

Translation of consolidated financial statements originally issued in Spanish - See note 33 to the consolidated financial statements

Ferreycorp S.A.A. and Subsidiaries

Consolidated financial statements as of December 31, 2021 and 2020 together with Independent auditors' report

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Ferreycorp S.A.A. and Subsidiaries

Consolidated financial statements as of December 31, 2021 and 2020 together with Independent auditors' report

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Independent Auditor's report

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

1. We have audited the accompanying financial statements of Ferreycorp S.A.A. and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2021, and the corresponding consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was carried out in accordance with the International Auditing Standards approved for application in Peru by the Board of Deans of the Association of Public Accountants of 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.

4. An audit involves the application of 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 financial statements, whether due to fraud or error. In making this risk assessment, the auditor considers the Company's internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures in the circumstances, but not for the purpose of expressing an opinion. opinion on the effectiveness of the Company's internal control.

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Independent Auditor's report (continued)

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

Opinion

6. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ferreycorp S.A.A. and Subsidiaries as of December 31, 2021, and their consolidated financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board.

Other issues

7. The consolidated financial statements of Ferreycorp S.A.A. and Subsidiaries as of and for the year ended December 31, 2020 were audited by other independent auditors whose opinion dated February 24, 2021 was an unmodified opinion.

Lima Peru
February 23, 2022

Countersigned by:



Carlos Ruiz
CPCC Register No.8016

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Ferreycorp S.A.A. and Subsidiaries

Consolidated statement of financial position

As of December 31, 2021 and 2020

	Note	2021 S/(000)	2020 S/(000)		Note	2021 S/(000)	2020 S/(000)
Current asset				Current liability			
Cash and cash equivalents	5	215,761	256,188	Financial obligations	12	704,009	798,129
Trade receivables, net	6	1,014,738	975,252	Lease liability	13	41,041	41,517
Other current assets	7	198,194	257,114	Trade Payables	14	782,171	500,537
Inventories	8	2,081,635	1,684,076	Other liabilities	15	613,453	884,680
Expenses paid in advance		40,259	32,863	Income tax liability		71,569	44,917
		<u>3,550,587</u>	<u>3,205,493</u>	Total current liability		<u>2,212,243</u>	<u>2,269,780</u>
Non-current assets held for sale	10(i)	15,671	13,863	Non-current liability			
Total current asset		<u>3,566,258</u>	<u>3,219,356</u>	Financial obligations	12	1,183,877	913,706
				Lease liability	13	78,365	98,226
				Other long-term liabilities	15	1,009	156
				Deferred income tax liability, net	16	162,475	195,196
				Deferred income		7,213	397
				Total current liability		<u>1,432,939</u>	<u>1,207,681</u>
				Total liability		<u>3,645,182</u>	<u>3,477,461</u>
Non-current assets				Equity	17		
Long-term trade receivables	6	40,664	61,490	Issued capital		958,894	975,683
Other non-current assets	7	48,692	33,331	Treasury shares		(12,832)	(17,804)
Investments in joint venture	9	19,754	18,005	Additional capital		43,710	55,554
Property, machinery and equipment	10	1,699,530	1,630,058	Legal reserve		211,631	211,631
Intangible assets, net	11(a)	257,615	279,371	Other reserves		375,462	351,928
Goodwill	11(b)	180,097	174,874	Retained earnings		765,291	575,606
Deferred income tax asset, net	16	174,728	221,872	Equity attributable to equity holders of the parent		2,342,156	2,152,598
Total non-current asset		<u>2,421,080</u>	<u>2,419,001</u>	Non-controlling interest		-	8,298
Total asset		<u>5,987,338</u>	<u>5,638,357</u>	Total equity		<u>2,342,156</u>	<u>2,160,896</u>
				Total liability and equity		<u>5,987,338</u>	<u>5,638,357</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

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Ferreycorp S.A.A. and Subsidiaries

Consolidated income statement

For the years ended December 31, 2021 and 2020

	Note	2021 S/(000)	2020 S/(000)
Operating revenues	18	6,088,728	4,670,628
Other operating income		1,349	1,424
Total operating income		<u>6,090,077</u>	<u>4,672,052</u>
Cost of sales	18	(4,447,526)	(3,482,141)
Gross profit		<u>1,642,551</u>	<u>1,189,911</u>
Selling expenses	19	(573,119)	(496,074)
Administrative expenses	20	(304,329)	(277,391)
Other income and expenses, net		8,147	11,262
Operating profit		<u>773,250</u>	<u>427,708</u>
Participation in net results in joint venture	9(b)	1,863	1,667
Financial income	22	20,437	17,742
Financial expenses	23	(70,318)	(90,299)
Exchange difference, net	29(c)	(124,544)	(97,492)
Profit before income tax		<u>600,688</u>	<u>259,326</u>
Income tax expense	16	(187,485)	(89,198)
Profit for the year from continuing operations		<u>413,203</u>	<u>170,128</u>
Discontinued operations	27		
Loss for the year after tax from discontinued operations		(37,149)	(26,180)
Profit for the year		<u>376,054</u>	<u>143,948</u>
Earnings per share			
Basic and diluted net earnings per share (in soles)	24	0.397	0.150
Earnings per share from continuing operations			
Basic and diluted net earnings per share (in soles)		0.436	0.177

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Ferreycorp S.A.A. and Subsidiaries

Consolidated statement of comprehensive income

For the years ended December 31, 2021 and 2020

	Note	2021 S/(000)	2020 S/(000)
Profit of the year		<u>376,054</u>	<u>143,948</u>
Exchange differences on translation of subsidiaries		<u>23,534</u>	<u>35,545</u>
Other comprehensive income for the year		<u>23,534</u>	<u>35,545</u>
Comprehensive results for the year		<u>399,588</u>	<u>179,493</u>

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Ferreycorp S.A.A. and Subsidiaries

Consolidated statement of changes in equity
For the years ended December 31, 2021 and 2020

	Note	Number of shares outstanding	Equity attributable to equity holders of the parent										Equity attributable to equity holders of the parent S/(000)	Non-controlling interest S/(000)	Total equity S/(000)
			Issued capital S/(000)	Treasury shares S/(000)	Additional capital S/(000)	Legal reserve S/(000)	Revaluation S/(000)	Unrealized results S/(000)	Other reserves			Retained earnings S/(000)			
									Cumulative translation reserve S/(000)	Other reserves S/(000)	Total other reserves S/(000)				
Balances as of January 1, 2020		975,683	975,683	(5,731)	67,030	211,632	253,391	(2,634)	34,590	30,837	316,184	580,773	2,145,571	8,298	2,153,869
Profit of the year		-	-	-	-	-	-	-	-	-	-	143,948	143,948	-	143,948
Other comprehensive income for the year:															
- Exchange difference on translation	17(e)	-	-	-	-	-	-	-	35,545	-	35,545	-	35,545	-	35,545
- Transfer of retained earnings	17(e)	-	-	-	-	620	-	-	-	-	620	(620)	-	-	-
Comprehensive result for the year		-	-	-	-	620	-	-	35,545	-	36,165	143,328	179,493	-	179,493
Transactions with shareholders:															
- Repurchase of shares	17(b)	-	-	(12,073)	(11,476)	-	-	-	-	-	-	-	(23,549)	-	(23,549)
- Decrease in equity of investments	17(e)	-	-	-	-	(1)	-	-	-	(421)	(421)	(1,582)	(2,004)	-	(2,004)
- Distribution of dividends		-	-	-	-	-	-	-	-	-	-	(146,913)	(146,913)	-	(146,913)
Balances as of December 31, 2020		975,683	975,683	(17,804)	55,554	211,631	254,011	(2,634)	70,135	30,416	351,928	575,606	2,152,598	8,298	2,160,896
Profit of the year		-	-	-	-	-	-	-	-	-	-	376,054	376,054	-	376,054
Other comprehensive income for the year:															
- Exchange difference on translation	17(e)	-	-	-	-	-	-	-	23,534	-	23,534	-	23,534	-	23,534
Comprehensive result for the year		-	-	-	-	-	-	-	23,534	-	23,534	376,054	399,588	-	399,588
Transactions with shareholders:															
- Repurchase of shares	17(b)	-	-	(11,817)	(11,844)	-	-	-	-	-	-	-	(23,661)	-	(23,661)
- Decrease in equity of investments		-	-	-	-	-	-	-	-	-	-	-	-	(8,298)	(8,298)
- Amortization of shares in treasury	17(b)	(16,789)	(16,789)	16,789	-	-	-	-	-	-	-	-	-	-	-
- Distribution of dividends	17(c)	-	-	-	-	-	-	-	-	-	-	(186,369)	(186,369)	-	(186,369)
Balances as of December 31, 2021		958,894	958,894	(12,832)	43,710	211,631	254,011	(2,634)	93,669	30,416	375,462	765,291	2,342,156	-	2,342,156

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Ferreycorp S.A.A. and Subsidiaries

Consolidated statement of cash flows
For the years ended December 31, 2021 and 2020

	Note	2021 S/(000)	2020 S/(000)
Operating Activities			
Collections from customers and third parties		5,966,820	5,462,583
Payments to suppliers		(4,664,565)	(3,458,396)
Payments to workers and others		(650,050)	(590,210)
Income tax payments		(202,321)	(117,058)
Tax payments		(13,019)	(11,738)
Net cash provided by operating activities		<u>436,865</u>	<u>1,285,181</u>
Investment activities			
Acquisition of real estate, machinery and equipment	10(a)	(104,308)	(91,156)
Acquisition of intangibles	11(a)	(6,856)	(63,724)
Liquidation of investments in funds		-	9,303
Sale of real estate, machinery and equipment		2,243	1,338
Net cash used in investing activities		<u>(108,921)</u>	<u>(144,239)</u>
Financial activities			
Obtaining financial obligations	28	3,367,701	2,504,540
Payment of financial obligations	28	(3,364,042)	(3,131,820)
Lease liability payment	28	(55,893)	(64,653)
Interest paid	28	(74,106)	(88,975)
Payment of dividends	17(f)	(186,369)	(148,127)
Repurchase of shares	17(b)	(23,661)	(23,549)
Net cash used in financing activities		<u>(336,370)</u>	<u>(952,584)</u>
Net (Decrease) increase in cash and cash equivalents			
		(8,426)	188,358
Exchange difference on cash and cash equivalents		<u>(32,001)</u>	<u>(16,603)</u>
Balance of cash and cash equivalents at the beginning of the year		<u>256,188</u>	<u>84,433</u>
Balance of cash and cash equivalents at the end of the year		<u>215,761</u>	<u>256,188</u>
Transactions with no effects in cash flows:			
Right-of-use assets - IFRS 16	10	36,893	51,053
Inventory transfer to fixed assets	10	201,378	131,740

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Ferreycorp S.A.A. and Subsidiaries

Notes to the consolidated financial statements

As of December 31, 2021 and 2020

1. Identification and Business activity

(a) Identification -

Ferreycorp S.A.A. (hereinafter, "the Headquarters" or "the Company") was incorporated in the city of Lima in September 1922 and is the holding entity of a group of companies that operate in Peru and abroad, called "Grupo Ferreycorp", coordinating its policies and administration. The Ferreycorp Group ("the Group"), through its subsidiaries, is mainly engaged in the distribution of machinery, engines, equipment, spare parts, lubricants and other types of goods, as well as the delivery of related services.

The legal domicile of the Company, where its administrative offices are located, is Avenida Cristóbal de Peralta Norte No.820, Surco, Lima, Peru.

(b) Distribution contracts -

On April 13, 2012, the Ferreycorp Group, through its subsidiary Ferreyros SA, signed the update of two non-exclusive distribution contracts for Caterpillar products in Peru with Caterpillar SARL (Dutch Limited Partnership), represented by Caterpillar Americas CV (hereinafter "CAT"). The "Sales & Services Agreement" and "Distribution Agreement for Engine, Parts and Services", referring to the sale of machinery called "Prime" and the sale of engines, spare parts and services, respectively, are for an indefinite term. The Ferreycorp Group, for more than 75 years, has sold the entire line of machinery and spare parts, provides the factory warranty and provides after-sales services (preventive maintenance and repair).

(c) Approval of consolidated financial statements -

The consolidated financial statements as of December 31, 2021 have been issued with the authorization of the Management of the Company and the Audit Committee on February 23, 2022 and approved by the Board of Directors on the same date and will then be presented to the General Shareholders' Meeting to be held in the first quarter of 2022, for final approval.

The consolidated financial statements as of December 31, 2020 were approved by the Board of Directors on February 24, 2021 and by the General Shareholders' Meeting held on March 31, 2021.

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Notes to the consolidated financial statements (continue)

(d) Covid-19-

On March 15, 2020, the Peruvian Government declared a state of emergency by Supreme Decree No. 044-2020-PCM, for a period of fifteen (15) calendar days as a result of the COVID-19 outbreak, which has been classified as a pandemic by the World Health Organization as it has spread to more than one hundred countries in the world simultaneously.

After that date, the Peruvian Government made official several extensions to the length of the term of the State of Emergency, and on January 31, 2022, by Supreme Decree No. 010-2022-PCM, the Peruvian Government formalized an extension to the State of National Emergency of Peru for a period of 28 days, from February 1, 2022, restricting certain economic activities, according to the level of alert in each state of Peru.

The Company's Management has evaluated and implemented the necessary measures to mitigate the impacts caused by COVID-19, and the compliance with the aforementioned decrees; in its operations and in its financial situation.

Likewise, the Management will continue reviewing in the following exercises the pandemic development and its implications for the Consolidated Financial and Equity Situation of the Company and its Subsidiaries, as well as on the consolidated results of its operations and its effective flows.

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Notes to the consolidated financial statements (continue)

2. Information on the structure of the Subsidiaries

As of December 31, 2021 and 2020, the consolidated financial statements comprise the financial statements of Ferreycorp S.A.A., the subsidiaries in which it has control and an investment in a joint venture. The Group owns 100 percent of the participation of the subsidiaries, either through the Parent Company or through other subsidiaries. Below is the main data of the companies that are part of the consolidated financial statements as of December 31, 2021 and 2020, before eliminations made for consolidation purposes:

		Participation Percentage		Total Assets		Total Liabilities		Total Net Assets		Net income (loss)	
		31.12.2021 %	31.12.2020 %	31.12.2021 S/000	31.12.2020 S/000	31.12.2021 S/000	31.12.2020 S/000	31.12.2021 S/000	31.12.2020 S/000	31.12.2021 S/000	31.12.2020 S/000
Ferreyros SA	Purchase and sale of machinery and spare parts and delivery of workshop services	99.99	99.99	3,386,707	2,871,149	2,168,747	1,821,560	1,217,960	1,049,589	354,871	170,440
Inti Inversiones Interamericanas Corp. and subsidiaries (a)	Holding that groups the business in Central America	100.00	100.00	618,580	565,944	251,994	257,056	366,586	308,888	26,377	10,794
Unimaq S.A.	Purchase and sale of machinery and spare parts and delivery of workshop services	99.99	99.99	361,972	384,820	266,502	302,470	95,470	82,350	8,199	(15,235)
Trex Latinoamerica SpA and Subsidiaries (b)	Holding that groups the business in South America	100.00	100.00	470,236	559,318	375,431	459,653	94,805	99,665	2,879	4,221
Motriza S.A.	Purchase, sale, distribution, marketing and export of the Trex line of goods	99.00	99.00	111,780	125,633	90,968	104,717	20,812	20,916	4,817	1,823
Fargoline S.A.	storage services	99.91	99.91	121,706	128,100	76,618	83,913	45,088	44,187	7,401	5,518
Motored S.A. (d)	Purchase-sale of automotive line, spare parts and delivery of automotive services	99.99	99.99	88,671	162,606	84,586	146,470	4,085	16,136	(37,149)	(26,180)
Orvisa S.A. and subsidiaries	Purchase-sale of machinery and spare parts and delivery of services workshop	99.37	99.37	115,723	115,539	77,230	77,735	38,493	37,804	685	(2,865)
Soltrak S.A.	Representative and distributor of tires, lubricants and safety equipment	99.99	99.99	189,133	177,192	125,578	124,618	63,555	52,574	10,981	2,222
Cresko S.A.	Purchase-sale of machinery, chemical equipment and supplies	99.99	99.99	2,185	2,748	100	536	2,085	2,212	(127)	(63)
Soluciones Sitech Perú S.A.(c)	Marketing of software and equipment related to technology	99.98	56.82	24,022	18,966	8,771	4,727	15,251	14,239	907	283
Forbis Logistics S.A.	Bulking agent	99.98	99.98	36,479	18,689	28,512	16,703	7,967	1,986	8,583	2,662
Xpedite Procurement Services S.A.C.	Non-specialized wholesale and retail	90.00	90.00	1,731	1,567	591	1,049	1,140	518	567	157

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- (a) This entity controls the subsidiaries in Central and North America, which are: Compañía General de Equipos S.A. (El Salvador), Corporación General de Tractores S.A. (Guatemala), General Equipment Company (Belize), Mercado Centroamericano de Lubricantes S.A. (Nicaragua), Forbis Logistics Corp. (United States of America) and Transportes Pesados S.A. de C.V. (El Salvador). These subsidiaries are engaged in the purchase and sale of machinery, vehicles, spare parts and the delivery of workshop services.
- (b) This entity controls the subsidiaries in South America, which are: Trex Latin America SpA and its subsidiary Equipos y Servicios Trex SpA (both domiciled in Chile) and Trex Overseas Investments S.A. (domiciled in Chile) and its subsidiary domiciled in Colombia.
In a Board Meeting of Directors held on June 24, 2020, a capital contribution was approved in Trex Latinoamerica SpA for approximately S/45,877,000.
- (c) On March 30, 2021, the Company repurchased the shares of the minority shareholder of Soluciones Sitech Perú S.A. for US\$500,000 (equivalent to S/1,800,000), for which the Company's interest increased from 56.82% to 99.98%.
- (d) During 2021, the Company capitalized the debt held with the subsidiary Motored S.A., to absorb operating losses for S/25,099,000 (during the year 2020 for S/10,833,000). On September 29, 2021, the Company's Management made the decision to discontinue the operation of Motored, see note 27.
- (e) The Group has a joint venture for the investment of 50 percent in Ferrenergy S.A. an entity controlled jointly through the subsidiary Ferreyros S.A. through an agreement signed with SoEnergy International Corporation, which is dedicated to the generation and delivery of service of electrical power supply. The Company's investment in its joint venture is accounted for using the equity method. Under this method, the investment in the joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of the net assets of the joint venture since the acquisition date. As of December 31, 2021, consolidated income for the year amounted to S/19,643,000 and S/1,863,000, respectively (S/17,781,000 and S/1,667,000, respectively, in 2020).

3. Basis of preparation and summary of main accounting policies

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

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Notes to the consolidated financial statements (continue)

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

The Company has prepared the consolidated financial statements in compliance with the Financial Information Regulations of the Superintendencia de Mercado de Valores (SMV). The accompanying consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), in force at the date of the financial statements, which include the International Information Standards (IFRS), the International Accounting Standards (IAS) and the Interpretations issued by the Committee on Interpretations of International Financial Reporting Standards (IFRIC).

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

The consolidated financial statements have been prepared on the historical cost basis, based on the accounting records maintained by the Group, except for the land, on which the fair value policy is applied, see note 3.3(g). The consolidated financial statements are presented in thousands of soles (under the heading of S/000), except when a different monetary expression is indicated.

The accounting policies adopted by the Group are consistent with those applied in previous years.

3.2 Basis of consolidation -

The consolidated financial statements include the financial statements of the Company and those of the subsidiaries in which it exercises control, for all the years presented. Control is obtained when the Group is exposed to, or has the right to variable returns from its participation in the entity where has invested and has the ability to influence the returns through its power over the entity. The Group controls an entity if and only if it has:

- Power over the entity; that is, having the rights that gives the present capacity to direct the relevant activities of the entity,
- Exposure or rights to variable returns from their participation in the entity, and,
- Ability to use their power over the entity to significantly affect its returns.

The Group assesses whether or not it has control over an entity when the facts and circumstances indicate that there are changes in any of the control elements. The consolidation of a subsidiary begins when the Group obtains control of it and ceases to be consolidated from the date on which the control ceases. The consolidated financial statements include the assets, liabilities, income and expenses of the Company and its subsidiaries.

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The result of the period and each component of other comprehensive income are attributed to the owners of the Parent and to the shareholders that do not control (minority interest), even if this results in a minority interest with a negative balance. When necessary, adjustments are made to the financial statements of the subsidiaries to align their accounting policies with the policies adopted by the Group. All assets and liabilities, equity, income, expenses and cash flows related to transactions between members of the Group are eliminated in consolidation.

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

3.3 Summary of significant accounting policies -

(a) Business combinations and goodwill -

Business combinations are accounted for using the purchase method. Combinations can occur through the purchase of a separate entity or a group of assets and liabilities that qualify as a business. In the latter case, the cost of the purchase corresponds to the consideration transferred, measured at its fair value at the date of purchase. Acquisition costs incurred are expensed as incurred and presented as administrative expenses in the consolidated statement of income.

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

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For purposes of performing the impairment test, goodwill acquired in a business combination is, as of the acquisition date, attributed to each of the Group's cash-generating units (CGU) that are expected to benefit from the business combination, regardless of whether other assets or liabilities of the acquiree have been distributed to these units.

If the goodwill has been distributed to a CGU and part of the assets with which said unit operates are sold or written off, the goodwill and the assets disposed of are included in the book value of the transaction when determining the result of said transaction. Under these circumstances, the goodwill to be decreased is measured based on the relative value of the assets disposed of and the portion of the cash-generating unit retained. Goodwill is presented in these financial statements as a result of a business purchase made in previous years, resulting from the acquisition of various assets that qualified as a business.

Goodwill impairment is determined by evaluating the recoverable amount for each CGU (or group of CGUs) to which it is related. When the recoverable amount of the CGU is less than the book value, an impairment loss is recognized. Impairment losses related to goodwill cannot be reversed in future periods.

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(b) Investment in joint venture -

Joint agreements are contracts in which two or more participants share control of the activity undertaken, which is called joint control. A joint venture is a type of arrangement whereby the parties that have joint control of the arrangement are entitled to the net assets of the arrangement. Joint control is the distribution of control contractually decided for a joint arrangement and that exists only when decisions about the relevant activities thereof require the unanimous consent of the parties that share control. As a result of the assessment of their joint arrangement, the Group has determined that it has a joint venture.

The Group's investments in its joint venture are accounted for using the equity method. Under this method, the investment in your 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 its joint venture since the acquisition date.

The consolidated statement of income reflects the Group's participation in the results of the operations of its joint venture, after the effects of the adjustments made at the time of its purchase. Any change in 'other comprehensive income' of its joint venture is presented as 'other comprehensive income' of the Group. In addition, if there were changes recognized directly in the equity of the joint venture, the Group would recognize its participation in any of these changes, as appropriate, in the consolidated statement of changes in the equity of the Group.

When the participation in these investments exceeds the amount of the investment, the Group stops recognizing those losses unless it has the obligation to assume them.

The Group's participation in the results of its joint venture is presented in the caption "Share in the net results of the joint venture" of the consolidated income statement.

The financial statements of the joint venture are prepared for the same information period as that of the Company. If necessary, appropriate adjustments are made to bring its accounting policies into line with the Company's accounting policies.

(c) Financial instruments: Recognition and measurement -

(c.1) Financial assets - Classification and initial measurement -

The Group classifies its financial assets in the following measurement categories:

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

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The classification depends on the Group's business model for managing its financial assets and whether the contractual terms represent only payments of principal and interest.

At the time of initial recognition, financial assets are measured at fair value plus, in the case of a financial asset that is not at fair value through profit or loss, transaction costs directly attributable to the acquisition of the financial asset. Transaction costs of financial assets at fair value through results are recorded in results.

Subsequent measurement of debt instruments -

The subsequent measurement of debt instruments depends on the business model that the Group has established for managing the asset and the characteristics of the cash flows arising from the asset. There are three measurement categories with which the Company classifies its debt instruments:

- (i) **Assets at amortized cost -**
Assets held for the collection of contractual cash flows, provided that these cash flows represent only payments of principal and interest, are measured at amortized cost. Interest income generated by these financial assets is recognized as financial income using the effective interest rate method. Any gain or loss arising from the derecognition of this type of financial asset is recognized directly in results. Impairment losses are presented as a separate line item in the consolidated statement of income.

- (ii) **Assets at fair value through other comprehensive income -**
Financial assets whose business model is mixed, that is, financial assets that are held both to collect their contractual cash flows and for sale and if their cash flows correspond solely to payments of principal and interest, are measured at fair value at through other comprehensive income (VR-ORI). Changes in the book value are recognized in other comprehensive income (through OCI), except for the recognition of losses (or reversal of losses) due to impairment, interest income and gains and losses due to exchange differences that are recognized in results. When the financial asset is derecognized, the accumulated gain or loss recognized in OCI is reclassified from equity to results and presented in the caption "Other income and expenses, net". Interests generated by these financial assets is recognized as financial income using the effective interest method. Gains or losses from exchange differences are recognized in income under the caption "Other income and expenses, net" and impairment losses are also recognized in income and presented in a separate line item in the

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consolidated statement of income.

- (iii) Assets at fair value through profit or loss -
Assets that do not meet the criteria to use amortized cost or FV-ORI are measured at fair value through profit or loss. Changes in the fair value of debt instruments in this category are recognized in income as "Other income and expenses, net".

The Group reclassifies debt instruments when its business model for managing these assets changes.

Impairment of value of financial assets -

The Group evaluates, with a future perspective, the expected credit losses associated with debt instruments measured at amortized cost and at FV-ORI. The methodology applied to determine impairment depends on whether the credit risk of an asset has experienced a significant increase.

For trade receivables, the main account measured at amortized cost, the Group applies the simplified approach allowed by IFRS 9, which requires estimating the credit loss of the account for the total duration of the instrument and recognizing it from its initial recording, based on in a provision matrix, directly in the results of the period (see note 29(c.1) on financial risk management for further details); additionally, to measure expected credit losses, accounts receivable are grouped based on shared credit risk characteristics and days past due.

- (c.2) Financial liabilities - Recognition and initial measurement -
The Group classifies its financial liabilities, for measurement purposes, at amortized cost. As an exception, in appropriate cases, they are classified to be measured at fair value through results. Management determines the classification of its financial liabilities at the time of initial recognition.

Financial liabilities are recognized when the Group is a party to the contractual agreements of the instrument. All financial liabilities are initially recognized at fair value, deducting, in the case of financial liabilities carried at amortized cost, the incremental costs that are directly attributed to the purchase or issue of the liability.

As of December 31, 2021 and 2020, the Group only presents liabilities measured at amortized cost, which include financial obligations, lease liabilities, trade payables, accounts payable to related parties and other liabilities.

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Subsequent measurement -

After initial recognition, when the effect of the time value of money is significant, financial liabilities are measured at amortized cost using the effective interest rate method. The amortized cost is calculated considering any discount or premium in the issuance and the costs that are an integral part of the effective interest rate.

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

Derecognition -

A financial liability, or when applicable, a part of a financial liability or a part of a group of similar financial liabilities, is written off when the obligation specified in the corresponding contract has been paid or canceled or has expired. When an existing financial liability is replaced by another from the same creditor under substantially different conditions, or if the conditions of an existing liability are substantially modified, such 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 directly in income.

(c.3) Compensation of financial instruments -

The financial assets and liabilities that are subject to compensation are presented net in the consolidated statement of financial position, only if there is a legally enforceable right to offset the recognized amounts, and there is the intention to settle them for the net amount, or to carry out the assets and pay off liabilities simultaneously.

(d) Foreign currency transactions -

Functional currency and presentation currency -

The items included in the Group's consolidated financial statements are expressed in soles, which in turn is the currency of the primary economic environment where the Company operates (functional currency).

The consolidated financial statements are presented in soles, which is the Group's functional and presentation currency.

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Notes to the consolidated financial statements (continue)

Each subsidiary determines its functional currency and prepares its financial statements in that functional currency. The Group concluded in all its subsidiaries that the economic characteristics determine that the local currency of their country of origin corresponds to their functional currency. Due to this, the financial statements of subsidiaries with a functional currency other than that of the Parent Company are converted by applying the criteria described below.

Balances or transactions in foreign currency -

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

Subsequently, the monetary assets and liabilities denominated in foreign currency are translated at the exchange rate on their settlement date or, if payment remains pending, on the closing date. The exchange differences generated by the translation of items in foreign currency are recognized in income, under the caption "Exchange difference, net". Non-monetary assets and liabilities acquired in foreign currency are translated at the exchange rate on the date of the initial transactions and are not remeasured.

Translation to presentation currency -

The consolidated financial statements have been prepared to present the activity of the Holding Company and its subsidiaries in a grouped manner, defining that the sol (the functional currency of the Holding Company) is the presentation currency of the Group. The balances of the financial statements of the subsidiaries that operate in countries whose functional currency is other than the sol were converted using the methodology established in IAS 21, "Effects of variations in foreign currency exchange rates", which is summarized next:

- (i) The balances of assets and liabilities have been translated using the closing exchange rates at the date of each consolidated statement of financial position presented.
- (ii) Income and expenses have been converted using the average monthly exchange rate that approximates the exchange rates on the date of recording of said transactions.
- (iii) The differences resulting from the translation have been recognized as part of 'other comprehensive income' and presented in the consolidated statement of financial position under the heading "Other equity reserves".

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(e) Cash and cash equivalents -

For purposes of preparing and presenting the statement of cash flows under the direct method, cash and cash equivalents correspond to cash, current accounts, and deposits with maturity of less than 90 days since the date of acquisition. Such accounts are not subject to a significant risk of changes in value.

(f) Inventories -

Inventories are measured at cost or net realizable value, whichever is lower. The cost is determined following the specific identification method, except spare parts that are recorded by the weighted average cost method. The cost of workshop services in process includes the costs of mechanical and repair workshop services. The net realizable value is the estimated sale price of an asset in the normal course of business, net of discounts and other costs and expenses incurred to put the inventories in a condition for sale and to market them.

The estimate of the net realizable value takes into account any depreciation that is observed on the inventories. To this end, the Group analyses, at each closing date, the conditions and rotation of inventories. In the case of spare parts and components that do not move, a provision is recognized based on an analysis by the Supply Chain Management, who determines the impaired value. This loss is recorded directly in results under the headings "Cost of sales" and "Sales expenses".

(g) Property, machinery, and equipment -

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

Subsequent costs are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that they will generate future economic benefits for the Group, and the cost of these assets can be measured reliably. Disbursements for ordinary maintenance and repairs are recognized in income as they are incurred.

The land is measured at its revaluation value (fair value), using appraisals carried out every two to three years by an independent expert appraiser, to ensure that the fair value does not differ materially from its carrying amount. When the variations in the fair value are not significant, the revaluations will be made every three or five years. As of December 31, 2021 and 2020, the variations in the fair value of the land have not been significant, so it has not been necessary to modify its book value.

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Any increase due to revaluation is recognized in the consolidated statement of comprehensive income and is accumulated in consolidated equity under "Other equity reserves" for revaluation of assets in equity and in the consolidated statement of comprehensive income, unless such increase corresponds to the reversal of a revaluation decrease of the same asset previously recognized in the consolidated statement of income, in which case that increase is recognized in income. A revaluation decrease is recognized in the consolidated statement of income, except to the extent that such decrease offsets a revaluation increase of the same asset previously recognized in the asset revaluation reserve. At the time of sale of the revalued asset,

Land is not depreciated. The depreciation of other assets is calculated on a straight-line basis over the estimated useful lives of the assets in years or based on machine-hours (h/m) used, in the terms shown below:

	Term
Buildings and other constructions:	
Structural work	between 30 and 80
Finishes and complementary works	between 15 and 20
Installations	between 5 and 10
Machinery and equipment	between 3 and 5
Rental machinery and equipment	m/h used
Transport units	5
Furniture and fixtures	between 3 and 10

Residual values, useful lives and asset depreciation methods and rates are reviewed at each annual closing date and are adjusted prospectively.

A component of property, machinery and equipment or any significant part thereof initially recognized, is derecognized at the time of its sale or when no future economic benefits are expected from its use or sale. Any resulting gain or loss at the time of derecognition of the asset (calculated as the difference between the net income from the sale and the carrying amount of the asset) is included in income, under the caption "Other income and expenses, net".

(h) Leases -

The determination of whether an agreement constitutes or includes a lease is based on the substance of the agreement at the date of its execution, if the fulfillment of the agreement depends on the use of one or more specific assets; or if the agreement grants the right to use the asset, even if such right is not explicitly specified in the agreement.

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The Group as lessee -

Leases are recognized as a right-of-use asset and a lease liability from the date the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured based on present values.

Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including payments that, regardless of their form, are considered "in substance" fixed payments), less any balance receivable for incentives received to start the lease;
- Variable lease payments that are index or rate-based, which are initially measured using the index or rate in effect on the lease commencement date;
- The amounts of any residual value guarantee that the Group has been obliged to pay;
- The price of exercising call options, if the Group considers that it is reasonably certain that it will exercise them; and
- Compensation payments for terminating the lease, if the term of the lease has considered the assumption that the Group will exercise this option.

If it would be reasonably certain to extend the term of a lease, the lease payments for the extended term are also included in the measurement of the liability.

Lease payments are discounted using the implicit interest rate in the lease. If that rate cannot be determined in a simple way, the lessee's incremental borrowing rate is used, which represents the rate that would be charged to the lessee to raise the necessary funds to acquire an asset of similar value to the asset underlying the right of use, in a similar economic context and under similar terms, regarding the term, guarantees and conditions.

To determine the incremental borrowing rate, the Group takes into account the following criteria:

- To the extent possible, it uses, as a reference point, the rates of recently obtained financing and adjusts them to reflect changes in conditions since the date such financing was obtained;
- If it does not have recent financing, it applies an accumulation approach based on a risk-free rate, which is adjusted for the Group's credit risk; and
- Apply specific adjustments to the calculated rate that reflect the specific terms of the lease; for example, regarding the term, country, currency and type of guarantees.

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The lease payments are distributed between the portion that reduces the capital and the portion that corresponds to the financial cost. The financial cost is recognized in results during the lease term, in an amount that reflects a periodic and constant interest rate applied to the balance of the liability at the closing date.

Right-of-use assets are measured at cost, which includes:

- The value of the initial measurement of the lease liability;
- Any lease payment made on or before the lease commencement date; minus any rental incentives received;
- Initial direct costs; and
- The restoration or rehabilitation costs that the Group is obliged to incur.

Right-of-use assets are generally depreciated on a straight-line basis over the shorter of the useful life of the leased asset and the term of the lease. If the Group considers that it is reasonably safe to exercise its purchase option, the right-of-use asset is depreciated over the useful life of the underlying asset.

Payments associated with short-term leases of real estate and vehicles and all leases of low-value assets are recognized in income on a straight-line basis. Short-term leases are leases with a lease term of 12 months or less. Low-value assets include technology equipment and miscellaneous equipment.

The Group as lessor -

When the Group acts as lessor determines, at the beginning of the lease, whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an assessment of whether it has transferred to the lessee substantially all the risks and rewards inherent to ownership of the underlying asset. If this is the case, then the lease is a finance lease; Otherwise, it is an operating lease. As part of this evaluation, the Group considers certain indicators, such as whether the lease contract covers most of the economic life of the asset.

Income from operating leases is recognized on a straight-line basis over the term of the lease.

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When the Group sublease an asset, it reflects its role in the main lease and in the sub-lease separately. The lease classification of a sublease is assessed with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease, for the Group to apply the exemption described above, then the sublease is classified as an operating lease.

If a contract contains lease and non-lease components, the Group applies IFRS 15 to allocate the consideration in the contract among the different components.

(i) Intangibles -

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

Direct costs that are capitalized as part of the cost of computer programs include consulting costs, costs of employees who develop the software, complementary assistance, infrastructure and centralized licenses, user licenses and a portion of the corresponding indirect costs.

Other costs that do not meet these criteria are recognized in results as incurred.

Acquired computer program licenses are capitalized based on the costs incurred to acquire and put the specific program into use.

The useful lives of intangible assets may be finite or indefinite. Intangible assets with finite useful lives are amortized using the straight-line method over their useful lives, which fluctuate between two and thirty-nine years, and are reviewed to determine if they had any impairment in value to the extent that it exists. any indication that the intangible asset may have suffered such impairment.

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

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Intangible assets with indefinite useful lives are not amortized but are subject to annual tests to determine whether they have suffered any impairment in value, either individually or at the level of the cash-generating unit to which they belong. An indefinite useful life is reviewed annually to determine if it is still appropriate. If not, the change in useful life from indefinite to finite is accounted for prospectively.

Amortization is calculated on a straight-line basis over the estimated useful lives in years of the assets, as shown below:

	Term
Customer relationship	2 to 28
Rights Of Use	2
Distribution contract	10
Relationship with suppliers	39
Non-compete agreement	4 to 5
Software licenses	3 to 10

The costs incurred in the development of software recognized as assets will be amortized over their estimated useful lives. Amortization will begin when the asset is available for use, that is, when it is in the location and condition necessary for it to operate as planned by Management.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net income from the sale and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized. respective, in the caption "Other income and expenses, net".

(j) Impairment of value of non-financial assets -

The net book value of property, plant and equipment and finite-lived intangible assets are reviewed to determine if there are signs of impairment at the end of each fiscal year. If such indications exist, the Group estimates the recoverable value of the asset, this being the higher of the fair value, less the expenses necessary to carry out the sale, and the value in use.

When the recoverable amount of an asset is below its book value, it is considered that there is value impairment.

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

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the time value of money, and the risks specific to the asset.

When new events occur, or changes in circumstances that already exist, that show that an impairment loss recorded in a previous period may no longer exist or may have been reduced, the Group makes a new estimate of the recoverable value of the corresponding asset. Previously recognized impairment losses are reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the date the impairment loss was last recognised. If this is the case, the asset's carrying amount is increased to its recoverable amount. Said increase may not exceed the book value that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. This reversal is recognized in results. After the reversal is made, the depreciation charge is adjusted in future periods by distributing the book value of the asset over its remaining useful life.

Goodwill and indefinite life brands -

Goodwill arises from the purchase of a group of assets that qualifies as a business. This goodwill represents the excess of the cost of acquisition with respect to the fair value of the net assets acquired at the date of acquisition of control. The book value of goodwill is tested annually to determine if there is an impairment in value (as of December 31), and when circumstances indicate that its book value could be impaired. The book value of goodwill is shown at cost less, if any, accumulated impairment losses. If the total or partial sale of the business that gave rise to the goodwill occurs, the gain or loss on said sale includes the book value of the goodwill.

Goodwill impairment is determined by evaluating the recoverable amount of each cash-generating unit (or a group of cash-generating units) to which it is related. When the recoverable amount of the cash-generating unit is less than its carrying amount, including the carrying amount of goodwill, an impairment loss is recognized.

Impairment losses related to goodwill cannot be reversed in future periods.

(k) Financing costs -

Financing costs directly attributable to the acquisition, construction or production of an asset that necessarily requires a considerable preparation period to be available for use or sale are capitalized as part of the cost of the respective asset. All other financing costs are recognized as an expense in results. Financing costs are made up of interest and other costs that the Group incurs in relation to the funds obtained.

In 2021 and 2020, the Group did not incur costs in the construction of assets that qualify for the capitalization of financing costs.

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(l) Employee benefits -

Profit sharing -

The Group recognizes a liability and an expense for the participation of workers in the profits of the companies based on the legal provisions in force in each country where they operate, if applicable. In the case of entities in Peru, the participation of workers in profits is equivalent to between 5% and 8% of the taxable material determined in accordance with current income tax legislation. Under Peruvian law, there is a limit on the workers participation that an employee can receive, equivalent to eighteen monthly salaries.

The Group recognizes the participation of workers in accordance with the provisions of IAS 19, "Employee benefits", that is, as a short-term benefit that the entity provides to workers in exchange for their services. This benefit is recognized as a cost or expense depending on the function of each of them.

Guaranteed bonuses -

The Group recognizes a liability and an expense for employee bonuses based on the legal provisions in force in each country where it operates. In the case of entities in Peru, the bonuses correspond to two annual remunerations that are paid in July and December of each year.

Compensation for length of service -

The Group recognizes the compensation for length of service of the personnel that corresponds to their compensation rights calculated in accordance with the legislation in force in each country where it operates, if applicable. In the case of entities in Peru, that compensation must be deposited in the bank accounts designated by the workers in the months of May and November of each year. Compensation for staff service time is equivalent to the average monthly remuneration in effect on the date of deposit. The Group has no additional payment obligations once it makes the annual deposits of the funds to which the worker is entitled.

Vacations -

Annual vacations and other paid absences are recognized on an accrual basis and in accordance with the legislation in force in each country where the Group operates, if applicable. In the case of entities in Peru, the provision for the estimated obligation for annual employee vacations, which is calculated on the basis of remuneration for every twelve months of services provided by employees, is recognized at each closing date of the financial statements.

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

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(m) Income tax -

Income tax for the period includes current and deferred income tax, and is recognized in the consolidated statement of income, except to the extent that it is related to items recognized as other comprehensive income or directly in equity.

Current income tax -

Income tax for the current period is calculated in accordance with the legal regulations in force in each country, based on the non-consolidated financial statements and for the amount expected to be paid to the tax authorities. The legal standards and rates used to calculate the amounts payable are those in force at the date of the consolidated financial statements.

Management periodically evaluates the tax regulations in which they are subject to interpretations and recognizes provisions on the amounts that it expects to be paid to the tax authorities.

When the Group makes payments in excess of what it considers to be its income tax payment obligations, for example, when it pays the Tax Administration under claim to avoid accumulating interest and penalties but considers that it is likely that it will obtain a refund, recognizes these amounts in the "Other assets" caption. The Company analyzes the estimated recovery period in order to identify the amounts to be presented as part of current assets and non-current assets.

Deferred income tax -

Income tax for future periods is recognized using the liability method, considering temporary differences between the tax base of assets and liabilities and their respective accounting balances at the date of the consolidated statement of financial position. Deferred assets and liabilities are measured using the tax rates (and legislation) that are expected to apply to taxable income in the years in which these differences are recovered or eliminated.

Deferred assets are recognized for all deductible differences and carryover tax losses, to the extent that it is probable that there is taxable income against which the deductible temporary differences can be offset, and carryover tax losses can be used. The book value of the deferred asset is reviewed at each closing date of the financial statements and is reduced to the extent that it is unlikely that there will be sufficient taxable income against which all or part of the deferred asset can be offset. Unrecognized deferred assets are reviewed at each financial statement date.

Deferred tax assets and liabilities are offset if there is a legal right to offset them and they are related to the same tax authority.

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The Company recognizes a liability to make distributions of cash dividends to its shareholders when the distribution is duly authorized and is not at the Company's discretion. In accordance with the Company's policies, the distribution of dividends is authorized when approved by the General Shareholders' Meeting. The corresponding authorized amount is recorded directly with a charge to equity.

Uncertain tax positions -

An uncertain tax position is any tax treatment applied by an entity for which there is uncertainty as to whether it will be accepted by the tax authority. The recognition and measurement of current and deferred tax assets and liabilities may be affected in cases where an entity has uncertain tax positions associated with income tax, in which it is considered probable that the tax authority will not accept group treatment. The existence of uncertain tax positions may affect the determination of tax profit or loss, the tax base of assets and liabilities, tax credits or the tax rates used.

(n) Recognition of revenue, costs and expenses -

Revenue -

Revenues are measured based on the consideration specified in the contract with the client, and exclude amounts received on behalf of third parties. Revenues are presented net of sales taxes, rebates, discounts, bonuses and other items related to sales.

At the beginning of the contract, Management determines if the Group undertakes to deliver multiple goods or services and identifies which of them qualify as separable performance obligations, which will require recognizing income independently. This may cause the contract price to be distributed among various promises to deliver goods or services to the customer, which could be recognized as revenue at different times.

In the event that different separable performance obligations are identified, the Group distributes the contract price proportionally to each performance obligation based on their individual sales prices. If the Group does not have the individual sale price, it estimates it using a cost plus a reasonable market margin approach.

Unsatisfied performance obligations at the date of the financial statements, for which the Group has already received full or partial consideration from the client, are presented in the caption "Other current liabilities", in the consolidated statement of financial position, under the concept of "Customer advances" (note 15).

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Revenue from the sale of machines, engines, equipment and spare parts is recognized when control of the goods is transferred, a situation that occurs when the product is delivered to the customer, the customer has total discretion over it and the Group does not assume any obligation that is pending to be satisfied and that could affect the acceptance of the product by the client. The product is considered delivered when the products are shipped to the location specified by the customer, the risks of obsolescence and loss have been transferred to the customer and the customer has accepted the products in accordance with the terms of sale.

Revenues from workshop services are recognized in income over the time the service requires, on a straight-line basis.

Costs and expenses -

The cost of sale, which corresponds to the cost of the products sold by the Group, is recorded when the goods are delivered, simultaneously with the recognition of income from the corresponding sale.

The cost of services is capitalized as incurred and is recognized in results simultaneously with the recognition of the associated income. For presentation purposes, the Group includes capitalized costs as part of the "Inventories" caption.

Other costs and expenses are recognized as they accrue, regardless of when they are paid, 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 implicit) as a result of a past event, it is probable that resources will be required to settle the obligation and its value can be reliably estimated. Provisions are reviewed each period and adjusted to reflect the best estimate available at the annual closing date. When the effect of the value of money over time is important, the amount of the provision is determined by the present value of the disbursements that are expected to be incurred to cancel it.

Guaranties -

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

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Notes to the consolidated financial statements (continue)

(p) Liabilities and contingent assets -

Contingent liabilities are not recognized in the financial statements. These are disclosed in notes to the financial statements, except when the possibility that an economic flow will be disbursed is remote. Contingent assets are not recognized in the financial statements and are only disclosed when it is probable that income will occur for the Group.

(q) Capital -

Social capital -

Common shares are classified in equity.

When the capital stock recognized as equity is repurchased, either by the Parent Company or by a subsidiary, the amount paid, including the direct costs attributable to the transaction (net of taxes), is recognized as a deduction from the consolidated equity. Own shares repurchased are classified as treasury shares and are presented as a deduction from equity. Any excess paid in the repurchase with respect to its nominal value, is presented affecting the Additional Capital item. When such shares are subsequently reissued or sold, any payment received, net of incremental costs directly attributable to the transaction and the corresponding effects of income tax expense, is included in equity attributable to equity holders of the Company.

Treasury shares -

Repurchased own equity instruments (treasury shares or treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the income statement derived from the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration received, if reissued, is recognized as an issue premium. The votes corresponding to the shares in treasury are canceled for the Company and no dividends are assigned to them. Stock options exercised during the period are settled with treasury shares.

(r) Earning per share -

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

The shares that come from the capitalization of profits, or similar transactions, constitute a division of shares and, therefore, for the calculation of the weighted average of shares, it is considered that these shares were always in circulation, and the calculation of the profit by basic and diluted share is adjusted retrospectively.

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Notes to the consolidated financial statements (continue)

(s) Fair value measurement -

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 main market, in the most advantageous market for the asset or liability.

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

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

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques whereby 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 unobservable.

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

Management determines the policies and procedures for recurring and non-recurring fair value measurements. At each reporting date, Management analyzes the movements in the values of assets and liabilities that must be valued in accordance with the Group's accounting policies.

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Notes to the consolidated financial statements (continue)

For fair value disclosure purposes, the Group has determined the asset and liability classes based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(t) Information by segments -

Information by operating segments is presented in a manner consistent with internal reports provided to the operating decision maker. The person in charge of making operational decisions, who is responsible for allocating resources and evaluating the performance of the operating segments, has been identified as the General Management, in charge of making strategic decisions.

An operating segment is a component of an entity that: (i) carries on business activities from which it may earn income and incur expenses (including income and expenses related to transactions with other components of the same entity), (ii) whose result is regularly reviewed by Management to make decisions about the resources that should be allocated to the segment and evaluate its performance, and (iii) for which the financial and operating information is available, see note 31.

(u) Subsequent events -

Events after the end of the period that provide additional information about the Group at the date of the consolidated statement of financial position (adjusting events) are included in the consolidated financial statements. Significant subsequent events that are not adjusting events are disclosed in the notes to the consolidated financial statements.

3.4 Significant accounting judgments, estimates and assumptions -

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

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

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

(a) Judgements -

The transactions for the years ended December 31, 2021 and 2020 have not required the special application of critical professional judgment when applying the accounting policies adopted by the Company.

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Notes to the consolidated financial statements (continue)

(b) Estimates and assumptions -

The main estimates of Management to prepare the consolidated financial statements are:

Revaluation of real estate, machinery and equipment (land) -

The Group measures its land at its fair value, for this purpose, it hired independent specialists who are experts in valuations to determine the fair values of these assets. For land, the appraiser relies on objective market evidence, using comparable prices adjusted for specific factors, such as nature, location, and condition. Management considers that performing sensitivity calculations on this estimate would be of little relevance since it is based on objective information and provided by independent sources.

Impairment of the value of non-financial assets -

The Group determines the recoverable amount of the CGUs, for the purpose of assessing impairment, based on the value in use. The value in use calculation is based on a discounted cash flow model. The cash flows arise from the estimated projections for the next ten years, excluding restructuring activities to which the Group has not yet committed, and significant future investments that will increase the operating performance of the asset or of the cash-generating unit subjected to impairment testing.

The calculation of the recoverable amount is very sensitive to any changes in the rate used to discount the cash flows, to changes in the expected future income from funds, and to the long-term growth rate used in the extrapolation. Management considers that performing sensitivity calculations on this estimate would be of little relevance due to the width of the gap when comparing the recoverable amount and the book value of its non-financial assets, see note 11.

Provision for impairment of trade receivables -

To measure expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and days past due. Expected loss rates are based on sales payment profiles over a 48-month period, corresponding historical credit losses experienced within this period (recovery trend), and the age of trade receivables. Historical loss rates are adjusted to reflect current and prospective macroeconomic factors that affect customers' ability to settle trade receivables. Management considers that performing sensitivity calculations on this estimate would be of little relevance since it is based mainly on historical and objective information.

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Provision for estimation for impairment of inventories -

The cost of inventories may not be recoverable if the estimated costs to bring them into commercial condition and to carry out their marketing increase. The practice of writing down the balance of inventories, until their book value is equal to their net realizable value, is consistent with the criteria that assets should not be valued above the amounts that are expected to be recovered on their sale. The determination of the recoverable value of the inventories is made by Management based on the sales prices and the estimated sales expenses that will be incurred at the time they are made. Based on this evaluation, Management concluded that it is not necessary to increase the provision for inventory impairment.

Likewise, Management performs a rotation analysis to determine if inventories (machines, engines and spare parts) require a provision for obsolescence and/or slow movement, which lowers the balance of the inventories item in the statement of financial position. The estimate for obsolescence of warehouse stock is determined based on a specific evaluation carried out by Management on a quarterly basis in the case of machinery and motors, and on the basis of items that are more than 24 months without rotation in the case of spare parts. Management considers that performing sensitivity calculations on this estimate would be of little relevance since it is based mainly on historical and objective information, which is reviewed at each closing date of the consolidated financial statements.

Current and deferred income taxes -

There are uncertainties regarding the interpretation of complex tax regulations, changes in tax rules and the amount and timing of future tax income.

The Group calculates provisions based on reasonable estimates of the possible consequences of the reviews carried out by the tax authority. The amount of such provisions is based on several factors, such as the experience in previous tax reviews, and the different interpretations of the tax regulations made by the entity subject to tax and by the responsible tax authority. Such differences in interpretation may arise on a wide variety of issues, depending on the circumstances and conditions in the jurisdiction of the Company and its subsidiaries.

3.5 Changes in accounting policies and disclosure of information -

The Company applied certain standards and amendments for the first time, which were in effect as of January 1, 2021. The Company did not early adopt any other standards, interpretations or amendments that have been issued but were not in effect.

The following modifications were effective as of January 1, 2021:

- Interest Rate Benchmark Reform – Phase 2, which amends IFRS 9 “Financial Instruments”;

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Notes to the consolidated financial statements (continue)

- IAS 39 "Financial instruments: recognition and measurement";
- IFRS 7 "Financial instruments: disclosures";
- IFRS 4 "Insurance contracts" and IFRS 16 "Leases".

These modifications had no impact on the Company's financial statements.

- 3.6 International Financial Reporting Standards (IFRS) issued internationally but not yet effective
The following standards and interpretations have been published and were not yet effective at the date of issuance of these financial statements:

- Amendment to IAS 1: Classification of Liabilities as Current and Non-Current
- Reference to Conceptual Framework: Amendment to IFRS 3
- Property, Plant and Equipment: Income before its Expected Use - Amendment to IAS 16
- Onerous Contracts: Costs of Fulfilling a Contract - Amendment to IAS 37
- IFRS 1: First Time Adoption of IFRS - Subsidiary that Adopts IFRS for the First Time
- IFRS 9: Financial Instruments - Fees in the 10% Test to Derecognize a Liability
- Definition of accounting estimates - Amendment to IAS 8
- Disclosure of accounting policies - Amendment to IAS 1 and Practice Statement 2 of IFRS

Management expects that these standards and amendments will not have a material impact on the Company.

4. Financial instruments

4.1 Financial instruments by category -

The classification of financial instruments by category is as follows:

	2021 S/(000)	2020 S/(000)
Financial assets according to the consolidated statement of financial position-		
Financial assets at amortized cost:		
- Cash and cash equivalents	215,761	256,188
- Trade receivables and other assets (*)	1,186,400	1,214,732
	<u>1,402,161</u>	<u>1,470,920</u>
Financial liabilities according to the consolidated statement of financial position-		
Other liabilities:		
- Financial obligations	1,887,886	1,711,835
- Trade payables and other payables and provisions (*)	1,071,766	728,869
	<u>2,959,652</u>	<u>2,440,704</u>

(*) Does not include advances, taxes or provisions.

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4.2 Credit quality of financial assets -

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external risk ratings (if any) or based on historical information on the default rates of their counterparties.

The credit quality of financial assets is presented below:

	2021 S/(000)	2020 S/(000)
Cash and cash equivalents (*)		
Banco de Crédito del Perú S.A. (A+)	102,371	152,985
Banco de la Nación (A)	22,567	8,300
Banco Inter Banco, S.A. (AA)	16,713	3,551
Banco Santander Perú S.A. (A+)	12,002	12,926
Scotiabank Perú S.A.A. (A+)	4,822	13,057
Banco Davivienda Salvadoreño, S.A. (B)	4,470	2,685
Banco de América Central S.A. (AA+)	4,155	3,453
Banco Agrícola S.A. (B)	3,849	3,892
Citibank N.A. (A+)	3,593	2,687
Banco Internacional del Perú S.A.A. (A+)	2,093	10,720
Heritage Bank Plc. - Belize (BBB+)	777	1,102
Citibank del Perú S.A. (A+)	351	3,093
Banco Industrial, S.A. (BB-)	168	1,282
Banco Interamericano de Finanzas S.A. (A+)	96	425
Scotiabank Belize (A)	-	2,636
Scotiabank - El Salvador (B+)	-	134
BBVA Banco Continental S.A. (A+)	3,781	14,224
Other	33,397	17,583
	<u>215,205</u>	<u>254,735</u>

The risk ratings in the chart above of "A" and "A+" represent high quality ratings. For banks in Peru, these risk ratings are obtained mainly from risk rating agencies authorized by the Superintendency of Banking, Insurance and AFPs (SBS).

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- (*) The rest of the cash equivalents in the consolidated statement of financial position corresponds to the cash held in "cash" and to "cash in transit".

	2021 S/(000)	2020 S/(000)
Trade receivables -		
Counterparties with internal risk ratings:		
A	49,720	215,700
B.	895,690	754,599
C	109,992	66,443
Total trade receivables	<u>1,055,402</u>	<u>1,036,742</u>
Other assets -		
Counterparties with internal risk ratings:		
A	1,233	689
B.	134,004	173,862
Total other assets	<u>135,237</u>	<u>174,551</u>

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

- A: New clients/related parties (less than 6 months),
- B: Existing customers / related parties (with more than 6 months of business relationship) with no breaches in the past, and
- C: Existing customers / related parties (with more than 6 months of business relationship) with breaches in the past.

As of December 31, 2021 and 2020, most of the portfolio has been evaluated as risk category "B". Likewise, of the accounts that are in compliance with their contractual terms, there are not some that have been renegotiated.

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5. Cash and cash equivalents

(a) This item includes:

	2021 S/(000)	2020 S/(000)
Cash	492	1,442
Current accounts (b)	154,110	241,894
Savings accounts (b)	4,402	4,431
Term deposits (c)	56,693	8,410
Cash in transit	64	11
	<u>215,761</u>	<u>256,188</u>

(b) Bank checking and savings accounts are maintained in local and foreign banks, are denominated in national and foreign currency, are freely available and do not earn interest, except for savings accounts that earn market interest rates.

(c) Term deposits are kept in first-rate local and foreign banks, are denominated in national and foreign currency, have a maturity of less than 30 days and bear market interest rates.

6. Trade receivables, net

(a) This item includes:

	2021 S/(000)	2020 S/(000)
Invoices (b)	948,997	892,916
Letters (b)	314,554	339,786
Unearned interest	(15,285)	(18,679)
	<u>1,248,266</u>	<u>1,214,023</u>
Less - Estimate for doubtful accounts collection (d)	<u>(192,864)</u>	<u>(177,281)</u>
Total trade receivables	<u>1,055,402</u>	<u>1,036,742</u>
(-) Non-current portion	<u>(40,664)</u>	<u>(61,490)</u>
Current portion	<u>1,014,738</u>	<u>975,252</u>

(b) Trade receivables are denominated in national and foreign currency and do not accrue interest, with the exception of receivable invoices that accrue an annual interest rate in US dollars between 7% and 18% and in soles between 12% and 22%.

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Invoices and letters correspond mainly to accounts receivable originating from the sale of merchandise and services to various local and foreign companies. In general, the invoices are current due (due and payable status) and the bills have original maturities between 30 and 360 days, with some exceptions that are classified as non-current.

- (c) The detail of the aging of the balance of trade receivables, without offsetting unearned interest, is as follows:

	Not provisioned S/000	Provisioned S/000	Total S/000
As of December 31, 2021 -			
Not due: Due:	890,010	23,233	913,243
- Up to 1 month	99,119	3,628	102,747
- From 1 to 3 months	33,119	3,855	36,974
- From 3 to 6 months	15,186	5,688	20,874
- More than 6 months	33,253	156,460	189,713
	<u>1,070,687</u>	<u>192,864</u>	<u>1,263,551</u>
Total			
As of December 31, 2020 -			
Not due: Due:	844,667	14,058	858,725
- Up to 1 month	109,868	4,091	113,959
- From 1 to 3 months	42,591	3,849	46,440
- From 3 to 6 months	27,581	5,783	33,364
- More than 6 months	30,714	149,500	180,214
	<u>1,055,421</u>	<u>177,281</u>	<u>1,232,702</u>
Total			

- (d) The movement of the impairment allowance for the years ended December 31, 2021 and 2020 is as follows:

	2021 S/(000)	2020 S/(000)
Opening balance	177,281	150,350
Estimate charged to results, note 19	20,359	25,497
Discontinued operation -Motored	9,721	8,559
Recovery	(1,974)	(4,052)
Writte-off	(21,029)	(11,132)
Translation effect	8,506	8,059
	<u>192,864</u>	<u>177,281</u>
Closing balance		

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In Management's opinion, the provision for impairment of trade receivables adequately covers the credit risk as of December 31, 2021 and 2020.

7. Other assets

(a) This item includes:

	2021 S/(000)	2020 S/(000)
Credit for general sales tax (e)	46,857	30,459
Income tax credit (c)	42,800	40,413
Taxes to be recovered from the tax administration (d)	40,863	41,485
Accounts receivable from Caterpillar (b)	20,894	53,537
Loan receivable from Ferrenergy SA	20,059	19,955
Advances to suppliers	13,665	15,837
Receivable for works program for taxes (f)	10,396	23,705
Receivable subleases - IFRS 16 (g)	9,909	9,604
Receivables from staff	5,974	11,031
Claims to insurance companies and third parties	2,915	2,185
Guaranty deposit	2,199	11,227
Refunds of customs and tax duties	2,170	2,041
Supplier claims	2,150	3,429
Receivables from sale of investments	-	2,378
Other	26,525	24,058
	<u>247,376</u>	<u>291,344</u>
Less - Estimate for accounts of doubtful collection (i)	(490)	(899)
	<u>246,886</u>	<u>290,445</u>
Less: Non-current portion	(48,692)	(33,331)
Current portion	<u>198,194</u>	<u>257,114</u>

(b) As of December 31, 2021 and 2020, accounts receivable from Caterpillar include balances related to discounts obtained on the purchase of Prime-type machinery and spare parts. Likewise, it includes balances related to reimbursements of guarantees agreed with the factory (Caterpillar) for the sale of machinery. These accounts do not earn interest and do not contain significant financing components.

(c) Corresponds to the credit balance for payments on account of income tax, which, in Management's opinion, will be recovered through the development of the Group's current commercial operations.

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- (d) As of December 31, 2021 and 2020, this item mainly includes claimed payments made by the Company to the Tax Administration derived from a compliance intendency resolution, which includes challenges and annotations to the income tax of the year 2002 for S/ 30,035,000. In the opinion of Management and its tax advisors, these amounts will be reimbursed to the Company, and the corresponding interest, within the terms in which the administrative and/or judicial instances are exhausted.
- (e) The general sales tax credit results mainly from disbursements for the purchase of inventories, fixed assets and other disbursements related to the Group's operations. In Management's opinion, the general sales tax credit will be recovered through the development of the Group's current commercial operations.
- (F) As of December 31, 2021 and 2020, the item includes the tax credits generated in favor of the Company for disbursements made to finance the following projects within the framework of Law No.29230, "Law that promotes Regional and Local Public Investment with private sector participation":
- In April 2017, the Company signed an agreement with the Regional Government of La Libertad, to grant financing through contributions of money and execution activities for the development of various projects in its region. As of December 31, 2021, the item includes the contributions made by the Company to finance the project called "Improvement of the Secondary Education Service of IE No. 66 Cesar Abraham Vallejo Mendoza - Populated Center of Chequen - District of Chepen - Province of Chepen - La Libertad" for S/5,487 (S/79,000 in 2020); and to finance the project called "Improvement of the Educational Service in IE No.81605 San Idelfonso - District of Laredo, Province of Trujillo - La Libertad Region" for S/ 17,043 (S/ 533,000 in 2020).
 - In April 2017, the Company signed an agreement with the Regional Government of Cusco to grant financing through contributions of money and execution activities for the development of various projects in its region. As of December 31, 2021, the item includes the contributions made through the consortium formed by the Company and Union of Peruvian Breweries Backus and Johnston SA with participation percentages of 50 percent each, to finance the project called "Improvement, Expansion of the Potable Water and Sewerage Services of the Piuray Corimanca Micro-basin - District of Chinchero - Urubamba - Cusco" for S/3,225,866 (S/5,400,000 in 2020).
 - In March 2017, the Company signed an agreement with the Regional Government of La Libertad to grant financing through contributions of money and execution activities for the development of various projects in its region. On May 17, 2018, an addendum was signed for S/6,996,000 and from that date the grants began. As of December 31, 2021, the item includes the contributions made through the consortium formed by the Company

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and Unimaq SA with participation percentages of 50 percent each, to finance the project called "Improvement of initial and primary education services of IE N° 80392 Andrés Salvador Díaz Sagastegui, District and Province of Chepen - La libertad" for S/62,041 (S/1,058,000 in 2020).

- In June 2018, the Company signed an agreement with the Regional Government of Cusco to grant financing through contributions of money and execution activities for the development of various projects in its region. As of December 31, 2021, the item includes the contributions made by the Company, to finance the project called "Improvement and Expansion of the Potable Water System, Sewerage and Treatment Plant of the Capital of Colquepata, District of Colquepata - Paucartambo - Cusco " for S/1,377,184.
- In January 2021, the agreement was signed with the Provincial Municipality of Coronel Portillo - Pucallpa, to grant financing through contributions of money and execution activities for the development of various projects in its region. As of September 30, the item includes the contributions made by the company to finance the project called "Improvement and expansion of the Services of the Initial Educational Institution No. 283 Juana Alarco de Dammert, District of Gallería - Province of Coronel Portillo - Department of Ucayali "for S/43,000.

As of December 31, 2021, there are projects started since 2017 that are in the process of being liquidated and in execution. For this reason and by virtue of such law, the Company may use the CIPRL, the disbursements made as a tax credit and apply them in future liquidations against income tax.

- (g) As of December 31, 2021 and 2020, this item includes the balance receivable from third parties for sublease contracts from the subsidiaries Unimaq S.A. and Motriza S.A., which have been classified as finance leases.

- (h) The detail of the age of the balance of other assets is as follows:

	2021 S/(000)	2020 S/(000)
Not passed due	243,513	287,024
Overdue up to 180 days	2,611	2,929
Overdue more than 180 days	1,252	1,391
	<u>247,376</u>	<u>291,344</u>

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- (l) The movement in 2021 and 2020 of the allowance for other doubtful assets is as follows:

	2021 S/(000)	2020 S/(000)
Initial balance	899	3,349
Estimate charged to results, note 19	96	174
Recovery	(91)	(2)
Writte-off	(427)	(2,884)
Traslation effect	13	262
	<u>490</u>	<u>899</u>
Ending balance	<u>490</u>	<u>899</u>

In Management's opinion, the allowance for other doubtful assets adequately covers the credit risk as of December 31, 2021 and 2020, respectively.

8. Inventories

- (a) This item includes:

	2021 S/(000)	2020 S/(000)
Machines, motors and automobiles (b)	591,928	522,145
Spare parts for sale (b)	980,965	636,910
Cost of workshop services in process (c)	125,325	73,375
Merchandise	130,503	113,702
Advances to suppliers	88,434	20,017
Miscellaneous supplies	8,183	9,903
Goods in transit (d)	228,171	380,855
	<u>2,153,509</u>	<u>1,756,907</u>
Less - Estimate for impairment of inventories (f)	(71,874)	(72,831)
	<u>2,081,635</u>	<u>1,684,076</u>

- (b) Corresponds mainly to items that the Group allocates for sale. Caterpillar branded and non-Caterpillar branded machines, engines and equipment, and parts associated with those machines. It is estimated that the sale of these products will take place during the first quarter of the following year.
- (c) Corresponds mainly to the costs incurred in mechanical workshop and repair services that the Group provides to customers (inventory in process), and that were pending completion at the date of the financial statements.

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- (d) It mainly corresponds to spare parts for Caterpillar machines, engines and equipment, as well as other brands, which the Group imports and then sells mainly to its mining and agricultural customers. It is estimated that the sale of these products will take place during the first half of the following year.
- (e) The amount of inventories recognized in the results of 2021 and 2020 has substantially affected the item "Cost of sales" and is detailed by concept in note 18.
- (F) The annual movement of the estimate for inventory impairment is shown below:

	2021 S/(000)	2020 S/(000)
Opening balance as of January 1	72,831	55,426
Estimate charged to cost of sales, note 18	49,798	23,211
Estimate charged to sales expenses, note 19	2,051	10,417
Estimate charged to results - Motored	3,664	8,578
Transfer from fixed assets	592	1,120
Destruction of spare parts and others	(15,562)	(13,886)
Transfer to fixed assets	(192)	(551)
Recovery of provision, note 18	(41,520)	(12,570)
Translation effect	212	1,086
Closing balance as of December 31	<u>71,874</u>	<u>72,831</u>

The estimate for inventory impairment is determined based on inventory turnover levels and other characteristics, according to periodic evaluations by Management and the technical and financial areas. In Management's opinion, the balance of this estimate adequately covers the risk of impairment in inventories as of December 31, 2021 and 2020.

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9. Investments in joint venture

(a) This item includes:

	Main activity	Share capital participation percentage		Value in books	
		2021 %	2020 %	2021 S/(000)	2020 S/(000)
Joint venture (b):					
Ferrenergy S.A.	Power generation and supply	50.00	50,000	19,643	17,781
Other investments:					
Other minor investments	Others			111	224
				<u>19,754</u>	<u>18,005</u>

(b) In 2021, the Group has recognized a total gain of S/1,863,000 (S/1,667,000, in 2020) in the caption "Participation in results of joint venture" of the consolidated statement of income.

Below are the figures of the financial statements of Ferrenergy S.A. as of December 31, 2021 and 2020:

	2021 S/(000)	2020 S/(000)
Statement of financial position:		
Total assets	103,571	121,976
Total liabilities	64,284	86,415
Equity	39,287	35,561
Statement of income:		
Total revenues	42,798	39,583
Operating profit	3,388	3,160
Net profit	1,985	2,225

Translation of consolidated financial statements originally issued in Spanish - See note 33 to the consolidated financial statements

Notes to the consolidated financial statements (continue)

10. Property, machinery and equipment

(a) The composition and movement of the item for the years 2021 and 2020 is presented below:

Description	2021							Total S/(000)
	Land S/(000)	Buildings and other constructions S/(000)	Machinery and equipment S/(000)	Rental fleet machinery and equipment S/(000)	Transport units S/(000)	Furniture and fixtures S/(000)	Work in progress S/(000)	
Cost								
Balance as of January 1	612,654	527,280	461,260	599,326	56,752	61,907	47,036	2,366,215
Right-of-use assets - IFRS 16 (h)	-	17,143	(171)	4,178	15,743	-	-	36,893
Additions	47,824	13,654	8,260	2,419	3,042	4,916	24,193	104,308
Withdrawals and/or sales (b)	-	(2,581)	(8,709)	(69)	(2,890)	(3,453)	-	(17,702)
Withdrawals IFRS 16 (h)	-	(36,018)	(2,213)	-	(10,235)	-	-	(48,466)
Transfer from inventory	-	-	20,986	137,107	-	-	43,285	201,378
Transfer to inventory	-	-	(22,044)	(129,535)	(304)	-	-	(151,883)
Other transfers	-	31,613	11,588	16,774	183	114	(60,272)	-
Translation effect	6,547	6,821	2,972	17,108	1,514	3,118	(139)	37,941
Balance as of December 31	<u>667,025</u>	<u>557,912</u>	<u>471,929</u>	<u>647,308</u>	<u>63,805</u>	<u>66,602</u>	<u>54,103</u>	<u>2,528,684</u>
Accumulated depreciation -								
Balance January 1	-	191,029	277,378	179,155	36,289	45,361	-	729,212
Right-of-use assets - IFRS 16(h)	-	14,513	2,071	25,563	5,407	-	-	47,554
Assets for rights of use - IFRS 16(h) - Motored	-	2,301	-	-	91	-	-	2,392
Additions	-	18,676	35,124	71,192	4,353	8,367	-	137,712
Discontinued operation additions - Motored	-	110	330	-	230	275	-	945
Withdrawals and/or sales (b)	-	(967)	(5,858)	(68)	(1,946)	(3,163)	-	(12,002)
Withdrawals IFRS 16 (h)	-	(27,090)	(2,213)	-	(10,224)	-	-	(39,527)
Transfer to inventory	-	-	(13,967)	(50,710)	-	-	-	(64,677)
Other transfers	-	(6,880)	200	6,973	(307)	14	-	-
Translation effect	-	3,350	2,524	9,174	1,481	2,883	-	19,412
Balance as of December 31	<u>-</u>	<u>195,042</u>	<u>295,589</u>	<u>241,279</u>	<u>35,374</u>	<u>53,737</u>	<u>-</u>	<u>821,021</u>
Estimate for impairment -								
Balance as of January 1	-	193	578	6,174	-	-	-	6,945
Additions	-	-	-	3,892	-	-	-	3,892
Transfers from inventories	-	-	-	192	-	-	-	192
Withdrawals and/or sales	-	-	-	(2,541)	-	-	-	(2,541)
Transfer to inventory	-	-	-	(592)	-	-	-	(592)
Translation effect	-	-	-	237	-	-	-	237
Balance as of December 31	<u>-</u>	<u>193</u>	<u>578</u>	<u>7,362</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,133</u>
Net cost	<u>667,025</u>	<u>362,677</u>	<u>175,762</u>	<u>398,667</u>	<u>28,431</u>	<u>12,865</u>	<u>54,103</u>	<u>1,699,530</u>

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Notes to the consolidated financial statements (continue)

Description	2020							
	Land S/(000)	Buildings and other constructions S/(000)	Machinery and equipment S/(000)	Rental fleet machinery and equipment S/(000)	Transport units S/(000)	Furniture and fixtures S/(000)	Work in progress S/(000)	Total S/(000)
Cost								
Balance as of January 1	607,594	517,849	451,691	534,924	51,980	54,574	36,061	2,254,673
Right-of-use assets - IFRS 16 (h)	-	(1,848)	(829)	51,948	1,983	(219)	-	51,035
Additions	319	3,447	17,739	33,902	1,565	5,683	28,501	91,156
Withdrawals and/or sales (b)	(twenty)	(3,585)	(16,991)	(1,060)	(1,172)	(1,023)	(2,167)	(26,018)
Transfer from inventory	-	-	9,058	121,057	1,625	-	-	131,740
Transfer to inventory	-	-	(12,385)	(166,476)	(533)	(4)	-	(179,398)
Other transfers	-	5,973	10,584	(1,365)	-	124	(15,316)	-
Translation effect	4,761	5,444	2,393	26,396	1,304	2,772	(43)	43,027
Balance as of December 31	<u>612,654</u>	<u>527,280</u>	<u>461,260</u>	<u>599,326</u>	<u>56,752</u>	<u>61,907</u>	<u>47,036</u>	<u>2,366,215</u>
Accumulated depreciation -								
Balance January 1	-	153,206	260,556	141,764	26,555	34,598	-	616,679
Right-of-use assets - IFRS 16(h)	-	15,234	1,869	28,419	4,702	7	-	50,231
Assets for rights of use - IFRS 16(h) - Motored	-	5,090	-	-	160	-	-	5,250
Additions	-	18,623	34,629	41,696	4,403	8,872	-	108,223
Discontinued operation additions - Motored	-	127	390	-	310	294	-	1,121
Withdrawals and/or sales (b)	-	(3,160)	(16,544)	(981)	(943)	(783)	-	(22,411)
Transfer from inventory	-	-	(9)	(14)	-	(104)	-	(127)
Transfer to inventory	-	-	(5,430)	(39,454)	-	-	-	(44,884)
Other transfers	-	(630)	(89)	622	13	-	-	(84)
Translation effect	-	2,539	2,006	7,103	1,089	2,477	-	15,214
Balance as of December 31	<u>-</u>	<u>191,029</u>	<u>277,378</u>	<u>179,155</u>	<u>36,289</u>	<u>45,361</u>	<u>-</u>	<u>729,212</u>
Estimate for impairment -								
Balance as of January 1	-	-	613	6,069	-	-	-	6,682
Additions	-	-	(35)	1,203	-	-	-	1,168
Transfers from inventories	-	-	-	551	-	-	-	551
Withdrawals and/or sales	-	193	-	(743)	-	-	-	(550)
Transfer to inventory	-	-	-	(1,120)	-	-	-	(1,120)
Translation effect	-	-	-	214	-	-	-	214
Balance as of December 31	<u>-</u>	<u>193</u>	<u>578</u>	<u>6,174</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,945</u>
Net cost	<u>612,654</u>	<u>336,058</u>	<u>183,304</u>	<u>413,997</u>	<u>20,463</u>	<u>16,546</u>	<u>47,036</u>	<u>1,630,058</u>

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Notes to the consolidated financial statements (continue)

- (b) In 2021, the Group sold and derecognized fixed assets whose net cost amounted to S/255,000 and S/5,445,000, respectively (S/1,128,000 and S/3,702,000, respectively, in 2020). The Group generated a profit from the sale of its fixed assets of S/1,988,000 (S/210,000 in 2020) which is shown in the caption "Other income and expenses, net" of the consolidated income statement. In 2021 and 2020, the main sales comprise transportation units; and the main declines include machinery and equipment, obsolete computer equipment, and furniture and fixtures.
- (c) As of December 31, 2021, the balances of work in progress mainly comprise the disbursements made for the execution of works in the premises located in Punta Negra for S/10,392,000, the new WIP 2 Welding Workshop located in La Joya - Arequipa for S/2,061,000, various improvements in Talleres de Lima for S/862, and in various mining operations for S/748,000, which are estimated to be ready for use within the first half of 2022. As of December 31, 2020, the balances of the works in progress mainly comprise the disbursements made for the execution of works in the premises located in Punta Negra for S/10,392,000, the construction of the new roof of the Spare Parts Distribution Center (CDR) in Lima for S/14,615,000, the new WIP 2 Welding Workshop located in La Joya - Arequipa for S/9,909,000 and in various mining operations for S/927,000.
- (d) As of December 31, 2021 and 2020, the Group has taken out insurance for all of its assets. In Management's opinion, its insurance policies are consistent with international industry practice and the risk of possible losses due to claims considered in the insurance policy is reasonable considering the type of assets held by the Group.
- (e) In 2021, rental income amounted to S/224,299,000 (S/139,823,000, in 2020), which is related to the rental of rental fleet machinery and equipment and is included in the caption "Revenue from sales" of the consolidated statement of results.
- (F) Depreciation expense for the years ended December 31, 2021 and 2020 has been recorded in the following items of the consolidated statement of income:

	2021 S/(000)	2020 S/(000)
Cost of sales, note 18	74,212	46,135
Selling expenses, note 19	51,402	45,805
Administrative expenses, note 20	12,098	16,283
	<u>137,712</u>	<u>108,223</u>

- (g) As of December 31, 2021 and 2020, Management carried out an evaluation of the state of use of its properties, machinery and equipment, and has not found signs of impairment in said assets.

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Notes to the consolidated financial statements (continued)

- (h) The movement of the right-of-use asset and its corresponding accumulated amortization is described below:

	Buildings and other constructions S/000	Machinery and equipment S/000	Transport Units S/000	Total S/000
2021:				
Cost -				
Initial balance as of January 1, 2020				
	81,849	118,936	15,229	216,014
Additions	17,087	4,178	15,628	36,893
Adjustments	530	2,034	358	2,922
Retirement/discharges	(36,018)	(2,213)	(10,235)	(48,466)
Balance as of December 31, 2021	63,448	122,935	20,980	207,363
Accumulated depreciation -				
Initial balance as of January 1, 2021				
	43,349	53,800	12,795	109,944
Additions	13,130	29,013	5,411	47,554
Discontinued operation additions -				
Motored	2,305	-	87	2,392
Adjustments	661	661	-	1,322
Retirement/discharges	(29,465)	162	(10,224)	(39,527)
Balance as of December 31, 2021	29,980	83,636	8,069	121,685
2020:				
Cost -				
Initial balance as of January 1, 2020				
	83,697	68,036	13,246	164,979
Additions	1,938	53,886	2,200	58,024
Adjustments	(147)	(2,748)	-	(2,895)
Retirement/discharges	(3,639)	(238)	(217)	(4,094)
Balance as of December 31, 2020	81,849	118,936	15,229	216,014
Accumulated depreciation -				
Initial balance as of January 1, 2020				
	24,248	23,505	7,933	55,686
Additions	15,247	30,295	4,689	50,231
Discontinued operation additions -				
Motored	5,090	-	160	5,250
Adjustments	-	-	13	13
Retirement/discharges	(1,236)	-	-	(1,236)
Balance as of December 31, 2020	43,349	53,800	12,795	109,944

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Notes to the consolidated financial statements (continued)

The expense generated by the amortization of the right-of-use asset was distributed as follows:

	2021 S/(000)	2020 S/(000)
Cost of sale, note 18	33,690	33,792
Selling expenses, note 19	11,961	11,348
Administrative expenses, note 20	1,903	5,091
	<u>47,554</u>	<u>50,231</u>

In 2021 and 2020, the Group has not entered into contracts that include variable lease payments that depend or not on an index or rate.

In 2021, the expense related to leases with a term of 12 months or less and low-value assets, for which the Group used the practical application allowed by IFRS 16, if not considered as part of the lease liability, amounted to S /22,224,000 (S/22,470,000 in 2020) and is presented under the headings "Selling expenses" and "Administrative expenses" of the consolidated statement of income.

(i) Non-current assets held for sale -

As of December 31, 2021, the Company decided to put up for sale a piece of land located at Av. Industrial No.504-508, Cercado de Lima, under the category of investment properties, which is why said asset as of that date was classified as available for sale for the amount of S/13,914,000 (S/13,863,000 as of December 31, 2020).

Notes to the consolidated financial statements (continue)

11. Intangible assets and goodwill

(a) Intangible assets -

The composition and movement of the item for the years 2021 and 2020 is presented below:

	Customer relations S/(000)	Brand Rights S/(000)	Distribution contract S/(000)	Computer programs S/(000)	Rights Of Use S/(000)	Relationship with suppliers S/(000)	Non-compete agreement S/(000)	Others S/(000)	Total S/(000)
Cost									
Balances as of January 1, 2020	57,364	8,658	11,973	240,572	17,552	2,217	4,730	7,455	350,521
Additions (ii)	-	-	-	63,400	-	-	-	324	63,724
Withdrawals and transfers	-	-	-	2	-	-	-	(371)	(369)
Translation effect	1,296	567	1,110	17	-	64	527	4	3,585
Balances as of December 31, 2020	<u>58,660</u>	<u>9,225</u>	<u>13,083</u>	<u>303,991</u>	<u>17,552</u>	<u>2,281</u>	<u>5,257</u>	<u>7,412</u>	<u>417,461</u>
Additions (ii)	-	-	-	6,047	-	-	-	809	6,856
Withdrawals and transfers	-	-	-	(317)	-	-	-	(127)	(444)
Translation effect	885	337	1,291	58	-	78	213	5	2,867
Balances as of December 31, 2021	<u>59,545</u>	<u>9,562</u>	<u>14,374</u>	<u>309,779</u>	<u>17,552</u>	<u>2,359</u>	<u>5,470</u>	<u>8,099</u>	<u>426,740</u>
Amortization									
Balances as of January 1, 2020	51,528	641	8,178	41,296	17,552	253	4,411	3,617	127,476
Additions (iii)	1,196	155	1,308	4,818	-	57	350	636	8,520
Discontinued operation additions - Motored	-	-	-	-	-	-	-	202	202
Withdrawals and transfers	-	-	-	13	-	-	-	-	13
Translation effect	607	59	758	4	-	10	318	123	1,879
Balances as of December 31, 2020	<u>53,331</u>	<u>855</u>	<u>10,244</u>	<u>46,131</u>	<u>17,552</u>	<u>320</u>	<u>5,079</u>	<u>4,578</u>	<u>138,090</u>
Additions	1,213	171	1,437	25,900	-	66	-	156	28,943
Discontinued operation additions - Motored	-	-	-	-	-	-	-	198	198
Reclassifications and/or adjustments	-	-	-	(315)	-	-	-	(72)	(387)
Translation effect	787	84	1,011	5	-	3	391	-	2,281
Balances as of December 31, 2021	<u>55,331</u>	<u>1,110</u>	<u>12,692</u>	<u>71,721</u>	<u>17,552</u>	<u>389</u>	<u>5,470</u>	<u>4,860</u>	<u>169,125</u>
Net equity									
As of December 31, 2020	<u>5,329</u>	<u>8,370</u>	<u>2,839</u>	<u>257,860</u>	<u>-</u>	<u>1,961</u>	<u>178</u>	<u>2,834</u>	<u>279,371</u>
As of December 31, 2021	<u>4,214</u>	<u>8,452</u>	<u>1,682</u>	<u>238,058</u>	<u>-</u>	<u>1,970</u>	<u>-</u>	<u>3,239</u>	<u>257,615</u>

(i) Intangible assets related to customer relationships, brand rights, distribution contracts, purchase orders, rights of use, relationships with suppliers and non-competition agreements were generated through various business combinations. As of December 31, 2021 and 2020, based on its cash flow projections of the cash-generating units to which these intangible assets were assigned, Management concludes that there are no indications that the book values of these intangible assets (including goodwill described later in this note) may not be recoverable.

(ii) The item of computer programs corresponds mainly to the costs of the "SAP Business Project" that has been implemented in the Headquarters and in the main subsidiaries of the Group. This project corresponds to the design, implementation and testing of the updated version of the SAP program, which was fully completed for the Group in December 2020 and was available for use in January 2021. During 2021, the investment made in this implementation amounted to S/4,505,000 (S/60,575,000 in 2020).

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Notes to the consolidated financial statements (continue)

- (iii) The amortization expense for the year has been recorded in the following items of the consolidated income statement:

	2021 S/(000)	2020 S/(000)
Selling expenses, note 19	1,252	1,379
Administrative expenses, note 20	<u>27,691</u>	<u>7,141</u>
	<u>28,943</u>	<u>8,520</u>

- (b) Goodwill -

The composition of the item by cash-generating unit is presented below.

	2021 S/(000)	2020 S/(000)
Ferreyros S.A. (Bucyrus)	83,396	83,396
Inversiones Interamericanas Corp.	58,159	52,936
Trex Latinoamérica SpA	19,340	19,340
Soltrak S.A.	13,912	13,912
Ferreycorp S.A.A. (Soltrak S.A.)	<u>5,290</u>	<u>5,290</u>
	<u>180,097</u>	<u>174,874</u>

Goodwill and intangibles impairment test -

For the purposes of the value impairment test, goodwill acquired through business combinations and intangibles with indefinite useful lives (brands) were assigned to the cash-generating units indicated below:

- Trex Latin America SpA (included in Ferreycorp S.A.A.)
- "Bucyrus" business line (included in Ferreyros S.A.)
- Inversiones Interamericanas Corp. - INTI (includes the line of business and companies acquired in Central America)
- Soltrak S.A.

The recoverable amount of each cash-generating unit (CGU) has been determined based on what the standards define as "value in use". To determine the value in use of the assets that makes up each CGU, there have been used cash flow projections obtained from the financial budgets approved by senior management, which include the effects of the temporary suspension of some projects due to the pandemic and crisis due to COVID -19 and that cover a certain period.

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Notes to the consolidated financial statements (continue)

As of December 31, 2021 and 2020, the carrying amount of intangibles and goodwill related to each CGU has been compared to the recoverable value; and Management has determined that it is not necessary to establish any provision for impairment for these assets at the dates of the consolidated statements of financial position.

Notes to the consolidated financial statements (continue)

Below, we present the main assumptions used in the assessment of impairment for each CGU as of December 31, 2021 and 2020, as follows:

CGU	Book value of net assets S/(000)	Equity recoverable S/(000)	Cap of discount %	Period	Growth rate %
Year 2021					
Bucyrus	82,920	534,921	8.32	10	2.0
Inti	58,159	446,825	10.50	10	2.0
Trex	24,451	401,714	10.50	10	2.0
Soltrak SA	22,680	151,445	10.50	10	2.0
Year 2020					
Bucyrus	83,396	513,756	9.0	10	2.0
Inti	53,003	408,523	10.5	10	2.0
Trex	25,183	433,501	10.5	10	2.0
Soltrak SA	22,744	136,738	10.5	10	2.0

Key assumptions used in value in use calculations -

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

Gross margin -

It is based on the average values achieved in the three years prior to the beginning of the budget period, which includes the effects of the temporary suspension of some projects due to the COVID-19 pandemic and crisis and future projects of each company, considered based on projected revenues and costs based on the historical budget base of each Group company.

Likewise, increases during the budget period due to expected improvements in efficiency are considered. In the long term, the gross margin decreases by 1% to 2%, depending on the company or line of business.

Discount rate -

It represents the current market assessment of the risks specific to each CGU, considering the time value of the money and the particular risks of the underlying assets that were not included in the cash flow estimates. 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 debts and equity. The cost of equity is based on the return on investment that the Company's shareholders expect to obtain. The cost of debt is based on the Group's interest-bearing loans. Segment-specific risk is incorporated through the application of individual beta factors.

Long-term growth rate -

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

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

As of December 31, 2021 and 2020, the carrying amount of goodwill related to each CGU has been compared to the recoverable value and Management has determined that it is not necessary to establish any provision for impairment.

Notes to the consolidated financial statements (continue)

12. Financial obligations

(a) This item includes

	As of December 31, 2021			As of December 31, 2020		
	Current S/(000)	Non-current portion S/(000)	Total S/(000)	Current S/(000)	Non-current portion S/(000)	Total S/(000)
Bank loans (b)	438,605	-	438,605	466,461	-	466,461
Long-term bonds and debt with banking entities (c)	265,404	1,183,877	1,449,281	331,668	913,706	1,245,374
	<u>704,009</u>	<u>1,183,877</u>	<u>1,887,886</u>	<u>798,129</u>	<u>913,706</u>	<u>1,711,835</u>

(b) Bank loans -

Financial entity	Average effective interest rate fixed annual		Currency	2021 S/(000)	2020 S/(000)
	2021 %	2020 %			
Scotiabank	Between 0.85 and 1.15		S/	126,000	-
Banco Bladex	Between 2.15 and 2.85	Between 2.85 and 3.00	US\$	81,559	113,612
Banco Internacional del Perú - Interbank	Between 0.75 and 1.10	Between 1.10 and 1.20	US\$	68,364	14,496
Banco Crédito del Perú - BCP	Between 0.70 and 3.45	Between 0.20 and 6.80	US\$	49,095	78,278
BBVA Banco Continental	Between 0.55 and 1.05	Between 1.00 and 2.00	US\$	37,383	101,111
Scotiabank Chile	Between 6.20 and 6.25	Between 2.50 and 2.90	CLP	29,367	37,543
Banco de Crédito e Inversiones - BCI	Between 4.25 and 4.35	-	CLP	23,188	-
BBVA Banco Continental	Between 1.05 and 2.30	Between 1.30 and 1.50	S/	21,650	21,500
Banco Davivienda	Between 4.95 and 5.05	Between 5.20 and 5.60	US\$	1,999	9,600
Banco de América Central - Guatemala y El Salvador	-	Between 5.50 and 6.00	US\$	-	1,812
Banco ICBC Banco Perú	-	Between 1.00 and 1.10	US\$	-	10,872
Banco Itau Corpbanca New York.	-	Between 4.20 and 4.60	US\$	-	47,112
Caterpillar Leasing Chile	-	Between 4.80 and 4.90	US\$	-	30,525
				<u>438,605</u>	<u>466,461</u>

US\$ = US dollar S/ = Sol CLP = Chilean peso Q = Quetzal

The interest expense accrued in 2021, related to debts with banking entities, amounts to S/ 19,777,000 (S/35,817,000, in 2020) and is presented in the caption "Financial expenses" of the consolidated income statement (note 23). The accrued interest pending payment as of December 31, 2021 amounts to S/1,725,000 (S/4,680,000, as of December 31, 2020) (note 15).

As of December 31, 2021 and 2020, bank loans in foreign currency obtained from local and foreign financial institutions were mainly used for working capital, have maturities between 6 and 360 days, and can be renewed at maturity for up to 360 days. Interest rates for such bank loans fluctuate between 0.55% and 6.25%.

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Notes to the consolidated financial statements (continue)

As of December 31, 2021, the Group maintains lines of credit for working capital of up to S/6,585,414,000 (S/6,323,888,000, as of December 31, 2020) with most banks in the Peruvian financial system, which are intended for short-term financing. The Group does not have specific conditions to use these lines of credit.

(c) Long-term bonds and debts with banking entities -

Bank	Maturity	Original currency	Annual effective interest rate %	As of December 31, 2021			As of December 31, 2020		
				Current portion S/(000)	Non-current portion S/(000)	Total S/(000)	Current portion S/(000)	Non-current portion S/(000)	Total S/(000)
Senior Bonds									
Prudential Capital Group (I)	Until July 2027	US\$	4.78(*)	-	357,038	357,038	-	323,396	323,396
Promissory notes -									
Caterpillar Leasing Chile, S.A.	Until October 2025	US\$	Between 3.65 and 5.00	34,933	16,840	51,773	97,805	56,702	154,507
Caterpillar Crédito S.A. de C.V.	Until April 2023	US\$	Between 4.60 and 4.70	4,990	1,328	6,318	13,293	41,968	55,261
Promissory notes with local and foreign institutions	Until May 2028	US\$	Between 2.50 and 5.00	186,100	671,993	858,093	210,655	479,002	689,657
Promissory notes with local and foreign institutions	Until June 2026	S/	Between 2.45 and 2.90	38,644	136,440	175,084	6,673	11,704	18,377
Promissory notes with local and foreign institutions	Until April 2021	Q	Between 6.00 and 6.50	-	-	-	1,934	-	1,934
Financial leases (ii)	Until May 2023	US\$	Between 4.10 and 4.80	581	238	819	1,033	743	1,776
Financial leases (ii)	Until June 2022	PHEW	5.00	156	-	156	275	191	466
				<u>265,404</u>	<u>1,183,877</u>	<u>1,449,281</u>	<u>331,668</u>	<u>913,706</u>	<u>1,245,374</u>

(*) Nominal rate of 4.45%.

US\$ = US dollar S/ = Sol Q = Quetzal UF = Development Unit (Chile)

In 2021, interest expenses for promissory notes and long-term obligations amount to S/ 37,532,000 (S/37,767,000, in 2020), which are presented in the caption "Financial expenses" of the consolidated statement of income (note 23).

The accrued interest pending payment, as of December 31, 2021, amounts to S/5,536,000 (S/4,396,000, as of December 31, 2020) and is presented in the caption "Other liabilities" of the consolidated statement of financial position (note 15).

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- (i) On July 23, 2020, Ferreycorp S.A.A., together with some of its subsidiaries, have placed in the capital market and privately issued bonds with The Prudential Insurance Company of America (PGIM). The placement of the bonds took place under the laws of the State of New York, United States of America. This issuance was for a total of US\$90 million at a nominal annual interest rate of 4.45% for a term of 7 years from the date of issuance, with quarterly installments and principal payment as of July 23, 2023, and maturing on July 23, 2027. The payment by the issuers of all amounts due and the fulfillment of their payment obligations will be, jointly and severally and unconditionally guaranteed by the subsidiary guarantors in accordance with the established guarantee.

The bonds are backed by a generic equity guarantee and must meet the following covenants:

- Maintain a debt ratio Adjusted Debt / Ebitda not greater than 3.5 times.
- Maintain an interest coverage service index (Ebitda / Financial expenses) of not less than 3.0 times.
- Maintain an indebtedness ratio Net financial debt / Ebitda not greater than 3.75 times.

Compliance with the obligations described is supervised by Management. In case of non-compliance with the aforementioned safeguards, an early termination event will be incurred. In Management's opinion, the corporation has been complying with said obligations as of December 31, 2021.

- (ii) Corresponds to financial lease contracts signed by the Group with different banking entities. The financial obligations related to leases are guaranteed by the property rights over the asset that revert to the lessor in the event of default by the Group.
- (iii) As of December 31, 2021 and 2020, the amortization schedule of the non-current portion of long-term debt is as follows:

	2021 S/(000)	2020 S/(000)
2022	-	276,270
2023	309,847	277,916
2024	289,374	160,319
2025	238,694	69,843
2026	215,973	64,679
2027	113,918	48,608
2028	16,071	16,071
	<u>1,183,877</u>	<u>913,706</u>

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Notes to the consolidated financial statements (continue)

13. Lease liability

(a) This item includes:

	2021 S/(000)	2020 S/(000)
Current portion	41,041	41,517
Non-current portion	78,365	98,226
Total lease liability	<u>119,406</u>	<u>139,743</u>

Liabilities include real estate leases for the Group's operations. The lease contracts have maturities of up to 7 years and accrue interest at annual rates in dollars that fluctuate between 1.84% and 4.25% and in soles between 5.26% and 6.52%.

(b) The movement of the liability for right of use, for the year 2021 and 2020, is as follows:

	2021 S/(000)	2020 S/(000)
Balance as of January 1	139,743	126,684
Lease additions	36,893	58,024
Withdrawals	(8,939)	(4,094)
Lease adjustments	(10,250)	(2,896)
Financial interest expenses, note 23	5,917	4,599
Financial interest expense, discontinued operation-Motored	141	357
Lease payments	(55,893)	(64,653)
Difference in change	6,012	11,460
Translation effect	5,782	10,262
Balance as of December 31	<u>119,406</u>	<u>139,743</u>

14. Trade Payables

(a) This item includes:

	2021 S/(000)	2020 S/(000)
Invoices (b)	<u>782,171</u>	<u>500,537</u>

(b) As of December 31, 2021, the balances of invoices payable mainly include accounts payable to the Caterpillar Group for US\$120,531,000 (equivalent to S/481,885,000) for the purchase of products for sale. As of December 31, 2020, the balances of invoices payable mainly included accounts payable to the Caterpillar Group for US\$40,750,000 (equivalent to S/146,823,000), for the purchase of products for sale. These accounts payable have current maturities, no specific guarantees have been granted for these obligations and do not accrue interest.

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Notes to the consolidated financial statements (continue)

15. Other liabilities

(a) This item includes:

	2021 S/(000)	2020 S/(000)
Customer advances (b)	301,868	633,899
Remuneration payable (c)	65,634	55,386
Liabilities for sundry expenses (d)	82,282	49,521
Accrual of various services (e)	24,722	32,561
Provision for contingencies, note 25(c)	25,627	26,958
Participation of the workers	56,371	25,217
Taxes payable	23,001	22,605
Provision for guarantees (f)	17,186	15,125
Dues and contributions payable	10,180	14,121
Interest payable, note 12(b) and (c)	7,261	9,076
dividends payable	330	367
	<u>614,462</u>	<u>884,836</u>
Less:		
Non-current portion	<u>(1,009)</u>	<u>(156)</u>
Current portion	<u>613,453</u>	<u>884,680</u>

The concepts that comprise this item mostly have current maturities, do not generate interest and no specific guarantees have been granted for them.

- (b) Customer advances correspond mainly to advances received for S/261,861,000 (S/610,343,000 in 2020) and performance obligations in application of IFRS 15, "Revenue from Ordinary Activities from Contracts with Customers" for S/40,007,000 (S/23,556,000 in 2020); related to the sale of goods and services mainly from mining clients whose delivery and services will be made during the next year.
- (c) Remuneration payable mainly includes vacation provisions, bonuses, compensation for length of service and severance payments to staff.
- (d) Said balance mainly comprises various provisions recognized by the Group in accordance with the practice described in note 3.3(p), based on its best estimates of the disbursement that would be required to settle obligations for services received at the date of the consolidated statement. of financial situation.

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Notes to the consolidated financial statements (continue)

- (e) This item mainly includes the accrual of freight services and rentals related to the acquisition of machinery and spare parts.
- (f) Corresponds to the provision for guarantees granted by the Group for sales of machinery and services, which are granted for an average term of one year. This provision is reviewed annually in accordance with the policy described in note 3.3(p).

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Notes to the consolidated financial statements (continue)

16. Deferred income tax assets and liabilities, net

(a) The components that originate the asset and liability for deferred income taxes, as of December 31, 2021 and 2020, are detailed below:

	Balance at 1 January 2020 S/(000)	(Charge) / credit to the consolidated income statement S/(000)	(Charge)/credit to the consolidated statement of changes in equity S/(000)	Balance as of December 31, 2020 S/(000)	(Charge) / credit to the consolidated income statement S/(000)	(Charge)/credit to the consolidated statement of changes in equity S/(000)	Balance as of December 31, 2021 S/(000)
Deferred asset -							
Non-deductible provisions	26,471	(2,557)	12	23,926	8,599	23	32,548
Difference in depreciation rates	68,920	1,459	-	70,379	(104)	(43,919)	26,356
Allowance for doubtful accounts receivable	28,912	5,435	21	34,368	911	(111)	35,168
Vacation allowance	12,916	(4,559)	-	8,357	2,446	-	10,803
Tax credits for accumulated losses	13,131	9,060	-	22,191	(6,107)	-	16,084
Estimate for impairment of fixed assets	1,764	1,038	51	2,853	273	61	3,187
Estimate for impairment of inventories	14,527	5,007	95	19,629	(1,895)	(972)	16,762
Miscellaneous provisions	17,907	3,393	1,081	22,381	(9,395)	55	13,041
Differences in lease payments IFRS 16	223	1,166	5	1,394	(773)	22	643
Others	13,621	2,771	2	16,394	6,422	(2,680)	20,136
	<u>198,392</u>	<u>22,213</u>	<u>1,267</u>	<u>221,872</u>	<u>377</u>	<u>(47,521)</u>	<u>174,728</u>
Deferred liabilities -							
Change of useful life of the fixed asset	(506)	14	(88)	(580)	133	(41)	(488)
Exchange difference for liabilities related to inventories and fixed assets	(13)	28	-	15	-	-	15
Deferred sales gain, net	(2,002)	97	-	(1,905)	152	-	(1,753)
Financial leasing operations	(4,167)	94	-	(4,073)	(28)	-	(4,101)
Provision for indemnities	(775)	(345)	(83)	(1,203)	1,452	(127)	122
Revaluation of buildings	(7,547)	851	(495)	(7,191)	252	(104)	(7,043)
Fair value of land	(97,099)	-	-	(97,099)	42	(282)	(97,339)
Depreciation rate differences	(51,612)	(6,180)	(227)	(58,019)	(744)	38,501	(20,262)
Valuation for business acquisition	(3,588)	-	523	(3,065)	-	535	(2,530)
Others	(19,591)	(2,429)	(56)	(22,076)	(9,476)	2,456	(29,096)
	<u>(186,900)</u>	<u>(7,870)</u>	<u>(426)</u>	<u>(195,196)</u>	<u>(8,217)</u>	<u>40,938</u>	<u>(162,475)</u>
Deferred liabilities, net	<u>11,492</u>	<u>14,343</u>	<u>841</u>	<u>26,676</u>	<u>(7,840)</u>	<u>(6,583)</u>	<u>12,253</u>

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

	2021 S/(000)	2020 S/(000)
Current	179,645	97,789
Deferred	<u>7,840</u>	<u>(14,343)</u>
	<u>187,485</u>	<u>83,446</u>

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

	2021		2020	
	S/(000)	%	S/(000)	%
Income before income tax	<u>600,688</u>	<u>100.00</u>	<u>259,326</u>	<u>100.00</u>
Theoretical tax expense	177,203	29.50	76,501	29.50
Effect of participation in joint venture	(1,863)	(0.31)	(1,667)	(0.64)
Effect of permanent differences, net	<u>12,145</u>	<u>2.02</u>	<u>14,364</u>	<u>5.54</u>
Income tax expense	<u>187,485</u>	<u>31.21</u>	<u>89,198</u>	<u>34.40</u>

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- (d) The composition of the deferred income tax balance as of December 31, 2021 and 2020 by the Company and its Subsidiaries is as follows:

	2021		2020	
	Net assets S/(000)	Net liability S/(000)	Net assets S/(000)	Net liability S/(000)
Companies:				
Ferreyros S.A.	84,081	1,146	119,203	41,286
Unimaq S.A.	61,367	38,067	52,216	26,295
Ferreycorp S.A.A. and subsidiaries	-	38,648	-	38,648
Trex Latinoamerica SpA and subsidiaries	8,779	1,790	11,295	2,066
Motored S.A.	5,520	-	19,114	-
Orvisa S.A. and subsidiaries	4,603	8,561	4,362	8,561
Soltrak S.A.	2,672	994	7,237	994
Ferreycorp S.A.A.	2,406	49,326	1,633	49,549
Motriza S.A.	1,560	46	1,039	46
Soluciones Sitech Perú S.A.	1,106	-	1,396	-
Inti Inversiones Interamericanas Corp. and subsidiaries	923	7,904	2,653	11,971
Forbis Logistics S.A.	891	143	904	93
Cresko S.A.	820	-	820	-
Fargoline S.A.	-	15,850	-	15,687
	<u>174,728</u>	<u>162,475</u>	<u>221,872</u>	<u>195,196</u>

17. Equity

- (a) Issued capital -

As of December 31, 2021, the Company's issued capital is represented by 958,894,238 common shares (975,683,029 as of December 31, 2020), fully subscribed and paid, whose nominal value is S/1.00 each.

Stock market values and trading frequency were as follows:

	Quotation stock market S/(000)	Frequency %
As of December 31, 2021	2.05	100.00
As of December 31, 2020	1.74	100.00

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As of December 31, 2021 and 2020, the shareholding structure in the Company's capital is as follows:

Percentage of individual participation in the capital	Number of shareholders		Participation percentage	
	2021	2020	2021 %	2020 %
Up to 1.00	3,090	3,278	25.94	31.94
From 1.01 to 4.00	18	18	51.54	44.92
From 4.01 to 10.00	4	4	22.52	23.14
	<u>3,112</u>	<u>3,300</u>	<u>100.00</u>	<u>100.00</u>

(b) Treasury shares -

During 2021, the Company acquired 11,817,000 own shares for a value of S/23,661,000. The nominal value of these shares of S/11,817,000 is presented in this account and the excess paid, with respect to the nominal value, of S/11,844,000, is presented as a debit balance in the additional capital account.

As of December 31, 2020, the company had acquired 17,804,000 own shares for a value of S/ 35,786,000. The nominal value of these shares of S/ 17,804,000 is presented in this account and the excess paid, with respect to the nominal value of S/ 17,982,000 is presented as a debit balance in the additional capital account.

At the General Shareholders' Meeting held on November 15, 2021, the redemption of 16,788,791 treasury shares was agreed, with a nominal value of S/ 1.00 each; which resulted in the reduction of the capital stock from S/975,683,000 to the sum of S/958,894,000.

The share repurchase program was approved at the Board Meeting of Directors on October 30, 2019.

(c) Additional capital -

This item corresponds to the difference between the contribution received, after the conclusion of preferential subscription rounds by the shareholders, and the nominal value of the shares issued by the Company in 2012, reduced by partial capitalizations made in previous years and by the higher value with respect to the par value of the issued own shares acquired, which is described in section b) above.

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(d) Legal reserve -

Pursuant to the provisions of the General Companies Law, it is required that a minimum of 10% of the distributable profit of each fiscal year, deducting income tax, be transferred to a legal reserve until it is equal to 20% of the capital stock. The legal reserve can offset losses or can be capitalized, in both cases there is an obligation to replace it with the profits of subsequent years.

As of December 31, 2021 and 2020, the legal reserve constituted by the Company exceeds the amount required by the General Companies Law by S/19,853,000.

(e) Other equity reserves -

Revaluation surplus -

Corresponds to the increase in the value of fixed assets recognized as a result of measuring them at their fair value, based on appraisals carried out by independent appraisers. As of December 31, 2021 and 2020, the revaluation surplus, net of its corresponding deferred income tax, amounts to S/254,011,000. The revaluation surplus is transferred to retained earnings to the extent that it is realized, either through its depreciation or when the assets that gave rise to it are retired or sold.

Result per Translation -

Corresponds to the exchange difference resulting from the Translation of the financial statements of foreign operations to the presentation currency of the Group.

Unrealized results -

Corresponds mainly to the recognition of items that affect unrealized results, in application of the equity participation method in the joint venture owned by the Group.

(F) Distribution of dividends -

Dividends distributed to shareholders other than domiciled legal entities are subject to income tax charged by these shareholders; Said tax is withheld and settled by the Company. There are no restrictions on the remittance of dividends or the repatriation of capital to foreign investors. The dividends that are distributed or paid on the profits of the 2021 and 2020 periods are subject to the 5 percent rate.

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The board of directors in session on March 31, 2021, in exercise of the powers delegated by the Non-Personal Annual General Shareholders' Meeting held that same day, agreed to pay dividends in cash for S/86,369,000. The board of directors in session on August 25, 2021, in exercise of the dividend policy, agreed to pay cash dividends for S/100,000,000 on account of the profits for the 2021 fiscal year.

At the General Shareholders' Meeting held on July 30, 2020, the payment of cash dividends for S/146,913,000 was approved.

18. Sales and cost of sales

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

	2021 S/(000)	2020 S/(000)
Sales		
Sales of machinery, engines, equipment and vehicles	2,247,459	1,922,068
Sales for spare parts	2,518,864	1,835,375
Rental services of machinery, engines and equipment and workshop	742,470	494,100
Other income	579,935	419,085
	<u>6,088,728</u>	<u>4,670,628</u>
Cost of sales:		
Initial balance of inventories, note 8	1,356,035	1,738,798
Purchase of stock	4,206,599	2,614,552
Labor, note 21(d)	232,632	172,215
Workshop expenses	183,743	112,684
Depreciation, note 10(f) and 10(h)	107,902	79,927
Impairment of inventories, note 8(f)	49,798	23,211
Recoveries, note 8(f)	(41,520)	(12,570)
Rental fleet operating expenses	49,801	30,626
Rental fleet impairment	1,218	1,168
Services provided by third parties and other expenses	217,161	213,397
Discontinued operation - Motored S.A.	(78,939)	(135,832)
Closing balance of inventories, note 8	(1,836,904)	(1,356,035)
	<u>4,447,526</u>	<u>3,482,141</u>

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19. Selling expenses

(a) Selling expenses for the years ended as of December 31 include:

	2021 S/(000)	2020 S/(000)
Personnel expenses, note 21(d)	296,996	266,042
Services provided by third parties (b)	114,731	79,409
Depreciation, note 10(f) and 10(h)	63,363	57,153
Miscellaneous management charges	68,422	51,211
Allowance for doubtful collections, note 6(e) and 7(i)	20,455	25,672
Impairment of inventories, note 8(f)	2,051	10,417
Tributes	5,849	4,791
Amortization of intangibles, note 11(a)	1,252	1,379
	<u>573,119</u>	<u>496,074</u>

(b) Corresponds mainly to miscellaneous expenses for rental of real estate and transport units, maintenance of buildings, installations and equipment, incurred by the Group's sales areas.

20. Administrative expenses

(a) Administrative expenses for the years ended as of December 31 include:

	2021 S/(000)	2020 S/(000)
Personnel expenses, note 21(d)	188,037	161,558
Services provided by third parties (b)	56,807	68,189
Depreciation, note 10(f) and 10(h)	14,001	21,374
Miscellaneous management charges	11,857	14,113
Amortization of intangibles, note 11(a)	27,691	7,141
Tributes	5,936	5,016
	<u>304,329</u>	<u>277,391</u>

(b) Corresponds mainly to miscellaneous expenses for real estate rentals, maintenance of buildings and facilities, IT services, software use licenses and advisory and consulting services incurred by the Group's administrative areas.

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Notes to the consolidated financial statements (continue)

21. Personnel expenses

(a) The detail of personnel expenses is presented below:

	2021 S/(000)	2020 S/(000)
Remuneration and shares (b)	511,102	421,930
Guaranteed bonuses	89,266	87,358
Employer charges	56,513	49,568
Assignment to workers	30,236	19,172
Trainings	6,366	8,376
Vacations	20,029	9,582
Other minors	4,153	3,857
	<u>717,665</u>	<u>599,843</u>

(b) It mainly includes salaries and contributions to Group personnel. In the case of Peru, in accordance with the current worker participation regime regulated by Legislative Decree 677, the workers of Peruvian companies have the right to receive a participation between 5% and 8% of the taxable income, which is distributed pro rata among all workers based on the days worked and the balance in proportion to the basic remuneration received in the year. The employee participation liability is presented in the caption "Other liabilities".

(c) The average number of employees in the Group was 6,621 in the year 2021 and 6,059 in the year 2020.

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

	2021 S/(000)	2020 S/(000)
Cost of sales, note 18	232,632	172,215
Selling expenses, note 19	296,996	266,065
Administrative expenses, note 20	188,037	161,563
	<u>717,665</u>	<u>599,843</u>

(e) Remuneration of key personnel -

In 2021, the total remuneration received by the directors and key executives of Management amounted to S/54,231,000 (S/48,997,000, in 2020), which includes short-term benefits and compensation for length of service.

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

22. Financial income

Financial income for the years ended December 31 includes:

	2021 S/(000)	2020 S/(000)
Interest on bills receivable	16,751	9,165
Moratory interest	957	1,876
Interest on bank deposits	966	1,622
Other	1,763	5,079
	<u>20,437</u>	<u>17,742</u>

23. Financial expenses

Financial expenses for the years ended December 31 include:

	2021 S/(000)	2020 S/(000)
Interest on overdrafts and loans, note 12(b)	19,777	35,817
Interest on corporate bonds and long-term loans, note 12(c)	37,532	37,767
Interest on lease liabilities - IFRS 16, note 13(b)	5,917	4,599
Interest on financing from foreign suppliers	2,242	4,400
Financial transaction tax	614	1,740
Other	4,236	5,976
	<u>70,318</u>	<u>90,299</u>

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Notes to the consolidated financial statements (continue)

24. Earnings per share

Basic and diluted earnings per share are calculated by dividing earnings for the year by the weighted average number of shares outstanding during the period.

The calculation of basic and diluted earnings per share is shown below:

	2021 S/(000)	2020 S/(000)
Numerator		
Profit for the year attributable to owners of the Company	<u>376,054</u>	<u>143,948</u>
	thousands of shares	thousands of shares
Denominator		
Weighted Average Common Stock	<u>947,841</u>	<u>960,036</u>
	2021 S/(000)	2020 S/(000)
Basic and diluted earnings per common share	<u>0.397</u>	<u>0.150</u>

The weighted average of the shares in 2020 takes into account the effect of the weighted average of the repurchase of shares held in treasury, explained in note 17(c). The weighted average of the shares in 2019 is equal to the number of outstanding shares since there were no movements as described in note 17(a).

As of December 31, 2021 and 2020, the Company does not have financial instruments that produce dilutive effects, so the basic and diluted earnings per share are the same.

25. Commitments, guarantees granted and contingencies

(a) Commitments -

The Group leases assets such as real estate and vehicles under non-cancellable operating leases that expire within a period of 2 to 3 years. The terms and conditions of the leases are negotiated individually.

Since January 1, 2019, the Group has recognized right-of-use assets for these leases, except for short-term and low-value leases (note 3.5 and note 10).

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(b) Guarantees granted -

The Group has the following guarantees granted:

Ferreycorp S.A.A.:

- As of December 31, 2021, the Company has commitments for guarantees that guarantee credit operations of subsidiaries and represented brands for US\$114,396,421 (US\$183,545,054, as of December 31, 2020) and guarantees that guarantee purchase operations with third parties for US\$ \$18,095,707 (US\$26,254,466 as of December 31, 2020). Likewise, it maintains a cross guarantee signed on July 23, 2020 between the Company and some of its subsidiaries as Co-Issuers, see note 12(c)(i).
- As of December 31, 2021, the Company maintains letters of guarantee in favor of financial entities for US\$10,000,000 (US\$10,000,000 as of December 31, 2020, which guarantee banking operations of subsidiaries abroad.

Ferreyros S.A.:

- As of December 31, 2021, this subsidiary has guarantees for US\$25,226,160 (US\$32,523,888 in 2020) that guarantee third-party purchase operations.
- As of December 31, 2021, the subsidiary has bank guarantees in favor of financial entities for US\$47,207,389 (US\$179,582,580 in 2020), which mainly guarantee the seriousness of the Company's offer and the faithful fulfillment of the delivery of the products sold to through public tenders and the payment of customs obligations related to the importation of merchandise.

Fargoline S.A.:

- As of December 31, 2021, the subsidiary has contracted a surety policy in favor of the National Customs Superintendence for merchandise under the customs regime for US\$200,000 (US\$200,000 in 2020).

Soltrak S.A.:

- As of December 31, 2021, the subsidiary has guarantees for US\$6,000,000 and S/23,400,000 (US\$15,560,980 and S/16,000,000 in 2020), which guarantee third-party purchase operations and financial leases, respectively, with various maturities.
- As of December 31, 2021, the subsidiary has bank guarantees in favor of financial entities for US\$8,105,499 and S/570,683 (US\$6,569,723 and S/557,478 in 2020), which mainly guarantee the seriousness of the Company's offer and faithful compliance of the delivery of the products sold through public tenders, as well as the payment of customs obligations related to the importation of merchandise, respectively.

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Motored S.A.:

- As of December 31, 2021, the subsidiary has guarantees for US\$550,000 (US\$7,373,900 in 2020) that guarantee credit operations for third-party purchases.
- As of December 31, 2021, the subsidiary has bank guarantees in favor of third parties for US\$646,313 and S/16,142 (US\$1,969,538 and S/19,737 in 2020) that mainly guarantee the seriousness of the offer and the faithful fulfillment of the delivery of the products sold through public tenders.

Orvisa S.A.:

- As of December 31, 2021, the subsidiary has bank guarantees in favor of third parties for US\$5,053,941 and S/2,924,829 (US\$4,969,701 and S/4,012,377 in 2020), which mainly guarantee credit operations of subsidiaries and purchase operations of third parties.

(c) Contingencies -

As of December 31, 2021, the Group maintains tax proceedings on appeal or contentious-administrative lawsuit for an amount of S/22,300,000 (S/50,420,000, as of December 31, 2020); including interest for S/13,690,000. As of December 31, 2021, these processes are pending administrative or judicial resolution, and are related to observations made by the Tax Administration to the affidavits of:

- (i) Income tax (including payments on account) for the taxable years 2005 to 2009 for S/18,216,000 (for the years 2003 to 2009 for S/45,866,000, as of December 31, 2020);
- (ii) General sales tax for taxable year 2006, for S/2,847,000; (years 2001 to 2006 for S/3,347,000, as of December 31, 2020); Y
- (iii) Non-domiciled income tax for taxable years 2009, for S/1,237,000 (S/1,207,000 as of December 31, 2020).

In all cases, as of December 31, 2021, the Group has requested the advice of specialists, who have determined, together with Management, that there are some annotations for S/ 19,030,000 (S/ 19,733,000, as of December 31, 2020) , whose degree of loss has been determined as probable. The Group has recorded a provision for these amounts, which is presented under "Other current liabilities" in the consolidated statement of financial position, see note 12.

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Management, together with its legal and tax advisors, believe that the Group has technical and legal grounds that lead them to conclude that the Tax Court will resolve the cases in that instance in favor of the Group. Therefore, they estimate that future resolutions of said processes will not result in significant liabilities for the Group, so it has not been necessary to record additional provisions, as of December 31, 2021 and 2020.

26. Tax situation

- (a) The Group is subject to the tax regime of each country in which it operates and is taxed based on its non-consolidated results. As of December 31, 2021 and 2020, the income tax rate on taxable income in the main countries in which the Group and its subsidiaries operate is:

	Tax rates	
	2021 %	2020 %
Peru	29.5	29.5
Ecuador	22	22
Colombia	24	24
Chile (*)	25	25
Guatemala	25	25
El Salvador	30	30
Belize	25	25
Nicaragua	30	30
United States of America	15 and 28	15 and 28

(**) As a result of the tax reforms issued in Chile, the income tax rate for the following years will be:

Year	Regime	
	Article 14 Letter A tax rate %	Article 14 Letter B %
2018 hereafter	25.0	27.0

As long as the subsidiaries in Chile do not express their intention to pay taxes under the regime of Art. 14 Letter "A", through an extraordinary meeting of shareholders, the Law establishes that by default it must be considered in the regime of Art. 14 Letter "B".

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In accordance with the legal provisions in force in some countries as of December 31, 2021 and 2020, cash dividends in favor of non-domiciled shareholders are subject to income tax at the following rates:

	Tax rates	
	2021 %	2020 %
Peru	5	5
Ecuador	10	10
Colombia	35	35
Chile (*)	5	5

(b) In July 2018, Law 30823 was published in which Congress delegated to the Executive Branch the power to legislate on various issues, including tax and financial matters. In this sense, the main tax regulations issued were the following:

- (i) The Tax Code was modified in order to provide greater guarantees to taxpayers in the application of the general anti-avoidance rule (Norm XVI of the Preliminary Title of the Tax Code); as well as to provide the Tax Administration with tools for its effective implementation. It has also been established that the application of Rule XVI, in what refers to the recharacterization of the cases of tax avoidance, will take place in the definitive control procedures in which acts, facts or situations produced since the July 19, 2012.
- (ii) Were established rules for the accrual of income and expenses for tax purposes as of January 1, 2019. Until 2018 there was no regulatory definition of this concept, so in many cases accounting standards were used to his interpretation.
- (iii) Through Legislative Decree No. 1424 published on September 13, 2018, modifications were introduced in the Income Tax Law on the limit on the deduction for interest. Thus, as of the 2021 financial year, the net interest in the part that exceeds 30% of the EBITDA of the previous financial year will not be deductible. It has been established that the amount of interest expenses that exceeds the amount of interest income, computable to determine net income, is considered net interest. Likewise, EBITDA is considered to be net income after compensation for losses plus net interest, depreciation and amortization. The net interest that cannot be deducted due to the application of this limit, may be added to that corresponding to the four immediately following fiscal years.

Through Legislative Decree No. 1488, published on May 10, 2020, a special depreciation regime has been established, exceptionally and temporarily, for taxpayers of the General Income Tax Regime, whose main aspects are the following:

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- As of the 2021 financial year, buildings and constructions acquired in the 2020 to 2022 financial years may be depreciated by applying an annual percentage of 20% until their total depreciation, provided that the following conditions are met:
 - (i) They are fully affected to the production of third category taxable income.
 - (ii) The construction would have started as of January 1, 2020. For these purposes, the start of the construction is understood to be the moment the building license is obtained and in the case of processing plants and other concession constructions of benefit the moment the construction authorization is obtained.
 - (iii) Until December 31, 2022, the construction has a progress of at least 80%. In the case of constructions that have not been completed until December 31, 2022, it is presumed that the progress of the work to that date is less than 80%, unless the taxpayer proves otherwise. It is understood that the construction has concluded when the approval of the work has been obtained from the municipality and for the processing plants when the administrative act that approves the verification inspection of the construction of works has been obtained.
- As of the 2021 financial year, the assets acquired in the 2020 to 2021 financial years, affected to the production of taxable income, will be depreciated by applying the following annual percentages until their total depreciation:
 - Data processing equipment: 50%
 - Machinery and equipment: 20%
 - Land transport vehicle (except railways) with EURO IV, Tier II and EPA 2007 technology, used by authorized companies: 33.3%
 - Hybrid or electric land transport vehicle (except railways): 50%.

On December 27, 2021, Law 31380 was published in which Congress delegates to the Executive Branch the power to legislate for a period of 90 days on tax, financial and economic reactivation matters for a period of 90 calendar days, that is, until March 28, 2022.

In tax matters, these powers refer to the Income Tax regulations on the deductibility of certain types of expenses, non-domiciled income, market value in the transfer of securities, among other issues, as well as the regulations of the Tax Code, Customs and Municipal Taxation.

On March 31, 2020, was published the Superintendence Resolution 066-2020 / SUNAT, establishing new default interest rates effective from April 1, 2020. Thus, the default interest rate in national currency went from 1.2% to 1% and in the case of foreign currency it went from 0.6% to 0.5%. Likewise, the interest rates for the return of undue or excessive payments in national currency went from 0.50% to 0.42%, while in foreign currency it went from 0.30% to 0.25%. In the case of the interest for return for withholding and/or perceptions not applied to the IGV, it went from 1.2% to 1%.

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Subsequently, on March 31, 2021, Superintendence Resolution 044-2021 / SUNAT was published, establishing that the default interest rate in national currency goes from 1.0% to 0.9% per month, effective as of April 1, 2021. The other Rates have not changed.

- (c) For purposes of determining the Income Tax and the General Sales Tax, the price and transfer regulations must be applied and are in force in Peru, Nicaragua, Guatemala, El Salvador, Belize, Chile, Colombia and Ecuador and United States of America and regulate that transactions with local or foreign related parties and with companies resident in territories with low or no taxation, must be carried out at market values and supported by documentation and information on the valuation methods used and the criteria considered for its determination.
- (d) The Tax Administration in Peru has the power to review and, if applicable, correct the income tax calculated by the Group in the four years following the year in which the corresponding tax affidavit is filed (years open to inspection). The affidavits of the income tax and the general sales tax for the years 2017 to 2021 are pending inspection by the Tax Administration in Peru. The affidavits corresponding to the years from 2001 to 2016 have already been audited.

Likewise, the income tax affidavits and the value added tax of the main subsidiaries of the Group are subject to inspection by the Tax Administration of each country for the periods detailed below:

	Period subject to inspection
Foreign subsidiaries	
Guatemala	2017 to 2021
El Salvador	2017 to 2021
Belize	2017 to 2021
Nicaragua	2011 to 2021
United States of America, Chile, Colombia and Ecuador	2017 to 2021
Peruvian subsidiaries	
Ferreyros S.A.	2017 to 2021
Unimaq S.A.	2017 to 2021
Cresko S.A.	2017 to 2021
Motriza S.A.	2017 to 2021
Soltrak S.A.	2017 to 2021
Fargoline S.A.	2019 to 2021
Orvisa S.A. and subsidiaries	2017 to 2021
Motored S.A.	2017 to 2021
Forbis Logistic S.A.	2017 to 2021
Soluciones Sitech Perú S.A.	2017 to 2021

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Due to the possible interpretations that the corresponding tax authority may give to the current legal regulations, it is not possible to determine, to date, whether or not the revisions carried out will result in liabilities for the Group, so that any higher tax or surcharge that could result from possible tax reviews would be applied to the results of the year in which the difference in criteria with the Tax Authority is resolved. In the opinion of Management and its legal advisors, any eventual additional settlement of taxes, by the corresponding Tax Administration of each country, would not be significant for the consolidated financial statements as of December 31, 2021 and 2020.

- (e) In Peru, the Temporary Tax on Net Assets is levied on third-category income generators subject to the general Income Tax regime. The tax rate is 0.4% applicable to the amount of net assets that exceed S/1 million.

The amount actually paid may be used as a credit against the payments on account of the General Income Tax Regime or against the regularization payment of the Income Tax of the taxable year to which it corresponds.

27. Discontinued operation

On September 29, 2021, the Group made the decision to discontinue the operation of Motored S.A., which is a wholly owned subsidiary of the Group. The operations of Motored S.A. are expected to conclude within the year after the closing date.

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Due to the classification of Motored S.A. as a discontinued operation, such operations will no longer be presented in the automobiles, spare parts and services segment in the note of segments. The results of the operations of Motored S.A. are as follows:

	2021 S/(000)	2020 S/(000)
Income from contracts with clients	94,327	162,241
Cost	<u>(83,657)</u>	<u>(146,802)</u>
Gross profit from discontinued operations	10,670	15,439
Selling expenses	(22,161)	(24,708)
Administration expenses	(9,745)	(12,385)
Other income and expenses, net	<u>196</u>	<u>606</u>
Operating profit from discontinued operations	(21,040)	(21,048)
Financial income	3,000	2,937
Financial expense	(1,973)	(5,465)
Exchange difference, net	<u>(3,542)</u>	<u>(8,356)</u>
Loss before tax from discontinued operations	(23,555)	(31,932)
Income tax	<u>(13,594)</u>	<u>5,752</u>
Loss from discontinued operations	<u>(37,149)</u>	<u>(26,180)</u>

The net cash flows incurred by Motored S.A. are as follows:

	2021 S/(000)	2020 S/(000)
Operation	26,455	24,498
Investment	(46)	(346)
Financing	<u>(18,499)</u>	<u>(22,228)</u>
Net cash income	<u>7,910</u>	<u>1,924</u>
	2021	2020
Earnings per share		
Basic and diluted for the year of discontinued operations	(0.039)	(0.027)

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28. Changes in liabilities related to financing activities

The changes that have occurred in liabilities related to financing activities for the year ended December 31 are as follows:

	As of January 1 S/(000)	Cash flows			Changes that do not generate cash flows			As of December 31 S/(000)
		New loans S/(000)	Payment of loans S/(000)	Interest payment S/(000)	Accrued interest S/(000)	Lease liability S/(000)	Exchange difference S/(000)	
Year 2021								
Financial obligations, note 12	1,711,835	3,367,701	(3,364,042)	-	-	-	172,392	1,887,886
Lease liability, note 13	139,743	-	(55,893)	-	-	23,762	11,794	119,406
Interest on financial obligations, note 15	9,076	-	-	(74,106)	72,291	-	-	7,261
	<u>1,860,654</u>	<u>3,367,701</u>	<u>(3,419,935)</u>	<u>(74,106)</u>	<u>72,291</u>	<u>23,762</u>	<u>184,186</u>	<u>2,014,553</u>
Year 2020								
Financial obligations, note 12	2,152,680	2,504,540	(3,131,820)	-	-	-	186,435	1,711,835
Lease liability, note 13	126,684	-	(64,653)	-	4,956	51,034	21,722	139,743
Interest on financial obligations, note 15	7,243	-	-	(88,975)	90,808	-	-	9,076
	<u>2,286,607</u>	<u>2,504,540</u>	<u>(3,196,473)</u>	<u>(88,975)</u>	<u>95,764</u>	<u>51,034</u>	<u>208,157</u>	<u>1,860,654</u>

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29. Financial risk management and other aspects

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

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

(a) Risk management structure -

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

(a.1) Directors -

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

(a.2) Audit Committee -

Its mission is to assist the General Management and the Board of Directors, through the Audit Committee, in supervising the Group's risk management, monitoring the internal environment and providing guidelines on action plans related to those risks that may negatively affect the achievement of the Group's objectives.

The function of the Committee is to supervise that the Risk Area develops its annual work plan and that the operational areas participate actively. This supervision is carried out through periodic sessions where the Risk Area reports the status of the execution of the plan.

(a.3) Internal audit -

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

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(a.4) Management of administration and finance -

It is responsible for managing the assets and liabilities of the Group and the entire financial structure. It is primarily responsible for the management of its funds and liquidity risks of the Group; assuming the risks of liquidity, interest rates and currency exchange, according to the current policies and limits.

(a 5) Corporate Risk Area -

It is responsible for facilitating comprehensive risk management based on the established methodology, defining the work schedule with the operating areas of the entire corporation and supporting them in the process of identifying, evaluating, responding, controlling and monitoring their most important risks. The operating areas of each subsidiary of the Group are responsible for complying with and executing the work schedule; as well as the implementation of the agreed action plans on the risks that may have a material impact on each individual company and on the Group.

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

(b) Risk Mitigation -

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

(c) Risk concentration -

(c.1) Credit risk -

Credit risk is the risk that a counterparty may not meet its obligations in relation to a financial instrument or sales contract, generating a financial loss. The Group is exposed to credit risk from its operating activities (mainly accounts receivable) and from its financing activities, including bank deposits. Regarding deposits in banks, the Group, as of December 31, 2021, concentrates 99.74% (94.64% in 2020) of its cash and cash equivalent balances in financial entities.

Credit risk related to accounts receivable: customer credit risk is managed by Management, subject to duly established policies, procedures and controls. The outstanding balances of accounts receivable are periodically reviewed to ensure their recovery; likewise, the Group has a broad customer base. As of December 31, 2021, the average collection period maintained by the Group is 52 days on credit risk, which it controls and monitors continuously (69 days, as of December 31, 2020).

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Credit risk related to financial instruments and deposits in banks: the credit risks of balances in banks are managed by Management in accordance with the Group's policies. Investments of cash surpluses are made with top-tier financial entities. The maximum exposure to credit risk as of December 31, 2021 and 2020, is the book value of the cash and cash equivalent balances shown in note 4.

As of December 31, 2021, Management has estimated that the maximum amount of credit risk to which the Group is exposed amounts to approximately S/1,402,161 (S/1,470,920 as of December 31, 2020), which represents the book value of financial assets, see note 4.

In Management's opinion, the estimate of the provision for doubtful commercial accounts receivable adequately covers the risks of uncollectibility as of December 31, 2021 and 2020.

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(c.2) Interest rate risk -

The Group's operating cash flows are substantially independent of changes in market interest rates; Due to the Group's individual credit rating, it can obtain competitive interest rates in the markets where it operates. It should be noted that the Group has not carried out significant financial operations at variable interest rates, therefore, in Management's opinion, it does not have a significant exposure to interest rate risks.

The following tables summarize the Group's exposure to interest rate risks. The Group's financial instruments are shown at their book value, classified according to their different contractual terms:

	As of December 31, 2021					Average fixed interest rate 2021 %
	Fixed rate				Total S/(000)	
	Up to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 to 5 years S/(000)	Without interest S/(000)		
Asset:						
Cash and cash equivalents	56,693	-	-	159,068	215,761	Between 0.15% and 2%
Trade receivables	103,343	20,973	33,294	897,792	1,055,402	Between 7% and 22%
Other assets (*)	-	-	-	130,998	130,998	
Total assets	<u>160,036</u>	<u>20,973</u>	<u>33,294</u>	<u>1,187,858</u>	<u>1,402,161</u>	
Liability						
Financial obligations	143,648	560,361	1,183,877	-	1,887,886	Between 0.55% and 6.80%
Lease liability	14,809	26,232	78,365	-	119,406	Between 1.84% and 3.54%
Trade Payables	-	-	-	782,171	782,171	
Other liabilities (*)	-	-	-	289,593	289,593	
Total liabilities	<u>158,457</u>	<u>586,593</u>	<u>1,262,242</u>	<u>1,071,764</u>	<u>3,079,056</u>	
	<u>1,579</u>	<u>(565,620)</u>	<u>(1,228,948)</u>	<u>116,094</u>	<u>(1,676,895)</u>	
Cumulative gap	<u>1,579</u>	<u>(564,041)</u>	<u>(1,792,989)</u>	<u>(1,676,895)</u>	<u>-</u>	

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	As of December 31, 2020				Total S/(000)	Average fixed interest rate 2021 %
	Fixed rate			Without interest S/(000)		
	Up to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 to 5 years S/(000)			
Asset:						
Cash and cash equivalents	8,401	-	-	247,787	256,188	0.01%
Trade receivables	81,483	60,187	53,874	841,198	1,036,742	Between 7% and 22%
Other assets (*)		1,183	3,937	177,990	183,110	
Total assets	89,884	61,370	57,811	1,266,975	1,476,040	
Liability:						
Financial obligations	138,654	659,475	913,706	-	1,711,835	Between 0.24% and 4.85%
Lease liability	9,965	31,552	98,226	-	139,743	Between 3.40% and 9.48%
Trade Payables	-	-	-	500,537	500,537	
Other liabilities (*)				228,328	228,328	
Total liabilities	148,619	691,027	1,011,932	728,865	2,580,443	
	(58,735)	(629,657)	(954,121)	538,110	(1,104,403)	
Cumulative gap	(58,735)	(688,392)	(1,642,513)	(1,104,403)	-	

(*) As of December 31, 2021 and 2020, "Other assets" and "Other liabilities" included in this table exclude amounts corresponding to tax general to sales payable, tax refunds, income tax, advances, and all those that do not qualify as financial instruments, see note 4

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In general, the Group has a high exposure to interest rate risk, due to its current level of long-term indebtedness. Borrowing at variable rates exposes the Group to interest rate risk on its cash flows. Borrowing at fixed rates exposes the Group to interest rate risk on the fair value of its liabilities. As of December 31, 2021 and 2020, the Group only has short- and long-term indebtedness for financial obligations and lease liabilities, which have been agreed at fixed interest rates, so it is exposed to interest rate risk on the fair value of the liabilities. However, the Group assumes the fair value risk because considers it to be insignificant and it does not expect future market rates to deviate significantly from contractual rates.

(c.3) Liquidity risk -

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

The Group controls the required liquidity through proper management of the maturities of its assets and liabilities, in such a way as to achieve a match between the flow of income and future payments, which allows it to carry out its activities normally.

The Group's main source of cash income is collections from sales of domestic and imported merchandise. The average payment term to its main suppliers was 51 days and 55 days for the years 2021 and 2020, respectively. The Group considers that the management of collection and payment terms tends to improve due to the improvements made in its collection management policies.

In the event that the Group does not have, at any given time, the necessary resources to meet its short-term obligations, it has lines of credit with financial institutions and, due to its economic solvency, has been able to acquire short-term and medium term at rates below the market average.

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The following table presents the cash flows payable by the Group in accordance with the contractual terms agreed on the dates of the consolidated statement of financial position. These cash flows are stated at undiscounted values; and include the interests that would be generated in the future:

	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 to 5 years S/(000)	5 years to more S/(000)	Total S/(000)
As of December 31, 2021					
Other liabilities:					
- Financial obligations (capital)	143,648	560,361	1,183,877	-	1,887,886
- Financial obligations (interest)	6,796	29,726	95,323	1,657	133,502
- Lease liability IFRS 16 (capital)	14,809	26,232	78,365	-	119,406
- IFRS 16 lease liability (interest)	113	598	4,773	-	5,484
- Trade payables	579,349	202,822	-	-	782,171
- Other liabilities	570,133	43,320	1,009	-	614,462
	<u>1,314,848</u>	<u>863,059</u>	<u>1,363,347</u>	<u>1,657</u>	<u>3,542,911</u>
As of December 31, 2020					
Other liabilities:					
- Financial obligations (capital)	138,654	659,475	849,027	64,679	1,711,835
- Financial obligations (interest)	8,788	43,330	86,595	2,513	141,226
- Lease liability (capital)	9,965	31,552	98,226	-	139,743
- Trade payables	435,693	64,844	-	-	500,537
- Other liabilities	866,258	18,422	156	-	884,836
	<u>1,459,358</u>	<u>817,623</u>	<u>1,034,004</u>	<u>67,192</u>	<u>3,378,177</u>

Translation of consolidated financial statements originally issued in Spanish - See note 33 to the consolidated financial statements

Notes to the consolidated financial statements (continue)

(c.4) Exchange rate risk -

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

Asset and liability operations are basically carried out in the functional currency of the parent company (Sol), which is the one used by the Group to measure its performance, so that if the exchange position in foreign currency (for example, the US dollar) is positive, any depreciation of the Sol would positively affect the Group's consolidated statement of financial position. Foreign currency transactions are made at bid and ask rates.

The Group manages foreign currency exchange risk by monitoring and controlling the values of the position that is not held in soles (functional currency) and that are exposed to movements in exchange rates. The Group measures its performance in the currency of each country in such a way that, if the exchange position in foreign currency is positive, any depreciation of the US dollar would negatively affect the Group's consolidated statements of financial position. Any devaluation/revaluation of the foreign currency would affect the consolidated income statement.

Transactions in foreign currency in Peru are carried out at the free market exchange rates published by the Superintendencia de Banca, Seguros y AFP. As of December 31, 2021, the free market exchange rates for transactions carried out in US dollars, published by this institution, were S/3,975 and S/3,998 per US\$1 for assets and liabilities, respectively (S/3,618 and S/3,624 per US\$1 for assets and liabilities, respectively, as of December 31, 2020).

Translation of consolidated financial statements originally issued in Spanish - See note 33 to the consolidated financial statements

Notes to the consolidated financial statements (continue)

As of December 31, 2021 and 2020, the Group had the following monetary assets and liabilities in foreign currency presented in soles:

	2021						Total S/(000)
	Soles S/(000)	Dollars S/(000)	Quetzal S/(000)	Cordova S/(000)	Chilean pesos S/(000)	Belize dollar S/(000)	
Asset							
Cash and cash equivalents	77,371	118,177	11,410	4,714	4,058	29	215,759
Trade receivables	197,450	759,703	19,185	959	78,105	-	1,055,402
Other assets	176,246	57,473	5,387	-	7,437	343	246,886
	<u>451,067</u>	<u>935,353</u>	<u>35,982</u>	<u>5,673</u>	<u>89,600</u>	<u>372</u>	<u>1,518,047</u>
Liability							
Financial obligations	421,588	1,247,651	46,601	-	172,046	-	1,887,886
Lease liabilities	5,533	49,281	5,429	49	59,114	-	119,406
Trade Payables	97,334	592,900	64,636	1,187	25,743	371	782,171
Other liabilities	535,777	70,609	-	-	8,076	-	614,462
	<u>1,060,232</u>	<u>1,960,441</u>	<u>116,666</u>	<u>1,236</u>	<u>264,979</u>	<u>371</u>	<u>3,403,925</u>
Net liability position	<u>(609,165)</u>	<u>(1,025,088)</u>	<u>(80,684)</u>	<u>4,437</u>	<u>(175,379)</u>	<u>1</u>	<u>(1,885,878)</u>
	2020						
	Soles S/(000)	Dollars S/(000)	Quetzal S/(000)	Cordova S/(000)	Chilean pesos S/(000)	Belize dollar S/(000)	Total S/(000)
Asset							
Cash and cash equivalents	88,241	162,643	4,303	1,657	12,627	33	269,504
Trade receivables	322,747	664,626	27,304	972	21,093	-	1,036,742
Other assets	192,834	71,640	3,323	-	5,427	466	273,667
	<u>603,822</u>	<u>898,909</u>	<u>34,930</u>	<u>2,629</u>	<u>39,147</u>	<u>499</u>	<u>1,579,913</u>
Liability							
Financial obligations	(263,988)	(1,161,649)	(57,229)	-	(228,969)	-	(1,711,835)
Lease liabilities	(11,876)	(77,314)	(4,342)	(401)	(80,403)	-	(139,743)
Trade Payables	(320,708)	(117,939)	(46,608)	(3,840)	(11,108)	(334)	(500,537)
Other liabilities	(842,218)	(27,158)	-	-	(15,460)	-	(884,840)
	<u>(1,438,790)</u>	<u>(1,349,467)</u>	<u>(108,179)</u>	<u>(4,241)</u>	<u>(335,940)</u>	<u>(334)</u>	<u>(3,236,951)</u>
Net liability position	<u>(834,968)</u>	<u>(450,558)</u>	<u>(73,249)</u>	<u>(1,612)</u>	<u>(296,793)</u>	<u>165</u>	<u>(1,657,017)</u>

Translation of consolidated financial statements originally issued in Spanish - See note 33 to the consolidated financial statements

Notes to the consolidated financial statements (continue)

As of December 31, 2020, the Group, through its subsidiary Trex Latinoamerica SpA, has current foreign currency futures contracts (forwards), whose maturity period is less than one year, for a total of US\$44,522,000, equivalent to S/161,347,000 (zero, as of December 31, 2019) to reduce the risk of adverse fluctuations in exchange rates. Fair value changes in these derivative instruments amount to US\$3,258,344, equivalent to S/11,808,000, an amount that is included within liabilities. In 2021, the foreign currency futures contracts signed and closed generated net gains of US\$4,524,000, equivalent to S/18,087,000 (net losses of US\$1,710,000, equivalent to S/5,975,000 in 2020) which are recognized in income under the heading "Exchange difference, net".

The Group does not have a specific policy regarding forward foreign currency contracts to hedge foreign currency exposure. In 2021 and 2020, the strategy has been to buy foreign currency in the free exchange market (spot market). The Group does not have future foreign currency contracts in force at the date of the financial statements, apart from those described in the previous paragraph.

As of December 31, 2021, the Group has recorded a net exchange difference loss of approximately S/124,544,000 (net loss of approximately S/97,492,000 in 2020), which is presented in the caption "Exchange difference, net" of the consolidated income statement.

The following table shows the sensitivity analysis of US dollars, the currency to which the Group has a significant exposure as of December 31, 2021 and 2020, in its monetary assets and liabilities and its estimated cash flows. The analysis determines the effect of a reasonably possible variation in the exchange rate of the US dollar, considering the other constant variables in the consolidated statement of comprehensive income before income tax.

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

Sensitivity analysis	Change in US\$		
	rates %	2021 S/(000)	2020 S/(000)
Devaluation			
Soles	5	55,541	44,628
Soles	10	111,083	89,255
Revaluation			
Soles	5	(55,541)	(44,628)
Soles	10	(111,083)	(89,255)

Translation of consolidated financial statements originally issued in Spanish - See note 33 to the consolidated financial statements

Notes to the consolidated financial statements (continue)

(d) Capital management -

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

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

Likewise, the Group also monitors its capital based on the leverage ratio. As of December 31, 2021 and 2020, the leverage ratio was as follows:

	2021 S/(000)	2020 S/(000)
Financial obligations, note 12(a)	1,887,886	1,711,835
Lease liability, note 13(a)	119,406	139,743
Less: Cash and cash equivalents, note 5	<u>(215,761)</u>	<u>(256,188)</u>
Net financial debt (A)	1,791,531	1,595,390
Net equity (B)	<u>2,342,156</u>	<u>2,160,896</u>
Leverage ratio (A) / (B)	<u>0.765</u>	<u>0.738</u>

30. Fair value of financial instruments

The book value of short-term financial assets and liabilities approximate their fair values due to their short-term maturity. In the case of long-term debts, below is an indication of their fair value:

	2021		2020	
	Book value S/(000)	Fair value S/(000)	Book value S/(000)	Fair value S/(000)
Short-term financial obligations	704,009	704,009	798,129	798,129
Short-term lease liability	41,041	41,041	41,517	41,517
Long-term financial obligations	1,183,877	1,087,003	913,706	840,162
Long-term lease liability	78,365	74,926	98,226	86,893

Translation of consolidated financial statements originally issued in Spanish - See note 33 to the consolidated financial statements

Notes to the consolidated financial statements (continue)

The book values of other short-term financial liabilities (financial obligations and lease liabilities) approximate their fair value. As of December 31, 2021, the fair values of long-term financial obligations have been determined by applying the average annual rate of 4.45% for bonds, 2.77% for medium and long-term notes and 3.05% for lease liabilities (4.45% for bonds, 3.53% for medium and long-term notes and 6.4% for lease liabilities in 2020).

31. Information by segments

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

- Heavy equipment, which includes equipment purchase and sale operations, their respective spare parts and maintenance and repair services.
- Automotive, which includes the purchase-sale operations of automotive vehicles, their respective spare parts and maintenance and repair services.
- Equipment rental.
- Agricultural equipment, which includes the purchase-sale operations of agricultural equipment, their respective spare parts and maintenance and repair services.
- Other business units.

No other operating segments have been added as part of the operating segments described above.

Management supervises profit before taxes for each business unit separately for the purpose of making decisions on the allocation of resources and the evaluation of financial performance. The financial performance of a segment is evaluated on the basis of profit before income tax, using the same preparation bases as the financial statements.

Transfer prices between operating segments are given on market conditions between independent parties in a similar way to those agreed with third parties.

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Notes to the consolidated financial statements (continue)

In 2021 and 2020, the information on the results of the operating segments is as follows:

	Sales and services S/(000)	Other operating income S/(000)	Total revenue S/(000)	Gross margin S/(000)	Selling expenses S/(000)	Administrative expenses S/(000)	Other net income and expenses S/(000)	Financial expenses S/(000)	Financial income S/(000)	Net exchange difference S/(000)	Participation in results with joint venture S/(000)	Income before income tax S/(000)	Income tax S/(000)	Net profit S/(000)
2021														
Heavy equipment, spare parts and services	5,207,750	662	5,208,412	1,381,321	(487,972)	(241,439)	2,490	(56,905)	16,512	(104,186)	1,863	511,684	(158,646)	353,038
Automotive, spare parts and services	75,895	-	75,895	23,088	(13,495)	(1,764)	498	(1,552)	305	-	-	7,080	(2,180)	4,900
Equipment rental	224,299	-	224,299	78,788	(23,449)	(3,142)	1,341	(6,213)	1,746	(14,128)	-	34,943	(11,080)	23,863
Agricultural equipment, parts and services	93,872	687	94,559	20,952	(23,148)	(942)	457	(448)	302	589	-	(2,238)	639	(1,599)
Others	484,828	-	484,828	138,402	(39,410)	(42,687)	3,363	(5,200)	1,572	(6,819)	-	49,219	(16,218)	33,001
Total consolidated	6,086,644	1,349	6,087,993	1,642,551	(587,474)	(289,974)	8,149	(70,318)	20,437	(124,544)	1,863	600,688	(187,485)	413,203
2020														
Heavy equipment, spare parts and services	4,009,470	243	4,009,713	1,008,989	(405,128)	(243,243)	8,358	(72,378)	15,344	(80,833)	1,667	232,777	(79,304)	153,473
Automotive, spare parts and services	60,358	-	60,358	17,546	(11,017)	(1,470)	25	(1,800)	242	-	-	3,526	(1,445)	2,081
Equipment rental	138,293	-	138,293	41,764	(19,909)	(2,187)	702	(7,143)	795	(9,583)	-	4,439	(1,175)	3,264
Agricultural equipment, parts and services	100,692	1,181	101,873	23,427	(18,952)	(715)	704	(1,949)	456	(3,493)	-	(522)	(57)	(579)
Others	360,448	-	360,448	98,184	(41,068)	(29,776)	1,473	(7,029)	905	(3,583)	1,667	19,106	(7,217)	11,889
Total consolidated	4,669,261	1,424	4,670,685	1,189,911	(496,074)	(277,391)	11,262	(90,299)	17,742	(97,492)	1,667	259,326	(89,198)	170,128

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Notes to the consolidated financial statements (continue)

In 2021 and 2020, the information by operating segments by country is as follows:

	Sales and services S/(000)	Other operating income S/(000)	Total revenue S/(000)	Gross margin S/(000)	Selling expenses S/(000)	Administrative expenses S/(000)	Other net income and expenses S/(000)	Financial expenses S/(000)	Financial income S/(000)	Net exchange difference S/(000)	Participation in results with joint venture S/(000)	Income before income tax S/(000)	Income tax S/(000)	Net profit S/(000)
2021														
Peru	5,373,515	687	5,374,202	1,448,361	(507,065)	(290,315)	48,982	(52,199)	17,332	(111,120)	1,863	555,837	(174,162)	381,675
Guatemala	278,245	301	278,546	54,479	(29,437)	(9,543)	58	(3,145)	1,093	(8)	-	13,497	(3,330)	10,167
El Salvador	237,847	-	237,847	60,669	(30,327)	(7,161)	646	(2,851)	756	-	-	21,732	(7,022)	14,710
Belize	23,016	-	23,016	5,535	(2,037)	(2,014)	36	-	317	360	-	2,197	(401)	1,796
United States of America	58,492	-	58,492	4,558	(273)	(3,686)	706	(112)	39	-	-	1,232	(130)	1,102
Nicaragua	25,672	-	25,672	7,951	(3,047)	(1,557)	129	(115)	27	42	-	3,430	(1,115)	2,315
Honduras	6,337	-	6,337	1,961	(1,023)	(43)	6	(245)	2	-	-	658	(171)	487
Panama	-	-	-	-	-	(2,741)	813	(2)	2	-	-	(1,928)	-	(1,928)
Chile	306,349	361	306,710	59,037	(14,265)	(16,594)	453	(14,577)	3,797	(13,818)	-	4,033	(1,154)	2,879
Intercompany operations	(222,829)	-	(222,829)	-	-	43,680	(43,680)	2,928	(2,928)	-	-	-	-	-
Total consolidated	6,086,644	1,349	6,087,993	1,642,551	(587,474)	(289,974)	8,149	(70,318)	20,437	124,544	1,863	600,688	(187,485)	413,203
2020														
Peru	4,063,994	1,181	4,065,175	1,033,640	(431,640)	(283,011)	50,520	(76,865)	19,955	(83,474)	1,667	236,792	(80,968)	155,824
Guatemala	227,140	156	227,296	42,866	(23,295)	(7,712)	(96)	(5,452)	1,356	(1,592)	-	6,075	(1,570)	4,505
El Salvador	170,569	-	170,569	43,020	(24,043)	(5,993)	881	(4,037)	738	-	-	10,566	(4,258)	6,308
Belize	16,397	-	16,397	4,359	(1,901)	(1,652)	296	-	299	250	-	1,651	(318)	1,333
United States of America	37,723	-	37,723	3,476	(560)	(2,964)	863	(175)	19	-	-	659	(170)	489
Nicaragua	17,254	-	17,254	4,377	(1,704)	(1,909)	46	(94)	19	(40)	-	695	(494)	201
Honduras	4,039	-	4,039	1,073	(956)	(36)	22	(227)	-	-	-	(124)	(29)	(153)
Panama	-	-	-	-	-	(2,797)	864	(3)	2	-	-	(1,934)	-	(1,934)
Chile	306,887	87	306,974	57,100	(11,975)	(13,454)	3	(16,392)	2,300	(12,636)	-	4,946	(1,391)	3,555
Intercompany operations	(174,742)	-	(174,742)	-	-	42,137	(42,137)	6,946	(6,946)	-	-	-	-	-
Total consolidated	4,669,261	1,424	4,670,685	1,189,911	(496,074)	(277,391)	11,262	(90,299)	17,742	(97,492)	1,667	259,326	(89,198)	170,128

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Notes to the consolidated financial statements (continue)

32. Subsequent events to the date of the consolidated statement of financial position

Between December 31, 2021 and the date of approval of the consolidated financial statements, no subsequent relevant events have occurred that, in Management's opinion, require any additional disclosure or any material adjustment to the amounts presented in the consolidated financial statements.

33. 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 2. These consolidated financial statements should be read in conjunction with the Spanish consolidated financial statements, in the event of a discrepancy the Spanish language version prevails.

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