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(Free translation from the original in Spanish)

**FERREYCORP S.A.A. AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

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DECEMBER 31, 2020 AND 2019

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S/ = Peruvian sol

US\$ = United States dollar



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## INDEPENDENT AUDITORS' REPORT

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

February 24, 2021

We have audited the accompanying consolidated financial statements of **Ferreycorp S.A.A. and subsidiaries**, which comprise the consolidated statements of financial position at December 31, 2020 and 2019, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information included in notes 1 to 31.

### Management's responsibility for the consolidated financial statements

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

### Auditor's responsibility

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

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

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*Gaveglío Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada.*  
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February 24, 2021  
Ferreycorp S.A.A.

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

Opinion

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of **Ferreycorp S.A.A. and subsidiaries** at December 31, 2020 and 2019, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

Gaveoglio Aparicio y Asociados

Countersigned by

A handwritten signature in black ink, appearing to read 'Daniel Oliva', written over a horizontal line.

-----(partner)

Daniel Oliva  
Peruvian Public Accountant  
Registration No.01-27882

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**FERREYCORP S.A.A. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**ASSETS**

	Note	At December 31,	
		2020 S/000	2019 S/000
<b>Current assets</b>			
Cash and cash equivalents	5	256,188	84,433
Trade receivables	6	975,252	1,114,857
Other current assets	7	257,114	231,165
Inventories	8	1,684,076	1,944,428
Investments in funds	4.2	-	9,303
Prepaid expenses		32,863	29,394
		<u>3,205,493</u>	<u>3,413,580</u>
Non-current held-for-sale asset	10(b)	13,863	13,863
Total current assets		<u>3,219,356</u>	<u>3,427,443</u>
<b>Non-current assets</b>			
Long-term trade receivables	6	61,490	31,788
Other non-current assets	7	33,331	32,148
Investments in joint venture	9	18,005	16,654
Property, plant and equipment	10	1,630,058	1,631,312
Intangible assets	11(a)	279,371	223,045
Goodwill	11(e)	174,874	170,382
Deferred income tax asset	16	221,872	198,392
Total non-current assets		<u>2,419,001</u>	<u>2,303,721</u>
<b>Total assets</b>		<u>5,638,357</u>	<u>5,731,164</u>

**LIABILITIES AND EQUITY**

	Note	At December 31,	
		2020 S/000	2019 S/000
<b>Current liabilities</b>			
Borrowings	12	798,129	1,243,096
Lease liability	13	41,517	47,103
Trade payables	14	500,537	617,837
Other liabilities	15	884,680	483,973
Income tax liability		44,917	7,648
Total current liability		<u>2,269,780</u>	<u>2,399,657</u>
<b>Non-current liabilities</b>			
Borrowings	12	913,706	909,584
Lease liability	13	98,226	79,581
Long-term other liabilities	15	156	1,434
Deferred income tax liability	16	195,196	186,900
Deferred income		397	139
Total non-current liabilities		<u>1,207,681</u>	<u>1,177,638</u>
Total liabilities		<u>3,477,461</u>	<u>3,577,295</u>
<b>Equity</b>			
Share capital	17	975,683	975,683
Treasury shares		(17,804)	(5,731)
Additional capital		55,554	67,030
Legal reserve		211,632	211,632
Other reserves		351,927	316,184
Retained earnings		575,606	580,773
Total equity attributable to Company's shareholders		<u>2,152,598</u>	<u>2,145,571</u>
Non-controlling interest		8,298	8,298
Total equity		<u>2,160,896</u>	<u>2,153,869</u>
<b>Total liabilities and equity</b>		<u>5,638,357</u>	<u>5,731,164</u>

The notes attached from pages 8 to 82 are part of the consolidated financial statements.

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**FERREYCORP S.A.A. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF INCOME**

	<b>Note</b>	<b>For the year ended</b>	
		<b>December 31,</b>	
		<b>2020</b>	<b>2019</b>
		<b>S/000</b>	<b>S/000</b>
Sales	18	4,832,869	5,821,061
Other operating income		1,424	2,090
Total operating income		<u>4,834,293</u>	<u>5,823,151</u>
Cost of sales	18	<u>(3,628,943)</u>	<u>(4,447,504)</u>
Gross profit		1,205,350	1,375,647
Selling expenses	19	(520,782)	(602,833)
Administrative expenses	20	(289,776)	(312,084)
Other income and expenses, net	25(c)	11,868	6
Operating profit		<u>406,660</u>	<u>460,736</u>
Share in net profit of joint venture	9(b)	1,667	3,336
Finance income	22	20,679	21,765
Finance expenses	23	(95,764)	(95,976)
Exchange difference, net	28(c)	<u>(105,848)</u>	<u>(1,822)</u>
Profit before income tax		227,394	388,039
Income tax	16	<u>(83,446)</u>	<u>(141,603)</u>
Profit for the year		<u>143,948</u>	<u>246,436</u>
Attributable to:			
Company's shareholders		143,948	246,436
Non-controlling interest		-	-
		<u>143,948</u>	<u>246,436</u>
Basic and diluted earnings per share (expressed in soles)	24	<u>0.150</u>	<u>0.251</u>
Weighted average of shares outstanding (in thousands of units)	24	<u>960,036</u>	<u>975,274</u>

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**FERREYCORP S.A.A. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>Note</b>	<b>For the year ended</b>	
		<b>December 31,</b>	
		<b>2020</b>	<b>2019</b>
		<b>S/000</b>	<b>S/000</b>
Profit for the year		<u>143,948</u>	<u>246,436</u>
Other comprehensive income to be reclassified to profits in subsequent periods:			
- Exchange difference on translation of foreign operations	17(e)	<u>35,545</u>	<u>(8,186)</u>
Other comprehensive income to be not reclassified to profits in subsequent periods:			
- Devaluation of land	17(e)	-	(9,796)
- Effect on income tax		-	2,890
		-	(6,906)
Other comprehensive income for the year		<u>35,545</u>	<u>(15,092)</u>
Comprehensive income for the year		<u><u>179,493</u></u>	<u><u>231,344</u></u>
Attributable to:			
Company's shareholders		179,493	231,344
Non-controlling interest		-	-
		<u><u>179,493</u></u>	<u><u>231,344</u></u>

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FERREYCORP S.A.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND DECEMBER 31, 2019

Note	Number of shares in thousands	Equity attributable to the Company's shareholders					Other equity reserves					Retained earnings S/000	Total equity attributable to the Company's shareholders	Non-controlling interest S/000	Total equity S/000
		Share capital S/000	Treasury shares S/000	Additional capital S/000	Legal reserve S/000	Revaluation surplus S/000	Unrealized profits S/000	Foreign currency translation S/000	Other reserves S/000	Total other equity reserves					
<b>Balances at January 1, 2019</b>	975,683	975,683	-	73,536	189,129	282,098	(2,634)	42,776	31,234	353,474	556,554	2,148,376	-	2,148,376	
Profit for the year	-	-	-	-	-	-	-	-	-	-	246,436	246,436	-	246,436	
Other comprehensive income for the year:															
- Effect on current fair value of land, net of deferred income tax	17(e)	-	-	-	-	(6,906)	-	-	-	(6,906)	-	(6,906)	-	(6,906)	
- Realization of surplus from sale of land	17(e)	-	-	-	-	(21,801)	-	-	-	(21,801)	21,801	-	-	-	
- Exchange differences derived from foreign operations	17(e)	-	-	-	-	-	-	(8,186)	-	(8,186)	-	(8,186)	-	(8,186)	
Comprehensive income for the year	-	-	-	-	-	(28,707)	-	(8,186)	-	(36,893)	268,237	231,344	-	231,344	
Transactions with shareholders:															
- Capital contribution by minority shareholder	2(d)	-	-	-	-	-	-	-	-	-	-	-	8,298	8,298	
- Repurchase of shares	17(c)	(5,731)	(5,731)	(6,506)	-	-	-	-	-	-	-	(12,237)	-	(12,237)	
- Transfer to legal reserve	17(d)	-	-	-	22,503	-	-	-	-	-	(22,503)	-	-	-	
- Decrease in equity investments	17(e)	-	-	-	-	-	-	-	(397)	(397)	-	(397)	-	(397)	
- Dividend distribution	17(f)	-	-	-	-	-	-	-	-	-	(221,515)	(221,515)	-	(221,515)	
<b>Balances at December 31, 2019</b>	<b>969,952</b>	<b>975,683</b>	<b>(5,731)</b>	<b>67,030</b>	<b>211,632</b>	<b>253,391</b>	<b>(2,634)</b>	<b>34,590</b>	<b>30,837</b>	<b>316,184</b>	<b>580,773</b>	<b>2,145,571</b>	<b>8,298</b>	<b>2,153,869</b>	
<b>Balances at January 1, 2020</b>	<b>969,952</b>	<b>975,683</b>	<b>(5,731)</b>	<b>67,030</b>	<b>211,632</b>	<b>253,391</b>	<b>(2,634)</b>	<b>34,590</b>	<b>30,837</b>	<b>316,184</b>	<b>580,773</b>	<b>2,145,571</b>	<b>8,298</b>	<b>2,153,869</b>	
Profit for the year	-	-	-	-	-	-	-	-	-	-	143,948	143,948	-	143,948	
Other comprehensive income for the year:															
- Exchange differences derived from foreign operations	17(e)	-	-	-	-	-	-	35,545	-	35,545	-	35,545	-	35,545	
- Transfer from retained earnings	17(e)	-	-	-	-	620	-	-	-	620	(620)	-	-	-	
Comprehensive income for the year	-	-	-	-	-	620	-	35,545	-	36,165	143,328	179,493	-	179,493	
Transactions with shareholders:															
- Repurchase of shares	17(c)	-	(12,073)	(11,476)	-	-	-	-	-	-	-	(23,549)	-	(23,549)	
- Decrease in equity investments	17(e)	-	-	-	-	-	-	-	(422)	(422)	(1,582)	(2,004)	-	(2,004)	
- Dividend distribution	17(f)	-	-	-	-	-	-	-	-	-	(146,913)	(146,913)	-	(146,913)	
<b>Balances at December 31, 2020</b>	<b>969,952</b>	<b>975,683</b>	<b>(17,804)</b>	<b>55,554</b>	<b>211,632</b>	<b>254,011</b>	<b>(2,634)</b>	<b>70,135</b>	<b>30,415</b>	<b>351,927</b>	<b>575,606</b>	<b>2,152,598</b>	<b>8,298</b>	<b>2,160,896</b>	

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**FERREYCORP S.A.A. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	For the year ended	
		December 31,	
		2020	2019
		S/000	S/000
<b>OPERATING ACTIVITIES</b>			
Collections from customers and third parties		5,462,583	5,968,280
Payments to suppliers		(3,458,396)	(4,864,296)
Payments to workers and others		(590,210)	(453,880)
Income tax payments		(117,058)	(138,262)
Tax payments		(11,738)	(13,604)
Net cash provided by operating activities		<u>1,285,181</u>	<u>498,238</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	10(a)	(91,156)	(186,132)
Purchase of intangibles assets	11(a)	(63,724)	(78,507)
Purchase of investments in securities (mutual fund)	4.2	-	(9,303)
Liquidation of investment funds	4.2	9,303	2,500
Sale of investments	2(d)	-	16,388
Sales of property, plant and equipment		1,338	2,410
Net cash used in investing activities		<u>(144,239)</u>	<u>(252,644)</u>
<b>FINANCING ACTIVITIES</b>			
Obtaining of borrowings	27	2,504,540	3,843,208
Payment of borrowings	27	(3,131,820)	(3,696,158)
Payment of lease liability	27	(64,653)	(66,834)
Interests paid	27	(88,975)	(83,688)
Dividends paid	17(f)	(148,127)	(221,515)
Repurchase of shares	17(c)	(23,549)	(12,237)
Net cash used in financing activities		<u>(952,584)</u>	<u>(237,224)</u>
<b>Net increase in cash and cash equivalents</b>		188,358	8,370
Effect of exchange rate differences on cash and cash equivalents		(16,603)	2,375
Cash and cash equivalents balance at beginning of the year		84,433	73,698
<b>Cash and cash equivalents balance at end of the year</b>		<u>256,188</u>	<u>84,443</u>
<b>TRANSACTIONS THAT DO NOT GENERATE CASH AND CASH EQUIVALENTS FLOWS</b>			
Right-of-use assets - IFRS 16	10	51,053	164,979
Transfer of inventories to fixed assets	10	131,740	171,698
Devaluation of land	17(e)	-	6,906

The notes attached from pages 8 to 82 are part of the consolidated financial statements.

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## **FERREYCORP S.A.A. AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019**

#### **1 ECONOMIC ACTIVITY**

##### (a) General information -

**Ferreycorp S.A.A.** (hereinafter, "the Parent Company" or "the Company") was incorporated in Lima in September 1922. Ferreycorp S.A.A. acts as a holding company of all companies operating in Peru and abroad, called "Ferreycorp Group"; coordinating their policies and management. Ferreycorp Group ("the Group"), through its subsidiaries engages in distribution of machinery, engines, equipment, spare parts, lubricants and other goods as well as rendering related services.

The Company's legal address and administrative office is at Cristóbal de Peralta Norte Avenue No.820, Surco, Lima, Peru.

##### (b) Distribution agreements -

On April 13, 2012 Ferreycorp Group through its subsidiary Ferreyros S.A. signed the update of two non-exclusive distribution agreements for Caterpillar products in Peru with Caterpillar S.A.R.L. (Dutch Limited Partnership), represented by Caterpillar Americas C.V. (hereinafter "CAT"). The "Sales & Services Agreement" and "Distribution Agreement for Engine, Parts and Services" agreements, relating to the sale of "Prime" plant and engines, spare parts and services, respectively, are non-time restricted. Ferreycorp Group, for more than 75 years, sells machinery and spare parts, provides factory warranty and after-sales service (preventive maintenance and repair). Company Management expects that the trade relation continues to be the same over the long term.

##### (c) Approval of the consolidated financial statements -

The consolidated financial statements at December 31, 2020 were authorized by Company's Management and the Audit Committee and were approved by the Board of Directors held on February 24, 2021 and will be submitted for their approval by the General Shareholders' Meeting that will take place during the first quarter of 2021. Management considers these consolidated financial statements will be approved at the General Shareholders' Meeting without any changes.

The consolidated financial statements at December 31, 2019 were approved by the Board of Directors on February 26, 2020 and the General Shareholders' Meeting on July 30, 2020.

##### (d) Impact of the pandemic and crisis due to COVID-19 on the consolidated financial statements -

The pandemic generated by COVID-19 has rapidly developed in 2020, with a significant number of cases. The measures taken by the governments to contain the virus have affected, to a greater or lesser degree, the economic activity of the countries in which the Group operates. Management has implemented different measures to monitor and mitigate the effects of COVID-19, such as health and safety measures for its staff, social distancing and the development of remote work for administrative staff and in person for works in workshops and warehouses, but applying the corresponding sanitary protocols.

At this situation, Management has analyzed the impact of the COVID-19 pandemic and the effects it has caused on the main aspects and accounting estimates of the financial statements.

Among the aspects and accounting estimates that present a certain incidence due to the current pandemic, the following can be mentioned:

- Receivable or credit risk -

Given the lower dynamism in sales, which was emphasized during the quarantine imposed in certain countries and mainly in Peru, the businesses of the Group's customers faced problems in the payment cycle of its obligations with the financial system and its suppliers, except for some of the main customers miners that did not present defaults. The confinement and the activities limitation in different sectors served by the Group caused some breaks in the payment chain and an extension of the average payment term, which changed from 62 days in 2019 to 69 days in 2020.

In this context, the Group launched initiatives to support its customers through refinancing programs. Therefore, the Group launched in Peru, in March 2020, the COVID-19 Customer Support Program, focused on helping its customers relieve their financial burden through a deferment of their short-term obligations with the Group. During 2020, its main subsidiary Ferreyros S.A. refinanced approximately US\$11 million (equivalent to S/40 million) in favor of more than 70 customers, mainly in the construction sector, as well as industries such as agriculture and mining.

Ferreyros S.A. offered flexible refinancing and tailored to each customer. The term was from three to six months, considering an estimate of future flows for the next few months and its sector of origin.

The program shows good results, with an overdue period of more than 30 days that does not exceed 3.5% of the total financing and an effective fulfillment of the payment commitments. To date, there is a balance receivable for approximately US\$4.6 million (equivalent to S/17 million), considering the refinancing start dates, between April and November 2020. All customers who agreed to refinance are meeting their commitments, despite the delay that some customers may have. There are no indications that any of the receivables are not recoverable.

Regarding sales, the first quarter of 2020 was affected to a greater degree by the first 15 days of the operations stoppage in Peru, the Group achieved sales of S/1,177 million. The second quarter of 2020 was the most affected with revenues of S/803 million, 32% lower than the previous quarter. As of the third quarter, the revenue recovery begins with the economic reactivation proposed by the Peruvian Government, reaching sales of S/1,212 million. The Group's results for the fourth quarter of 2020 reaffirm its revenue recovery trend. According to the gradual increase in sales during the year, fourth quarter revenues of S/1,642 million exceeded pre-COVID-19 levels.

Mining and construction were the sectors that contributed the most to achieving the 2020 results with a contribution of 51% and 21% of total sales, respectively. At the end of the year, these markets ended up operating at 90% and 70%, respectively, compared to pre-COVID-19 levels.

In this context, Management does not identify that its core business will depreciate in the future. Therefore, there is no uncertainty regarding the ability of the Company and its subsidiaries to continue operating as going concern.

## **2 GROUP STRUCTURE IDENTIFICATION**

At December 31, 2020 and 2019 the consolidated financial statements include the financial statements of Ferreycorp S.A.A., subsidiaries in which it has control and an investment in a joint venture. The Group owns 100% interest in subsidiaries, either through the Parent Company or other subsidiaries, except in the case of Soluciones Sitech Perú S.A., see note 2(d). Major data of the companies that are part of the consolidated financial statements at December 31, 2020 and 2019, before eliminations for consolidation purposes, are as follows:

Entity	Core activity	Percentage of interest		Assets		Liabilities		Net equity		Net profit (loss)	
		31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
		%	%	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Ferreyros S.A.	Purchase and sale of plant, spare parts and workshop services	99.99	99.99	2,871,149	2,903,669	1,821,560	1,824,867	1,049,589	1,078,802	170,440	284,802
Inti Inversiones Interamericanas Corp. and subsidiaries (a)	Holding of the business in Central America	100.00	100.00	565,944	541,992	257,056	268,081	308,888	273,911	10,794	7,235
Unimaq S.A.	Purchase and sale of plant, spare parts and workshop services	99.99	99.99	384,820	461,598	302,470	364,013	82,350	97,585	(15,235)	(9,785)
Maquicentro S.A. (b)	Wholesale and retail of construction equipment, agricultural machinery and port equipment	99.00	99.00	-	39,955	-	35,897	-	4,058	-	(653)
Trex Latinoamerica SpA and subsidiaries (c) and (e)	Holding of the business in South America	100.00	100.00	559,318	458,105	459,653	419,590	99,665	38,515	4,221	(1,157)
Motriza S.A.	Purchase, sale, distribution, Marketing and export of the Trex property line	99.00	99.00	125,633	158,690	104,717	139,597	20,916	19,093	1,823	3,242
Fargoline S.A.	Storage services	99.91	99.91	128,100	136,383	83,913	95,314	44,187	41,069	5,518	1,352
Motored S.A.	Purchase and sale of automotive line, spare parts and automotive services	99.99	99.99	162,606	225,261	146,470	193,778	16,136	31,483	(26,180)	(7,010)
Orvisa S.A. and subsidiaries	Purchase and sale of plant, spare parts and workshop services	99.37	99.37	115,539	143,741	77,735	102,696	37,804	41,045	(2,865)	(2,728)
Soltrak S.A.	Representative and distributor of tires, lubricants and safety equipment	99.99	99.99	177,192	163,282	124,618	112,930	52,574	50,352	2,222	(2,421)
Cresko S.A.	Purchase and sale of plant, equipment and chemical supplies	99.99	99.99	2,748	2,854	536	579	2,212	2,275	(63)	(172)
Soluciones Sitech Perú S.A.(d)	Software marketing and technology-related equipment	56.82	56.82	18,966	15,693	4,727	1,736	14,239	13,957	283	(4,765)
Forbis Logistics S.A.	Cargo agent	99.98	99.98	18,689	14,500	16,703	11,132	1,986	3,368	2,662	3,927
Xpedite Procurement Services S.A.C.	Non-specialized wholesale and retail sales	90.00	90.00	1,567	1,376	1,049	1,050	518	326	157	323

- (a) This holding entity mainly includes subsidiaries in Central America and North America: Compañía General de Equipos S.A. (El Salvador), Corporación General de Tractores S.A. (Guatemala), General Equipment Company (Belice), Mercado Centroamericano de Lubricantes S.A. (Nicaragua), Forbis Logistics Corp. (United States of America) and Transportes Pesados S.A. de C.V. (El Salvador). These subsidiaries engage in purchasing and selling machinery, motor vehicles, spare parts and workshop services.
- (b) On July 31, 2020 the Company sold at cost 2,465,100 shares with voting rights that it held in Maquicentro S.A. (Ecuador) to its subsidiary Trex Latinoamerica SpA, for US\$1,087,921 (equivalent to S/3,768,000).
- (c) This holding entity mainly includes subsidiaries in South America: Trex Latinoamérica SpA and its subsidiary Equipos y Servicios Trex SpA (both based in Chile) and Trex Overseas Investments S.A. (based in Chile) and its subsidiary based in Colombia.
- (d) On September 2, 2019 at the General Shareholders' Meeting of Soluciones Sitech Perú S.A. the decision was made to approve an increase in capital stock by S/8,604,056, by means of a capitalization of loans payable to the Company. On December 30, 2019, at General Shareholders' Meeting of Soluciones de Sitech Perú S.A. another capital increase was approved from the entrance of a new shareholder, Digital Solutions for Business Inc.; as a result, the Company's interest diluted from 99.80% to 56.82%.
- (e) At Board of Directors meeting held on June 24, 2020, a capital contribution was approved in Trex Latinoamerica SpA for approximately S/45,877,000.

### **3 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

The consolidated financial statements have been prepared under the historical cost principle and based on the relevant accounting records kept by the Group, except for land, which is measured at fair value, see note 3.3(g). The consolidated financial statements are presented in thousands of Peruvian soles (under the heading S/000), unless otherwise 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 its subsidiaries in which the Company exercises control for all years presented. Control is achieved when the Group is exposed, or it is entitled to variable returns from its interest in the investee and has the ability to affect those returns through its power over such entity. The Group controls an entity if and only if it has:

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

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

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

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

### **3.3 Summary of significant accounting policies -**

#### **(a) Business combination and goodwill -**

Business combinations are accounted for at the acquisition method. Business combinations can occur from buying a separate entity or a group of assets and liabilities that qualify as a business. In this sense, the cost of purchase is the consideration transferred as measured at fair value at the date of acquisition. Acquisition transaction costs are charged to expenses as they are incurred and are shown within administrative expenses in the consolidated statement of income.

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

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

If goodwill was allocated to a CGU and a portion of the assets used by that unit in operations is sold or disposed of, goodwill and the disposed assets are included in the carrying amount of the transaction in determining any gains or losses on that transaction. Under these circumstances a reduction in goodwill is measured based on the relative value of disposed assets and the retained portion of the CGU. Goodwill is presented in these financial statements due to a business purchase made in previous years, as a result of the acquisition of different assets that qualified as business.

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

**(b) Investment in joint venture -**

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

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

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

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

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

**(c) Financial instruments: Recognition and measurement -**

**(c.1) Financial assets -**

**Classification and initial measurement -**

The Group classifies its financial assets in the following categories:

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

The classification depends on the entity's business model for managing the financial assets and if the contractual terms solely represent payments of principal and interest.

At initial recognition, financial assets are measured at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets at fair value through profit or loss carried at profit or loss.



#### Subsequent measurement of debt instruments -

Subsequent measurement of debt instruments depends on the Group's business model established for management of those assets as well as the cash flow characteristics of the assets. There are three possible categories in which debt instruments can be classified:

##### (i) Assets at amortized cost -

Applicable for financial assets held within a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest. Interest arising from these assets are recognized as financial income using the effective interest method. Any gains or losses arising from the disposal of these assets are recognized through profit or loss. Impairment losses are shown in the consolidated statement of income.

##### (ii) Assets at fair value through other comprehensive income -

Financial assets within a mixed business model; that is, financial assets held to collect the contractual cash flows as well as for sale; provided the contractual cash flows from these assets are solely payments of the principal and interest, are recognized at fair value through other comprehensive income (FVTOCI). Changes in the fair value of these financial assets are recognized in other comprehensive income (OCI), except for impairment losses (or reversal of impairment losses), interest and exchange gains or losses which are stated in profit or loss. When a financial asset is derecognized, the cumulative gain or loss stated in OCI, is reclassified from equity to profit or loss and presented within the item "Other income and expenses, net". Interest generated by these financial assets are recognized as financial income under the effective interest rate method. Exchange gains or losses are as stated in profit or loss within the item "Other income (expenses), net" and impairment losses are also stated in profit or loss and presented as a separate item in the consolidated statement of income.

##### (iii) Assets at fair value through profit or loss (FVTPL) -

Financial assets that do not qualify to be recognized at the amortized cost or FVTOCI are recognized at fair value through profit or loss. Changes in the fair value of debt instruments in this category are recognized within "Other income and expenses, net".

The Group reclassifies its debt instruments when and only when it changes the business model used in managing those assets.

#### Impairment of financial assets -

The Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortized cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in the credit risk.

For trade receivables, the major account balance measured at the amortized cost, the Group applies the simplified approach established under IFRS 9, which requires the expected credit loss to be estimated for the instrument lifetime and recognize it from initial recognition, based on a provision matrix, directly in the income of the period (see note 28(c.1) regarding financial risk management for more details). In addition, to measure the expected credit losses, the trade receivables have been grouped based on shared credit risk characteristics and the days past due.

## (c.2) Financial liabilities -

### Initial recognition and measurement -

The Group classifies its financial liabilities, for measurement purpose, at the amortized cost. Except for those cases that qualify to be measured at fair value through profit or loss. Management determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized when the Group is part of the instrument's contractual agreement. All financial liabilities are initially recognized at its fair value less, in the case of financial liabilities that are accounted at amortized cost, incremental costs that are attributed directly to the purchase or issue of the liability.

At December 31, 2020 and 2019 the Group has only liabilities measured at amortized cost that include borrowings, lease liabilities, trade payables, payables to related parties and other payables.

### Subsequent measurement -

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

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

### De-recognition of financial liabilities -

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

## (c.3) Offsetting of financial instruments -

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

## (d) Foreign currency translation -

### Functional and presentation currency -

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Company operates (the functional currency).

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

Each subsidiary determines its functional currency and prepares its financial statements based on that functional currency. The Group concluded in all its subsidiaries that the economic characteristics

determine that the local currency of its country of origin is also its functional currency. The financial statements of subsidiaries with a functional currency that is different from that of the Parent Company are converted under the criteria to be described further below.

#### Transactions and balances in foreign currency -

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

Subsequently, monetary assets and liabilities denominated in foreign currency are converted at the exchange rate of their settlement or, and if outstanding at due date, the exchange rate prevailing at the closing date. Foreign exchange gains and losses are presented in the consolidated statement of income within "Exchange difference, net". Non-monetary assets and liabilities acquired in foreign currency are translated at the exchange rate at the date of the initial transactions and are not remeasured.

#### Translation into presentation currency -

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

- (i) The balances of assets and liabilities have been translated using the closing exchange rates at the date of each consolidated statement of financial position reported.
- (ii) Revenues and expenses have been translated using the average monthly exchange rate that approximates the exchange rates on the date of registry of such transactions.
- (iii) All resulting differences have been recognized as other comprehensive income and shown in the consolidated statement of financial position within "Other equity reserves".

#### **(e) Cash and cash equivalents -**

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

#### **(f) Inventories -**

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

In estimating the net realizable value, consideration is given to possible impairment of inventories. The Group analyzes, at each year-end, the conditions and turnover ratio of inventories. In the case of spare parts and components that have no movement, a provision is made based on Management's Supply Chain Analysis, which determines the impaired value. This loss is directly recorded within profit or loss within "Cost of sales" and "Selling expenses".

### **(g) Property, plant and equipment -**

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

Subsequent costs are included in the carrying amount of the asset or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group, and cost of these assets can be measured reliably. Expenses in regular maintenance and repair are recognized in profit or loss as they are incurred.

Land is measured at its revaluation value (fair value) using valuations made every two to three years by an independent expert appraiser to ensure that fair value does not differ significantly from its carrying amount. When changes in fair value are not significant, revaluations will be made every three or five years. At December 31, 2020 and 2019 changes in fair value of land were not significant and, therefore, it was not necessary to modify their carrying value.

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

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

	<u>Term</u>
Buildings and other constructions:	
- Structural work	Between 30 and 80
- Finishing and additional works	Between 15 and 20
- Installations	Between 5 and 10
Machinery and equipment	Between 3 and 15
Machinery and rental equipment (*)	m/h used
Vehicles	5
Furniture and fixtures	3 and 10

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

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

### **(h) Leases -**

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

### ***The Group as a lessee -***

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

Assets and liabilities arising from a lease contract are initially measured at present value. Lease liabilities are stated at the present value of the following payments:

- Fixed payments (including payments, which regardless of their form, are “in-substance” payments), less any balance receivable from incentives received to begin the lease;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- The amounts expected to be payable under a residual value guarantee, which the Group has been obliged to pay;
- The exercise price of a purchase option if the lessee is reasonably expected to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

If the lessee is reasonably certain to exercise a renewal option, then it includes in the lease liability the relevant lease payments payable in the period covered by the renewal option.

Lease payments are discounted using an interest rate implicit in the lease contract. If the rate cannot be easily determined, the lessee’s incremental borrowing rate shall be used, that is, the rate a lessee would have to pay on borrowings to obtain the required cash to obtain a similar right-of-use asset in an similar economic environment under similar terms, under similar terms guarantees and conditions.

In determining the incremental borrowing rate, the Company considers the following criteria:

- To the extent possible, as a point of reference, the company uses the rates of recent borrowings obtained and adjust it to reflect changes in circumstances from the date those borrowings were obtained.
- If no recent borrowings were obtained, it considers a risk-free rate that is adjusted for the credit risk of the Group; and
- Applying specific adjustments to the calculated rate to reflect the specific conditions of the lease; for example, term, country, currency and kind of guarantees.

Each lease payment is allocated between the liability and the finance charges. The finance cost is recognized in profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability at the closing date.

Rights-of-use assets are measured at cost including the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct cost incurred by the lessee; and
- An estimate of costs to be incurred in dismantling, removing the underlying asset, and restoring the site.

Rights-of-use assets are usually depreciated under the straight-line basis over the shorter of the asset’s useful life and lease term. If the Group has reasonable certainty that a purchase option will be exercised, the right-of-use asset is depreciated over the useful life of the underlying leased asset.

Short-term lease payments associated with equipment or vehicles and all low-value leases are recognized under the straight-line method. Short-term leases are leases of 12 months or less. Low-value assets consists of IT equipment and other equipment.

### ***The Company as a lessor -***

As a lessor, the Group determines at lease contract inception whether each of those contracts classifies as a finance lease or an operating lease.

In classifying each lease contract, the Group evaluates whether the risks and rewards inherent to ownership of the underlying asset are substantially transferred to the lessee. If so, the contract 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 cover most of the economic life of the asset.

Revenue from operating leases are accounted for on a linear basis over the lease term.

When the Group subleases an asset, it has to state what role it plays in the major lease contract and in the sub-lease contract separately. An evaluation is performed of the sublease with reference to the right-of-use asset that arises from the principal lease contract, rather than with reference to the underlying asset. If a principal lease contract is a short-term lease, for the Group to be able to apply the above exemption, the sub-lease is classified as an operating lease.

If a contract contains lease and non-lease components, the Group allocates the contract price to all the different components as required under IFRS 15.

#### **(i) Intangible assets -**

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

Directly 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 expenditures that do not meet these recognition criteria are expensed as incurred.

Computer program licenses acquired are capitalized based on the costs incurred to acquire and bring to use the specific computer program.

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 are between two and thirty-nine years and are reviewed for impairment whenever there is an indication that the intangible asset may be impaired.

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

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

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

	<u>Term</u>
Customer relationship	2 to 28
Right to use	2
Distribution agreement	10
Providers relationship	39
Non-competence agreement	4 to 5
Software licenses	3 to 10

Computer software development costs recognized as assets are 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 conditions to be used as expected by Management.

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

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

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

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

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

When there are new events or changes in existing conditions, which indicate that an impairment loss, recorded in an earlier period, may have disappeared or reduced, the Group makes a new estimate of the recoverable amount of the corresponding asset. The previously recognized impairment losses are reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset from the date on which the impairment loss was recognized for the last time. If this is the case, the carrying amount of the asset is increased to its recoverable amount. This increase cannot exceed the carrying amount that had been determined, net of depreciation, if no impairment loss would have been determined in prior years. Such reversal is recognized in the consolidated statement of income. Once reversal is completed, the depreciation charge is adjusted in future periods allocating the carrying amount of the asset over its remaining useful life.

**Goodwill and indefinite life brands -**

Goodwill arises from the purchase of a group of assets that qualify as a business. Goodwill represents the excess of the consideration transferred over the fair value of the net assets acquired at the date control is obtained. The carrying amount of goodwill and indefinite life brands are tested for impairment (every December 31) and whenever the circumstances indicate that their carrying amount may not be recoverable. The carrying amount of goodwill is shown at cost less accumulated impairment losses. In the event the business that gave rise to goodwill is sold in part or in full, the gains or losses on that sale will include the carrying amount of goodwill.

Impairment of goodwill is determined by evaluating the recoverable amount of each cash-generating unit (or group of cash-generating units) to which goodwill relates. When the recoverable amount of the cash-generating unit containing goodwill is lower than its carrying amount, including the carrying amount of goodwill, an impairment loss is recognized.

Goodwill impairment losses cannot be reversed in future periods.

**(k) Borrowing costs -**

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

In 2020 and 2019, no costs have been incurred by the Group in constructing assets that qualify for capitalization of borrowing costs.

**(l) Employee benefits -**

**Workers' profit-sharing -**

The Group recognizes a liability and an expense for workers' profit-sharing in the companies' profits, based on the legal provisions in force in each country in which the Group operates, if applicable. In the case of companies in Peru, workers' profit-sharing equals between 5% and 8% of taxable income determined in accordance with current income tax legislation. According to Peruvian laws, there is a limit on the employees' profit-sharing that an employee can receive, equivalent to eighteen monthly salaries.

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

**Statutory bonuses -**

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

**Workers' severance indemnities -**

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

**Vacations period -**

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



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

**(m) Income tax -**

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

**Current income tax -**

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

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

When the Group makes payments in excess of its income tax payment obligations, for example, when it pays under protest to the Peruvian Tax Administration to avoid accrual of interest and penalties, but considers that it is probable that it will obtain a refund, recognizes these amounts in "Other assets". 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.

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

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

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

**Uncertain tax treatment -**

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. Recognition and measurement of current and deferred income tax can be affected in those cases in which an entity has uncertain tax positions associated with income tax, which it is probable that the tax administration does not accept the Group's tax treatment. The existence of uncertain tax position may have an impact on determining taxable profits or tax loss, the tax base of assets and liabilities, tax credits or the tax rates to be used.

## **(n) Revenues, costs and expenses recognition -**

### Revenues -

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Revenue is shown net of VAT (IGV in Peru), reimbursements, discounts, rebates and other sales-related items.

At contract inception, Management determines whether the Group engages to provide multiple goods or services and identifies which of those qualify as a separate performance obligation and the related revenue is required to be recognized on a stand-alone basis. This leads to allocating the agreed price among several promises to deliver goods or services to a customer, all of which might lead to different timing in recognizing revenue.

In the event different stand-alone performance obligations are identified, the Group allocates the transaction price proportionally to each performance obligation based on their individual stand-alone prices. If the Group does not have the individual sale price, estimation is made based on cost plus a reasonable market-based margin.

Performance obligations that are not satisfied at the date of the financial statements, but for which the Group has already received from customer the consideration/payment, in part or in full, are shown within "Other current liabilities" in the separate statement of financial position, within "Customer advances" (note 15).

Revenue from sale of machinery, motors, equipment and spare parts are recognized when control of goods is transferred, which occurs, when the product is delivered to the customer, customer has total control over the asset and the Group assumes no obligations that remain to be satisfied and that may affect the acceptance of the product by customer. A product is considered to be delivered when products have been sent to the locations specified by the customer, the risk of obsolescence and loss have been transferred to the customer and customer has accepted the products under the contractual terms.

Revenue from workshop services are recognized in profit or loss as the time of service is completed on a linear basis.

### Costs and expenses -

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

Cost of service is capitalized as incurred and recognized simultaneously as the associated revenue is recognized. For presentation purposes, the Group includes all capitalized costs within "Inventories".

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

## **(o) Provisions -**

### General -

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

#### Guarantees -

Provisions for costs related to guarantees given to customers as part of 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 amount of these events in the past. Initial estimate of costs related to guarantees is reviewed annually.

#### **(p) Contingent liabilities and assets -**

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

#### **(q) Share capital -**

Common shares are classified as equity.

Where any Group company purchases the company's equity share capital (treasury shares), either by Parent Company or a subsidiary, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's shareholders until the shares are cancelled or reissued. These own shares that are repurchased are classified as treasury shares and are presented as a deduction of equity. Any excess amounts paid in repurchase in relation with the nominal value are shown with a charge to "Additional capital". Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects is included in equity attributable to the Company's shareholders.

#### **(r) Earnings per share -**

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

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

#### **(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. Measurement at fair value is based on the assumption that the transaction to sell the asset or transfer the liability occurs either:

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

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

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

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

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

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

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

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

**(t) Segment information -**

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

An operating segment is a component of an entity that: (i) engages in business activities from which it may earn revenues and incur expenses (including income and expenses related to transactions with other components of the same entity); (ii) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (iii) for which discrete financial information is available, see note 30.

**(u) Subsequent events -**

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

**3.4 Critical accounting judgments, estimates and assumptions -**

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

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

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

**(a) Judgments -**

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

#### Lease term -

In determining the lease term, Management considers all facts and circumstances that lead the Company to exercise the option to renew the lease contract. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of machinery and fleet equipment for rent, the following are the most relevant factors:

- Whether there are significant penalties to terminate the lease (or not to extend the lease), the Group is typically reasonably certain not to extend (or not to terminate).
- Whether any leasehold improvement is expected to have a significant residual value, the Group is typically reasonably certain to extend the lease (or not to terminate the lease).
- Otherwise, the Group considers other factors including the historical effective period of leases and the costs of disrupting the business that would be necessary to be able to replace the leased asset.

Most of the options to extend the lease of fleet machinery and fleet equipment for rent were not included in the lease liability since the Group may replace assets without significant costs or business disruption.

#### **(b) Estimates and assumptions -**

Most significant Management's estimates used in preparing the consolidated financial statements are:

##### Revaluation of property, plant and equipment (land) -

The Group measures its land at fair value. For this purpose, the Group hired independent valuation experts 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 conditions. Management considers that performing sensitivity calculations on this estimate would not be relevant given that these estimates are based on objective information provided by third-party independent parties.

##### Impairment of non-financial assets -

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

The calculation of the recoverable amount is sensitive to changes in the discount rate used on the projected cash flows; changes in future expected cash flows and the long-term growth rate used in extrapolation. Management considered that performing a sensitivity analysis of this estimate would not be relevant given the width of the gap resulting from comparing the recoverable amount and the carrying amount of the non-financial assets, see note 11.

##### Provision for impairment of trade receivables -

In measuring the expected credit losses, accounts receivable were grouped considering their shared risk characteristics and the number of past-due days. The rates of expected credit losses are based on the payment profiles of sales over a 48-month period, the historical credit losses that occur over that period (recovery trend), and aging of trade receivables. The historical credit loss rates are adjusted to reflect the current and prospective information about macroeconomic factors that affect

customers' ability to settle the Company's trade accounts receivable. Management considered that performing a sensitivity analysis of this estimate would be not relevant given that this information is based on objective and historical information.

#### Provision for impairment of inventories -

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

In addition, Management performs a turnover analysis to determine whether inventories (machinery, engines and spare parts) require a provision for obsolescence and slow-moving items, which reduces the balance of inventories in the consolidated statement of financial position. The estimate for obsolescence of inventories in the warehouse is determined based on a specific assessment that Management conducts, on a quarterly basis, on machinery and engines and considering those items that are more than 24 months without movement for spare parts. Management considered that performing a sensitivity analysis of this estimate would be not relevant given that this information is based on objective and historical information that is reviewed at each date of the consolidated financial statements.

#### Current and deferred income tax -

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

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

### **3.5 Changes in accounting policies and in the disclosure of information -**

#### ***New IFRS, interpretations and amendments to standards effective at January 1, 2020, applicable to the Company and adopted at that date -***

- Definition of Material - Amendments to IAS 1 and IAS 8 -

The amendments provide a new definition of "materiality", as information whose omission by mistake or obstruction is reasonably expected to influence the decision-making of the primary users of the financial statements. The amendments clarify that the materiality will depend on the nature or magnitude of the information, individually or aggregated with other information, in the context of the financial statements.

- Interest Rate Benchmark Reform - Amendments to IFRS 7, IFRS 9 and IAS 39 -

The amendments made to IFRS 7, "Financial Instruments: Disclosures", IFRS 9, "Financial Instruments" and IAS 39, "Financial Instruments: Recognition and Measurement" provide certain reliefs in relation to interest rate benchmark reforms.

The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.

- Amendments to the Conceptual Framework for Financial Reporting -

The revised Conceptual Framework includes some new concepts and definitions, as well as criteria for the recognition of assets and liabilities, and clarifies some concepts. Key changes include:

- Clarification that one of the major objectives of the financial statements is evaluating performance of those who manage an entity's resources;
- Clarification of the concept of prudence as a component of neutrality needed to prepare financial statements;
- A definition of a reporting entity;
- Updated definition of assets and liabilities;
- Even though the thresholds of probability have been removed in recognizing items in the financial statements; for items to be recognized they should contribute with meeting the major financial reporting objectives, that is, the information is relevant and faithfully represents the economic substance of the transaction. The underlying idea is not to extend the range of assets and liabilities to be recognized in the financial statements but align the recognition criteria with the general objectives of the financial statements;
- Guidance is provided to derecognize assets and liabilities;
- Revised definition of the basis of measurement permitted for financial statement line items; and
- The basis of measurement of the elements of the financial statements has been revised, and it is expressly stated that the statement of income is the principal source of information on the performance of an entity. In addition, there is indication that in certain exceptional circumstances, some items of income and expenses should not be recognized in the statement of income but in the statement of comprehensive income. Also, a general rationale is explained that whenever a reclassification to profit or loss of the items stated within other comprehensive income should be made when it contributes with the financial statements to provide more relevant information or a more faithful representation.

Due to the nature of the Group's activities, the Revised Conceptual Framework has not generated an amendment of its accounting policies, and it is not expected to have future impacts on the Group.

***New standards, amendments to standards and interpretations that will be in force for the financial statements for annual periods beginning on or after January 1, 2021 and that have not been adopted early -***

The following standards, amendments to standards and interpretations have been published for periods that begin after the date of presentation of these financial statements and have not been early adopted and the Group will assess its impact in 2021:

- Rent concession related to COVID-19 - Amendments to IFRS 16 -

As a result of the COVID-19 pandemic, rent concessions have been granted in lease contracts. Such concessions might take a variety of forms including payment holidays and deferral of lease payments. In May 2020, IASB published an amendment to IFRS 16, "Leases" where lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. Generally, this will result for the concession as variable lease payments in the period in which they are granted.

This amendment was issued on May 28, 2020. It is effective for annual reporting periods beginning on or after June 1, 2020 and it only affects rent concessions that arise from the COVID-19 context.

- Classification of Liabilities as Current or Non-current - Amendments to IAS 1 -

Amendments to IAS 1, "Presentation of Financial Statements" clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant).

The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

They must be applied retrospectively in accordance with the normal requirements in IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors".

The amendments are effective for the annual periods reported on or after January 1, 2023 and must be applied retrospectively.

- Property, Plant and Equipment: Proceeds before intended use - Amendments to IAS 16 -

This amendment prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity should recognize any income from the sale of those items, and the costs of production associated with those items, in profit or loss.

It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

This amendment is effective from January 1, 2022 and shall be applied retrospectively.

- Reference to the Conceptual Framework - Amendments to IFRS 3 -

Minor amendments were made to IFRS 3, "Business Combinations" to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" and IFRIC 21, "Levies".

The amendments also confirm that contingent assets should not be recognized at the acquisition date.

This amendment applies from January 1, 2022.

- Onerous Contracts - Cost of Fulfilling a Contract - Amendments to IAS 37 -

In May 2020, the IASB issued an amendment to IAS 37 to specify the cost that an entity must consider when assessing whether a contract is onerous or loss-making.

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

This amendment is effective as of January 1, 2022.



- Annual Improvements to IFRS Standards 2018-2020 -

As part of its 2018-2020 annual improvements to the IFRS standard process in May 2020, the IASB issued the following amendments:

- IFRS 9, “Financial Instruments” - clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16, “Leases” - amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- IFRS 1, “First-time Adoption of International Financial Reporting Standards” - allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent’s books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- IAS 41, “Agriculture” - removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The amendments will be effective from January 1, 2022 and their early adoption is permitted.

- Sale or contribution of assets between an investor and its associate or joint venture - Amendments to IFRS 10 and IAS 28 -

The IASB has made limited scope amendments to IFRS 10, “Consolidated financial statements” and IAS 28, “Investments in associates and joint ventures”. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a “business” (as defined in IFRS 3, “Business Combinations”).

Where the non-monetary assets constitute a business, the investor will recognize the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognized by the investor only to the extent of the other investor’s interests in the associate or joint venture. These amendments will be applied prospectively.

In December 2015, the IASB decided to defer the application date of this amendment until such time as the IASB has finalized its research project on the equity method.

The Group is currently evaluating the impact that the amendments may have on current practice.

## **4 FINANCIAL INSTRUMENTS**

### **4.1 Financial instruments by category -**

The classification of financial instruments by category is as follows:

**At December 31,**

<u>2020</u>	<u>2019</u>
<u>S/000</u>	<u>S/000</u>

**Assets according to consolidated statement of financial position -**

Financial assets at amortized cost:

- Cash and cash equivalents	256,188	84,433
- Trade receivables and other assets (*)	1,211,293	1,302,229

Assets at fair value through profit or loss:

- Investments in securities	-	9,303
	<u>1,467,481</u>	<u>1,395,965</u>

**Liabilities as per consolidated statement of financial position -**

Other liabilities:

- Borrowings	1,711,835	2,152,680
- Trade payables and other liabilities (*)	728,869	878,518
	<u>2,440,704</u>	<u>3,031,198</u>

(\*) It does not include advances nor taxes nor provisions.

**4.2 Credit quality of financial assets -**

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

The credit quality of financial assets is as follows:

**At December 31,**

<u>2020</u>	<u>2019</u>
<u>S/000</u>	<u>S/000</u>

**Cash and cash equivalents (\*)**

Banco de Crédito del Perú S.A. (A+)	152,985	34,338
BBVA Banco Continental S.A. (A+)	14,224	1,759
Scotiabank Perú S.A.A. (A)	13,057	190
Banco Santander Perú S.A. (A)	12,926	3,903
Banco Internacional del Perú S.A.A. (A)	10,720	3,213
Banco de la Nación (A)	8,300	12,006
Banco Agrícola S.A. (B+)	3,892	943
Banco Inter Banco, S.A. (BBB+)	3,551	814
Banco de América Central S.A. (B+)	3,453	1,967
Citibank del Perú S.A. (A+)	3,093	151
Citibank N.A. (A+)	2,687	4,002
Banco Davivienda Salvadoreño, S.A. (A+)	2,685	2,912
Scotiabank Belize (A)	2,636	1,440
Banco Industrial, S.A. (BB+)	1,282	829
Heritage Bank Plc. - Belize (A+)	1,102	1,167
Banco Interamericano de Finanzas S.A. (A)	425	56
Scotiabank - El Salvador (B+)	134	430
Mercantil Commercebank, N.A. (BB+)	-	2,138
Other minors	17,583	11,108
	<u>254,735</u>	<u>83,366</u>

**Investments in securities (\*\*)**

Fondos Sura Saf S.A.C. (A)	-	4,303
Credifondo S.A. (AAA)	-	5,000
	<u>-</u>	<u>9,303</u>

Credit ratings in the previous chart, "A" and "A+", represent high quality ratings. For banks in Peru, this credit rating is obtained from credit rating agencies authorized by the Peruvian banking and insurance and pension plan regulator, Superintendencia de Banca, Seguros y AFP (SBS, the Spanish acronym).

(\*) The remaining cash equivalents in the consolidated statement of financial position correspond to the cash held in "Fixed fund" and "In-transit remittances".

(\*\*) On December 31, 2019 an investment agreement was signed with Credifondo S.A. for S/5,000,000 attached to Fondo Conservador Liquidez Soles FMIV in local currency by which a number of 17,915.5796 interest units was obtained in that financial instrument and an investment agreement was signed with Fondos Sura Saf S.A.C. for US\$1,300,000 (equivalent to S/4,303,000) attached to Fondo SURA Ultra Cash Soles FMIV in US dollars by which a number of 11,876.53472065 interest units was obtained in that financial instrument. Management considers that the fair value of that instrument will not result in significant changes to the balances stated in the consolidated financial statements. This investment was settled on January 3, 2020 with a gain of S/1,447, which is shown in "Financial income" in the consolidated statement of income.

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
<b>Trade receivables -</b>		
Counterparties with internal risk ratings:		
A	215,700	81,645
B	754,599	937,357
C	<u>66,443</u>	<u>127,643</u>
Total trade receivables not impaired	<u><u>1,036,742</u></u>	<u><u>1,146,645</u></u>
<b>Other assets -</b>		
Counterparties with internal risk ratings:		
A	689	3,047
B	<u>173,862</u>	<u>152,537</u>
Total other receivables not impaired	<u><u>174,551</u></u>	<u><u>155,584</u></u>

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

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

At December 31, 2020 and 2019 the Group's majority portfolio was classified in the second risk category "B". Additionally, of the accounts complying with their contractual terms, none have been renegotiated.

## 5 CASH AND CASH EQUIVALENTS

(a) This item comprises:

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Fixed fund	1,442	545
Checking accounts (b)	241,894	70,653
Savings account (b)	4,431	2,526
Time deposit (c)	8,410	10,187
In-transit remittances	<u>11</u>	<u>522</u>
	<u><u>256,188</u></u>	<u><u>84,433</u></u>

- (b) Checking accounts and savings accounts are held in local and foreign banks, in local and foreign currency, are freely available and do not generate interest, except for savings accounts that generate interest at market values.
- (c) Time deposits are held in recognized local and foreign banks, are denominated in local and foreign currency, with a maturity of less than 30 days, are freely available and bear market interest rates.

## 6 TRADE RECEIVABLES

- (a) This item comprises:

	<u>2020</u> S/000	<u>2019</u> S/000
Invoices (b)	892,916	1,002,718
Bill of exchange (b)	339,786	309,743
Non-accrued interest	( 18,679)	( 15,466)
	1,214,023	1,296,995
Less - Estimate for doubtful accounts (d)	( 177,281)	( 150,350)
Total trade receivables	1,036,742	1,146,645
(-) Non-current portion	( 61,490)	( 31,788)
Current portion	<u>975,252</u>	<u>1,114,857</u>

- (b) Trade receivable are denominated in local and foreign currency, do not earn interest, except for bills of exchange receivables that accrue an annual interest rate in US dollars at rates ranging from 8% and 18% and in soles at rates ranging from 17% and 22%.

Invoices and bills of exchange correspond mainly to receivables originating from sales of goods to various local and foreign companies. Invoices are usually of current maturity (status of past due and settled) and bills of exchange have original maturities from 30 to 360 days, with some exceptions that are classified as non-current.

- (c) Ageing of the trade accounts receivable, without offsetting unaccrued interest, is as follows:

	<u>Unimpaired</u> S/000	<u>Impaired</u> S/000	<u>Total</u> S/000
<b>At December 31, 2020 -</b>			
<b>Not past due:</b>	844,667	14,058	858,725
<b>Past due:</b>			
- 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
<b>Total</b>	<u>1,055,421</u>	<u>177,281</u>	<u>1,232,702</u>
<b>At December 31, 2019 -</b>			
<b>Not past due:</b>	978,337	5,035	983,372
<b>Past due:</b>			
- Up to 1 month	80,611	779	81,390
- From 1 to 3 months	56,749	1,131	57,880
- From 3 to 6 months	20,628	3,507	24,135
- More than 6 months	25,786	139,898	165,684
<b>Total</b>	<u>1,162,111</u>	<u>150,350</u>	<u>1,312,461</u>

(d) Estimate for doubtful accounts:

The Group applies the IFRS 9 simplified approach to measure the expected credit losses using an expected credit loss allowance over the lifetime of the financial instrument for all accounts receivable.

In measuring the expected credit losses, accounts receivable were grouped considering their shared risk characteristics and the number of past-due days.

In the current context of COVID-19, Management chose to evaluate the segmentation of its portfolio based on the Group's business lines. It also applied close monitoring of very specific situations that could affect the portfolio in order to exclude them from the analysis.

Management considers that the criteria of the business lines is relevant for the evaluation and that the grouping of each one reflects similar risks in the present COVID-19 context and in the past. The portfolios determined for segmentation are: i) Large Mining, ii) Local Accounts, iii) Regional Accounts, iv) Energy and v) Specific.

In the implementation of IFRS 9, Management considered preparing its historical loss ratios based on global portfolios for each country where the Group operates and taking at least three periods to determine the ratio (recovery trend). As time passes and the Group has real historical data in a COVID-19 environment, Management has determined to take into consideration the closest period for the evaluation to determine the historical loss ratio. Therefore, it decided to incorporate the evaluation of the years 2019 and 2020.

Under the provisions of IFRS 9, regarding "prospective information", macroeconomic factors that have a significant impact on customers credit behavior were considered, including macroeconomic variables that are considered to have an impact on Peruvian GDP (Gross Domestic Product), inflation, fixed private investment, public investment and selling exchange rate. In this sense, a correlation analysis was performed to determine the relation between the historical loss ratio and each macroeconomic indicator per portfolio. As a result of this analysis, it was determined that the correlation with the GDP is high, that is, a level of correlation greater than 50% was obtained; in respect of the other variables, the correlation found was low; that is, below 50%. Therefore, since there is significant correlation between the historical loss ratio and the behavior of Peruvian GDP, there was need to adjust that loss variable.

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

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
<b>Opening balance at January 1</b>	150,350	141,901
Estimate charged to income, note 19	34,056	21,478
Recoveries	( 4,052)	( 4,213)
Write-off	( 11,132)	( 7,236)
Effect of translation	<u>8,059</u>	<u>( 1,580)</u>
<b>Final balance at December 31</b>	<u><u>177,281</u></u>	<u><u>150,350</u></u>

At December 31, 2020 and 2019 the Group shows approximately S/73 million and S/63 million, respectively (below a 5% and 6% of the total trade accounts receivable at Group level, respectively, before the estimate for doubtful accounts) of trade receivables from the construction industry customers that are part of prosecutorial investigations currently in progress; see note 28(c). During 2019, other companies were included in the above-mentioned investigation, including Group's customers, but which do not show significant past due amounts. From 2020 y 2019, most of these companies are meeting their payment obligations. For default cases, provisions have been made for the full amount of the defaulted amounts.

Management considers that the provision for impairment of trade receivables adequately covers the credit risk of these items at December 31, 2020 and 2019.

## 7 OTHER ASSETS

(a) This item comprises:

	<u>2020</u> S/000	<u>2019</u> S/000
Receivables from Caterpillar (b)	53,537	43,469
Income tax credit balance (c)	40,413	48,597
Tax withholdings from tax administration (d)	41,485	46,385
VAT credit balance (e)	30,459	32,786
Receivables from program of work for taxes (f)	23,705	15,797
Loan receivable from Ferrenergy S.A.	19,955	-
Advances to suppliers	15,837	7,113
Security deposit	11,227	2,403
Receivables from personnel	11,031	12,319
Accounts receivable from sub-leases - IFRS 16 (g)	9,604	8,792
Claims to suppliers	3,429	3,006
Accounts receivable from sale of investments, net (h)	2,378	4,966
Claims to insurance companies and third parties	2,185	9,067
Reimbursement of customs duties and taxes (i)	2,041	3,436
Other minors	<u>24,058</u>	<u>28,526</u>
	291,344	266,662
Less - Provision for doubtful accounts (l)	( 899)	( 3,349)
	290,445	263,313
Less: Non-current portion	( 33,331)	( 32,148)
Current portion	<u>257,114</u>	<u>231,165</u>

(b) At December 31, 2020 and 2019 receivables from Caterpillar include balances related to rebates obtained in buying Prime machinery and spare parts. It also includes receivables related to refunds of guarantees agreed with Caterpillar on the sales of machinery. These receivables do not bear interest and have no significant financing components.

(c) This balance is the income tax on-account payments, which Management considers will be recovered in the normal course of the Group's business.

(d) At December 31, 2020 and 2019 this item includes the following:

- Payments under protest made by the Company to the Peruvian Tax Authorities (SUNAT), in connection with a tax resolution that included challenges and tax assessments to the 2002 income tax of S/30,035,000. Management and its legal counsel consider this amount, plus interest, would be refunded to the Company over time when all court and/or administrative proceedings are completed.
- During 2019, SUNAT audited subsidiary Ferreyros S.A. on its compliance with 2014 income tax obligations. As part of that process, SUNAT requested for evidence supporting the deduction made as per 2014 Annual Income Tax Returns involving "an adjustment to the cost of disposal of fixed assets sold" amounting to S/3,997,201. In this respect, in meeting SUNAT's request, Ferreyros S.A. validated the deduction; however, it noted that the deducted amount should have been higher, which gave rise to a tax credit, in respect of which, SUNAT has already recognized the 2014 amount; SUNAT's recognition and validation of the amounts for 2015 and 2017 remain to be performed.

Ferreyros S.A. has the right to use the entire cost of the fixed asset, either via depreciation or cost of sales at the time of disposal. Nevertheless, in its 2014 Income Tax Returns, Ferreyros S.A. did not include regarding the tax cost of fixed asset disposal, the correct income tax deduction, but rather it understated the tax deduction; and therefore, a tax deduction of S/33,699,456 remained to be recognized; that amount was included as part of the tax audit in the form of an amendment to the respective tax returns (PDT 692 No.750628782-27). It should be noted that the amounts stated in the amended tax returns dated November 26, 2019, were accepted and validated by SUNAT under Tax Determination Resolution No.012-003-0108524, confirming the existence of excess tax payments of S/10,076,226. The tax determination resolution contains the results of the tax audit began by SUNAT on fiscal 2014, which also validated, among other things, a tax credit on a cost of disposal of fixed assets considered in the amended income tax returns (Result of Requirement No.0122190001718).

At December 31, 2019 a request has been made by Ferreyros S.A. for a refund of the above-mentioned excess payment by means of Form No.4949 (Files No.6692797 and No.6692798). In 2020, Ferreyros S.A. recovered S/10,076,226 through checks issued by SUNAT on February 14, 2020 for S/8,500,000 (interest earned S/2,510,835) and on March 11, 2020 for S/1,576,226 (interest earned S/465.605).

- (e) The VAT (IGV in Peru) credit balance mainly resulted from purchases of inventories, fixed assets and other expenditures relating to the Group's operations. Management considers the VAT credit balance will be recovered in the normal course of the Group's business.
- (f) At December 31, 2020 and 2019 this balance includes the Group's tax credits resulting from disbursements made in implementing the following projects in the framework of Law No.29230, which promotes regional and local public investment with participation of the private sector:
- In April 2016, Ferreyros S.A. signed an agreement with the Regional Government of Cusco by which Ferreyros S.A.A. grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2020 this item includes the contributions made by the Company to finance a project called "Mejoramiento y Ampliación del Servicio de Agua Potable y Alcantarillado en la Capital del Distrito de Zurite - Anta - Cusco" for S/708,000 (S/699,000 in 2019); and a project called "Ampliación, Mejoramiento del Sistema de Agua Potable, Redes de Alcantarillado y Planta de Tratamiento en la Capital del Distrito de Sangarará, Province of Acomayo - Cusco" for S/475,000 (S/468,000 in 2019).
  - In April 2017, Ferreyros S.A. signed an agreement with the Regional Government of La Libertad, by which Ferreyros S.A.A. grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2020 this item includes the contributions made by the Company to finance a project called "Mejoramiento del Servicio de Educación Secundaria de la I.E N°66 Cesar Abraham Vallejo Mendoza - Centro Poblado de Chequen - Distrito de Chepen - Provincia de Chepen - La Libertad" for S/79,000 (S/79,000 in 2019); and to finance a project called "Mejoramiento del Servicio Educativo en la I.E No.81605 San Idelfonso - Distrito de Laredo, Provincia de Trujillo - Región La Libertad" for S/533,000 (S/533,000 in 2019).
  - In April 2017, Ferreyros S.A. signed an agreement with the Regional Government of Cusco, by which Ferreyros S.A.A. grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2020 this item includes the contributions made through the consortium comprising Ferreyros S.A. and Unión de Cervecerías Peruanas Backus y Johnston S.A. with an interest of 50% each one, to finance a project called "Mejoramiento, Ampliación de los Servicios de Agua Potable y Alcantarillado de la Microcuenca Piuray Corimanca - Distrito de Chinchero - Urubamba - Cusco" for S/5,400,000 (S/670,000 in 2019).

- In September 2017, Ferreyros S.A. signed an agreement with the Regional Government of Ica by which the Company grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2020 this item includes the contributions made through the consortium comprising Ferreyros S.A. and Fargoline S.A. with an interest of 50% each one, to finance a project called "Mejoramiento del Servicio Educativo en AL I.E. Gabino Chacaltana Hernández, District of Pueblo Nuevo, Province and department of Ica" for S/325,000 as a credit balance that once paid will be charged to the construction service provider (S/1,120,000 in 2019).
- In March 2017, Ferreyros S.A. signed an agreement with the Regional Government of La Libertad by which the Company grants financing through cash contributions and implementation activities for the development of various projects in the region. On May 17, 2018 an addendum was signed comprising S/6,996,000 and from that date, grants were started. At December 31, 2020 this item includes the contributions made through the consortium comprising Ferreyros S.A. and Unimaq S.A. with interest of 50% each one, to finance a project called "Mejoramiento de los servicios de educación inicial y primaria de la I.E. N°80392 Andres Salvador Diaz Sagastegui, district and province of Chepen - La Libertad" for S/2,483,000 (S/1,157,000 in 2019).
- In June 2018, Ferreyros S.A. signed an agreement with the Regional Government of Cusco by which the Company grants financing through cash contributions and implementation activities for the development of various projects in the region. At December 31, 2020 this item includes the contributions made by Ferreyros S.A., to finance a project called "Mejoramiento y Ampliación del Sistema de Agua Potable, Alcantarillado y Planta de Tratamiento de la Capital de Colquepata, Distrito de Colquepata - Paucartambo - Cusco" for S/14,352,000, of which S/12,995,000 are represented in Regional and Local Public Investment Certificate (CIPRL, for its acronym in Spanish) (S/10,836,000 in 2019).

At December 31, 2020 there are projects initiated since 2016 under liquidation and others are in progress. In this respect and under that piece of legislation, the Group can use as tax credit the CIPRL and the disbursements made and apply them against future income taxes payable.

- (g) At December 31, 2020 and 2019 this item consists of the balance receivable from third parties from the sublease contracts involving subsidiaries Unimaq S.A. and Motriza S.A., which were classified as finance leases.
- (h) At December 31, 2020 this item comprises the balance receivable for S/2,378,000 (S/4,966,000 as of December 31, 2019) from a third party for the sale of the Company's interest in Transacciones Plurales S.A. for S/7,134,000 carried out in 2018 and a collection was agreed in semi-annual installments over a period of 3 years, without interest and no specific guarantees.
- (i) They consist of refunds of tax and customs duties, for which an application will be presented to Tax Authorities to be actually obtained during the first half year of the next year.
- (j) Ageing of other receivables, net is as follows:

	<u>2020</u> S/000	<u>2019</u> S/000
Current	270,246	264,200
Past due for up to 180 days	2,929	1,355
Past due for more than 180 days	<u>1,391</u>	<u>1,107</u>
	<u>274,566</u>	<u>266,662</u>



(k) The movement in 2020 and 2019 of the provision for doubtful other receivables is as follows:

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
<b>Opening balance at January 1</b>	3,349	2,895
Estimate charge to income, note 19	174	534
Recoveries	( 2)	( 18)
Write-offs of the year	( 2,884)	( 19)
Effect of translation	<u>262</u>	<u>( 43)</u>
<b>Final balance</b>	<u><u>899</u></u>	<u><u>3,349</u></u>

Management considers that the provision for doubtful other receivables adequately covers the credit risk at December 31, 2020 and 2019, respectively.

## 8 INVENTORIES

(a) This item comprises:

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Machinery, motors and vehicles (b)	522,145	892,316
Spare parts for sale (b)	636,910	652,074
Workshop service costs in progress (c)	73,375	101,628
Merchandise	113,702	84,869
Advances to suppliers	20,017	57,828
Other supplies	9,903	7,911
Inventories in transit (d)	<u>380,855</u>	<u>203,228</u>
	1,756,907	1,999,854
Less - Provision for impairment of inventories (f)	<u>( 72,831)</u>	<u>( 55,426)</u>
	<u><u>1,684,076</u></u>	<u><u>1,944,428</u></u>

- (b) This item mainly corresponds to items the Company earmarks for sales; that is, machinery engines, and equipment, both Caterpillar and other brands and the related parts. These items are expected to be sold over the first quarter of the next year.
- (c) This item mainly reflects costs incurred in mechanic and repair workshop services rendered by the Group to customers (in-processes inventories), that were remaining to be completed at the date of the consolidated statement of financial position.
- (d) It mainly corresponds to spare parts of Caterpillar machines, engines and equipment as well as other brands imported by the Group to resell mostly to its mining and agricultural customers. These items are expected to be sold over the first quarter of the following year.
- (e) The amounts of inventories recognized in profit of 2020 and 2019 has substantially affected "Cost of sales" and is broken down by item in note 18.
- (f) The annual movement of the provision for impairment of inventories is as follows:

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
<b>Opening balance at January 1</b>	55,426	70,439
Provision charged to cost of sales, note 18	31,789	26,863
Provision charged to selling expenses, note 19	10,417	10,569
Transfer from fixed assets	1,120	1,396
Destruction of spare parts and others	( 13,886)	( 13,852)
Transfer to fixed assets	( 551)	( 1,256)
Recoveries, note 18	( 12,570)	( 38,643)
Effect of translation	1,086	( 90)
<b>Final balance at December 31</b>	<u>72,831</u>	<u>55,426</u>

The provision for impairment of inventories is determined based on levels of inventory turnover and other characteristics, based on periodic evaluations conducted by Management and the technical and financial areas. Group's Management considers the balance of this estimate adequately covers the risk of impairment of inventories at December 31, 2020 and 2019.

## 9 INVESTMENT IN JOINT VENTURE

(a) This item comprises:

	<u>Main activity</u>	<u>Percentage of interest in capital</u>		<u>Carrying amount</u>	
		<u>2020</u> %	<u>2019</u> %	<u>2020</u> S/000	<u>2019</u> S/000
<b>Joint venture (b):</b>					
Ferrenergy S.A.	Power generation and distribution	50.00	50.00	17,781	16,114
<b>Other investments:</b>					
Other minor investments	Others			309	540
				<u>18,090</u>	<u>16,654</u>

(b) In 2020, the Group has recognized a total profit for S/1,667,000 (S/3,336,000 in 2019) within “Share in net profit of joint venture” of the consolidated statement of income.

These are the figures of the financial statements of Ferrenergy S.A. at December 31, 2020 and 2019:

	<u>2020</u> S/000 Unaudited	<u>2019</u> S/000
<b>Statement of financial position:</b>		
Total assets	121,976	99,561
Total liabilities	86,415	67,333
Equity	35,561	32,228
<b>Statement of income:</b>		
Total income	39,583	27,756
Operating profit	3,160	9,887
Net profit	2,225	6,700

## 10 PROPERTY, PLANT AND EQUIPMENT

(a) The composition and movement of this item for 2020 and 2019 is as follows:

Description	2020							
	Land S/000	Buildings and other constructions S/000	Plant and equipment S/000	Plant and fleet equipment for rent S/000	Vehicles S/000	Furniture and fixtures S/000	Work in progress/In- transit units S/000	Total S/000
<b>Cost -</b>								
<b>Balance at January 1</b>	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)	( 20)	( 3,585)	( 16,991)	( 1,060)	( 1,172)	( 1,023)	( 2,167)	( 26,018)
Transfer of inventories	-	-	9,058	121,057	1,625	-	-	131,740
Transfer to inventories	-	-	( 12,385)	( 166,476)	( 533)	( 4)	-	( 179,398)
Other transfers	-	5,973	10,584	( 1,365)	-	124	( 15,316)	-
Effect of translation	4,761	5,444	2,393	26,396	1,304	2,772	( 43)	43,027
<b>Balance at December 31</b>	<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>
<b>Accumulated depreciation -</b>								
<b>Balance at January 1</b>	-	153,206	260,556	141,764	26,555	34,598	-	616,679
Right-of-use assets - IFRS 16 (h)	-	19,101	1,869	28,419	4,862	7	-	54,258
Additions	-	18,750	35,019	41,696	4,713	9,166	-	109,344
Withdrawals and/or sales	-	( 1,937)	( 16,544)	( 981)	( 943)	( 783)	-	( 21,188)
Transfer of inventories	-	-	( 9)	( 14)	-	( 104)	-	( 127)
Transfer to inventories	-	-	( 5,430)	( 39,454)	-	-	-	( 44,884)
Other transfers	-	( 630)	( 89)	622	13	-	-	( 84)
Effect of translation	-	2,539	2,006	7,103	1,089	2,477	-	15,214
<b>Balance at December 31</b>	<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>
<b>Provision for impairment -</b>								
<b>Balance at January 1</b>	-	-	613	6,069	-	-	-	6,682
Additions	-	-	( 35)	1,203	-	-	-	1,168
Transfer of inventories	-	-	-	551	-	-	-	551
Withdrawals and/or sales	-	193	-	( 743)	-	-	-	( 550)
Transfer to inventories	-	-	-	( 1,120)	-	-	-	( 1,120)
Effect of translation	-	-	-	214	-	-	-	214
<b>Balance at December 31</b>	<u>-</u>	<u>193</u>	<u>578</u>	<u>6,174</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,945</u>
<b>Net carrying amount</b>	<u>612,654</u>	<u>336,058</u>	<u>184,304</u>	<u>413,997</u>	<u>20,463</u>	<u>16,526</u>	<u>47,036</u>	<u>1,630,058</u>

2019								
Description	Land S/000	Buildings and other constructions S/000	Plant and equipment S/000	Plant and fleet equipment for rent S/000	Vehicles S/000	Furniture and fixtures S/000	Work in progress/In- transit units S/000	Total S/000
<b>Cost -</b>								
<b>Balance at January 1</b>	629,497	400,281	404,843	445,189	36,057	82,724	25,650	2,024,241
Right-of-use assets - IFRS 16 (h)	-	83,697	68,036	-	13,246	-	-	164,979
Additions	2,690	7,405	25,751	95,423	5,411	7,430	42,022	186,132
Withdrawals and/or sales (b)	(13,973)	(853)	(7,389)	(219)	(2,977)	(34,966)	(3,544)	(63,921)
Revaluation reversal	(9,796)	-	-	-	-	-	-	(9,796)
Transfer of inventories	-	-	9,986	160,785	924	-	3	171,698
Transfer to inventories	-	-	(48,870)	(168,915)	(303)	-	-	(218,088)
Other transfers	-	28,409	(153)	(615)	1	(121)	(28,067)	(546)
Effect of translation	(824)	(1,090)	(513)	3,276	(379)	(493)	(3)	(26)
<b>Balance at December 31</b>	<u>607,594</u>	<u>517,849</u>	<u>451,691</u>	<u>534,924</u>	<u>51,980</u>	<u>54,574</u>	<u>36,061</u>	<u>2,254,673</u>
<b>Accumulated depreciation -</b>								
<b>Balance at January 1</b>	-	113,056	236,295	138,152	17,315	60,813	-	565,631
Right-of-use assets - IFRS 16 (h)	-	24,248	23,505	-	7,933	-	-	55,686
Additions	-	17,379	37,411	62,315	4,175	8,933	-	130,213
Withdrawals and/or sales	-	(408)	(5,772)	(1,846)	(2,629)	(34,692)	-	(45,347)
Transfer to inventories	-	-	(30,540)	(55,105)	(72)	-	-	(85,717)
Other transfers	-	(419)	(41)	(54)	(38)	14	-	(380)
Effect of translation	-	(650)	(384)	(1,698)	(205)	(470)	-	(3,407)
<b>Balance at December 31</b>	<u>-</u>	<u>153,206</u>	<u>260,556</u>	<u>141,764</u>	<u>26,555</u>	<u>34,598</u>	<u>-</u>	<u>616,679</u>
<b>Provision for impairment -</b>								
<b>Balance at January 1</b>	-	-	556	2,980	-	-	-	3,536
Additions	-	-	-	3,416	-	-	-	3,416
Transfer of inventories	-	-	-	1,256	-	-	-	1,256
Withdrawals and/or sales	-	-	57	(178)	-	-	-	(121)
Transfer to inventories	-	-	-	(1,396)	-	-	-	(1,396)
Effect of translation	-	-	-	(9)	-	-	-	(9)
<b>Balance at December 31</b>	<u>-</u>	<u>-</u>	<u>613</u>	<u>6,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,682</u>
<b>Net carrying amount</b>	<u>607,594</u>	<u>364,643</u>	<u>190,522</u>	<u>387,091</u>	<u>25,425</u>	<u>19,976</u>	<u>36,061</u>	<u>1,631,312</u>

- (b) In 2020, the Group sold and wrote off fixed assets for a total carrying amount of S/1,128,000 and S/3,702,000, respectively (S/584,000 and S/17,990,000, respectively, in 2019). The Group obtained profits of S/210,000 (S/1,826,000 in 2019) from the disposal of fixed assets, as shown within "Other income and expenses, net" in the consolidated statement of income. In 2020 and 2019, major sales consisted of vehicles; and major write-offs consisted of machinery and equipment, obsolete computer equipment and furniture and fixtures. On the other hand, over 2019, Management decided to sell the piece of land at Av. Industrial No.504-508, Cercado de Lima, and transferred its carrying amount of S/13,887,000 to "Non-current held for sale asset". The Company expected the sale to be completed in a period of no more than one year; however, this transaction was postponed due to the current economic situation because of the pandemic and is expected to be completed during 2021.
- (c) At December 31, 2020 the balances of work in progress mainly consist of expenses in implementing the work at the facility in Punta Negra for S/10,392,000, the construction of the new roof of the Spare Parts Distribution Center ("Centro de Distribución de Repuestos - CDR") in Lima for S/14,615,000, the new WIP 2 Welding Workshop ("Taller de Soldadura WIP 2") located in La Joya - Arequipa for S/9,909,000 and in some mining operations for S/927,000, which are expected to be ready for use over the first half of 2021, as well as advances to suppliers relating to workshop machinery at the Lima sites and branches for S/1,431,000 and La Joya for S/6,310,000. At December 31, 2019 the balances of work in progress mainly consist of expenses incurred by the Company in implementing works on the premises located in Punta Negra for S/10,392,000 and for different constructions and facilities at the Lima headquarters for S/2,544,000, the second stage of construction and facilities of the Component Repair Center ("Centro de Reparación de Componentes - CRC") workshop located in La Joya - Arequipa for S/1,618,000 and in different mining operations for S/1,232,000, which are estimated to be ready for use in the first quarter of 2020, as well as advances to suppliers for workshop machinery at the Lima headquarters for S/10,344,000 and La Joya for S/5,280,000, among other tools for S/763,000.
- (d) At December 31, 2020 and 2019 the Group has insurance policies to cover all its assets. Management considers its insurance policies are consistent with the international practice in the industry, and therefore, the risk of eventual losses from the risks covered by the insurance policy is reasonable considering the kind of assets owned by the Group.
- (e) In 2020, rental income amounted to approximately S/139,823,000 (S/184,242,000, in 2019), which are related to the rental of machinery and fleet equipment. This rental income is included in "Sales" in the consolidated statement of income.
- (f) For the years ended December 31, 2020 and 2019, the depreciation expense was recorded in the following items of the consolidated statement of income:

	<u>2020</u> S/000	<u>2019</u> S/000
Cost of sales, note 18	46,658	69,492
Selling expenses, note 19	46,093	44,608
Administrative expenses, note 20	<u>16,593</u>	<u>16,113</u>
	<u>109,344</u>	<u>130,213</u>

- (g) At December 31, 2020 and 2019 Management evaluated the condition of its property, plant and equipment and found no indications of impairment of those assets.

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

	<b>Buildings and other construction</b>	<b>Plant and equipment</b>	<b>Vehicles</b>	<b>Total</b>
	<b>S/000</b>	<b>S/000</b>	<b>S/000</b>	<b>S/000</b>
<b>Year 2020:</b>				
<b>Cost -</b>				
Opening balance at January 1, 2020	83,697	68,036	13,246	164,979
Additions	1,938	53,886	2,200	58,024
Adjustments	( 148)	( 2,748)	-	( 2,896)
Disposals/write-offs	( 3,639)	( 238)	( 217)	( 4,094)
Balance at December 31, 2020	<u>81,849</u>	<u>118,936</u>	<u>15,229</u>	<u>216,014</u>
<b>Depreciación acumulada -</b>				
Opening balance at January 1, 2020	24,248	23,505	7,933	55,686
Additions	20,337	30,295	4,849	55,481
Adjustments	-	-	13	13
Disposals/write-offs	( 1,236)	-	-	( 1,236)
Balance at December 31, 2020	<u>43,349</u>	<u>53,800</u>	<u>12,795</u>	<u>109,944</u>
<b>Year 2019:</b>				
<b>Cost -</b>				
Opening balance at January 1, 2019	68,888	68,315	13,246	150,449
Additions	16,355	-	-	16,355
Adjustments	9	-	-	9
Disposals/write-offs	( 1,555)	( 279)	-	( 1,834)
Balance at December 31, 2019	<u>83,697</u>	<u>68,036</u>	<u>13,246</u>	<u>164,979</u>
<b>Accumulated amortization -</b>				
Opening balance at January 1, 2019	-	-	-	-
Additions	24,236	23,579	7,933	55,748
Adjustments	12	-	-	12
Disposals/write-offs	-	( 74)	-	( 74)
Balance at December 31, 2019	<u>24,248</u>	<u>23,505</u>	<u>7,933</u>	<u>55,686</u>

The expense resulting from depreciation of the right-of use asset was allocated as follows:

	<b>2020</b>	<b>2019</b>
	<b>S/000</b>	<b>S/000</b>
Cost of sales, note 18	33,794	28,614
Selling expenses, note 19	12,368	18,679
Administrative expenses, note 20	8,096	8,455
	<u>54,258</u>	<u>55,748</u>

In 2020 and 2019, the Group has not signed any contracts comprising variable consideration that depended or not on an index or rate.

In 2020, expenses of lease contracts with maturity of 12 months or less and low-value leases, for which the Company applied the practical expedient allowed by IFRS 16, exception of recognizing as lease liabilities, amounted to S/22,470,000 (S/29,751,000, in 2019) and are shown in "Selling expenses" and "Administrative expenses" within the consolidated statement of income.

## 11 INTANGIBLE ASSETS AND GOODWILL

### (a) Intangible assets -

The composition and movement of this item for 2020 and 2019 is as follows:

	Relationship with customers S/000	Trademark right S/000	Distribution agreement S/000	Computer programs S/000	Right to use S/000	Relationship with suppliers S/000	Non-competition agreement S/000	Others S/000	Total S/000
<b>Year 2020:</b>									
<b>Cost -</b>									
<b>Opening balance at January 1</b>	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
Disposals and transfers	-	-	-	2	-	-	-	(371)	(369)
Effect of translation	1,296	567	1,110	17	-	64	527	4	3,585
<b>Balance at December 31</b>	<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>
<b>Amortization -</b>									
<b>Opening balance at January 1</b>	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	838	8,722
Disposals and transfers	-	-	-	13	-	-	-	-	13
Effect of translation	607	59	758	4	-	10	318	123	1,879
<b>Balance at December 31</b>	<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>
<b>Net carrying amount</b>	<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>
<b>Year 2019:</b>									
<b>Cost -</b>									
<b>Opening balance at January 1</b>	57,770	8,848	12,183	164,061	17,552	2,431	4,933	5,776	273,554
Additions (ii)	-	-	-	76,548	-	-	-	1,959	78,507
Disposals and transfers	-	-	-	(31)	-	-	-	(280)	(311)
Effect of translation	(406)	(190)	(210)	(6)	-	(214)	(203)	-	(1,230)
<b>Balance at December 31</b>	<u>57,364</u>	<u>8,658</u>	<u>11,973</u>	<u>240,572</u>	<u>17,552</u>	<u>2,217</u>	<u>4,730</u>	<u>7,455</u>	<u>350,521</u>
<b>Amortization -</b>									
<b>Opening balance at January 1</b>	44,993	508	7,103	34,874	17,552	216	3,611	3,222	112,079
Additions (iii)	6,667	142	1,197	6,425	-	60	977	395	15,863
Effect of translation	(132)	(9)	(122)	(3)	-	(23)	(177)	-	(466)
<b>Balance at December 31</b>	<u>51,528</u>	<u>641</u>	<u>8,178</u>	<u>41,296</u>	<u>17,552</u>	<u>253</u>	<u>4,411</u>	<u>3,617</u>	<u>127,476</u>
<b>Net carrying amount</b>	<u>5,836</u>	<u>8,017</u>	<u>3,795</u>	<u>199,276</u>	<u>-</u>	<u>1,964</u>	<u>319</u>	<u>3,838</u>	<u>223,045</u>



- (i) Intangible assets concerning relationships with customers, trademark rights, distribution agreement, purchase orders, rights of use, relationship with suppliers and non-competition agreement were acquired through various business combinations. At December 31, 2020 and 2019, based on the projected cash flows expected from the cash-generating units to which these intangible assets were allocated, Management concluded that there are no indications that the carrying amounts of these intangible assets (including goodwill to be described further below in this note) would not be recovered.
- (ii) Computer programs mainly consisted of the associated costs of “SAP Business Project” that is being implemented at the Parent Company and major Group subsidiaries; and expected to become operational gradually at each different subsidiary. At December 31, 2020 software was already operational at certain subsidiaries, but not in all of them. This project comprises the design, implementation and testing of the updated version of the SAP program, which was completed in its entirety for the Group in December 2020 and was available for use in January 2021. In 2020, the investment in the implementation amounted to S/60,575,000 (S/75,412,000 in 2019).
- (iii) Amortization expense for the year was recorded in the following items of the consolidated statement of income:

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Selling expenses, note 19	1,385	7,118
Administrative expenses, note20	<u>7,337</u>	<u>8,745</u>
	<u>8,722</u>	<u>15,863</u>

**(b) Goodwill -**

A breakdown of “goodwill” by cash-generating unit is as follows:

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Ferreyros S.A. (Bucyrus)	83,396	83,396
Inversiones Interamericanas Corp.	52,936	48,444
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>174,874</u>	<u>170,382</u>

Impairment testing of goodwill and intangible assets -

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

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

The recoverable amount of each cash-generating unit (CGU) has been determined on the basis of that which the standards define as “value in use”. To determine the value in use of the assets comprising each CGU, cash flow projections obtained from financial budgets approved by Senior Management, which include the effects of the temporary suspension of some projects due to the COVID-19 pandemic and crisis and that cover a specific period.

At December 31, 2020 and 2019 the carrying amount of intangible assets and goodwill allocated to each CGU has been compared to the recoverable amount. Management has determined that it is not necessary to record an impairment provision for these assets at the date of the consolidated statement of financial position.

Major assumptions used in impairment testing by each CGU, at December 31, 2020 and 2019 is as follows:

<u>CGU</u>	<u>Carrying amount of net assets</u> S/000	<u>Recoverable amount</u> S/000	<u>Discount rate</u> %	<u>Cash flow period</u> Years	<u>Growth rate</u> %
<b>Year 2020:</b>					
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 S.A.	22,744	136,738	10.5%	10	2.0%
<b>Year 2019:</b>					
Bucyrus	83,396	403,411	9.9%	10	2.0%
Inti	49,507	396,058	10.1%	10	2.0%
Trex	24,402	305,383	10.0%	10	2.0%
Soltrak S.A.	17,568	133,742	10.0%	10	3.0%

Key assumptions used in value-in-use calculations -

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

*Gross margin -*

This assumption is based on the average value obtained over the three years preceding the beginning of the budget period, which includes the effects of the temporary suspension of some projects due to the pandemic and crisis due to COVID-19 and future projects of each Group company, based on the projected revenue and expenses in relation with the historical budget base of each Group company. Also considered in this assumption are increases that occurred during the budget period resulting from expected efficiency improvements. Over the long term, the gross margin is reduced by 1% to 2%, depending on the nature of the line of business or activities.

*Discount rate -*

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

*Long-term growth rate -*

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

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

At December 31, 2020 and 2019 the carrying amount of goodwill related to each CGU has been compared to the recoverable amount and Management has determined that it is not necessary to record a provision for impairment.

## 12 BORROWINGS

(a) This item comprises:

	At December 31, 2020			At December 31, 2019		
	Current portion S/000	Non-current portion S/000	Total S/000	Current portion S/000	Non-current portion S/000	Total S/000
Bank loans (b)	466,461	-	466,461	833,669	-	833,669
Bonds and long-term debt with banks (c)	331,668	913,706	1,245,374	409,427	909,584	1,319,011
	<u>798,129</u>	<u>913,706</u>	<u>1,711,835</u>	<u>1,243,096</u>	<u>909,584</u>	<u>2,152,680</u>

(b) Bank loans -

Financial entity	Annual average effective fixed interest rate		Original currency	At December 31,	
	2020 %	2019 %		2020 S/000	2019 S/000
Banco Bladex	Between 2.85 and 3.00	Between 2.50 and 3.20	US\$	113,612	93,878
BBVA Banco Continental	Between 1.00 and 2.00	Between 1.60 and 2.90	US\$	101,111	229,868
Banco Crédito del Perú - BCP	Between 0.20 and 6.80	Between 1.70 and 5.50	US\$	78,278	183,026
Banco Itau Corpbanca New ANDork.	Between 4.20 and 4.60	Between 2.86 and 4.70	US\$	47,112	40,136
Scotiabank	Between 2.50 and 2.90	Between 1.78 and 3.20	CLP	37,543	145,616
Caterpillar Leasing Chile	Between 4.80 and 4.90	-	US\$	30,525	-
BBVA Banco Continental	Between 1.30 and 1.50	Between 3.00 and 3.50	S/	21,500	5,500
Banco Internacional del Perú - Interbank	Between 1.10 and 1.20	Between 2.70 and 3.00	US\$	14,496	13,268
Banco ICBC Banco Perú	Between 1.00 and 1.10	Between 2.70 and 2.90	US\$	10,872	13,268
Banco Davivienda	Between 5.20 and 5.60	Between 4.80 and 5.25	US\$	9,600	4,312
Banco de América Central - Guatemala and El Salvador	Between 5.50 and 6.00	Between 5.50 and 6.00	US\$	1,812	2,169
Banco Crédito del Perú - BCP	-	Between 3.00 and 3.90	S/	-	48,180
Banco Santander del Perú	-	Between 3.50 and 3.70	S/	-	16,160
Banco de Crédito e Inversiones - BCI	-	Between 4.10 and 4.20	US\$	-	15,865
Banco Interamericano de Finanzas - BanBif	-	Between 3.00 and 3.20	US\$	-	8,293
Banco de América Central - Guatemala and El Salvador	-	Between 4.50 and 5.50	US\$	-	6,634
Banco Interbanco	-	Between 5.50 and 5.75	Quetzal	-	3,874
American Express	-	-	US\$	-	3,450
Banco Occidente	-	4.60	US\$	-	172
				<u>466,461</u>	<u>833,669</u>

US\$ = US dollars

S/ = Peruvian sol

CLP = Chilean peso

Q = Quetzal

Interest expense accrued in 2020, on debts with banks, amounted to approximately S/39,316,000 (S/60,693,000, in 2019) and is presented in "Financial expenses" of the consolidated statement of income (note 23). At December 31, 2020 accrued interest outstanding amounted to approximately S/4,680,000 (S/5,423,000, at December 31, 2019) (note 15).

At December 31, 2020 and 2019 foreign currency bank loans obtained from local and foreign financial institutions were used primarily for working capital; they expire between 6 and 360 days and can be renewed at maturity date and up to 360 days. Interest rates on such bank loans fluctuate between 0.7% and 8%.

At December 31, 2020 the Group has credit lines for working capital for a total of up to S/6,323,888,000 (S/6,093,727,000, at December 31, 2019) with most banks in the Peruvian financial system, which are used for short-term financing. The Group is not subject to specific conditions to use such credit line.

(c) Bonds and long-term debts with banks -

Creditor	Maturity date	Original currency	Annual effective interest rate %	At December 31, 2020			At December 31, 2019		
				Current portion S/000	Non-current portion S/000	Total S/000	Current portion S/000	Non-current portion S/000	Total S/000
<b>Senior bonds -</b>									
Prudential Capital Group (i)	Until July 2027	US\$	4.78(*)	-	323,396	323,396	-	-	-
<b>Promissory notes -</b>									
Caterpillar Leasing Chile, S.A.	Until April 2021	US\$	Between 3.50 and 5.20	97,805	56,702	154,507	27,890	10,332	38,222
Caterpillar Crédito S.A. de C.V.	Until July 2023	US\$	Between 4.50 and 6.30	13,293	41,968	55,261	18,395	38,615	57,010
Pagarés con instituciones locales y del exterior	Until December 2024	US\$	Between 2.60 and 4.90	210,655	479,002	689,657	349,135	839,040	1,188,175
Pagarés con instituciones locales y del exterior	Until November 2022	S/	Between e 4.60 y 4.80	6,673	11,704	18,377	9,131	17,697	26,828
Pagarés con instituciones locales y del exterior	Until April 2021	Q	Between 6.00 and 6.50	1,934	-	1,934	3,413	1,791	5,204
Financial leasing (ii)	Until April 2023	US\$	Between 4.10 and 4.80	1,033	743	1,776	1,300	1,625	2,925
Financial leasing (ii)	Until June 2022	UF	5.00	275	191	466	163	484	647
				<u>331,668</u>	<u>913,706</u>	<u>1,245,374</u>	<u>409,427</u>	<u>909,584</u>	<u>1,319,011</u>

(\*) Nominal rate of 4.45%.

US\$ = US dollars      S/ = Peruvian sol      Q = Quetzal      UF = Unidad de fomento (Chile)

In 2020, the accrued interest expense related to the promissory notes and long-term debt obligations amounted to approximately S/37,767,000 (S/19,671,000, in 2019), which are shown in "Financial expenses" in the consolidated statement of income (note 23).

At December 31, 2020 the accrued interest outstanding amounted to approximately S/4,396,000 (S/1,820,000, at December 31, 2019) and is presented in "Other payables" in the consolidated statement of financial position (note 15).

- (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 issuance of bonds was conducted under the laws of the State of New York, United States of America. Such bond issue was for a total of US\$90 million at a nominal annual interest rate of 4.45% and a term of 7 years counted from the issuance date, with quarterly installments and capital payment from July 23, 2023 and with maturity date on July 23, 2027. The payment by the issuers of all amounts owed 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. Regarding the aforementioned issue, the amount disbursed will allow the Group to have resources that will be paid in the long term and under very advantageous conditions, to support its financial management and debt re-profiling.

Bonds are secured with a general guarantee on the equity and the following covenants must be met:

- Leverage ratio (Adjusted debt / EBITDA) no greater than 3.5 times.
- Fixed charge coverage ratio (EBITDA / Interest) no less than 3.0 times.
- Net leverage ratio (Net debt / EBITDA) no greater than 3.75 times. Until June 2021 the limit will be 4.0 times.

Compliance with the above-described ratios are monitored by Management. In the event of non-compliance, an early termination event will be triggered. Management considers that the Group has complied with these obligations at December 31, 2020.

- (ii) These are the lease agreements entered into by the Group with different financial institutions. Borrowings related to leases are secured with the ownership rights on the leased asset, which is returned to the lessor in the event of default by the Group.
- (iii) At December 31, 2020 and 2019 the amortization schedule for the non-current portion of the long-term debt is as follows:

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
2021	-	329,640
2022	276,270	271,263
2023	277,916	200,885
2024	160,319	107,796
2025	69,843	-
2026	64,679	-
2027	64,679	-
	<u>913,706</u>	<u>909,584</u>

### 13 LEASE LIABILITY

- (a) This item comprises:

	<u>At December 31,</u>	
	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Current portion	41,517	47,103
Non-current portion	98,226	79,581
Total lease liability	<u>139,743</u>	<u>126,684</u>

The liability comprises leases of property for the Group's transaction.

Lease contracts have maturities of up to 5 years and accrue interest at annual rates, in U.S. dollar, ranging between 3.40% and 8.84%.

(b) The movement of the right-of-use liability for 2019 is as follows:

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Balance at January 1	126,684	166,972
Lease additions	58,024	16,355
Lease write-offs	( 4,094)	-
Lease adjustments	( 2,896)	( 1,654)
Expenses for financial interest (Note 23)	4,956	7,700
Lease payments	( 64,653)	( 68,834)
Exchange difference	11,460	6,536
Effect of translation	<u>10,262</u>	<u>( 191)</u>
Balance at December 31	<u><u>139,743</u></u>	<u><u>126,884</u></u>

#### 14 TRADE PAYABLES

(a) This item comprises:

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Invoices (b)	500,537	563,479
Bill of exchange (b)	<u>-</u>	<u>54,358</u>
	<u><u>500,537</u></u>	<u><u>617,837</u></u>

(b) At December 31, 2020 the invoice balances mainly include payables to the Caterpillar Group for approximately US\$40,750,000 (equivalent to S/146,823,000) for the purchase of products to be sold. At December 31, 2019 the invoices balances and bills of exchange payable amounted to approximately US\$45,817,000 and US\$16,327,000, respectively (equivalent to S/151,975,000 and S/53,904,000, respectively). These payables have current maturity; no specific guarantees have been granted and they are not interest-bearing.

#### 15 OTHER LIABILITIES

(a) This item comprises:

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Advances from customers (b)	633,899	204,827
Remunerations payable (c)	55,386	80,664
Liabilities from other expenses (d)	49,521	61,858
Accrual of other services (e)	32,561	22,907
Provision for contingencies, note 25(c)	26,958	17,203
Workers' profit sharing	25,217	39,532
Taxes payable	22,605	19,899
Provision of guarantees (f)	15,125	15,633
Labor-related contributions payable	14,121	15,641
Interest payable, note 12(b) and (c)	9,076	7,243
Dividends payable	<u>367</u>	<u>-</u>
	884,836	485,407
Less:		
Non-current portion	<u>( 156)</u>	<u>( 1,434)</u>
Current portion	<u><u>884,680</u></u>	<u><u>483,973</u></u>



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

- (b) Advances from customers mainly consist of advances received for S/610,343,000 (S/184,937,000 in 2019) and new performance obligations identified under IFRS 15, "Revenue from contracts with customers" for S/23,556,000 (S/19,890,000 in 2019); in respect of sales of goods and services mainly from mining customers, which will be delivered during the first half of the following year.
- (c) Remunerations payable mainly include provisions for vacation periods, statutory bonuses, employees' severance indemnities and other staff indemnities.
- (d) This balance mainly comprises sundry 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 general expenses at the date of the consolidated statement of financial position.
- (e) This item mainly includes provisions for freight and rents related to the acquisition of machinery and spare parts.
- (f) It relates to guarantees granted by the Group for sales of machinery and services, with an average of one year. Such provision is reviewed annually in accordance with the policy described in note 3.3(p).

## 16 DEFERRED INCOME TAX ASSET AND LIABILITY

- (a) This item comprises:

	<b>At December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<b>S/000</b>	<b>S/000</b>
Deferred income tax asset:		
Expected reversal in the next 12 months	65,917	48,902
Expected reversal after 12 months	<u>155,955</u>	<u>149,490</u>
	<u>221,872</u>	<u>198,392</u>
Deferred income tax liability:		
Expected reversal in the next 12 months	( 11,271)	( 11,762)
Expected reversal after 12 months	<u>( 183,925)</u>	<u>( 175,138)</u>
	<u>( 195,196)</u>	<u>( 186,900)</u>
Total deferred income tax asset (liability), net	<u>26,676</u>	<u>11,492</u>

(b) Components that give rise to the deferred income tax asset and liability at December 31, 2020 and 2019:

	At January 1, 2019 S/000	Charge/(credit) to consolidated statement of income S/000	Charge/(credit) to consolidated statement of changes in equity S/000	At December 31, 2019 S/000	Charge/(credit) to consolidated statement of income S/000	Charge/(credit) to consolidated statement of changes in equity S/000	At December 31, 2020 S/000
<b>Deferred assets:</b>							
Non-deductible provisions	27,870	( 1,396)	( 3)	26,471	( 2,557)	12	23,926
Differences in depreciation rates	77,721	( 8,801)	-	68,920	1,459	-	70,379
Estimate for doubtful accounts	27,130	1,786	( 4)	28,912	5,435	21	34,368
Provision for vacations	12,971	( 55)	-	12,916	( 4,559)	-	8,357
Tax credits for losses carry-forward	10,252	( 4,437)	7,316	13,131	9,060	-	22,191
Estimate for impairment of investments and fixed assets	1,265	503	( 4)	1,764	1,038	51	2,853
Estimate for impairment of inventories	18,254	( 3,708)	( 19)	14,527	5,007	95	19,629
Other provisions	11,186	7,414	( 693)	17,907	3,393	1,081	22,381
Differences in lease payment instalments - IFRS 16	-	224	( 1)	223	1,166	5	1,394
Others	11,879	1,752	( 10)	13,621	2,771	2	16,394
	<u>198,528</u>	<u>( 6,718)</u>	<u>6,582</u>	<u>198,392</u>	<u>22,213</u>	<u>1,267</u>	<u>221,872</u>
<b>Deferred liabilities:</b>							
Change of useful life of fixed assets	( 510)	( 3)	7	( 506)	14	( 88)	( 580)
Exchange difference for liabilities related to inventories and fixed assets	( 16)	3	-	( 13)	28	-	15
Sales deferred earnings, net	( 1,953)	( 49)	-	( 2,002)	97	-	( 1,905)
Leasing transactions	( 4,668)	501	-	( 4,167)	94	-	( 4,073)
Provision for indemnities	( 471)	( 312)	8	( 775)	( 345)	( 83)	( 1,203)
Revaluation of property, plant and equipment	( 9,811)	2,224	40	( 7,547)	851	( 495)	( 7,191)
Fair value of lands	( 120,856)	20,821	2,936	( 97,099)	-	-	( 97,099)
Differences in depreciation rates	( 37,458)	( 14,767)	613	( 51,612)	( 6,180)	( 227)	( 58,019)
Valuation by business acquisition, net	( 4,594)	-	1,006	( 3,588)	-	523	( 3,065)
Others	( 9,614)	( 9,992)	15	( 19,591)	( 2,429)	( 56)	( 22,076)
	<u>( 189,951)</u>	<u>( 1,574)</u>	<u>4,625</u>	<u>( 186,900)</u>	<u>( 7,870)</u>	<u>( 426)</u>	<u>( 195,196)</u>
<b>Deferred income tax asset (liability), net</b>	<u>8,577</u>	<u>( 8,292)</u>	<u>11,207</u>	<u>11,492</u>	<u>14,343</u>	<u>841</u>	<u>26,676</u>

During 2019, the use of the tax loss carryforwards are mainly related to Ferreycorp S.A.A. that arose from the sales to a third party of shares held in associate La Positiva Vida Seguros y Reaseguros S.A. for S/16,388,354, see note 9(c); amount that is calculated based on the tax cost of the investment.

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

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Current	97,789	133,310
Deferred	( 14,343)	8,292
<b>Income tax expense</b>	<u>83,446</u>	<u>141,603</u>

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

	<u>2020</u> <u>S/000</u>	%	<u>2019</u> <u>S/000</u>	%
Accounting profit before income tax	227,394	100.00	388,039	100.00
Theoretical profit tax according to tax rate (*)	67,081	29.50	114,472	29.50
Tax-exempt income from interest in joint venture	( 1,667)	( 0.73)	( 3,336)	( 0.86)
Non-deductible expenses, net	18,032	7.93	30,467	7.85
<b>Income tax expense</b>	<u>83,446</u>	<u>36.70</u>	<u>141,603</u>	<u>36.49</u>

## 17 EQUITY

(a) Share capital -

At December 31, 2020 and 2019 the Company's issued capital is represented for 975,683,000 common shares entirely subscribed and paid-in with at S/1.00 par value each.

Price per share and trade frequency were as follows:

	<u>Price per share</u> <u>S/</u>	<u>Trade frequency</u> <u>%</u>
At December 31, 2020	1.74	100.00
At December 31, 2019	2.19	100.00

At December 31, 2020 and 2019 the Company's shareholding structure is as follows:

<u>Percentage of individual interest in capital</u>	<u>Number of shareholders</u>		<u>Total percentage of interest in capital</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Up to 1.00	3,278	2,494	31.94	38.86
From 1.01 to 4.00	18	12	44.92	36.85
From 4.01 to 10.00	4	4	23.14	24.29
	<u>3,300</u>	<u>2,510</u>	<u>100.00</u>	<u>100.00</u>

(b) Treasury shares -

In 2020, the Company repurchased 12,073,000 own shares at S/23,549,000. The par value of these shares of S/12,073,000 is stated in this account and the excess paid, in relation with the par value of S/11,476,000 is shown as a debit balance within additional capital.

In 2019, the Company repurchased 5,731,000 own shares at S/12,237,000. The par value of these shares of S/5,731,000 is stated in this account and the excess paid, in relation with the par value of S/6,506,000 is shown as a debit balance within additional capital.

These Share repurchase program was approved at the Board Meeting held on October 30, 2019.

(c) Additional capital -

This item reflects the difference between the amount received, once the preferred signing trades by shareholders were completed, and the par value of the shares issued by the Company in 2012, decreased by partial capitalizations made in previous years and by the higher value with respect to the nominal value of the shares of own issue acquired, which is described in section b) above.

(d) Legal reserve -

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

On March 27, 2019 the General Shareholders Meeting agreed to transfer S/22,503,000 from retained earnings to legal reserve. At December 31, 2020 and 2019 the legal reserve set by the Company exceeds S/16,495,000 the amount required by the Peruvian corporate law.

(e) Other equity reserves -

Revaluation surplus -

Comprising the increase in the value of fixed assets recognized as a consequence of measuring them at fair value, based on appraisals carried out by independent appraisers. At December 31, 2020 the revaluation surplus, net of its corresponding deferred income tax, amounted to S/254,011,000 (S/253,391,000 at December 31, 2019). The revaluation surplus is transferred to retained earnings to the extent it is realized through impairment or when the underlying assets are sold or retired. In 2019, the Company has transferred to retained earnings the portion of the revaluation surplus by approximately S/21,801,000.

Foreign currency translation -

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

Unrealized gains -

Mainly comprising the recognition of items that affect unrealized results, in application of the equity method in the joint venture of the Group.

(f) Dividend distribution -

Dividends distributed to shareholders other than resident legal entities are subject to an income tax rate to be assumed by these shareholders; this tax is withheld and paid by the Company. There are no restrictions on the remittance of dividends or repatriation of capital by foreign investors. Dividends to be distributed or paid on 2019 and 2020 profits will be subject to an income tax rate of 5%.

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

At General Shareholders' Meeting held on March 27, 2019 the payment of cash dividends was approved for S/121,515,000, on May 15, 2019 and extraordinary dividend distribution of S/50,000,000 was approved; and on October 30, 2019 another extraordinary dividend payment of S/50,000,000 was approved.

## 18 SALES AND COST OF SALES

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

	<u>2020</u> S/000	<u>2019</u> S/000
<b>Sales:</b>		
Sales of machinery, engine, equipment and vehicles	2,032,330	2,326,919
Sale of spare parts	1,883,573	2,421,516
Rental services of machinery, engines, equipment and workshop	497,880	662,176
Other incomes	419,086	410,450
	<u>4,832,869</u>	<u>5,821,061</u>
<b>Cost of sales:</b>		
Opening balance of inventories, note 8	1,738,798	1,643,383
Purchase of inventories	2,614,548	3,789,175
Workforce, note 21(d)	174,086	231,948
Workshop expenses	112,684	152,128
Depreciation, note 10(g) and 10(j)	80,452	98,106
Impairment of inventories, note 8(f)	31,789	26,863
Recovery, note 8(f)	( 12,570)	( 30,322)
Operating expenses of fleet for rent	30,626	33,008
Rental fleet impairment	1,168	1,351
Services provided by third parties and other expenses	213,397	240,662
Final balance of inventories, note 8	( 1,356,035)	( 1,738,798)
	<u>3,628,943</u>	<u>4,447,504</u>

## 19 SELLING EXPENSES

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

	<u>2020</u> S/000	<u>2019</u> S/000
Personnel expenses, note 21(d)	276,375	303,226
Services provided by third parties (b)	82,061	113,950
Depreciation, note 10(g) and 10(i)	58,461	63,287
Other management charges	52,857	78,220
Provision for doubtful accounts, note 6(e) and 7(k)	34,230	22,012
Impairment of inventories, note 8(f)	10,417	10,569
Taxes	4,996	4,451
Intangibles amortization, note 11(a)	1,385	7,118
	<u>520,782</u>	<u>602,833</u>

(b) Comprising mainly other expenses in leases of properties and vehicles, maintenance of buildings, facilities and equipment, incurred by the Group's sales area.

## 20 ADMINISTRATIVE EXPENSES

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

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Personnel expenses, note 21(d)	167,010	184,943
Services provided by third parties (b)	69,798	76,479
Depreciation, note 10(g) and 10(i)	24,689	24,506
Other management charges	15,823	11,142
Intangibles amortization, note 11(a)	7,337	8,745
Taxes	5,119	6,269
	<u>289,776</u>	<u>312,084</u>

(b) It mainly consists of other expenses for rental of buildings, maintenance of buildings and facilities, computer services, licenses for use of software and consultancy and advisory service incurred by the Group's administrative areas.

## 21 PERSONNEL EXPENSES

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

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Remunerations and profit-sharing (b)	432,740	502,345
Statutory bonuses	89,005	93,242
Workers' contributions	50,764	52,199
Allowances to workers	19,172	25,810
Training	8,445	20,293
Vacations	10,778	9,821
Other minors	6,567	16,407
	<u>617,471</u>	<u>720,117</u>

(b) It mainly includes remunerations and profit-sharing to Company's personnel and its subsidiaries. For Peru, under the regime of workers' profit-sharing governed by Legislative Decree 677, Peruvian company workers have the right to profit-sharing between 5% and 8% of the taxable income obtained by an entity, which is to be distributed proportionally among all employees based on the actual days worked; and the balance, is distributed in proportion to the basic remunerations received over the year. Workers' profit-sharing is stated within "Other liabilities".

(c) The average number of workers in the Group was of 6,059 in 2020 and 6,649 in 2019.

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

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Cost of sales, note 18	174,086	231,948
Selling expenses, note 19	276,375	303,226
Administrative expenses, note 20	167,010	184,943
	<u>617,471</u>	<u>720,117</u>

(e) Remunerations to key personnel -

The total remuneration received by Directors and key executives of Management during 2020 amounted to approximately S/48,997,000 (S/56,102,000, in 2019), which includes short-term benefits and employees' severance indemnities.

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

## 22 FINANCIAL INCOME

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

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Interest on bills of exchange receivable	11,941	9,681
Interest on arrears	2,034	4,153
Interest on bank deposits	1,623	2,879
Other minors	<u>5,081</u>	<u>5,052</u>
	<u>20,679</u>	<u>21,765</u>

## 23 FINANCIAL EXPENSES

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

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Interest on overdrafts and loans, note 12(b)	39,316	60,693
Interest on corporate bonds and long-term loans, note 12(c)	37,767	19,671
Interest on lease liabilities - IFRS 16, note 13(b)	4,956	7,700
Interest on financing from foreign suppliers	4,568	2,982
Financial transactions tax	1,777	2,561
Other minors	<u>7,380</u>	<u>2,369</u>
	<u>95,764</u>	<u>95,976</u>

## 24 EARNINGS PER SHARE

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

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

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
<b>Numerator:</b>		
Profits attributable to owners of the Company	<u>143,948</u>	<u>246,436</u>
	<u>Thousands of shares</u>	<u>Thousands of shares</u>
<b>Denominator:</b>		
Weighted average number of common shares	<u>960,036</u>	<u>975,274</u>

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
<b>Basic and diluted earnings per share</b>	<u>0.150</u>	<u>0.251</u>

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

At December 31, 2020 and 2019 the Company does not have financial instruments with diluting effect, and therefore, the basic and diluted earnings per share are the same.

## 25 COMMITMENTS, CONTINGENCIES AND GUARANTEES GRANTED

### (a) Commitments -

The Group leases assets such as property and vehicles under non-cancellable operating leases with maturities ranging between 2 and 3 years. Terms and conditions of leases are agreed on a lease-by-lease basis.

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

### (b) Guarantees granted -

The Group has the following guarantees granted:

#### *Ferreycorp S.A.A:*

- At December 31, 2020 the Company has commitments for guarantees that ensure credit operations of subsidiaries and brands represented by US\$183,545,054 (US\$211,118,368 at December 31, 2019) and guarantees that ensure purchase operations with third parties for US\$26,254,466 (US\$34,543,626 at December 31, 2019). Also, 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).
- At December 31, 2020 the Company has given performance bonds to financial institutions for a total US\$10,000,000 (US\$14,965,928 at December 31, 2019) that guarantee banking operations of subsidiaries abroad.

#### *Ferreyros S.A.:*

- At December 31, 2020 this subsidiary has guarantees for US\$32,523,888 (US\$26,066,743 in 2019) to secure purchase transactions with third parties.
- At December 31, 2020 the subsidiary has letters of guarantees signed with financial institutions for US\$179,582,580 (US\$56,517,824 in 2019), to secure the subsidiary's firm commitment to deliver the products sold via public tenders and the payment of customs duties related to the import of the underlying goods.

#### *Fargoline S.A.:*

- At December 31, 2020 this subsidiary has signed a surety policy in favor of the Peruvian customs authorities ("Superintendencia Nacional de Aduanas") for the goods subject to customs regime amounting to US\$200,000 (US\$1,722,000 in 2019).



*Soltrak S.A.:*

- At December 31, 2020 this subsidiary has signed guarantees for US\$15,560,980 and S/16,000,000 (US\$7,500,000 and S/18,057,119 in 2019), to secure purchase transactions with third parties and leases, respectively with different due dates.
- At December 31, 2020 the subsidiary has signed letters of guarantee signed with financial institutions for US\$6,569,723 and S/557,478 (US\$6,070,045 and S/545,828 in 2019), mainly to secure the firm commitment of the Company's proposal and delivery of the products sold via public tenders, and the payment of customs duties related to the import of the underlying goods respectively.

*Motored S.A.:*

- At December 31, 2020 this subsidiary has guarantees for US\$7,373,900 (US\$15,854,859 in 2019) to secure on-credit purchase transactions with third parties.
- At December 31, 2020 the Subsidiary has bank letters of guarantee in favor of third parties for US\$1,969,538 and S/19,737 (US\$3,232,027 and S/171,266 in 2019) mainly to secure the firm commitment of the subsidiary's proposal and delivery of the products sold via public tenders.

*Orvisa S.A.:*

- At December 31, 2020 this Subsidiary has bank letters of guarantee in favor of third parties for US\$4,969,701 and S/4,012,377 (US\$6,373,793 and S/3,350,417 in 2019), mainly to secure on-credit purchase transactions of its subsidiaries with third parties.

(c) Contingencies -

At December 31, 2020 the Group maintains tax claims under appeal or administrative challenging proceedings under way for a total amount of approximately S/50,420,000 (S/49,314,000, at December 31, 2019); including fines and interest of S/10,169,000 and S/29,401,000, respectively (S/9,310,000 and S/23,541,000, respectively, at December 31, 2019). These court actions remain to be resolved via administrative or court decisions and relate to observations made by the Peruvian Tax Administration to tax returns as follows: (i) income tax (including on-account payments) for fiscal years 2001 to 2008 for S/45,866,000 (years 2003 to 2009 for S/44,884,000, at December 31, 2019); (ii) VAT (IGV in Peru) for fiscal years 2001 to 2006 for S/3,347,000 (years 2001 to 2006 for S/3,234,000, at December 31, 2019); and (iii) income tax on non-domiciled legal entities for fiscal years 2002, 2003, 2005, 2006 and 2015 totaling S/1,207,000 (S/1,196,000, at December 31, 2019).

For all the above cases, at December 31, 2020 and 2019 the Group has sought the advice of experts on these tax issues who have determined together with Management, that tax assessments totaled approximately S/19,773,000 (S/11,926,000, at December 31, 2019), in respect of which, losses have been classified as probable. The Group has recorded a provision for that amount, within "Other liabilities" in the consolidated statement of financial position (note 15).

Management, together with its legal and tax advisors consider that the Group has technical grounds to believe the Tax Court in Peru will issue a decision that will be favorable to the Group. Accordingly, they consider that the future resolution of these proceedings will not result in significant liabilities; and, consequently, there is no need to record additional liabilities at December 31, 2020 and 2019.

## 26 TAX SITUATION

- (a) The Group is subject to tax regime of each country in which it operates, and taxes are settled based on its non-consolidated profits. At December 31, 2020 and 2019 the income tax rate on taxable income in the major countries in which the Company and its subsidiaries operate are:

	<b>Tax rate</b>	
	<b>2020</b>	<b>2019</b>
	<b>%</b>	<b>%</b>
Peru	29.5	29.5
Ecuador	22	22
Colombia	24	24
Chile (*)	25	25
Guatemala	25	25
El Salvador	30	30
Belice	25	25
Nicaragua	30	30
United States of America	15 and 28	15 and 28

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

<b>Year:</b>	<b>Regime of tax rate</b>	
	<b>Art. 14 Letter_A</b>	<b>Art. 14 Letter B</b>
	<b>Tax rate</b>	<b>Tax rate</b>
2018 and onwards	25.0%	27.0%

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

In accordance with legal provisions in force in some countries at December 31, 2020 and 2019, cash dividends in favor of non-domiciled shareholders are levied at the following rates:

	<b>Tax rates</b>	
	<b>2020</b>	<b>2019</b>
	<b>%</b>	<b>%</b>
Peru	5	5
Colombia	10	10
Chile	35	35
El Salvador	5	5

- (b) Regulatory framework - Amendments to Income Tax law -

In Peru, on September 13, 2018 Legislative Decree No.1422 was enacted, setting up changes in the form of new concept and/or definitions, such as: "non-cooperating country or territory" and "special preferred regime", "permanent establishment", "indirect disposal" of shares and the following most significant:

- Transfer pricing:

The scope of Transfer Pricing regulations is extended to transactions entered into to/from and through no-cooperating countries or territories or involving parties, the revenue or earnings of which benefit from a preferred tax treatment.

- Accrual:

A legal definition of accrual is established for the recognition of income and expenses for income tax purposes, under which, Peruvian third-category income (corporate) is considered accrued whenever the income-earning events have substantially occurred and the right to that income is not subject to any precedent condition.

- Deductibility of financial expenses:

New rules are established on interest deductibility and limit applicability for borrowings granted by related parties as well as borrowings granted by non-related parties.

- General Anti-Tax Avoidance Clause (Peruvian Tax Standard XVI):

A special procedure has been set for the enforcement of Peruvian Tax Standard XVI, by which SUNAT will be entitled to enforce paragraphs second to fifth of Tax Standard XVI in the framework of a final tax examination, provided that a favorable opinion is obtained from a Reviewing Committee, comprising three (3) SUNAT auditors. In addition, boards of directors are now required to approve, ratify or amend the events, situations or economic relations to be implemented (or already implemented) as part of "tax planning".

In 2020, Laws No.31104, No.31107, No.31108, No.31110 and other provisions were published, which are effective beginning in fiscal year 2021. The main features of the amendments are detailed below:

- Deductibility of financial expenses:

Net interest (interest expense less taxable interest) that exceeds EBITDA (net income earned after offsetting losses plus net interest, depreciation and amortization) for the previous year will not be deductible; which can be carried forward over the immediately following 4 years. This limit will not apply to companies whose net income in the taxable year is less than or equal to 2,500 UIT.

- Refund of the Temporary Tax on Net Assets (ITAN) 2020:

The refund of ITAN will be made by crediting to account. If the Peruvian Tax Administration has not responded to the claim for refund within 30 business days, it will be considered approved.

- Keeping of accounting books:

Individuals, undivided estates or community property receiving corporate income or losses from investment funds, trust property of trust companies and/or bank trusts, when they come from the development or implementation of a business or company, are not required to keep accounting books and records.

- Special depreciation regime:

From fiscal 2021, taxpayers will be able to depreciate their fixed assets at the following rates: (i) buildings and constructions at an annual 20% rate (with certain conditions); (ii) data processing equipment (except slot machines) at a maximum 50% rate; (iii) machinery and equipment at a maximum 20% rate; and, (iv) hybrid (with reciprocating engine and electric motor) or electric (with electric motor) or vehicular natural gas transportation vehicles (except railways) at a maximum 50% rate.

- Information to provide to the Peruvian Tax Administration (SUNAT):

The companies of the financial system shall report to SUNAT on a monthly basis the balance and/or accumulated amounts, averages or higher amounts and returns generated in the account as long as they are equal(s) or higher(s) than S/10,000.

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

Tax authorities are authorized to request this information from taxpayers. Based on the analysis of the Group's transactions, Management and its legal advisors consider that no material contingencies are expected to arise from the application of these rules to the Group at December 31, 2020 and 2019.

- (d) Peruvian tax authorities have the right to review and, if necessary, amend the income tax determined by the Company in the last four years from January 1 of the year following the filing date of the related tax returns (years open to audit). Income tax and VAT tax returns for fiscal years 2016 to 2020 remain to be audited by the Peruvian tax authorities. Tax returns for fiscal years 2000 to 2015 have already been audited.

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

	<b><u>Fiscal year subject to tax audit</u></b>
<b>Foreign subsidiaries (Country):</b>	
Guatemala	2015 to 2020
El Salvador	2016 to 2020
Belice	2009 to 2020
Nicaragua	2010 to 2020
Estados Unidos de América, Chile, Colombia and Ecuador	2011 to 2020
<b>Local subsidiaries:</b>	
Ferreyros S.A.	2015 to 2020
Unimaq S.A.	2015 to 2020
Cresko S.A.	2007 to 2020
Motriza S.A.	2016 to 2020
Soltrak S.A.	2017 to 2020
Fargoline S.A.	2017 to 2020
Orvisa S.A. and Subsidiaries	2016 to 2020
Motored S.A.	2015 to 2020
Forbis Logistic S.A.	2014 to 2020
Soluciones Sitech Perú S.A.	2014 to 2020

Since certain differences may arise over the interpretation the tax authorities may have of current tax laws and regulations, it is not possible to anticipate, at the present date, whether any additional liabilities will arise for the Group; therefore, any additional tax or penalties that may arise from eventual tax audits would be applied against the profit or loss of the years in which the differences in interpretation with the tax authorities are resolved. Group Management and its legal advisors consider that any eventual additional taxes payable determined by the relevant tax authorities of each country would not be significant for the consolidated financial statements at December 31, 2020 and 2019.

- (e) In Peru, the temporary tax on net assets affects those corporate income-earners subject to the Peruvian Income Tax General Regime. The tax rate is 0.4%, applicable to the amount of their net assets exceeding S/1 million.

The amount effectively paid may be used as a tax credit against on-account payments made under the Peruvian Income Tax General Regime or against the payment of regularization of Income tax in the taxable period to which it relates.

## 27 CHANGES IN LIABILITIES RELATED TO FINANCING ACTIVITIES

Changes in liabilities related to financing activities for the year ended December 31 are as follows:

	Note	January 1 S/000	Cash flow			Non-cash changes			December 31 S/000
			New loans S/000	Payment of loans S/000	Payment of interest S/000	Interest accrued S/000	Lease liability S/000	Exchange difference S/000	
<b>Year 2020:</b>									
Borrowings	12	2,152,680	2,504,540	( 3,131,820)	-	-	-	186,435	1,711,835
Lease liability	13	126,684	-	( 64,653)	-	4,956	51,034	21,722	139,743
Interest on borrowings	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>207,956</u>	<u>1,860,654</u>
<b>Year 2019:</b>									
Borrowings	12	1,999,123	3,843,208	( 3,696,158)	-	-	-	6,507	2,152,680
Lease liability	13	166,972	-	( 68,834)	-	7,700	14,501	6,345	126,684
Interest on borrowings	15	16,652	-	-	( 83,688)	74,279	-	-	7,243
		<u>2,015,775</u>	<u>3,843,208</u>	<u>( 3,764,992)</u>	<u>( 83,688)</u>	<u>81,979</u>	<u>14,501</u>	<u>12,852</u>	<u>2,286,607</u>

## 28 FINANCIAL RISK MANAGEMENT AND OTHER ASPECTS

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

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

### **(a) Risk management structure -**

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

#### **(a.1) Board of Directors -**

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

#### **(a.2) Risk Committee -**

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

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

#### **(a.3) Internal Audit -**

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

#### **(a.4) Administration and Finance Management -**

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

#### **(a.5) Corporate Risk Division -**

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

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

**(b) Risk mitigation -**

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

**(c) Risk concentration -**

**(c.1) Credit risk -**

Credit risk is the risk that a counterparty is unable not meet its borrowings in relation to a financial instrument or sales contract, generating a financial loss. The Group is exposed to credit risk for its operating activities (mainly receivables) and for its financing activities, including bank deposits. Regarding banks deposits, the Group accounts for 94.64% (88.98% in 2019) of its cash and cash equivalents at financial institutions.

Credit risk related to receivables: Management manages credit risks of customers in accordance with policies, procedures and controls duly established. The outstanding balances of receivables are periodically reviewed to ensure their recovery. In addition, the Company has a larger customer base. At December 31, 2020, the Group's average collection period is 69 days on credit risk, which controls and monitors on an ongoing basis (62 days, at December 31, 2019).

Credit risk related to financial instruments and banks deposits: Management manages credit risks of bank balances in accordance with the Group's policies. Investments of cash surpluses are made with leading financial institutions. The maximum exposure to credit risk at December 31, 2020 and 2019 is the carrying amount of cash balances and cash equivalents shown in note 4.

At December 31, 2020 Management has estimated that the maximum amount of credit risk to which the Group is exposed amounts to approximately S/1,467,481 (S/1,395,965 at December 31, 2019), which represents the carrying amount of financial assets, see note 4.

At December 31, 2020 and 2019 the Group subsidiaries show a moderate exposure of approximately S/73 million and S/63 million, respectively (below 5% and 6%, respectively, of the total trade accounts receivable, before the estimate for doubtful accounts, see note 6) of trade receivables from construction industry customers that are part of prosecutorial investigations currently in progress that may result in these debtors being considered within the scope of Law No.30737, "Law that ensures the prompt payment of civil damages to the Peruvian Government in cases of corruption and related crimes" and its rules for application approved under Supreme Decree No.096-2018-EF. At December 31, 2020 and 2019, Management considers the Group does not show any other customer concentration that may indicate a significant credit risk.

Management considers that the allowance for doubtful trade receivables covers adequately the relevant collection risks at December 31, 2020 and 2019.



**(c.2) Interest rate risk -**

The operating cash flows of the Group are substantially independent of changes in market interest rate, due to individual credit rating of the Group, it could obtain competitive interest rates in local markets where it operates. It should be noted that the Group has not made significant financial transactions with variable interest rates; therefore, in opinion of Management the Group is not significantly exposed to the interest rate risk.

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

<b>At December 31, 2020</b>						
<b>Fixed rate</b>						
	<u>Up to 3 months</u>	<u>From 3 to 12</u>	<u>From 1 to</u>	<u>Non-interest</u>	<u>Total</u>	<u>Average fixed</u>
	<u>S/000</u>	<u>months</u>	<u>5 years</u>	<u>bearing</u>	<u>S/000</u>	<u>interest rate</u>
		<u>S/000</u>	<u>S/000</u>	<u>S/000</u>		<u>at 2020</u>
						<u>%</u>
<b>Assets:</b>						
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	
<b>Total assets</b>	<u>89,884</u>	<u>61,370</u>	<u>57,811</u>	<u>1,266,975</u>	<u>1,476,040</u>	
<b>Liabilities:</b>						
Borrowings	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	
<b>Total liabilities</b>	<u>148,619</u>	<u>691,027</u>	<u>1,011,932</u>	<u>728,865</u>	<u>2,580,443</u>	
<b>Margin gap</b>	<u>( 58,735)</u>	<u>( 629,657)</u>	<u>( 954,121)</u>	<u>538,110</u>	<u>( 1,104,403)</u>	
<b>Accumulated gap</b>	<u>( 58,735)</u>	<u>( 688,392)</u>	<u>( 1,642,513)</u>	<u>( 1,104,403)</u>	<u>-</u>	

<b>At December 31, 2019</b>						
	<b>Fixed rate</b>				<b>Total</b>	<b>Average fixed interest rate at 2019</b>
	<b>Up to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>Non-interest bearing</b>		
	<b>S/000</b>	<b>S/000</b>	<b>S/000</b>	<b>S/000</b>	<b>S/000</b>	<b>%</b>
<b>Assets:</b>						
Cash and cash equivalents	9,152	-	-	75,281	84,433	1.66%
Investment in securities	-	-	-	9,303	9,303	
Trade receivables	77,883	36,741	46,062	985,959	1,146,645	Between 8% and 22%
Other assets (*)	-	-	-	171,381	171,381	
<b>Total assets</b>	<b>87,035</b>	<b>36,741</b>	<b>46,962</b>	<b>1,241,924</b>	<b>1,411,762</b>	
<b>Liabilities:</b>						
Borrowings	710,917	532,179	909,584	-	2,152,680	Between 1.68% and 3.96%
Lease liability	19,963	27,140	79,581	-	126,684	6.4%
Trade payables	9,665	50,085	-	558,087	617,837	Between 4.65% and 6.3%
Other liabilities (*)	-	-	-	260,681	260,681	
<b>Total liabilities</b>	<b>740,545</b>	<b>609,404</b>	<b>989,165</b>	<b>818,768</b>	<b>3,157,882</b>	
<b>Margin gap</b>	<b>( 653,510)</b>	<b>( 572,663)</b>	<b>( 943,103)</b>	<b>423,156</b>	<b>( 1,746,120)</b>	
<b>Accumulated gap</b>	<b>( 653,510)</b>	<b>( 1,226,173)</b>	<b>( 2,169,276)</b>	<b>( 1,746,120)</b>	<b>-</b>	

(\*) At December 31, 2020 and 2019 "Other assets" and "Other liabilities" included in this table do not consider amounts corresponding to VAT payable, tax refunds, income tax, advances and those that do not qualify as financial instruments, see note 4.

In general, the Group has a high exposure to interest rate risk, due to its current level of long-term indebtedness. Borrowings at variable rates expose the Group to the cash flow interest rate risk. Borrowings at fixed rates expose the Group to the fair value interest rate risk of its liabilities. At December 31, 2020 and 2019, the Group only showed short-term and long-term relating to borrowings and lease liability, which have been agreed at fixed interest rates; and therefore, it is exposed to the fair value interest rate on its liabilities. However, the Group accepts the risk of fair value interest rate risk, because it considers it is not significant and does not expect the market interest rates to go significantly beyond the contractual rates in the foreseeable future.

### **(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 at maturity and replace the funds when they are withdrawn. The consequence would be the default in the payment of its obligations towards third parties. The Group has adequate levels of cash and cash equivalents and available credit lines.

The Group controls the liquidity required by properly managing the maturities of its assets and liabilities, so that cash inflows match their future cash outflows, which enables it to carry out its activities normally.

The Group's main source of cash revenue is collections of local and imported merchandise sales. The average term of payment to its main suppliers was 55 days and 48 days for 2020 and 2019, respectively. The Group considers that management of collection and payment periods tends to improve due to the improvements made in its collection management policies.

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

The table below presents the cash flows payable by the Group in accordance with the contractual term agreed on the dates of the consolidated statement of financial position. These cash flows are stated at undiscounted amounts; interest to be accrued in the future is not included, accordingly:

	<u>From 1 to 3 months</u> S/000	<u>From 3 to 12 months</u> S/000	<u>From 1 to 5 years</u> S/000	<u>From 5 to more</u> S/000	<u>Total</u> S/000
<b>At December 31, 2020 -</b>					
Other liabilities:					
- Borrowings (capital)	138,654	659,475	849,027	64,679	1,711,835
- Borrowings (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	<u>866,258</u>	<u>18,422</u>	<u>156</u>	<u>-</u>	<u>884,836</u>
	<u>1,459,358</u>	<u>817,623</u>	<u>1,034,004</u>	<u>67,192</u>	<u>3,378,177</u>
<b>At December 31, 2019 -</b>					
Other liabilities:					
- Borrowings (capital)	710,917	532,179	909,584	-	2,152,680
- Borrowings (interest)	8,226	23,658	41,826	-	73,710
- Lease liability (capital)	19,963	27,140	79,581	-	126,684
- Trade payables	437,359	180,478	-	-	617,837
- Other liabilities	<u>442,501</u>	<u>41,472</u>	<u>1,434</u>	<u>-</u>	<u>485,407</u>
	<u>1,618,966</u>	<u>804,927</u>	<u>1,032,425</u>	<u>-</u>	<u>3,456,318</u>

#### **(c.4) Exchange rate risk -**

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

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

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

Transactions in foreign currency in Peru are made at the exchange rates of the free market published by the Superintendencia de Banca, Seguros y AFP (SBS, the Spanish acronym). At December 31, 2020 the exchange rates prevailing in the free market for transactions in US dollars, as published by this institution were S/3.618 and S/3.624 per US\$1 for assets and liabilities, respectively (S/3.311 and S/3.317 per US\$1 for assets and liabilities respectively, at December 31, 2019).

At December 31, 2020 and 2019 the Group had the following monetary assets and liabilities in foreign currencies presented in Peruvian Soles:

<b>2020</b>							
<b>Soles</b>	<b>Dollars</b>	<b>Quetzal</b>	<b>Córdoba</b>	<b>Chilean Pesos</b>	<b>Belize Dollar</b>	<b>Total</b>	
<b>S/000</b>	<b>S/000</b>	<b>S/000</b>	<b>S/000</b>	<b>S/000</b>	<b>S/000</b>	<b>S/000</b>	
<b>Assets:</b>							
Cash and cash equivalents	88,241	162,643	4,303	1,657	12,627	33	268,504
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>
<b>Liabilities:</b>							
Borrowings	( 263,988)	( 1,161,649)	( 57,229)		( 228,969)	-	( 1,711,835)
Lease liability	( 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>
<b>Net liabilities position</b>	<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>
<b>2019</b>							
<b>Soles</b>	<b>Dollars</b>	<b>Quetzal</b>	<b>Córdoba</b>	<b>Chilean Pesos</b>	<b>Belize Dollar</b>	<b>Total</b>	
<b>S/000</b>	<b>S/000</b>	<b>S/000</b>	<b>S/000</b>	<b>S/000</b>	<b>S/000</b>	<b>S/000</b>	
<b>Assets:</b>							
Cash and cash equivalents	42,367	38,467	447	937	2,202	13	84,433
Trade receivables	272,830	841,113	25,425	1,172	6,105	-	1,146,645
Other assets	166,787	91,946	3,149	-	1,371	60	263,313
	<u>481,984</u>	<u>971,526</u>	<u>29,021</u>	<u>2,109</u>	<u>9,678</u>	<u>73</u>	<u>1,494,391</u>
<b>Liabilities:</b>							
Borrowings	( 211,488)	( 1,692,997)	( 61,199)	-	( 186,996)	-	( 2,152,680)
Lease liability	( 91)	( 71,954)	( 5,034)	-	( 49,605)	-	( 126,684)
Trade payables	( 180,699)	( 316,283)	( 63,162)	( 1,257)	( 55,560)	( 876)	( 617,837)
Other liabilities	( 451,179)	( 34,228)	-	-	-	-	( 485,407)
	<u>( 843,457)</u>	<u>( 2,115,462)</u>	<u>( 129,395)</u>	<u>( 1,257)</u>	<u>( 292,161)</u>	<u>( 876)</u>	<u>( 3,382,608)</u>
<b>Net liabilities position</b>	<u>( 361,473)</u>	<u>( 1,143,936)</u>	<u>( 100,374)</u>	<u>852</u>	<u>( 282,483)</u>	<u>( 803)</u>	<u>( 1,888,217)</u>

At December 31, 2020 the Group, through its subsidiary Trex Latinoamerica SpA, has in force forwards, whose maturity period is less than one year, for a total of US\$44,522,000, equivalent to S/161,347,000 (zero at December 31, 2019) to reduce the risk of adverse fluctuations in exchange rates. Changes in the fair value of these derivative instruments amount to US\$3,258,344, equivalent to S/11,808,000, an amount that is included within liabilities. In 2020, the forwards signed and closed generated net losses of US\$1,709,513, equivalent to S/5,975,000 (net gains of US\$311,400, equivalent to S/1,039,000 in 2019) that are recognized in profit or loss within "Exchange difference, net".

The Group does not have a specific policy regarding forwards to hedge foreign currency exposure. In 2020 and 2019, the strategy has been to buy foreign currency in the free exchange market (spot market). The Group does not have forwards in force at the date of the financial statements, other than those described in the previous paragraph.

At December 31, 2020 the Group recorded net exchange losses of approximately S/105,848,000 (net exchange losses of approximately S/1,822,000 in 2019), which is presented in "Exchange difference, net" of the consolidated statement of income.

The table below shows the sensitivity analysis of US dollars, currency to which the Group has a significant exposure at December 31, 2020 and 2019, of its monetary assets and liabilities and estimated cash flows. The analysis determines the effect of a reasonably possible change in the US dollar exchange rate, with all the other variables held constant in the consolidated statement of income before income tax.

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

<u>Sensitivity analysis</u>	<u>Change in rates</u> <u>US\$</u> <u>%</u>	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
<b>Devaluation -</b>			
Soles	5	44,628	147,682
Soles	10	89,255	73,841
<b>Revaluation -</b>			
Soles	5	( 44,628)	( 73,841)
Soles	10	( 89,255)	( 147,682)

#### **(d) Capital management -**

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

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

The Group also monitors its capital based on the gearing ratio. At December 31, 2019 and 2018 the gearing ratio was as follows:

	<u>2020</u> <u>S/000</u>	<u>2019</u> <u>S/000</u>
Borrowings, note 12(a)	1,711,835	2,152,680
Lease liability, note 13(a)	139,743	126,684
Less: Cash and cash equivalents, note 5	( 256,188)	( 84,433)
Net financial debt (A)	1,595,390	2,194,931
Equity (B)	<u>2,160,896</u>	<u>2,153,869</u>
Gearing ratio (A) / (B)	<u>0.738</u>	<u>1.019</u>

The leverage ratio calculated by Management in 2020 decreased by 0.281% due to the reduction in borrowings and the increase in balances of cash and cash equivalents.

## 29 FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of short-term financial assets and liabilities are similar to their fair values since they are short term. For long-term debts, the table below shows an estimation of their fair value:

	<u>2020</u>		<u>2019</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>	<u>S/000</u>
Short-term -				
Borrowings	798,129	798,129	1,243,096	1,243,096
Lease liability	41,517	41,517	47,103	47,103
Long term -				
Borrowings	913,706	840,162	909,584	851,926
Lease liability	98,226	86,893	79,581	68,236

The carrying amounts of other short-term financial liabilities (borrowings and lease liability) approximate their fair value. At December 31, 2020 the fair values of long-term borrowings have been determined by applying the average annual rate of 4.45% for bonds, 3.53% for medium and long-term promissory notes and 6.4% for lease liabilities (3.06% for medium and long-term notes, respectively, and 6.4% for lease liabilities in 2019).

## 30 INFORMATION BY OPERATING SEGMENTS

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

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



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

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

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

In 2020 and 2019, the information by operating segments is as follows:

	Sales and services S/000	Other operating income S/000	Total income S/000	Gross margin S/000	Selling expenses S/000	Administrative expenses S/000	Other income and expenses, net S/000	Financial expenses S/000	Financial income S/000	Net exchange difference S/000	Share in net profits of associates and joint venture S/000	Profit before income tax S/000	Income tax S/000	Net income S/000
<b>2020:</b>														
Heavy equipment, spare parts and services	3,986,229	87	3,986,316	994,920	( 379,170)	( 216,496)	9,648	( 75,682)	14,731	( 83,325)	-	264,626	( 90,993)	173,633
Vehicles, spare parts and services	199,796	156	199,952	32,985	( 35,725)	( 13,855)	631	( 7,265)	3,181	( 8,356)	-	( 28,404)	4,307	( 24,097)
Rental equipment	139,823	-	139,823	40,481	( 23,851)	( 14,456)	343	( 2,771)	598	( 3,062)	-	( 2,718)	998	( 1,720)
Agricultural equipment, spare parts and services	87,935	1,181	89,116	22,670	( 13,619)	( 7,352)	216	( 1,742)	376	( 1,926)	-	( 1,377)	505	( 872)
Others	419,086	-	419,086	114,294	( 68,417)	( 37,617)	1,030	( 8,304)	1,793	( 9,179)	1,667	( 4,733)	1,737	( 2,996)
<b>Total consolidated</b>	<b>4,832,869</b>	<b>1,424</b>	<b>4,834,293</b>	<b>1,205,350</b>	<b>( 520,782)</b>	<b>( 289,776)</b>	<b>11,868</b>	<b>( 95,764)</b>	<b>20,679</b>	<b>( 105,848)</b>	<b>1,667</b>	<b>227,394</b>	<b>( 83,446)</b>	<b>143,948</b>
<b>2019:</b>														
Heavy equipment, spare parts and services	4,899,120	1,139	4,900,259	1,153,353	( 463,033)	( 240,766)	( 949)	( 77,097)	17,292	( 3,497)	-	385,303	( 139,302)	246,001
Vehicles, spare parts and services	246,882	184	247,066	43,868	( 31,142)	( 14,675)	954	( 7,749)	1,949	1,886	-	( 4,909)	488	( 4,421)
Rental equipment	184,242	-	184,242	62,086	( 35,857)	( 18,704)	-	( 3,038)	689	( 58)	-	5,118	( 1,867)	3,251
Agricultural equipment, spare parts and services	80,367	767	81,134	15,684	( 9,925)	( 5,174)	-	( 1,325)	300	( 25)	-	( 465)	170	( 295)
Others	410,450	-	410,450	100,656	( 62,876)	( 32,765)	1	( 6,767)	1,535	( 128)	3,336	2,992	( 1,092)	1,900
<b>Total consolidated</b>	<b>5,821,061</b>	<b>2,090</b>	<b>5,823,151</b>	<b>1,375,647</b>	<b>( 602,833)</b>	<b>( 312,084)</b>	<b>6</b>	<b>( 95,976)</b>	<b>21,765</b>	<b>( 1,822)</b>	<b>3,336</b>	<b>388,039</b>	<b>( 141,603)</b>	<b>246,436</b>

In 2020 and 2019, the information by operation segments by country is as follows:

	Sales and services S/000	Other operating income S/000	Total income S/000	Gross margin S/000	Selling expenses S/000	Administrative expenses S/000	Other income and expenses, net S/000	Financial expenses S/000	Financial income S/000	Net exchange difference S/000	Share in net profits of associates and joint venture S/000	Profit before income tax S/000	Income tax S/000	Net income S/000
<b>2020:</b>														
Peru	4,227,602	1,181	4,228,783	1,049,079	( 456,348)	( 295,396)	51,126	( 76,330)	22,892	( 91,830)	1,667	204,860	( 75,216)	129,644
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 transactions	( 174,742)	-	( 174,742)	-	-	42,137	( 42,137)	6,946	( 6,946)	-	-	-	-	-
<b>Total consolidated</b>	<u>4,832,869</u>	<u>1,424</u>	<u>4,834,293</u>	<u>1,205,350</u>	<u>( 520,782)</u>	<u>( 289,776)</u>	<u>11,868</u>	<u>( 95,764)</u>	<u>20,679</u>	<u>( 105,848)</u>	<u>1,667</u>	<u>227,394</u>	<u>( 83,446)</u>	<u>143,948</u>
<b>2019:</b>														
Peru	5,251,563	2,014	5,253,577	1,207,045	( 530,553)	( 319,474)	49,101	( 80,241)	28,060	19,071	3,336	376,345	( 135,337)	241,008
Guatemala	224,706	76	224,782	47,667	( 26,170)	( 8,851)	( 128)	( 7,106)	826	142	-	6,380	( 1,941)	4,439
El Salvador	167,938	-	167,938	46,351	( 27,649)	( 6,323)	470	( 3,576)	544	-	-	9,817	( 3,657)	6,160
Belize	13,318	-	13,318	3,969	( 1,865)	( 1,635)	1,223	-	212	139	-	2,043	( 253)	1,790
United States of America	51,025	-	51,025	6,479	( 623)	( 3,666)	39	( 196)	64	-	-	2,097	( 615)	1,482
Nicaragua	20,283	-	20,283	4,843	( 1,450)	( 1,962)	31	( 67)	22	( 43)	-	1,374	( 373)	1,001
Honduras	5,338	-	5,338	1,302	( 1,249)	( 40)	5	( 246)	-	-	-	( 288)	( 37)	( 265)
Panama	-	-	-	-	-	( 3,281)	( 4,066)	( 24)	2	-	-	( 7,369)	-	( 7,369)
Chile	306,735	-	306,735	57,991	( 12,764)	( 14,136)	105	( 15,532)	3,047	21,131	-	( 2,420)	610	( 1,810)
Intercompany transactions	( 219,845)	-	( 219,845)	-	-	46,774	( 46,774)	11,012	( 11,012)	-	-	-	-	-
<b>Total consolidated</b>	<u>5,821,061</u>	<u>2,090</u>	<u>5,823,151</u>	<u>1,375,647</u>	<u>( 602,323)</u>	<u>( 312,594)</u>	<u>6</u>	<u>( 95,976)</u>	<u>21,765</u>	<u>1,822</u>	<u>3,336</u>	<u>388,039</u>	<u>( 141,603)</u>	<u>246,436</u>

### **31 SUBSEQUENT EVENTS TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

By means of Supreme Decree No.008-2021 PCM dated January 26, 2021, as a consequence of the COVID-19 pandemic, the Peruvian Government has extended the national state of emergency until February 28, 2021, which affects the normal course of certain economic activities. However, productive activities associated with most of the Group's businesses have not been limited. Notwithstanding, Management permanently monitors the evolution of this health situation and the possible impacts on its financial position and economic performance.

Between December 31, 2020 and the date of approval of the consolidated financial statements, there have been no significant subsequent events that Management considers that required any additional disclosure or any material adjustment to the balances stated in the consolidated financial statements.