there are changes in one or more of the three control elements described above. The consolidation of a subsidiary when the parent begins when control of the subsidiary is obtained and ends when the parent loses control over it. Assets, liabilities, income and expenses of an acquired or sold during the year subsidiary are included in the statement of other comprehensive income from the date on which the parent acquired control of the subsidiary until the date the parent ceases to control the same.

The profit or loss and each component of other comprehensive income to the owners of the parent and non-controlling interests are allocated, even if the results of non-controlling interests result in a debit balance. If necessary, appropriate to the financial statements of the subsidiary to its accounting policies conform to the accounting policies of the Group adjustments. All assets and liabilities, equity, income, expenses and cash flows within the Group that are related to transactions between members of the Group are eliminated in full on consolidation.

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

The consolidated financial statements include the financial statements of Ferreycorp S.A.A. and its subsidiaries in which it has control. The table below presents the main financial information of the Group that participates in the process of consolidation as of December 31, 2013 and 2012, before eliminations:

Entity	Activity	Percentage of participation		Assets		Liabilities		Equity		Net profit/(loss)	
		2013 %	2012 %	2013 S/.(000)	2012 S/.(000)	2013 S/.(000)	2012 S/.(000)	2013 S/.(000)	2012 S/.(000)	2013 S/.(000)	2012 S/.(000)
Ferreyros S.A.	Purchase and sale of machinery, spare parts and workshop services	100	100	2,032,216	2,237,624	1,274,699	1,521,038	757,517	716,586	117,319	72,777
Orvisa S.A. y Subsidiarias	Purchase and sale of machinery, spare parts and workshop services	100	100	162,240	137,136	129,133	102,587	33,107	34,549	4,224	8,901
Unimaq S.A.	Purchase and sale of machinery, spare parts and workshop services	100	100	540,599	459,699	414,485	357,913	126,114	101,786	8,418	24,559
Fiansa S.A.	Metalworking services	100	100	62,865	66,893	39,850	51,898	23,015	14,995	(18,210)	(10,489)
Mega Representaciones S.A.	Representative and distributor of tires and lubricant	100	100	145,334	72,842	106,555	51,412	38,779	21,430	1,752	3,571
Fargoline S.A.	Warehouse	100	100	105,601	84,134	47,156	39,022	58,445	45,112	6,413	6,947
Cresko S.A.	Purchase and sale of machinery and chemical supplies	100	100	51,344	46,395	43,502	33,231	7,842	13,164	(4,267)	(7,385)
Inmobiliaria CDR S.A.C.	Real estate	100	100	93,225	71,702	24,358	13,448	68,867	58,254	2,110	1,125
Ferrenergy S.A.	Power generation and supply	50	50	14,945	16,547	9,600	13,038	5,345	3,509	(1,433)	(3,488)
Motored S.A.	Automotive	100	100	273,587	186,093	198,865	122,590	74,722	63,503	(7,971)	4,780
Forbis Logistics S.A.	Warehouse	100	100	2,488	293	1,796	162	692	131	559	(231)
Soluciones Sitech Peru S.A.	Commercialization of software and hardware	100	100	947	-	584	-	363	-	(461)	-
Inti Inversiones Interamericanas Corp. y Subsidiarias	Holding grouping businesses abroad (*)	100	100	494,286	405,195	341,220	277,592	153,066	127,603	12,820	42,698

(*) Holding mainly includes subsidiaries in Central and North America: Company General of Equipment S.A. (El Salvador), Corporation General of Tractores S.A. (Guatemala) and other subsidiaries, General Equipment Company (Belize) and Forbis Logistics Corp. (United States of America). The activities of the subsidiaries conforming INTI Group are the purchase and sale of machinery, spare parts and workshop services

3.3 Summary of significant accounting principles and practices

(a) Business combinations and goodwill -

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred, measured at fair value at the date of acquisition, and the amount of any non-controlling interest in the acquire. For each business combination, the Group can elect to measure non-controlling interest in the acquire at fair value or at the proportionate share of the acquire's identifiable net assets. Acquisition costs incurred are expensed as incurred and are presented as administrative expenses in the consolidated income statement.

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

If the business combination is achieved in stages, the acquirer any interest previously held in equity of the acquire is remeasured at fair value at the date of acquisition, and any resulting gain or loss is recognized in the results. Then this is taken into account in the determination of goodwill.

Any contingent consideration that must be transferred by the acquirer is recognized at fair value at the date of acquisition. Contingent consideration classified as an asset or liability that is a financial instrument and be reached by IAS 39 Financial Instruments: Recognition and Measurement, are measured at fair value, recognizing changes in the fair value, either in results or other comprehensive income. If the contingent consideration was not reached by IAS 39, it shall be measured in accordance with relevant IFRS. Contingent consideration that is classified as equity is not remeasured and any subsequent cancellation will be accounted for in equity.

Goodwill -

Goodwill is initially measured at cost, represented by the excess of the sum of the provision against transferred and the amount recognized for non-controlling interests, and any previous participation in net identifiable assets acquired and liabilities assumed.

If the fair value of the net assets acquired exceeds the sum of the consideration transferred, the Group assesses whether it has correctly identified again all assets acquired and all liabilities assumed and reviews the criteria used to measure the amounts to be recognized at the acquisition date. If the new assessment continues to show an excess of the fair value of net assets acquired over the sum of the consideration transferred, the gain is recognized in the consolidated at the date of acquisition outcomes.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash generating units of the Group, which is expected to be benefited combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is sold, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss sale. The goodwill is written off in these circumstances is measured based on the relative values of the operation and sale of the retained portion of the cash-generating unit.

(b) Investment in associates and joint ventures -

An associate is an entity over which the investor has significant influence. Significant influence is the power to intervene in the decisions of financial and operating policy of the entity receiving the investment, but without having control or joint control of its.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. These parts are called the joint venture participants. Joint control is the contractually agreed sharing of control to a joint arrangement, which exists only when decisions about the relevant activities require the unanimous consent the same parties sharing control.

The considerations to take into account in determining the existence of significant influence or joint control are similar to those which are necessary to determine the existence of control over subsidiaries.

Accounting –

The Group's investments in associates and joint ventures are accounted for using the equity method.

Under the equity method, investment in an associate and a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of the net assets of the associate and a joint venture from the date of acquisition. Goodwill related to an associate or joint venture is included in the carrying amount of the investment.

This goodwill is not amortized nor individually tested for impairment. The consolidated income statement reflects the Group's share of the results of operations of the associate and joint venture. Any change in other comprehensive income of the associate or joint venture is presented as part of other comprehensive income of the Group consolidated. In addition, if any recognized directly in equity of the associate or joint venture, the Group

would recognize changes their participation on any of these changes, as appropriate, in the statement of changes in equity. Gains and losses transferred to third parties arising from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's interest in the associate or joint venture.

The Group's share of results of associate and joint venture is presented in a single line on the face of the consolidated income statement, operating profit outside. This participation includes the net of tax and non-controlling interests in subsidiaries of the associate and joint venture.

The financial statements of the associate and joint venture are prepared for the same reporting period as the Group. If necessary, appropriate to its accounting policies conform to the accounting policies of the Group adjustments.

After applying the equity method, the Group determines whether it is necessary to recognize an impairment loss in respect of the Group's investment in an associate and a joint venture. At each balance sheet date of the reporting period under review, the Group determines whether there is objective evidence that the investment in the associate or joint venture would have deteriorated. If such evidence exists, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and their carrying amounts, then loss recognized under " Equity in net profit associated and joint venture " in the consolidated income statement.

Upon loss of significant influence over an associate or joint control over the joint venture, the Group measures and recognizes any retained investment in residual fair value her. In this case, any difference between the carrying amount of the associate or joint venture and the respective fair value of the residual retained investment and proceeds from sale are recognized in the consolidated results.

(c) Financial Instruments: Recognition and Measurement -

(c.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, (iv) held-to-maturity investments, or as (v) derivatives designated as hedging instruments in an effective hedge, 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 recognized 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 market place are recognized 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 an available-for-sale financial investment, which subsequent measurement criteria 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, and which the entity does not intend to sell 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 accounts receivable and other accounts receivable, which are expressed at the transaction value, net of its estimation for doubtful accounts, when applicable.

Derecognition

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

(i) The rights to receive cash flows from the asset have expired; or

(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 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of the Group's continuing involvement in it. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(c.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, or as (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.

Financial liabilities are recognized when the Group is part of the contractual agreement of the instrument. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, carried at amortized cost. This includes directly attributable transaction costs or issuance of the instrument.

As of December 31, 2013 and 2012, the Group only maintains liabilities carried at amortized cost, including trade accounts payable, advances, salaries and other accounts payable and other financial liabilities.

Subsequent measurement -
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 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 liabilities) 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 recognized in the consolidated statement of income.

(c.3) Offsetting of financial instruments -
Financial assets and financial liabilities are offset with the net amount reported in the consolidated statement of financial position only if there is a currently enforceable legal right to offset the recognized amounts and the intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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

Trading -
Transactions with derivative financial instruments held by the Group in the form of currency "forwards", do not qualify as hedges under the specific rules of IAS 39, and therefore, are treated as trading derivatives, so at initial and subsequent recognition are measured at fair value and recognized as assets when the value is positive and as

liabilities when it is negative, any gain or loss arising from the change in fair value is recorded in the consolidated statement of income.

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.

At the beginning of the hedge relationship, the Company formally designates and documents the hedge relationship you want to apply, the objective of risk management and strategy to perform coverage. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the fair value of the hedging instrument in offsetting the exposure to changes in the fair value of the hedged or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting the exposure to changes in fair value or cash flows and are assessed them permanently to determine which have actually been highly effective throughout the and reporting periods for which they were appointed.

Hedges which meet the strict criteria required for hedge accounting are accounted for as follows:

Fair value hedges -
The change in fair value of a derivative that is a hedging instrument is recognized in the consolidated income statement as finance costs. The change in fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the consolidated income statement as finance costs.

At December 31, 2012 and 2013, the Group had no such derivative financial instruments.

Cash flow hedges -
Gains or losses arising from changes in fair value are recognized directly in the consolidated income statement, except for the effective portion of the hedge cash flow, which is recognized as an unrealized gain on financial instruments in the state of comprehensive income.

The only derivative that maintained the Company is a future contract swap ("swap") interest rate, which has been classified as cash flow hedges. This derivative was initially recognized at fair value at the date the derivative contract was entered into and is subsequently measured at fair value. This derivative is recorded as a financial asset when the fair value is positive and as financial liabilities when fair value is negative. At December 31, 2013, the derivative financial instrument is due and liquidated.

The cash flow hedges that meet the criteria for hedge accounting are recorded as follows:

- The effective portion of the gain or loss on a hedging instrument is recognized directly as other comprehensive consolidated results in the reserve for cash flow hedges, while the ineffective portion is recognized immediately in the consolidated statement of comprehensive income as "Other expenses operations".

- Amounts recognized as other comprehensive consolidated income are reclassified to the combined income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

  If the hedging instrument expires or is sold, terminated or exercised without a replacement or rollover for another hedging instrument, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction occurs or firm commitment affect the outcome.

Hedges of a net investment in foreign operations -
Hedges of a net investment abroad, including a hedge of a monetary item that is accounted for as part of the net investment are recognized in a similar way to cash flow hedges.

Gains or losses on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income, while any gain or loss relating to the ineffective portion is recognized in the income statement. In the case of the sale of the foreign operation, the cumulative amount of the gain or loss recorded in equity is reclassified to the income statement.

At December 31, 2012 and 2013, the Group had no such derivative financial instruments.

(e) Foreign currency transaction -
The Group's functional currency is the Nuevo Sol (local currency), due to is used by the Group to manage its operations and conversions and, additionally, for the preparation of the consolidated financial statements. For foreign subsidiaries, each subsidiary determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The accompanying consolidated financial statements have been prepared primarily to show the joint activity of the companies comprising the Group, for what has been established as the presentation currency the same used by Ferreycorp S.A.A.; that is to say the Nuevo Sol. Consequently, the balances in the financial statements of the

companies operating in countries with a functional currency different to the Nuevo Sol have been converted to this currency in accordance with the methodology set out in IAS 21 "Effects of changes in exchange rates of foreign currency".

Transactions and balances in foreign currency–
The Group considers balances or transactions in foreign currency those made in a currency other than the functional currency. Transactions in foreign currencies are initially recorded at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted subsequently to the functional currency using the exchange rate in force at the consolidated statement of financial position date. The differences between the closing rate at the date of each consolidated financial statement presented and the exchange rate initially used to record the transactions are recognized in the consolidated statement of income in the period in which they occur in the "Exchange difference, net" caption. Non-monetary assets and liabilities acquired in foreign currencies are translated at the exchange rate at the dates of the initial transactions.

As required by IAS 21, the exchange differences arising from related party transactions eliminated on consolidation and not included as part of the net investment in a foreign operation should be recorded in profit or loss in the consolidated financial statements.

Group companies abroad -
The assets and liabilities of foreign operations are translated into Nuevos Soles at the rate of exchange in force at the reporting date and their statements of income are translated at exchange rates in force at the dates of the transactions. The exchange differences arising on the translation are recognized in the statement of other comprehensive income.

(f) Cash and cash equivalent -
For purposes of preparation and presentation of the cash flow statement, cash and cash equivalent comprise, petty cash, bank deposits, cash 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 significant risks in their values.

(g) Inventories -
Inventories are valued at cost or net realizable value the lowest, 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 estimation 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, a provision equivalent to its carrying value is made. The estimation is recognized with charge to the results of the year when it is determined.

(h) Property, machinery and equipment-

Property, machinery and equipment, except the lands, are stated at cost, less accumulated depreciation and, where applicable, accumulated impairment losses. That cost includes the cost of replacing components of property, plant and equipment. For significant components of property, plant and equipment that must be replaced periodically the replaced component is disposal and the new component with its corresponding service life and depreciation is recognized.

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

Land is measured at fair value, a value of appraisals conducted regularly by an expert appraiser. Revaluations are performed on an annual basis when the fair value of the revalued asset differs materially from its carrying amount. When changes in fair value are not significant, revaluations are carried out every three to five years.

Any revaluation increase is recognized in the consolidated statement of comprehensive income and accumulated in the consolidated net equity, in the "Other equity reserve" caption as revaluation assets, except that this increase corresponds to the reversal of a revaluation decrease of the same asset previously recognized in the consolidated income statement, in which case the increase is recognized in the consolidated income statement. A revaluation decrease is recognized in the consolidated income statement, except to the extent that the decrease offsets an increase of the same asset previously recognized in the asset revaluation reserve. At the time of sale of a revalued asset, any revaluation reserve relating to that asset is transferred to retained earnings.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets and depending on machine hours used, as shown below:

	Years
Buildings and other structures	
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 (*)	h/m used
Vehicles	5
Furniture and fixtures	4 and 10

(*) As function of machine-hours used.

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

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.

(i) 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 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.

(j) 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 at the date of acquisition. After the 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. The Group has only intangible assets with finite useful lives and are amortized using the straight-line method over their useful economic lives, which are four to ten years, and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting period under report. Changes in the expected useful life or the expected pattern of consumption of the asset are accounted for by modifying the period or the depreciation method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the consolidated statement of income under the category that is consistent with the function of the intangible asset.

The amortization is calculated on a straight line basis over the estimated useful lives of the assets, as follows:

	Years
Client relationships	7 a 12
Rights of use	2
Software licenses	10
Distribution Agreement	10

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.

(k) Impairment of non-financial assets -

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher between the asset's fair value, less costs to sell, and its value in use. Where the recoverable amount is lower than the carrying amount of an asset, the asset is considered impaired and is written down to its recoverable amount.

An asset's recoverable amount is the higher between the net selling price and its value in use. The net selling price is the amount obtainable from the sale of an asset in a free market, while the value in use is the net present value of the estimated future cash flows from the continued use of an asset and its residual value at the end of its useful life. In

assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased; the Group makes a new estimation of the corresponding asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After the reversal, the depreciation charge is adjusted in future periods distributing the value of the asset over its remaining useful life.

Goodwill

Goodwill is tested for impairment annually (as of December 31) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

(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 2013 and 2012, the Group did not have assets that qualified for the capitalization of financing costs.

(m) Income tax and workers' profit sharing -

Workers' profit sharing -

Worker's profit sharing is calculated in accordance with the laws in force (Legislative Decree N° 892) on the same basis used to calculate the income tax. In the case of the Group, the workers' profit sharing rate is 8 percent of the taxable income of the year. According to Peruvian law, there is a limit of 18 monthly salaries on the amount a worker can receive as profit sharing.

The Group recognizes the current portion workers' profit sharing paid directly to them in accordance with IAS 19 "Employee Benefits", as any entity that provides benefits to the workers in exchange for their services. Consequently, the Group recognizes the participation of workers as a cost or expense, depending on their function.

Current income tax -

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, as of the date of the consolidated financial statements.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax -

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts as of the date of the consolidated financial statements.

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

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

(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.

Revenues and costs of construction contracts metalworking jobs are accounted for under the percentage of completion method, which is based on the recognition results of the accounting period in which the execution of the contracted work is performed.

Costs and expenses -
The other costs and expenses are recognized when earned, regardless of when they are made, and are recorded in the periods to which they relate.

(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 reviewed annually.

(p) Earnings per share -

The basic and diluted earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding during the period. The shares from capitalization of profits, or similar transactions, are a stock split and, therefore, for the calculation of weighted average shares considered that these actions were always outstanding, and the calculation of earnings per basic and diluted share are adjusted retroactively.

At December 31, 2013 and 2012, the Group has no dilutive financial instruments that produce effects, so that the basic and diluted earnings per share are the same.

(q) Fair Value Measurement -

The Company has a fair value of financial instruments measured at amortized cost which is described in note 27.

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

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

The principal or most advantageous market should be accessible by the Company.

The fair value of an asset or liability is measured using the assumptions that market participants would use to rank the asset or liability value, assuming that market participants act in their best economic interest.

The fair value measurement of nonfinancial assets takes into account the ability of a market participant to generate economic benefits through more and better use of the asset or selling it to another market participant would use the assets in the best possible way.

The Company uses that are appropriate in the circumstances and for which sufficient information is available to measure fair value, maximizing the use of relevant observable inputs and minimize the use of unobservable inputs to valuation techniques.

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

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 - Valuation techniques for which the lowest level of information that is significant to the fair value measurement is directly or indirectly observable.

- Level 3 - Valuation techniques for which the lowest level of information that is significant to the fair value measurement is not observable.

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

Management determines the Company's policies and procedures for measurements to recurring and nonrecurring fair value. At each reporting date, management analyzes the movements in the values of assets and liabilities to be valued in accordance with the accounting policies of the Company.

For purposes of the disclosures of fair value, the Company has determined the types of assets and liabilities based on their nature, characteristics and risks and the level of the fair value hierarchy as explained above.

(r) Segments -
An operating segment is a component of an entity: (i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (ii) whose operating results are regularly reviewed by the Company’s Management to make decisions about resources to be allocated to the segment and assess its performance, and (iii) for which confidential financial information is available, note 26.

(s) 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.

(t) Reclassification of consolidated financial statements for prior years –
At December 31, 2013, the Company made the following reclassifications in its consolidated for the year ended December 31, 2012 financial statements:

- In the consolidated statement of financial position is reclassified S/.1,729,000 for the category " Deferred revenue, net" to the heading " Trade receivables " for better presentation of accounts receivable at December 31, 2012. S/.1,069.000 also be renamed the category "Other receivables" to the heading "Inventories" to present in this area advances to suppliers related to inventory purchases.

- The consolidated income statement is reclassified S/.21,971,000 for the category " Sales expenses " to the heading "Administrative Expenses" for a better presentation of the expenditure to 31 December 2012. S/.7,805,000 also reclassified the category " Other income and expenses " to the caption " Cost of sales ", " sales expenses " and S S/.1,667,000 to the heading "Financial income" at that time. Finally, S/.174,000 heading to the heading " Other operating income " to "Net Sales" was reclassified.

3.4 Significant accounting judgments, estimates and assumptions –

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities for the years ended December 31, 2013 and 2012. In management's opinion, such judgments and estimates are based on the best knowledge of material events and circumstances, taking into account historical experience. However, the results obtained may differ from the amounts included in the consolidated financial statements.

The main uncertainty areas, related to the significant accounting judgments and estimates and judgments made by Management in the preparation of these consolidated financial statements, are as follows:

(a) Trials

In applying the Group's accounting policies, management has made the following judgments that have significant effect on the amounts recognized in the consolidated financial statements:

Operating leases in note 3.3.(h) -

The Group as lessor, entered into a lease of machinery and equipment rental fleet. The Group has determined, based on an evaluation of the terms and conditions of the agreements, such as when the lease term does not constitute a substantial portion of the economic life of the asset, or when retained substantially all the risks and benefits incidental to ownership of these assets. In these cases, the Group has posted these contracts as operating leases.

(b) Estimates and assumptions -

Here are the key assumptions concerning the future and other key sources of uncertainty estimates to the closing date of the reporting period are described reporting, and have a high risk of causing a material adjustment to the carrying amounts of assets and liabilities during the next financial year. The Group has based its assumptions and estimates given the parameters available at the time of preparation of these consolidated financial statements. However, the current circumstances and assumptions about future events may change due to market changes and new circumstances that may arise beyond the

control of the Group. These changes are reflected in the assumptions at the time they occur.

Revaluation of property, plant and equipment (land), note 3.3(g) -
The Group measures its land for at revalued amounts and changes in fair value are recognized in other comprehensive income. The Group has hired an independent expert valuation specialist to determine the fair values at December 31, 2013 for land appraised.

To land, the appraiser was based on objective evidence of the market, using comparable prices adjusted by specific factors such as the nature, location and condition of the property in question.

Impairment of non-financial assets, note 3.3 (k) -
Impairment exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount which is the higher of fair value less costs to sell and value in use. The calculation of fair value less costs to sell is based on available information on sales transactions for similar goods made under conditions and independent parties or observable market prices net of incremental costs related to the sale of the property.

The calculation of value in use is based on a model of discounted cash flows. Cash flows arising from the estimated projections for the next ten years, excluding restructuring activities to which the Group had not yet been committed, and significant future investments that will enhance the operational performance of the asset or cash-generating unit which is subjected to an impairment test.

The calculation of the recoverable amount is extremely sensitive to any change in the rate used to discount cash flows, as well as the expected future income funds, and the growth rate used in long-term extrapolation. The key assumptions used to determine the recoverable amount of the cash generating units, including a sensitivity analysis, are revealed and explained in more detail in Note 11.

Taxes on current and deferred income, note 3.3 (m) –
There are uncertainties regarding the interpretation of complex tax regulations, changes in tax regulations and the amount and timing of future taxable income that is generated.

Given the wide range of commercial relations held by the Group and the long-term nature and complexity of maintaining contractual agreements, differences arising between the actual results and key assumptions made, or future changes to such assumptions, could require future adjustments to already registered tax income. The Group calculates reserves based on reasonable estimates, for possible consequences of the revisions made by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax reviews, and

different interpretations of the rules on taxation made by the taxable entity and the responsible tax authority. Such differences of interpretation may arise in a wide variety of issues, depending on the circumstances and conditions in the jurisdiction of the member company of the Group.

Fair value of financial instruments, note 3.3 (c) -
In cases where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, fair value is determined using valuation techniques including a model of discounted cash flows.

When possible, the input of these models is taken from observable nourish markets, but if not, a degree of discretionary judgment is required in determining fair values. These judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. For details, see note 26(c).

Management believes that the estimates included in the financial statements were made on the basis of the best knowledge of the relevant facts and circumstances at the time of preparing the same, but the final results may differ from the estimates included in the statements financial.

3.5 New accounting pronouncements -

The Company has decided not to early adopt the following standards and interpretations were issued by the IASB, but are not effective at December 31, 2013:

- IAS 32 "Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendment)"
  Effective for periods beginning on or after January 1, 2014. Defines the meaning of “currently has a legal right to compensation" criteria and mechanisms for non-simultaneous solution clearinghouses for entitlement to compensation modification. Additionally, this amendment clarifies that to make two or more instruments financial institutions should have a right to compensation cannot be conditioned on a future event, and should be mandatory the following circumstances: (i) the normal course of business, (ii) an event of default, and (iii) in the event of insolvency or bankruptcy of the entity or any of the counterparties.

- IAS 39 Novation derivative and continuity of hedge accounting (changes)
  Effective for periods beginning on or after January 1, 2014. These amendments provide an exception to discontinue hedge accounting when the novation of a derivative designated as a hedging instrument that meets certain criteria is given.

- IFRS 9 "Financial Instruments: Classification and Measurement"
  This rule has an effective date of enactment. IFRS 9 reflects the first phase of the IASB's work for the replacement of IAS 39 and refers to the classification and measurement of financial assets as defined in IAS 39. The approval of the first phase of IFRS 9 will have an effect on the classification and measurement of financial assets of an entity, but potentially will have no impact on the classification and measurement of financial liabilities. IFRS 9 also introduces new requirements for the use of hedge accounting, in order that it is aligned with the risk management of a company.

- "Investment Entities" (amendments to IFRS 10, IFRS 12 and IAS 27)
  Effective for periods beginning on or after January 1, 2014. These amendments provide an exception to the requirement to consolidate entities that qualify as an investment entity under the criteria of IFRS 10. The exception to consolidation requires entities to register as investment subsidiaries at fair value through profit or loss.

- IFRIC 21 "Levies"
  Effective for periods beginning on or after January 1, 2014. IFRIC 21 clarifies that an entity recognizes a liability for a tax when the activity giving rise to the payment, as identified in the relevant legislation, is performed. To a lien that is activated when a minimum threshold, the interpretation clarifies that no person should be anticipated before reaching the minimum threshold specified.

The Group is in the process of evaluating the impact of the application of these rules, if any, on its consolidated financial statements and disclosures in the notes to the financial statements.

4. Foreign currency transactions

The foreign currency transactions are made at free market exchange rates. As of December 31, 2013, the weighted average market exchange rate for transactions in U.S. Dollars published by the Superintendence of Banking, Insurance and Private Funds ("SBS" for its acronym in Spanish) was S/.2.794 per US$1 for buying and S/.2.796 per US$1 for selling (S/.2.549 per US$1 buying and S/.2.551 per US$1 for selling as of December 31, 2012).

As of December 31, 2013 and 2012, the Group had the following assets and liabilities in U.S. Dollars:

	2013 US$(000)	2012 US$(000)
Assets		
Cash and cash equivalent	18,020	41,033
Trade accounts receivable, net	255,531	277,138
Other accounts receivable, net	14,965	65,756
	288,516	383,927
Liabilities		
Financial liabilities	(560,705)	(594,356)
Trade accounts payable	(121,568)	(186,097)
Other accounts receivable payable	(46,733)	(99,125)
	(729,006)	(879,578)
Net liability position	(440,490)	(495,651)

At December 31, 2013 and 2012, the Group Management has decided to accept the currency risk of this position, so it has not derivative products for hedging. During 2013, the Group recorded a net loss for exchange difference approximately S/.146,140,000 (net gain for approximately S/.79,081,000, during 2012), which is presented in the "Exchange difference, net "caption of the consolidated statement of income.

5. Cash and cash equivalent

(a) This item is made up as follows:

	2013 S/.(000)	2012 S/.(000)
Petty cash	1,105	719
Bank deposits (b)	78,239	142,608
Time deposits (c)	39,675	28,990
Cash in transit	394	407
	119,413	172,724

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

(c) As of December 31, 2013 and 2012, corresponds to time deposits in domestic banks, with 30 days to maturities and earning interest at market rates.

6. Trade accounts receivable, net

(a) This item is made up as follows:

	2013 S/.(000)	2012 S/.(000)
Invoices (b)	729,401	673,860
Commercial letters(b)	218,398	180,158
Unearned interests	(10,185)	(8,467)
	937,614	845,551
Less – Allowance for doubtful accounts receivable (d)	(75,517)	(64,860)
	862,097	780,691
Less:		
Non-current portion	(36,042)	(29,126)
Current portion	826,055	751,565

Trade accounts receivable are denominated in local and foreign currency, do not earn interest, with exception of the commercial letters 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, 2013 and 2012, the trade accounts receivable aging is as follows:

	Not impaired S/.(000)	Impaired S/.(000)	Total S/.(000)
As of December 31, 2013 -			
Current	645,695	836	646,531
Past due			
- Up to 1 month	137,222	157	137,379
- From 1 to 3 months	51,176	335	51,511
- From 3 to 6 months	22,047	1,003	23,050
- More than 6 months	16,142	73,186	89,328
Total	872,282	75,517	947,799
As of December 31, 2012 -			
Current	570,356	9	570,365
Past due			
- Up to 1 month	142,538	418	142,956
- From 1 to 3 months	57,455	1,820	59,275
- From 3 to 6 months	11,332	2,428	13,760
- More than 6 months	7,477	60,185	67,662
Total	789,158	64,860	854,018

(d) The movement in the allowance for doubtful accounts is as follows:

	2013 S/.(000)	2012 S/.(000)
Beginning balance at January 1	64,860	56,368
Provision charged to results, note 18	20,404	13,668
Addition for business combination	68	-
Recoveries and write-offs	(15,449)	(1,701)
Exchange difference	5,634	(3,475)
Ending balance at December 31	75,517	64,860

In Management's opinion, the estimation for doubtful accounts receivable adequately covers the credit risk for the years ended December 31, 2013 and 2012, 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, note 24.

7. Other accounts receivable, net

(a) This item is made up as follows:

	2013 S/.(000)	2012 S/.(000)
Income tax credit (b)	26,681	20,487
Value added tax credit (c)	31,506	36,774
Accounts receivable from Caterpillar(d)	30,895	36,042
Accounts receivable from employees	11,382	8,031
Accounts receivable from Domingo Rodas Inc. (c)	5,484	7,677
Drawback and other taxes (f)	3,402	5,085
Guarantee deposits	2,716	632
Advances to suppliers	1,722	1,584
Other tax credit	1,476	-
Claims to insurance companies and third parties	1,407	3,544
Other	11,286	8,815
	127,957	128,671
Less – Allowance for doubtful accounts receivable	(2,709)	(2,207)
	125,248	126,464
Less:		
Non-current portion	(5,874)	(6,811)
Current portion	119,374	119,653

(b) Corresponds to the income tax credit, which in Management's opinion will be recovered as part of the Group's current operations.

(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.

(d) Correspond mainly to applications for recognition of specific margins prime machinery sales. Also, includes repayments related to guarantees agreed production (Caterpillar) by selling used machinery.

(e) This receivable originated in previous years, the Company granted a loan in 2008 to Domingo Rodas S.A. (former subsidiary) for an amount to S/.5,150,000. In 2010, the Company signed a transfer of shares held in Domingo Rodas S.A. to a subsidiary of a leading agribusiness company group in the country. As a result of this transaction, new shareholders acknowledged the debt payable to the Company, which was refinanced and will be recovered from the year 2012. This receivable bears interest at the annual rate of 7.55 percent and has no specific guarantees. This

receivable is being retrieved according to the Payment Schedule entered into by the Company and Domingo Rodas S.A.

(f) Corresponds to refunds tax and customs duty which will be requested to return to the relevant tax authorities, and will become effective in the first quarter of next year.

(g) At December 31, 2012 and 2013, accounts receivable aging is as follows:

	2013 S/.(000)	**2012** S/.(000)
Current	109,302	118,512
Overdue up to 180 days	8,857	3,452
Overdue greater than 180 days	9,798	6,707
	127,957	128,671

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

	2013 S/.(000)	**2012** S/.(000)
Opening balance at 1 January	2,207	614
Provision charged to results, note 18 and 19	319	1,625
Write-offs of the year	(22)	(3)
Translation effect	205	(29)
Ending balance at December 31	2,709	2,207

In Management's opinion, the allowance for doubtful accounts receivable covers adequately the credit risk as of December 31, 2013 and 2012.

8. Inventories, net

(a) This item is made up as follows:

	2013 S/.(000)	2012 S/.(000)
Machinery, engines and vehicles	881,044	894,023
Spare parts	370,728	331,230
Repair and maintenance services in process (b)	99,211	92,076
Merchandise	48,933	35,407
Advances to suppliers	48,821	28,030
Raw materials and packaging	3,072	1,881
Supplies	1,536	836
Products in process	857	10,080
Finished goods	165	-
Inventories in transit	157,663	165,931
	1,612,030	1,559,494
Estimation for obsolescence of inventories (c)	(31,902)	(24,810)
	1,580,128	1,534,684

(b) Mainly corresponds to the Group's maintenance and repair services provide to customers (inventory in progress), pending of completion as of the date of the consolidated statement of financial position.

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

	2013 S/.(000)	2012 S/.(000)
Beginning balance at January 1	24,810	17,174
Provision charged to results, note 17	16,476	14,024
Transfer to fixed assets	286	837
Write-offs	(795)	(363)
Recoveries, note 17	(8,641)	(6,768)
Additions for business combination	101	-
Translation effect	(335)	(94)
Ending balance at December 31	31,902	24,810

The estimation for obsolescences 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, 2013 and 2012.

9. Investments

(a) This item is made up as follows:

	Main activity	Percentage of capital participation		Book value	
		2013	2012	2013 S/.(000)	2012 S/.(000)
Common shares in associates (b)					
La Positiva Seguros y Reaseguros S.A.	Insurance	14.96	14.96	47,057	43,826
La Positiva Vida Seguros y Reaseguros S.A.	Insurance	3.01	3.01	6,462	6,078
Joint ventures (b)					
Ferrenergy S.A	Power generation and supply	50.00	50.00	8,902	3,748
Others investments (c)					
Inversiones Varesli S.A.	Holding	46.57	46.57	11,958	10,910
International Machinery Co S.A.	Holding	46.67	46.67	10,030	9,151
Other	Others	-	-	1,037	1,037
				85,446	74,750

(b) The Group has recognized in the caption "Participation in associated companies and joint ventures under equity method" of the consolidated statement of income a total gain for approximately S/.2,178,000 (a loss for approximately S/.363,000 during 2012) according to the policy described in Note 3.3(b).

Below are the figures in the financial statements are presented La Positiva Seguros y Reaseguros S.A. and "La Positiva Vida Seguros y Reaseguros S.A." at December 31, 2013 and 2012.

	La Positiva Seguros y Reaseguros S.A.		La Positiva Vida Seguros y Reaseguros S.A.	
	2013 S/.(000)	2012 S/.(000)	2013 S/.(000)	2012 S/.(000)
Statement of financial position				
Total assets	958,821	666,615	2,115,289	1,749,903
Total liabilities	672,146	390,508	1,926,068	1,559,538
Net equity	286,675	276,107	189,221	190,365
Incomes				
Total revenues	445,805	439,251	218,860	208,037
Operating profit	30,376	26,925	12,722	11,851
Net profit	21,590	18,505	12,722	11,851

(c) These investments are presented at acquisition cost because these investments do not have a market quote.

10. Property, machinery and equipment, net

(a) This item is made up as follows:

	2013								2012
Description	**Lands** S/.(000)	**Buildings and other structures** S/.(000)	**Machinery and equipment** S/.(000)	**Rental fleet - Machinery and equipment** S/.(000)	**Vehicles** S/.(000)	**Furniture and fixtures** S/.(000)	**Work in progress** S/.(000)	**Total** S/.(000)	**Total** S/.(000)
Cost									
Balance as of January 1	357,213	255,520	313,241	533,331	26,325	91,216	17,494	1,594,340	1,482,024
Additions (b)	947	19,734	37,872	149,447	4,467	10,197	24,869	247,533	140,381
Disposals and/or sales	(36)	(727)	(380)	(60,924)	(1,606)	(254)	(15,909)	(79,836)	(53,139)
Revaluation	108,587	-	-	-	-	-	-	108,587	-
Transfers from inventories	-	-	12,016	190,088	-	2	-	202,106	228,957
Transfers to used inventories	-	-	(23,588)	(260,266)	(450)	-	-	(284,304)	(196,054)
Addition for business combination	-	-	662	-	908	380	-	1,950	-
Other transfers	-	7,249	86	(2,187)	-	(266)	(7,189)	(2,307)	-
Foreign currency translation	3,281	1,799	(874)	9,327	433	(2,848)	(4)	11,114	(7,829)
Balance as of December 31	469,992	283,575	339,035	558,816	30,077	98,427	19,261	1,799,183	1,594,340
Accumulated depreciation									
Balance as of January 1	-	56,140	169,037	125,710	13,378	66,746	-	431,011	376,850
Additions (g)	-	9,894	32,108	97,424	3,173	8,381	-	150,980	127,813
Disposals and/or sales	-	(53)	(142)	(16,714)	(765)	(134)	-	(17,808)	(14,354)
Transfers from inventories	-	-	(7,363)	(56,549)	(182)	-	-	(64,094)	(52,531)
Addition for business combination	-	-	146	-	393	129	-	668	-
Other transfers	-	-	547	1,357	-	(2,089)	-	(185)	-
Foreign currency translation	-	893	2,285	1,078	(454)	(1,848)	-	1,954	(6,767)
Balance as of December 31	-	66,874	196,618	152,306	15,543	71,185	-	502,526	431,011
Allowance for impairment									
Balance as of January 1	-	-	689	2,363	-	-	-	3,052	4,092
Additions	-	-	282	2,199	80	-	-	2,561	-
Transfers from inventories	-	-	-	(123)	-	-	-	(123)	-
Transfers to used inventories	-	-	-	(32)	-	-	-	(32)	-
Disposals, sales and other	-	86	(57)	(86)	(80)	-	-	(137)	(1,040)
Balance as of December 31	-	86	914	4,321	-	-	-	5,321	3,052
Net book value	469,992	216,615	141,503	402,189	14,534	27,242	19,261	1,291,336	1,160,277

(b) As of December 31, 2013, the Group maintains buildings and facilities that were acquired under finance leases whose total cost amounts approximately to S/.28,935,000 and accumulated depreciation of S/.4,000,000 (S/.47,334,000 and S/.17,908,000 at December 31, 2012, respectively).

(c) At December 31, 2013 and 2012, the Group has taken insurance for all of its assets. In Management's opinion, their insurance policies are consistent with international practice in the industry and the risk of potential losses for claims considered in the insurance policy is reasonable considering the type of assets held by the Group.

(d) During 2013, revenues from rentals S/.163,372,000 (S/.212,716,000 in 2012), related to the renting of machinery and equipment rental fleet, are included in "Net sales" state consolidated statement of Income.

(e) During 2013, Ferreycorp through its subsidiary Mega Representaciones S.A. acquired 100 percent of the shares of TECSEG S.A.C. and through its subsidiary Inversiones Interamericanas Corp. acquired 100 percent of the shares of the company Mercadeo Centroamericano de Lubricantes S.A., acquiring fixed assets and other assets associated with the business.

(f) As of December 31, 2013 and 2012, the Group does not maintain mortgages on the buildings.

(g) Depreciation expense for the year was recorded in the following captions of the consolidated statement of income:

	2013 S/.(000)	2012 S/.(000)
Cost of sales, note 17	103,424	86,373
Selling expenses, note 18	34,659	31,572
Administrative expenses, note 19	12,429	9,868
Other expenses	468	-
	150,980	127,813

11. Intangible assets, net and goodwill

(a) The following table shows the composition and movement of this caption:

	2013							2012
	Client relationships S/.(000)	Branding rights S/.(000)	Distribution agreement S/.(000)	Order backlog S/.(000)	Rights of use S/.(000)	Others S/.(000)	Total S/.(000)	Total S/.(000)
Cost								
Balance as of January 1	44,867	-	-	-	17,555	23,397	85,819	19,419
Additions	9,078	5,590	10,104	254	-	2,437	27,463	66,400
Disposals transfers and other	510	-	-	-	(3)	-	507	-
Balance as of December 31	54,455	5,590	10,104	254	17,552	25,834	113,789	85,819
Amortization								
Balance as of January 1	1,716	-	-	-	3,457	7,375	12,548	5,482
Additions, notes 18 y 19	10,358	-	840	254	11,063	2,340	24,855	7,066
Disposals transfers and other	67	-	-	-	2	(1,714)	(1,645)	-
Balance as of December 31,	12,141	-	840	254	14,522	8,001	35,758	12,548
Net book value	42,314	5,590	9,264	-	3,030	17,833	78,031	73,271

As of December 31, 2013 and 2012, based upon Management's projections the recoverable value of intangible assets is higher than the carrying value, thus no impairment is necessary for these assets as of the date of the consolidated statement of financial position.

The list of clients, trademark rights, contract distribution, order backlog and use rights are the intangibles acquired through various business combinations, see note 2.

(b) Amortization expense for the year was recorded in the following captions of the statement of income:

	2013 S/.(000)	2012 S/.(000)
Cost of sales, note 17	249	306
Sales expenses, note 18	21,524	236
Administrative expenses, note 19	3,082	6,524
	24,855	7,066

(c) The following table shows the composition of "Goodwill" for cash-generating unit:

	2013 S/.(000)	2012 S/.(000)
Ferreyros S.A. (Bucyrus)	83,393	83,393
Inversiones Interamericanas Corp.	50,391	18,937
Ferreycorp	8,762	8,762
Mega Representaciones S.A.	13,726	4,169
Total	156,272	115,261

Impairment test of goodwill and non-financial assets for impairment indicators -

For the purpose of impairment testing, goodwill acquired through business combinations and intangibles with indefinite useful lives to the cash generating units listed below are assigned:

► *Cash-generating units:*
- Business Line "Bucyrus" (included in Ferreyros S.A.)
- Inversiones Interamericanas Corp. - INTI (including business units and companies acquired in Central America)
- Mega Representaciones S.A.C. - MEGA (includes Tecseg S.A.C. as UGE)

Cash-generating units for impairment indicators :
- Fiansa S.A. (included in Ferreycorp S.A.A.)
- Cresko S.A.C. (included in Ferreycorp S.A.A.)
- Ferrenergy S.A.C. (included in Ferreycorp S.A.A.)

The recoverable amount of each CGU is determined based on a value in use calculation using cash flow projections derived from financial budgets approved by senior management, which cover a period. We have determined the corresponding discount rate and is applied to the projected cash flows. Cash flows beyond the period indicated in the projections were

extrapolated using a specific growth rate that is similar to the average rate of long-term growth for the industry in which each CGU operates. Furthermore, the analysis concluded that the fair value less cost of sale did not exceed the value in use.

At December 31, 2013, the carrying amount of intangibles, net and goodwill related to each CGU has been compared with the recoverable value, and management has determined that it is not necessary to constitute a provision for impairment of these assets to the date of the statement of financial position.

Here are the specific details of the evaluation of each CGU impairment at December 31, 2013, as follows:

UGE	Recoverable value S/.(000)	Discount rate %	Flow period years old	Growth Rate %	Book value S/.(000)
Bucyrus	272,981	9	10	3	120,638
Inti	308,002	8	5	2	13,904
Mega	47,886	11	10	2	38,960
Fiansa	72,854	11	10	-	62,884
Cresko	29,312	10	10	3	23,232
Ferrenergy	65,643	7	10	-	5,345

Key assumptions used in value in use calculations

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

- Gross Margin
- Discount rate
- Market share during the budget period, and
- Growth rate of long-term used to extrapolate cash flows beyond the budget period.

Gross Margin

It is based on average values achieved in the three years preceding the start of the budget period and future plans of each company. Increases during the budget period for anticipated efficiency improvements. In the long term, the gross margin decreased by 1 to 2 percent, depending on the company or line of business.

Notes to the consolidated financial statements (continued)

Discount rate

Represents the current market assessment of the specific risks for each cash generating unit, considering the time value of money and the specific risks of the underlying assets that were not incorporated into the estimates of cash flows. The calculation of the discount rate is based on the specific circumstances of the Group and its operating segments and represents the average cost of capital. This average considers both equity and debt. The cost of equity is based on the return on investment that the Group's shareholders expect to get. The cost of debt is based on interest bearing loans that the Group must pay. The specific risk of each segment is incorporated by applying individual beta factors. The beta factors are assessed annually on the basis of market information available to the public.

Market Share

Use industry data to predict growth rates, it is important that management assesses how it could change the position of the unit in relation to its competitors during the budget period. Management expects the Group's share of the market remains stable during the budget period.

Rate long-term growth

This rate is based on published market research. For the reasons explained above, the long-term rate used to extrapolate the budget depends on each CGU.

12. **Financial liabilities**

(a) This item is made up as follows:

	2013			2012		
	Current portion S/.(000)	Non-current portion S/.(000)	Total S/.(000)	Current portion S/.(000)	Non-current portion S/.(000)	Total S/.(000)
Bank overdrafts	618	-	618	256	-	256
Banks loans (b)	443,002	-	443,002	588,292	-	588,292
Bonds and long-term debit (c)	176,775	1,240,311	1,417,086	368,804	727,917	1,096,721
	620,395	1,240,311	1,860,706	957,352	727,917	1,685,269

(b) Banks loans -

This item is made up as follows:

	Average annual effective interest rate-fixed				
	2013 %	2012 %	Original currency	2013 S/.(000)	2012 S/.(000)
Financial institution					
Banco Internacional del Peru – Interbank	Between 1.40 and 5.76	Between 2.70 and 4.07	US$	126,068	64,431
BBVA Banco Continental	Between 1.35 and 4.97	Between 2.25 and 8.75	US$	93,922	70,514
Mercantil Commercebank – EE.UU.	1.50	1.71	US$	69,900	99,634
Banco Crédito del Peru S.A.A. – BCP	Between 1.52 and 7.50	Between 2.34 and 7.50	US$	68,325	108,319
BCI Miami Branch	2.80	-	US$	16,412	-
Banco Lationamericano de Comercio Exterior S.A. - Bladex	3.55	-	US$	31,596	-
Scotiabank del Peru	Between 2.50 and 2.825	Between 3.67 and 4.87	US$	13,607	11,980
Banco de América Central – Guatemala y El Salvador	Between 4.00 and 6.00	Between 3.75 and 4.00	US$	10,769	20,089
The Bank of Nova Scotia	1.55	-	US$	5,592	-
Banco Davivienda Salvadoreño S.A	4.75	-	US$	4,474	-
HSBC Bank - El Salvador	4.25	4.75	US$	1,398	4,974
Grupo Financiero de Occidente - Guatemala	5.00	5.00	US$	909	829
Ford Motor Credit Company – EE.UU.	9.16	Between 4.00 and 9.00	US$	30	42
Banco ITAU BBA – Brasil	-	Between 2.52 and 3.35	US$	-	88,010
BCI – Chile	-	Between 4.00 and 9.00	US$	-	25,510
Banco Financiero	-	Between 4.35 and 5.18	US$	-	17,950
Santander Overseas Bank	-	2.78	US$	-	17,857
Banco Santander Central Hispano	-	4.04	US$	-	17,061
Banco Internacional del Peru – Interbank	-	4.50	US$	-	14,063
Banco Interamericano de Finanzas - BIF	-	4.01	US$	-	11,971
Banco HSBC – Peru	-	Between 3.35 and 4.84	US$	-	11,838
Caterpillar Leasing - Chile	-	Libor three months + 2.5%	US$	-	1,817
Citibank – El Salvador	-	4.00	US$	-	1,403
				443,002	588,292

The accrued interest expense for the year ended at December 31, 2013 related to debts and bank loans, amounts approximately to S/.23,162,000 (S/.27,585,000 for the year ended at December 31, 2012), and is presented in the caption "Financial expenses" of the consolidated statement of income, see note 22. Of this total, the accrued interest balance at December 31, 2013 amounted to approximately S/.456,000 (S/.5,644,000 at December 31, 2012), see note 14.

As of December 31, 2013 and 2012, bank loans in foreign currency obtained from local financial institutions and abroad were mainly used for working capital, have maturities between 6 and 270 days and can be renewed at maturity up to 180 days.

At December 31, 2013, the Group has credit lines for working capital up to S/.3,338,589,000 (S/.1,403,050,000 at December 31, 2012) with most banks in the finance system, which are intended to finance short term.

(c) Bonds and long-term debt

This item is made up as follows:

Creditor	Maturity	Original currency	Annual effective interest rate %	2013 Current portion S/.(000)	2013 Non-current portion S/.(000)	2013 Total S/.(000)	2012 Current portion S/.(000)	2012 Non-current portion S/.(000)	2012 Total S/.(000)
Bonos Ferreycorp S.A.A.									
The Bank of New York (estructurador) (i)	Up to abril 2020	US$	4.934(*)	-	821,845	821,845	-	-	-
Bonos Ferreyros S.A.(ii)									
Segundo Programa de Bonos Corporativos									
First edition, Serie B	Up to may 2013	US$	4.688	-	-	-	38,265	-	38,265
First edition, Serie C	Up to june 2013	US$	4.563	-	-	-	25,510	-	25,510
First edition, Serie D	Up to august 2013	US$	4.000	-	-	-	38,265	-	38,265
Seventh edition, Serie A	Up to may 2016	US$	5.563	13,182	19,773	32,955	12,027	30,067	42,094
Seventh edition, Serie B	Up to october 2016	US$	5.750	12,697	25,395	38,092	11,585	34,754	46,339
Financial notes									
Caterpillar Financial	Up to December 2016	US$	Between 5.19 and 6.35	3,463	20,408	23,871	74,697	214,175	288,872
Caterpillar Credito S.A. de C.V.	Up to 2016	US$	Between 3.01 and 6.0	6,550	13,515	20,065	20,065	7,827	27,892
Caterpillar Leasing Chile	Up to June 2017	US$	Between 3.45 and 5.20	37,128	229,381	266,509	-	191,325	191,325
Notes with local and foreign institutions	Up to August 2016	US$	Between 3.45 and 7.75	77,604	81,538	159,142	114,819	207,203	322,022
Leases (iii)	Up to November 2013	US$	Between 4.08 and 6.80	26,098	18,110	44,208	33,571	35,860	69,431
Other financing	Up to 2014	US$	5.05	53	10,346	10,399	-	6,706	6,706
				176,775	1,240,311	1,417,086	368,804	727,917	1,096,721

(*) Nominal rate of 4.875 percent converted effectively.

As of December 31, 2012 and 2013, accrued interest expense related to financial notes and long-term liabilities amounted approximately to S/.63,128,000 and S/.52,951,000, respectively, which are shown in the caption "Financial expenses" of the consolidated statement of income, see note 22. The accrued interest balances at December 31, 2013, amounted approximately to S/.10,053.000 (S/.6,722,000 at December 31, 2012) and is presented under "Other account payable" of the consolidated statement of financial position, see note 14.

(i) On 19 April 2013 the first international bond placement of the Company was held. The placement of the bonds came under Rule 144A and Regulation S of the U.S. Securities Act of 1933 and a public offering aimed at institutional investors in Peru. That bond issue was for a total of US$300 million (S/.834,900,000 at that time) at a nominal annual interest rate of 4.875% and a term of seven years, being the expiration date April 24, 2020. The total redemption of the bonds will be the due date. The funds have been used for repaying debt and for general corporate purposes.

The bonds are backed with a generic warranty Ferreycorp S.A.A. heritage and must meet the following ratios:

- To maintain a leverage ratio (Consolidated Total Debt / EBITDA) no more than 3.5 times.
- To maintain a service ratio of interest rate coverage (EBITDA / Interest) no less than 3.0 times.

The compliance with the obligations described are monitored by management and validated by the agent of bondholders. In case of default of the above safeguards, will be incurred in the event of early termination. In Management's opinion, Ferreycorp S.A.A. has complied with such obligations as of December 31, 2013.

(ii) On 30 March 2010, the General Shareholders' Meeting agreed to structure the second program of Corporate Bond Issue, up to a maximum outstanding amount of U.S. $ 130,000,000, the same will be valid for five years.

The bonds are backed with a generic guarantee mainly on the equity of the subsidiary Ferreyros S.A. and must meet the following ratios:

- Maintain a leverage ratio not exceeding 3.2.
- Maintaining service coverage ratio of not less than 1.5 interests.

Compliance with the obligations described are overseen by the Group Management and validated by the representative of bondholders. In case of breach of the above safeguards will be incurred in the event of early termination. In the opinion of management, the Group has complied with these obligations at December 31, 2013 and 2012.

(iii) Applies to financial leasing contracts entered into by the Group with different banks. At December 31, 2013 and 2012, the net book value of these contracts amounted approximately to S/.44,208,000 and S/.69,546,000, respectively.

The financial obligations related to leases are secured because property rights over the assets revert to the lessor in the event of default by the Group.

As of December 31, 2012 and 2013, the repayment schedule of long-term debt is as follows:

Year	2013 S/.(000)	2012 S/.(000)
2014	-	288,498
2015	174,896	189,607
2016	76,216	81,882
2017	148,159	167,930
2018 onwards	841,040	-
	1,240,311	727,917

13. Trade accounts payable

(a) This item is made up as follows:

	2013 S/.(000)	2012 S/.(000)
Invoices (b)	241,302	270,416
Commercial notes (b)	165,081	174,898
	406,383	445,314

(b) As of December 31, 2013, the balances of invoices and commercial notes payable include mainly to payables to Caterpillar Americas Co. for approximately S/.140,958,000 and S/.156,831,000, respectively (equivalent approximately to US$50,414,000 and US$56,091,000 respectively). As of December 31, 2012, the balances amounted approximately to S/.51,763,000 and S/.168,374,000, respectively (equivalent to approximately US$21,863,000 and US$$66,003,000, respectively). As of December 31, 2013 and 2012, commercial notes generated interest at an average annual rate of 2.06 and 2.38 percent, respectively.

14. Other accounts payable

(a) This item is made up as follows:

	2013 S/.(000)	2012 S/.(000)
Advances from customers (c)	113,812	222,563
Liabilities for various expenses (d)	97,447	81,638
Salaries payable	54,765	63,135
Labor contributions payable	34,928	10,164
Provisions for warranty (e)	32,464	29,252
Workers' profit sharing	32,371	22,137
Taxes payable	29,474	6,140
Interest payable, notes 12(b) and (c)	10,509	12,366
Provision	8,829	8,106
Provision for compensation for length of service	5,648	4,096
Other (f)	20,549	11,000
	440,796	470,597
Less:		
Non-current portion	(3,381)	(3,450)
Current portion	437,415	467,147

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

(c) Advances from customers, correspond mainly 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, based on its best estimates of the cash outflow that would require to settle some obligations as of the date of the consolidated statement of financial position.

(e) Corresponds to warranties 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 3.3(o).

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

15. Assets and liabilities for deferred income tax, net

(a) The following table presents the composition of the deferred income tax asset and liability as of December 31, 2013 and 2012:

	As of January 1, 2012 S/.(000)	Credit (charge) to the consolidated statement of income S/.(000)	Credit (charge) to equity S/.(000)	As of December 31, 2012 S/.(000)	Credit (charge) to the consolidated statement of income S/.(000)	Credit (charge) to equity S/.(000)	As of December 31, 2013 S/.(000)
Deferred asset -							
Provisions	18,775	4,246	-	23,021	1,402	-	24,423
Difference in depreciation rates	21,755	6,184	-	27,939	8,508	-	36,447
Allowance for doubtful accounts receivable	8,770	454	-	9,224	2,586	-	11,810
Vacations	4,920	2,532	-	7,452	2,353	-	9,805
Carry forward tax losses	4,827	483	-	5,310	9,906	-	15,216
Estimation for impairment of investments and fixed assets	258	(28)	-	230	(17)	-	213
Allowance for impairment of inventories	4,237	2,465	-	6,702	2,263	-	8,965
Exchange difference on fixed assets and inventories	22	(246)	-	(224)	425	-	201
Other provision	1,306	3,441	-	4,747	346	-	5,093
Other	1,022	(264)	-	758	4,337	-	5,095
	65,892	19,267	-	85,159	32,109	-	117,268
Deferred liability							
Change in assets useful lives	6,966	(201)	-	6,765	425	-	7,190
Exchange difference in fixed assets and inventories	3,413	(607)	-	2,806	(1,188)	-	1,618
Gain deferred sales, net	882	(76)	-	806	1,369	-	2,175
Leasing	6,186	694	-	6,880	189	-	7,069
Provision for compensation	1,295	(353)	-	942	(169)	-	773
Depreciation of installations	-	-	-	-	38	-	38
Revaluation of property, buildings and installations, IFRS 1	11,537	3,736	-	15,273	-	-	15,273
Revaluation of land	66,275	471	-	66,746	603	31,960	99,309
Valuation of financial instruments	(31)	-	24	(7)	-	7	-
Differences in depreciation rates	422	525	-	947	2,380	-	3,327
Profiting by buying companies	-	-	-	-	5,058	-	5,058
Other	1,519	13,654	-	15,173	2,921	-	18,094
	98,464	17,843	24	116,331	11,626	31,967	159,924
Total deferred liability, net	(32,572)	1,424	(24)	(31,172)	20,483	(31,967)	(42,656)

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

	2013 S/.(000)	2012 S/.(000)
Income tax -		
Current	85,957	96,184
Deferred	(20,483)	(1,424)
Total income tax expense	65,474	94,760

(c) The reconciliation of the effective rate of income tax with the tax rate is as follows:

	2013		2012	
	S/.(000)	%	S/.(000)	%
Profit before income tax	165,499	100.00	315,183	100.00
Income tax according to tax rate	49,650	30.00	94,555	30.00
Net effect of non-deductible expenses				
Non-deductible expense, net of non-taxable income	15,824	9.56	205	0.07
Income tax expense	65,474	39.56	94,760	30.07

(d) The income tax payable are presented net of prepayments made during this year.

16. Equity

(a) Issued capital -

General Meeting of Shareholders on 26 March 2013, approved the payment of cash dividends for S/.48,194,000 and the capitalization of profits of the year 2012 for S/.110,092,000. The board approved the transfer of S/.17,587,000 from retains earnings to legal reserve.

Also, the partial capitalization of share premium (additional capital) for S/.31,900,000 was approved.

After the issuance of shares and corresponding public deed formalizing, the Group's capital is represented by 945,227,102 common shares with a nominal value of each S/.1.00 as of December 31, 2013 (803,234,873 subscribed and paid by December 31, 2012 common stock a nominal value of S/.1.00 each).

At December 31, 2013, the shareholding structure of the Group was as follows:

Percentage of individual share capital	Shareholders number	Total participation %
Up to 1.00	3,033	39.00
From 1.01 to 5.00	15	39.75
From 5.01 to 10.00	3	21.25
	3,051	100.00

(b) Additional Capital -

During 2012 Inti Inversiones Interamericanas Corp. S.A., a subsidiary of the Group abroad, received, in its functional currency (US$), capital contributions in cash from non-controlling interests of $2,000,000, for this amount the corresponding common shares were issued . In addition to the aforementioned capital contributions received in cash bonuses were Issued for $ 6,000,000 (equivalent to S/.15,474,000) in 2012. At December 31, 2012, Ferreycorp S.A.A. had acquired these capital contributions to non-controlling interests for the value of the common shares, which at that time keeps 100 percent control over INTI, becoming the premium on a difference between the total contribution received and the value of the shares acquired by Ferreycorp S.A.A., which is maintained in the consolidated assets of the Group as additional capital. The holding period of the non-controlling interest is not material to the consolidated financial statements.

(c) Legal reserve -

As provided in the Corporations Act, it is required that at least 10 percent of the distributable income for each year, net of income taxes, to a legal reserve until transferred equals 20 percent of the capital. The legal reserve can absorb losses or be capitalized, in both cases there must be replenished.

(d) Other reserves -

Primarily includes land revaluation surplus, net of the related deferred income tax. It also includes the net gains and losses from changes in the estimated fair value of derivatives hedging cash flows, where the change in value is reflected initially in equity financial instruments, subsequently affecting the income statement in depending on how it is influenced by the underlying covered.

(e) Reserve for translation exchange-

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

(f) Distribution of dividends -

General Meeting of Shareholders of March 29, 2013, agreed to distribute dividends from profits unrestricted in 2012 by S/.48,194,000, which was paid in May 2013.

General Meeting of Shareholders of March 28, 2012, agreed to distribute dividends out of profits available free previous years S/.41,903,000, which were paid in May 2012.

17. Sales and cost of sales

This item is made up as follows:

	2013 S/.(000)	2012 S/.(000)
Sales -		
Sales of machinery, engines, equipment and vehicles	2,283,081	2,724,313
Sales of spare parts	2,031,466	1,415,444
Rental services of machinery, engines, equipment, maintenance and repair services	684,193	508,816
	4,998,740	4,648,573
Cost of sales -		
Opening balance of inventory, note 8	1,365,533	1,100,998
Purchase of inventory	3,288,685	3,515,392
Labor, note 20	192,730	154,819
Maintenance and repair services expenses	122,233	87,851
Depreciation, note 10(g)	103,424	86,373
Amortization, note 11	249	306
Allowance for obsolescence of inventories, note 8 (c)	16,476	14,024
Recoveries, note 8 (c)	(8,641)	(6,768)
Operating costs of rental fleet	135,833	84,549
Impairment of rental fleet	2,479	-
Services provided by third parties	89,874	57,783
Others expenses	2,596	1,296
Ending balance of inventory, note 8	(1,405,546)	(1,365,533)
	3,905,925	3,731,090

18. Selling expenses

(a) This item is made up as follows:

	2013 S/.(000)	2012 S/.(000)
Personnel expenses, note 20	239,296	221,720
Services provided by third parties (b)	116,853	97,318
Various management charges (c)	104,483	98,787
Depreciation, note 10(g)	34,659	31,572
Amortization of intangibles, note 11	21,524	236
Allowance for doubtful accounts receivable, notes 6(d) and 7(h)	20,693	15,293
Compensation for length of services	20,184	15,579
Taxes	1,932	1,645
	559,624	482,150

(b) Mainly corresponds to maintenance 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.

19. Administrative expenses

(a) This item is made up as follows:

	2013 S/.(000)	2012 S/.(000)
Personnel expenses, note 20	116,657	101,048
Services provided by third parties (b)	36,896	36,711
Depreciation, note 10 (g)	12,429	9,868
Various management expenses	9,607	7,353
Employee compensation	7,653	6,322
Amortization of intangible assets, note 11	3,082	6,524
Taxes	2,665	2,208
Provisions	483	164
	189,472	170,198

(b) Mainly corresponds to expenses for offices rentals, maintenance of offices and facilities, computer services, software licenses and consulting and advisory services.

20. Personnel expenses

(a) This item is made up as follows:

	2013 S/.(000)	2012 S/.(000)
Salaries	312,519	273,447
Legal bonuses	80,020	73,823
Vacations	34,958	10,135
Training	29,799	39,418
Payroll taxes	40,961	39,978
Other payments to workers	15,912	10,368
Workers' profit sharing	17,741	17,891
Other	16,773	12,527
	548,683	477,587

(b) Under the current workers' profit sharing system regulated by Legislative Decree N° 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 "Advances, salaries and other accounts payable" caption.

(c) The average number of employees in the Group was 6,303 in 2013 and 6,290 in 2012.

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

	2013 S/.(000)	2012 S/.(000)
Cost of sales, note 17	192,730	154,819
Selling expenses, note 18	239,296	221,720
Administrative expenses, note 19	116,657	101,048
	548,683	477,587

(e) Compensation to key personnel -

The total remuneration paid to directors and key management officers during 2013 amounted approximately to S/.33,016,000 (approximately to S/.32,769,000 in 2012), which include short-term benefits and compensation for time service.

21. Financial income

This item is made up as follows:

	2013 S/.(000)	2012 S/.(000)
Interest for commercial letters	13,544	11,687
Interest for customers defaults	2,571	3,603
Interest on bank deposits	1,337	1,282
Other	4,285	6,539
	21,737	23,111

22. Financial expenses

This item is made up as follows:

	2013 S/.(000)	2012 S/.(000)
Interest on corporate bonds and long-term debt, note 12(c)	63,128	52,951
Interest on overdrafts and borrowings, note 12(b)	23,162	27,585
Tax on financial transactions	7,337	4,431
Interest on foreign suppliers financing	391	565
Other	8,847	4,124
	102,865	89,656

23. Earnings per share

Earnings per share calculation as of December 31, 2013 and 2012 are as follows:

	As of December 31, 2013		
	Net profit (numerator) S/.(000)	Shares (denominator) (en miles)	Earnings per share S/.
Earnings per share - basic and diluted	100,025	945,227	0.106

	As of December 31, 2012		
	Net profit (numerator) S/.(000)	Shares (denominator) (en miles)	Earnings per share S/.
Earnings per share - basic and diluted	220,423	945,227	0.233

24. Commitments and contingencies

As of December 2013, the Group had the following commitments:

Ferreycorp S.A.A.:

(a) Endorsements for US$904,000,000 and US$15,000,000, which guarantee credit operations of subsidiaries and affiliates, and purchase transactions with third parties, respectively, with various maturities.

(b) Bank guarantees in favor of banks for US$1,000,000, which primarily guarantee the seriousness of the offer of the Company and the faithful fulfillment of the delivery of the products sold through public process and payment of customs duties relating to the importation of goods.

Subsidiaries

Ferreyros S.A.:

(a) Endorsements for US$8,600,000 guaranteeing third purchase transactions

(b) Bank guarantees in favor of banks for US$31,000,000, which mainly ensure the seriousness of the offer of the Company and the faithful fulfillment of the delivery of the products sold through public process and payment of customs duties relating to the importation of goods.

Cresko S.A.:

Bank guarantee in favor of a third party for S/.243,000 to guarantee payment of obligations.

Fargoline S.A.:

The subsidiary has contracted a guarantee insurance to favor of SUNAT related to importation of goods under the customs procedure for US$1,200,000 and for goods in temporary storage for US$1,400,000.

Ferrenergy S.A.C.:

Bank guarantees in favor of banks for US$14,633,000 to guarantee payment of obligations.

Mega Representaciones S.A.:

(a) Endorsements for US$8,120,000 and S/.18,522,000, to guarantee third purchase transactions and leases, respectively, with various maturities.

(b) Bank guarantees in favor of banks for US$3,097,000 and S/.365,000, which primarily guarantee the seriousness of the offer of the Company and the faithful fulfillment of the delivery of the products sold through competitive process, as well as payment of customs duties relating to the importation of merchandise, respectively.

Motored S.A.:

(a) Guarantees for US$18,000,000 to guarantee credit operations by purchasing third party.

(b) Bank guarantees for US$50,000 to guarantee payment of customs duties in connection with importation of merchandise

(c) Bank guarantees in favor of third parties for S/.704,000 which mainly ensure reliability of supply and the faithful fulfillment of the delivery of the products sold through public process.

(d) Guarantees payment per financial note Comex for US$25,000,000.

Orvisa S.A.:

(a) Guarantees payment for US$630,000, to guarantee credit operations purchase third party.

(b) Bank guarantees in favor of banks for US$3,784,000 and S/.1,266,000, which primarily ensure reliability of supply and the faithful fulfillment of the delivery of the products sold through public bidding.

25. Income Taxes

(a) The Group is subject to taxation in the country in which it operates and is taxed separately on the basis of its non-consolidated results. At December 31, 2013 and 2012, the rate of income tax on taxable income in the main countries in which the Group operates is 30 percent (Peru and Nicaragua), 31 percent (Guatemala), 25 percent (El Salvador and Belize).

According to the laws in force in some countries as of December 31, 2013 and 2012, cash dividends for non-resident shareholders are taxed at the income tax. The rate for Peru is 4.1 percent, while in El Salvador the rate is 5 percent and the other countries of Central America are exempt from this tax.

(b) The rules and transfer pricing are in effect in Peru, Nicaragua, Guatemala, El Salvador and Belize, and regulate local transactions with related companies or abroad should be carried at market value.

The tax authorities have the right to request such information. Based on the analysis of the Group's operations, management and its legal counsel believe that as a result of the application of these standards, it does not result in significant contingencies to the Group at December 31, 2013 and 2012.

(c) The Tax Authority in each country has the right to inspect and, if necessary, adjust the corresponding tax expense calculated for each Group in the years following the year of the filing of the affidavit.

For Ferreycorp S.A.A. affidavits of income tax and general sales tax for the years 2009 to 2013 are pending audit by the Tax Authority in Peru. To date, the Tax Administration is in the process of audit of 2008.

Likewise, the affidavits of income tax and general sales tax of the main subsidiaries are subject to examination by the tax authorities of each country for the periods below:

	Fiscal years subject to review
Foreign subsidiaries:	
Country	
Guatemala	2009 to 2013
El Salvador	2009 to 2013
Belice	2006 to 2013
Nicaragua	2007 to 2013
United States of America	2009 to 2013
Local subsidiaries	
Ferreyros S.A.	2008 to 2013
Unimaq S.A.	2012 to 2013
Cresko S.A.	2009 to 2013
Fiansa S.A.	2009 to 2013
Mega Representaciones S.A.	2009 to 2013
Fargoline S.A.	2009 to 2013
Orvisa S.A. y Subsidiarias	2009 to 2013
Motored S.A.	2011 to 2013
Inmobiliaria CDR S.A.	2010 to 2013
Forbis Logistic S.A.	2012 to 2013
Soluciones Sitech Peru S.A.	2013

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 such tax or surcharge is assessed. In the Group Management's opinion, any additional tax settlement would not be significant for the consolidated financial statements as of December 31, 2013 and 2012.

(d) The Tax Authority has the power to inspect and, if necessary, adjust the income tax calculated by the Company during the four years following the year of the filing of the affidavit. The affidavits of income tax and general sales tax for the years 2009 to 2013 are pending audit by the Tax Authority. The affidavits for the years 2000 to 2007 were reviewed by the Tax Authority. The Tax Administration is in the process of audit of 2008.

Due to the possible interpretation that the tax authority can give legal norms can not be determined, the date, if the reviews will result or liabilities to the Company, so any higher tax or surcharge that may result of any tax revisions would be applied to the year in which it is determined.

In the opinion of management of the Group, any additional tax settlement would not be significant to the consolidated financial statements as of December 31, 2013 and 2012.

Contingencies

At December 31, 2013 and 2012, the Group has pending claims for total amount of approximately S/.108,000,000 (including fines for S/15,976,000 and interest for S/.70,021.000). Such processes are pending administrative or judicial resolution, and are related to observations made by the relevant tax authorities to the affidavits of: (i) income tax (including prepayments) of the tax years 2001 to 2006 for S/.99,807,000, (ii) the value added tax for the taxable years from 2001 to 2006 by S/.3,702,000, and (iii) income tax non- domiciled for tax years 2002, 2003, 2005 and 2006 for S/.4,731,000.

In all cases, at December 31, 2013, the Company has sought specialist advice on these issues, who have been determined, together with management, there are some dimensions of approximately S/.8,097.000 (S/.6,124,000 to 31 December 2012), the degree of loss has been assessed as more than likely. The Company has recorded a provision for such amount as of December 31, 2013 and 2012, which is presented in the "other accounts payable" caption of the consolidated statement of financial position. Management, together with its legal and tax advisors consider that the Group has technical and law believe that the Tax Court in Peru resolved favorably to the Group; in that sense, expect that future resolutions of these processes will not result significant liabilities and, therefore, it is not necessary to register any liabilities as of December 31, 2013 and 2012.

26. 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.

(a.1) 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.

(a.2) Risk committee -

The risk committee is a governing body whose mission is to assist the senior management and the Board of Directors, through the Audit Committee in overseeing the Group's risk management, monitoring the internal control environment and providing guidance on the related action plans to mitigate the risks that could adversely affect the achievement of the objectives of the Group.

The risk committee's role is to oversee the risk area to develop its annual work plan and operational areas to be actively engaged. This supervision is done through regular meetings where the risk area presents about the status of the plan's implementation.

(a.3) 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.

(a.4) Finance department -
The finance department is responsible for managing the Group's assets and liabilities 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.

(a.5) Corporate risk division -
The corporate risk division is responsible for providing comprehensive risk management based upon the methodology established, to define the work schedule with the operational areas of the entire corporation and to support them in the process to identify, assess, respond, control and monitor their most important risks. The operational areas of each subsidiary of Ferreycorp S.A.A. are responsible to implement and execute the work schedule as well as for the implementation of the approved action plans on the risks that may have a material impact on each entity and Ferreycorp S.A.A.

Also as part of the risks related to the Group's strategic planning process, for which the Group sets action plans to mitigate these risks are comprised: competition, recruitment, retention, equipment availability, product failure, social conflict and the global financial crisis.

(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.

(c.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.

At December 31, 2013, the Management has estimated that the maximum amount of credit risk to which the Group is exposed is approximately S/.1,048.571 (S/.1,022.618 at December 31, 2012), which represents the value carrying amounts of financial assets. In the opinion of management, there are no significant concentrations of credit risk at December 31, 2013 and 2012.

(c.2) Interest rate risk –

The Group's policy is to maintain financial instruments with fixed and variable interest rates. The operating cash flows of the Group are substantially independent of changes in market interest rate, due to individual credit rating of the Group, allowing them you to get competitive interest rates in local markets. It should be noted that the Group has not made significant financial transactions with variable interest rates, therefore, in the opinion of management the Group has no significant risk to interest rate exposure.

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

	At December 31, 2013							
	Fix rate							
	Up to 3 months S/.(000)	From 3 to 12 months S/.(000)	From 1 to 5 years S/.(000)	Variable rate (*) S/.(000)	Non-interest bearing S/.(000)	Total S/.(000)	Average interest rate at 2013 %	Average variable interest rate at 2013 %
Assets								
Cash and cash equivalent	28,332	-	-	-	91,081	119,413	0.2 a 3.8	-
Trade accounts receivable, net	486,970	7,280	19,296	-	348,551	862,097	Between 14 and 20	-
Other accounts receivable, net (**)	7,929	428	3,178	-	55,526	67,061	7.55	-
Total assets	523,231	7,708	22,474	-	495,158	1,048,571		
Liabilities								
Trade accounts payable	13,028	47,496	-	-	345,859	406,383	2.38	-
Other accounts payable	-	-	-	-	440,796	440,796	-	-
Financial liabilities	309,395	311,000	1,238,461	1,850	-	1,860,706	Between 1.71 and 8.50	Libor (3 months) + 2.5
Total liabilities	322,423	358,496	1,238,461	1,850	786,653	2,707,885		
Marginal gap	200,808	(350,788)	(1,215,987)	(1,850)	(291,495)	(1,659,314)		
Cumulative gap	200,808	(149,980)	(1,365,967)	(1,367,817)	(1,659,314)	-		

	At December 31, 2012							
	Fix rate							
	Up to 3 months S/.(000)	From 3 to 12 months S/.(000)	From 1 to 5 years S/.(000)	Variable rate (*) S/.(000)	Non-interest bearing S/.(000)	Total S/.(000)	Average interest rate at 2012 %	Average variable interest rate at 2012 %
Assets								
Cash and cash equivalents	28,990	-	-	-	143,734	172,724	1.30	-
Trade accounts receivable, net	199,993	11,332	64,933	-	504,433	780,691	Between 14 and 20	-
Other accounts receivable, net (**)	-	-	-	-	69,203	69,203	-	-
Total assets	228,983	11,332	64,933	-	717,370	1,022,618		
Liabilities								
Trade accounts payable	54,658	-	-	-	390,656	445,314	2.34	-
Other accounts payable	-	-	-	-	470,597	470,597	-	-
Financial liability	588,548	376,166	630,728	89,827	-	1,685,269	Between 2.52 and 8.50	Libor (3 months) + 2.50
Total liabilities	643,206	376,166	630,728	89,827	861,253	2,601,180		
Marginal gap	(414,223)	(364,834)	(565,795)	(89,827)	(143,883)	(1,578,562)		
Cumulative gap	(414,223)	(779,057)	(1,344,852)	(1,434,679)	(1,578,562)	-		

(*) It is considered variable all obligations with variable rate or basis.

(**) At December 31, 2013, other receivables included in this table do not consider a rising amount S/.66,829,000 (S/.57, 261,000 at December 31, 2012) for the value added tax payable and income tax payable, the same as, according to IFRS, do not qualify as financial instruments.

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, 2013 and 2012:

	2013		2012	
Currency	Change in basis points	Sensitivity in net profit S/.(000)	Change in basis points	Sensitivity in net profit S/.(000)
Nuevos Soles	+/-50	+/-5,430	+/-50	+/-2,943
Nuevos Soles	+/-100	+/-10,861	+/-100	+/-5,885
Nuevos Soles	+/-200	+/-21,721	+/-200	+/-11,771
Nuevos Soles	+/-300	+/-32,582	+/-300	+/-17,656

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 proforma 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 they mature within the year, are renewed for the same amount.

(c.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 2013 and 2012. 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.

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)	5 years onward S/.(000)	Total S/.(000)
As of December 31, 2013					
Other financial liabilities:					
Amortization of capital	309,395	311,000	393,236	847,075	1,860,706
Interest	16,815	44,212	43,922	15,805	120,754
Trade accounts payable	358,887	47,496	-	-	406,383
Other accounts payable	-	440,796	-	-	440,796
	685,097	843,504	437,158	862,880	2,828,639
As of December 31, 2012					
Other financial liabilities:					
Amortization of capital	588,548	376,166	720,555	-	1,685,269
Interest	18,312	36,843	68,722	-	123,877
Trade accounts payable	445,314	-	-	-	445,314
Other accounts payable	-	470,597	-	-	470,597
	1,052,174	883,606	789,277	-	2,725,057

(c.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.

Assets and liabilities transactions are mainly performed in local currency. Foreign currency transactions are performed at market exchange rates and are detailed in note 4.

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 4. Any depreciation/appreciation of the foreign exchange would affect the consolidated statement of comprehensive income.

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, 2013 and 2012 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**	**2013**	**2012**
	%	S/.(000)	S/.(000)
Devaluation -			
Soles	5%	61,609	62,294
Soles	10%	123,219	125,848
Revaluation -			
Soles	5%	(61,609)	(62,924)
Soles	10%	(123,219)	(125,848)

(d) **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 Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and 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, 2013 and 2012, there were no changes in the Group's activities and capital management's policies.

27. Fair value of financial instruments

(a) Fair value -

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.

Accounting standards define a financial instrument as cash, evidence of ownership in an entity, or a contract in which they agreed or imposed on an entity's contractual right or obligation to receive or deliver cash or another financial instrument. Fair value is defined as the amount at which a financial instrument could be exchanged in a transaction between two parties so wish, other than in a forced sale or liquidation, and the best evidence of its value is its price, if any.

The methodologies and assumptions used depend on the terms and risk characteristics of various financial instruments and include the following:

- Cash and cash equivalents represents a credit risk or interest rate significantly. Therefore, it has been assumed that their carrying amounts approximate their fair value.

- Accounts receivable because they are net of provision for loan losses and primarily have maturities of less than one year, the Management has seen its fair value is not materially different from its carrying value.

- In the case of trade payables and other payables, as these liabilities have current maturities, management believes that its accounting balance approximates its fair value.

Based on the criteria described above, management believes that there are no significant differences between the book value and fair value of financial instruments of the Company at December 31, 2013 and 2012.

(b) Fair-value measurement -
Instruments measured at fair value by hierarchy

Level 1 –

- Cash and cash equivalents represents a credit risk or significant interest rate, therefore, their carrying amounts approximate their fair value.

- Accounts receivable because they are net of provision for loan losses and primarily have maturities of less than three months, and Management has seen its fair value is not materially different from its carrying value.

- Trade accounts payable and other payables, due to its current maturity, and management believes that its accounting balance approximates its fair value.

Level 2 –

- Other financial liabilities have been determined by comparing the fair value market interest rates at the time of initial recognition with current market rates offered for similar financial instruments. A comparison between the carrying amounts and fair values of these financial instruments:

	2013		2012	
	Value books S/.(000)	Fair Value S/.(000)	Value books S/.(000)	Fair Value S/.(000)
Financial Obligations	620,395	620,395	957,352	957,352
Financial Non-Obligations	1,240,311	1,005,653	727,917	684,190

28. 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)	Selling expenses S/.(000)	Administrative expenses S/.(000)	Other income S/.(000)	Financial expenses S/.(000)	Financial income S/.(000)	Gain on exchange difference S/.(000)	Profit in associates	Profit before income tax S/.(000)	Income tax S/.(000)	Net profit S/.(000)
2013														
Heavy machinery, spare parts and services	4,034,954	14,853	4,049,807	896,634	(427,638)	(133,414)	25,557	(83,032)	17,546	(117,963)	-	177,690	(52,850)	124,840
Vehicles, spare parts and services	214,728	-	214,728	28,299	(21,142)	(10,952)	1,360	(4,419)	934	(6,278)	-	(12,198)	(2,813)	(15,011)
Rental equipment	263,355	-	263,355	64,638	(38,740)	(11,289)	1,668	(5,419)	1,145	(7,699)	-	4,304	(3,449)	855
Agricultural equipment, spare parts and services	85,263	356	85,619	18,185	(16,758)	(5,277)	540	(1,755)	371	(2,493)	-	(7,187)	(1,117)	(8,304)
Other	400,440	-	400,440	100,268	(55,346)	(28,540)	2,536	(8,240)	1,741	(11,707)	2,178	2,890	(5,245)	(2,355)
Total consolidated	4,998,740	15,209	5,013,949	1,108,024	(559,624)	(189,472)	31,661	(102,865)	21,737	(146,140)	2,178	165,499	(65,474)	100,025
2012														
Heavy machinery, spare parts and services	3,824,364	1,677	3,826,041	752,553	(371,989)	(129,622)	30,879	(73,760)	19,013	65,060	-	290,762	(77,959)	212,803
Vehicles, spare parts and services	270,239	106	270,345	29,613	(21,294)	(6,365)	1,682	(5,212)	1,344	4,597	-	4,768	(5,509)	(741)
Rental equipment	207,087	-	207,087	57,819	(32,858)	(9,363)	1,672	(3,994)	1,030	3,523	-	17,755	(4,221)	13,534
Agricultural equipment, spare parts and services	120,837	226	121,063	23,590	(14,962)	(5,137)	975	(2,331)	601	2,056	-	4,749	(2,463)	2,286
Other	226,046	-	226,046	55,917	(41,047)	(19,711)	658	(4,359)	1,123	3,845	(363)	(2,851)	(4,608)	(7,459)
Total consolidated	4,648,573	2,009	4,650,582	919,492	(482,150)	(170,198)	35,866	(89,656)	23,111	79,081	(363)	315,183	(94,760)	220,423

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	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)
2013														
Peru	4,527,373	15,209	4,542,582	1,003,399	(174,043)	(501,903)	31,842	2,178	(90,148)	19,220	(146,590)	143,955	(56,750)	87,205
Guatemala	329,740	-	329,740	64,687	(7,158)	(36,594)	600	-	(5,272)	1,613	381	18,257	(5,280)	12,977
El Salvador	99,959	-	99,959	26,349	(4,050)	(14,635)	(452)	-	(1,826)	346	-	5,732	(1,841)	3,891
Belice	10,657	-	10,657	2,512	(1,336)	(1,277)	(35)	-	(56)	126	240	174	(194)	(20)
United States of America	34,390	-	34,390	6,115	(302)	(3,327)	-	-	(24)	3	-	2,465	(989)	1,476
Nicaragua	22,531	-	22,531	4,962	(1,502)	(1,888)	252	-	(90)	13	(171)	1,576	(420)	1,156
Panama	-	-	-	-	(1,627)	-	-	-	(6,473)	1,440	-	(6,660)	-	(6,660)
Intercompany Operations	(25,910)	-	(25,910)	-	546	-	(546)	-	1,024	(1,024)	-	-	-	-
Total consolidated	4,998,740	15,209	5,013,949	1,108,024	(189,472)	(559,624)	31,661	2,178	(102,865)	21,737	(146,140)	165,499	(65,474)	100,025
2012														
Peru	4,252,676	2,009	4,254,685	832,319	(159,964)	(434,672)	8,952	(363)	(76,114)	17,787	79,785	267,730	(89,168)	178,562
Guatemala	279,978	-	279,978	53,607	(5,493)	(29,825)	-	-	(6,345)	3,908	(839)	15,013	(2,375)	12,638
El Salvador	99,415	-	99,415	26,661	(3,408)	(14,521)	(968)	-	(2,014)	580	-	6,330	(2,147)	4,183
Belice	10,305	-	10,305	2,343	(1,090)	(1,035)	(67)	-	(128)	220	135	378	(179)	199
United States of America	26,501	-	26,501	4,562	(104)	(2,097)	-	-	(19)	1	-	2,343	(891)	1,452
Panama	-	-	-	-	(139)	-	27,949	-	(7,853)	3,432	-	23,389	-	23,389
Intercompany Operations	(20,302)	-	(20,302)	-	-	-	-	-	2,817	(2,817)	-	-	-	-
Total consolidated	4,648,573	2,009	4,650,582	919,492	(170,198)	(482,150)	35,866	(363)	(89,656)	23,111	79,081	315,183	(94,760)	220,423

29. Explanation added for English translation

The accompanying consolidated financial statements were originally issued in Spanish and are presented on the basis of International Financial Reporting Standards, as described in Note 3. 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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