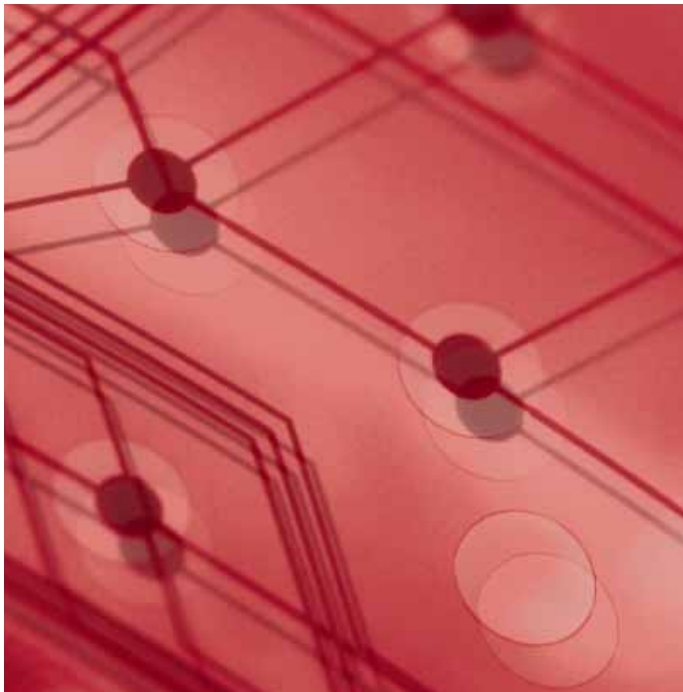


Grupo Graña y Montero

Preparados
para enfrentar
nuevos retos



Memoria
Anual



2005

Graña y Montero Group					
Constant Values at December 2005					
	2002	2003	2004	2005	US\$ Equiv.
Activity	692,020	807,571	840,974	915,217	266,749
Billing	688,291	811,200	833,731	894,005	260,566
Gross Income	93,621	124,290	141,991	174,599	50,889
Income Before Taxes	-12,596	24,461	47,460	71,465	20,829
Net Income	-25,954	8,034	17,515	32,724	9,538
EBITDA	101,883	135,540	147,502	173,611	50,601
Professional Staff	495	643	984	1,286	
	93,621	124,290	141,991	174,074	43250
	272,439	291,574	238,469	262,888	517,077

Graña y Montero is a group of 5 companies that provide engineering and infrastructure services in 4 Latin-American countries. It has a professional staff composed of more than 1,200 employees.

Its mission is solving its clients' needs related to engineering and infrastructure services beyond the contractual obligations, working in an environment that promotes and develops its personnel's skills, honoring the environment in harmony with the communities where it operates and ensuring return for its shareholders.

Its vision is being the most responsible Latin-American group of engineering and infrastructure services.

2005 ANNUAL REPORT

To the Shareholders,

We are pleased to submit to you the 2005 Annual Report of Graña y Montero S.A.A. This is the annual report corresponding to year 72 since the foundation of the company, which was organized as a construction company in 1933 and has become an engineering services group that has diversified its activity and now is also engaged in other activities such as oil, information technology and infrastructure concessions.

We are very pleased with this year results, which are reflected in a net income of 9.5 million dollars, which is 80% more than last year, with a 8.8% growth in the activity and a 23% growth in the gross income.

These excellent results have allowed us achieving the financial and strategic soundness set for the year. With an EBITDA of 50.1 million dollars, we have been able to reduce the debt by 10.6 million dollars and at the same time, have made investments for 15 million dollars.

2005 has been a year of consolidation of the Group in all respects:

- **Financial Consolidation**, since a coverage over 5.8 times the financial expenses and a well-structured debt have been achieved.
- **Strategic Consolidation**, since more than 50% of the generated cash of the Group comes from businesses other than construction and, in addition, cash generation, only from concession businesses, covers in excess the general and financial expenses of the whole Group.
- **Technological Consolidation**, since international standards that have made us develop 61.61% of our activity in the energy and mines sector have been set.

This strategy has been strengthened by important contracts entered into in year 2005. We have been entrusted with the construction and assembly of the San Cristóbal Mine in Bolivia for Apex Minerals from USA and the engineering of San José Mine in the Patagonia in Argentina, which is a recognition of the international working standards established by the Group. During the year we have formed part of the international consortiums that were given stretches 2 and 3 of the Inter-oceanic Highway and the IIRSA Norte Highway connecting Peru and Brazil in concession, showing not only our capacity to build, but also to design, fund, operate and maintain large infrastructure projects. Contracts such as this ratify that our strategy, which has allowed us developing a valuable experience and knowledge about the engineering activities that have more development opportunities in the region, is right.

This is reflected in the portfolio of contracts pending execution (backlog), which, at December 31, 2005, make a total of 517 million dollars, ensuring a significant growth for the coming years.

Success has been possible thanks to a professional staff composed of 1,286 employees and to more than 10,000 persons working with the group. We are one of the main employers in the country and are aware of our responsibility with our workers, clients and shareholders and with the communities where we work. Being aware of this responsibility made us undertake this year two ambitious programs on corporate government and social responsibility, which are detailed in two special reports included in this annual report, reflecting our commitment to all those persons.

Finally, we should like to thank you our clients and workers for helping us to achieve success.

Sincerely yours,

José Graña
President

Mario Alvarado Pflucker
General Manager

1. **STRATEGY: Guiding the company to become an Engineering and Infrastructure Services Group**

Diversification

A COMPANY THAT USED TO BE A CONSTRUCTION COMPANY HAS NOW BECOME A GROUP OF 17 COMPANIES WORKING THROUGH 5 OPERATING COMPANIES.

More than 20 years ago we adopted a diversification strategy to improve the stability of our businesses, without getting away from our basic knowledge, and guided the company to become an Engineering and Infrastructure Services Group. A company that used to be a construction company has now become a Group of 17 companies working through 5 operating companies, thus making the new companies generate more than half the operating income of the Group.

GMD, information technology services company that has a Technological Operations Center (COT) for systems outsourcing services.

GMI, consulting engineering firm that has a subsidiary specialized in environmental engineering named ECOTEC.

GMP, oil services company that drills oil wells for third parties, operates two oil areas in the north of Peru and has formed Consorcio Terminales with Oiltanking from Germany for the operation of fuel terminals in Peru and Bolivia.

GyM, original construction company that has four divisions: Electromechanics, Civil Works, Buildings and Real Estate.

CONCAR, company specialized in the operation and maintenance of roads given in concession.

Concessions

In the recent years we have succeeded in our goal to ensure the Group stability by developing knowledge and abilities to design, build, fund and operate infrastructure concessions, which is clearly the form how large projects will be carried out in the future.

The Builder-Concessionaire model generates great synergies among the different lines of business of the Group. **As regards finance**, concession cycles are long, sometimes 60 years, compared to construction contracts for 1 or 2 years. Finally, concessions generate higher and very stable margins, but they are intensive as regards capital generated from construction, which requires less capital. As regards operations, builder and concessionaire promote and complement each other in the performance and maintenance tasks.

We presently have interests in the concession companies detailed below:

- **CONCAR**, concessionaire of the Arequipa-Matarani Highway and the Ovalo Gutiérrez Parking Lot in Miraflores, and operator of the highway to Pativilca to the north of Lima.
- **Consorcio Terminales**, in association with Oiltanking from Germany, to operate the fuel storage terminals in Peru and recently the Camisea Cargo Dock in Pisco.
- **CLHB**, logistic hydrocarbons company in Bolivia, operated by the same group of Consorcio Terminales.
- **Larcomar**, concessionaire of Larcomar entertainment center in Miraflores.
- **TGP (Transportadora de Gas del Perú)**, company that was awarded the contract for the construction, transport and distribution of Camisea gas.
- **Norvial**, concessionaire of Road Network N° 5, which is a highway north of Lima, from Ancón to Pativilca.
- **Concesionaria IIRSA Norte**, company that in year 2005 executed a concession agreement on the Paita-Yurimaguas Highway that is 980 Km. long.
- **Concesionaria Interoceánica Sur**, company that in year 2005 executed a concession agreement on stretches 2 and 3 of the Interoceanic Highway connecting Peru and Brazil.

THE BUILDER-CONCESSIONAIRE MODEL GENERATES GREAT SYNERGIES AMONG THE DIFFERENT LINES OF BUSINESS OF THE GROUP.

PHOTO 1 - Operation of the Camisea Cargo Dock in Pisco.

PHOTO 2 - Presidents Alejandro Toledo and Luis Ignacio Lula da Silva in the inauguration of Iñapari Bridge on the Peru–Brazil border.

PHOTO 3 - Concession of the Lima-Pativilca Highway, north of Lima.

PHOTO 4- Concession of Larcomar Entertainment Center in Miraflores.

International Development

During the year, our Group worked in three other countries thanks to our efforts for some years now to develop outside Peru in order to be competitive on an international basis and not to concentrate on only one market.

Bolivia. GyM has been entrusted with the construction and assembly of the equipment of the San Cristóbal Mining Polymetallic Project in Potosí.

Through an association between CLHB and Oiltanking, we are managing the operation of the Bolivian fuel transport and storage system, including the operation and maintenance of pipes in 1,600 kilometers and 19 fuel terminals.

Dominican Republic. GMI has completed the project of the 700-room Hotel Paradisus Palma Real for Sol-Meliá Group. It is presently supervising the Ciudad Colonial Shopping Center, also from the Sol Meliá Group, and has been recently retained to manage the 1800-room hotel project of company Palace Resorts in Punta Cana.

Argentina. GMI has been retained to carry out the detailed engineering of San José Mining Project in the province of Patagonia in Argentina.

2. **EXPERIENCE: We develop a valuable experience and knowledge about engineering and infrastructure activities**

GMD S.A.

In year 2005 GMD consolidated even more its leadership position to supply information technology solutions for the corporate market by increasing its share in the Factory Software and Outsourcing businesses.

The new strategy for the businesses with stable flows has allowed moving forward in achieving a sound business structure for GMD. Income from the Factory Software and Outsourcing businesses reached US\$18.8 millions, which represents about 66.4% of the company's total activity, with a growth of 13% in respect of year 2004. This growth ratifies our vision and confirms our leadership in this market segment.

The total activity of the company in the year was US\$28.34 millions, generating an operating income of US\$2.6 millions and an EBITDA of US\$4.8 millions. During the year, large investments for US\$3.8 millions (the second most important since the change of strategy in 2000) were made in order to support growth of the outsourcing businesses and stable flows.

Our clients and our strategic allies acknowledged GMD's leadership in 2005. The Lima Stock Exchange and CAVALI renewed their confidence to GMD to provide technology outsourcing services. This relation has been kept for more than 14 uninterrupted years. In the same way, according to the survey made by an independent firm, our main 70 clients rated us with 95% satisfaction and as their main strategic partner. For two consecutive years now, GMD was acknowledged by Cisco Systems as Best Performance Partner in Peru, by Microsoft as Best Service Partner, and by Hewlett Packard as Best Partner of the Year. In addition, GMD was acknowledged as the Best Peruvian Company of Year 2004 in the area of Information Technology Services.

Success in year 2005 was achieved thanks to the more than 900 employees working at GMD. Aware of this, in year 2004, we launched a professional development strategy to improve the working environment, identify skills by job, evaluate performance and acknowledge the fostering of values. As a result of this strategy, we were able to improve the working environment by 22%, evaluate performance in the whole company, prepare the profile of the GMD employee and simplify the organizational structure.

In year 2005 GMD ratified its commitment to quality management, renewing the ISO 9001 certification in all its processes and achieving a CMMi-2 standard in the factory software, thus ensuring the reliability and quality of the software development and maintenance.

Below are the main projects in which GMD has worked during the year.

Industry and Trade Sector.

- 22 companies of the Romero Group: Integral Technology Outsourcing and Basis Support for SAP Systems.
- 13 companies of Corporación EBEL: Integral Technology Outsourcing and Basis Support for SAP Systems.
- Avícola San Fernando: Integral Technology Outsourcing and Support for the Oracle Suite Systems.

- Backus: Outsourcing renewal for the communications system.
- Antamina, Southern Peru, Romero Group, Corporación Backus, Belcorp: Microsoft Services.
- América TV: Strategic Technology Plan.
- Agroindustria Chapi: Consulting Services for Process Optimization.
- Firth: Consulting Services for Process Optimization.

Telecommunications Sector:

- Telefónica: Factory Software for Systems: Commercial of Atis, collect calls, sale, post-sale, Speedy Business billing and management, system for the allocation, installation and failures of the wireless network. Solution of Differentiated Commissions TUPS (Public Use Telephony). Project for the support of regulatory requirements.
- Claro: Redesign and management of information technology processes.

Government Sector:

- ONP (Pension Normalization Office): Outsourcing of the pension payment process. Outsourcing of the process to grant bonds recognizing length of service for pension purposes. Factory Software for all administrative support applications of this agency.
- Ministry of Transport and Communications: Development and implementation of the Integrated System for Land Communication, Communications System for the New Facilities.

Banking and Finance:

- AFP Integra: Factory Software for Multifund Systems, Commercial Datamart, Current Account and Statements of Account of Members.
- AFP Horizonte: Factory Software for the management and administration of this pension fund manager.
- Stock Exchange: Renewal of the integral technology outsourcing.
- CAVALL: Renewal of the integral technology outsourcing.
- Securities Deposit in Bolivia: Securities system.

PHOTO 1 – América TV. Strategic Technology Plan.

PHOTO 2 – Lima Stock Exchange. Integral Technology Outsourcing.

PHOTO 3 – Claro. Redesign of information technology processes.

GMI

For GMI, we have made progress in our consolidation strategy for the mining sector and have entered into framework contracts with Cía. Minera Antamina, Minera Cerro Verde and BHP Billiton Tintaya, as well as new contracts with former clients, such as Cía. Minera Volcán and Minsur.

On an international basis, we should mention that we have successfully completed supervision of Hotel Paradisus Palma Real for Meliá in Punta Cana, Dominican Republic, and have supervised to date a total of 6,600 rooms. As regards exports of our services, they increased by the end of the year and we have been retained by Meliá to supervise the future Ciudad Colonial Shopping Center in Punta Cana, Dominican Republic, and by Mexican chain Palace Resorts to manage the project of its first hotel in Punta Cana, Dominican Republic, which will have 1875 rooms, thus making a total of 8,475 rooms.

It should be pointed out that we have been retained to perform by the end of this year the detailed engineering of Minera Santa Cruz for the San José Project in Patagonia, Argentina, which is a clear evidence of the high engineering standards achieved in the mining sector.

We made sales for US\$6.3 millions and achieved 280,684 man hours in the projects mentioned below.

Mining Sector:

a) Compañía Minera Antamina

About 60 projects were developed under the Framework Contract. The most important were the following:

- Design of the conceptual engineering of the new Yanacancha Camp and the covering of the Villanueva Channel.
- In Geomática, topographic monitoring of slope stability in the access road to Antamina and mine topography.
- Support for the purchase and management of the construction project to expand the exploitation capacity of the Molly Copper and Bismuth Plant.
- F-100 Project: Engineering and supervision of construction, installation of Froth chamber.

b) Sociedad Minera Cerro Verde S.A.A.

63 projects were developed under the Framework Engineering Contract, the main being:

- New electrical substation in the management building.
- Detailed engineering of the nave electrowinning ventilation system.
- Improvement of the agglomeration drainage system – phase III.
- Detailed engineering: Replacement of phase 3 pipes.
- Engineering of the new chemical lab for leaching and concentration plant.

c) BHP Billiton Tintaya

Under the Framework Services Contract.

Detailed engineering for the system to extract gases from the truck shop welding processes.

d) Compañía Minera Volcán S.A.A.

- Evaluation of the electrical system of Ticlio Mining Unit.
- Expansion of Victoria Plant.
- Adaptation of the crushing system of San Expedito Concentration Plant of Cerro de Pasco Mining Unit.
- Technical study of detailed engineering of the Paragsha Plant Projects.

- e) Minsur
 - Structure of new chimney base, laying of foundations of hopper N° 8.
 - Pilot plant of tin salts.
- f) Fluor Canada
 - Project “Permanent Fresh Water Supply Engineering” of Cerro Verde Project.
- g) Kvaerner Chemetics - Canada
 - “Sulfuric Acid Plant N° 2” Project of the Ilo Smelter Project of Southern Peru Copper.

Buildings and Industry

- a) Neptunia
 - Management of the new warehouse project for empty containers in Callao.
- b) Mitsui S.A.
 - Design of maintenance shop expansion.
- c) Cerámica San Lorenzo S.A.
 - Design of tiles plant expansion.

Infrastructure and Transport

- a) Ministry of Transport and Communications
 - Supervision of the rehabilitation and asphalt improvement in the Catac Chavin-San Marcos Road, Kahuish Tunnel–San Marcos Stretch.
 - Rehabilitation and asphalt improvement of the Chamaya Jaén San Ignacio Rio Canchis Road, Tamborapa Tunnel-Puerto Ciruelo Access Road Stretch.
 - Regular maintenance of the North Pan-American Highway, Chiclayo Stretch - Bayovar-Piura Turning – First Stage.
 - Intermodal Transport Plan Study.
- b) Tisur
 - Basic engineering for the receipt, storage and delivery system of ore concentrates in the port of Matarani.
- c) Cia. Minera Antamina
 - Project A-108 Supervision - Antamina SWMP II Gorge – Surface Waters System.
 - Engineering of regular maintenance works of Conococha Yanacancha Road.
- d) Rio Tinto Mining and Exploration Sucursal del Perú
 - Logistic study for La Granja Mining Project.
- e) Consorcio Terminales
 - Detailed engineering for the construction of a terminal for the receipt, storage and delivery of sodium hydrosulfide (NaHS) in the port of Matarani.
- f) Kellogg Brown & Root Inc.
 - Studies on the port, road and camp.
 - Conceptual design of the work camp for the LNG Project in Pampa Melchorita.
- g) Montgomery Watson Peru
 - Supervision of seepage pump back system project.
 - Mailing dam seepage remedial works engineering for Compañía Minera Antamina.

h) GyM

- Oxygen plant structures in Ilo.
- Engineering coordination for Lots 8 and 18 – Pluspetrol.
- Detailed engineering for Pagoreni A and B.
- Geomática: Topography of La Quinoa 6 - Yanacocha.

PHOTO 1 – Plant of Tin Salts for Finsur – Minsur.

PHOTO 2 – Framework Engineering Contract with Sociedad Minera Cerro Verde.

PHOTO 3 – Hotel Paradisus Palma Real in Santo Domingo.

A YEAR OF PROGRESS IN OUR CONSOLIDATION STRATEGY IN THE MINING SECTOR.

GMP S.A.

The behavior of international oil markets and production increase had a very favorable impact on our activities, and GMP S.A. has obtained its best results to date in year 2005, which was reflected in income equivalent to US\$10'504, doubling last year figure.

Our company is not unaware of the changes that are taking place in the energy matrix of the country, so our portfolio of new natural gas related projects has substantially increased, which makes us expect that in the coming 2 years we will make substantial investments for the development of natural gas related projects.

On the other hand, the development of the mining activity in 2005, which is the main economic activity in the country, has allowed us undertake an investment project by the end of the year, to build a sodium hydrosulfide terminal in the Port of Matarani. In this way we would be making incursions in the management of chemical products in Peru, with the valuable support and experience of our partners Oiltanking and Santa Sofía Puertos. Commencement of receipt, storage and transport operations has been planned for early 2007.

With these projects we have made notable progress in the Group strategy to develop businesses with stable flows and in the energy and mines sector, which we consider have a huge potential in Peru.

DRILLING

15 wells with a total depth of 51,830 feet were drilled in the year. 3 of these wells were drilled in Lot I in order to develop GMP S.A. reserves.

OIL AND GAS PRODUCTION

Oil production in Lots I and V in the northwest of Peru was 325,692 barrels, which is equivalent to a 14% increase of the 2004 volume. This was achieved as a result of the implementation of drilling programs and reworks in the area. The net income value of our crude basket increased by 48.5% in respect of last year's.

The sale of natural gas was equivalent to 988 MM PC, i.e., 25% more than the natural gas sold in year 2004.

STORAGE AND DELIVERY

In year 2005, Consorcio Terminales (GMP-Oiltanking) delivered 49,966 barrels of byproducts per day on average, at the 9 terminals operated in the country. The storage average retained by our users was 1'652,000 barrels, which amount is 8% higher than last year's.

It should be pointed out that during the year, diesel 2 was received, stored and transported on the Ilo-La Paz route for YPF Bolivia.

CAMISEA TERMINAL IN PISCO

During the year, 130 shipments of products such as propane, butane, Diesel 2 and naphtha were made, with a total volume of 11,079,590 barrels for domestic and international markets.

FUEL TRANSPORT AND STORAGE IN BOLIVIA

In year 2005, our affiliate CLHB transported, using its polypipeline system (1,600 Km.), a total of 5'656,353 barrels of hydrocarbon byproducts, while delivery in the 16 terminals operated in Bolivia was 9'392,119 barrels.

PHOTO 1 – Fuel Storage Terminal in Pisco

PHOTO 2 – Pumping Unit in Lot V, Talara

PHOTO 3 – Fuel Terminal in Cuzco

GMP HAS OBTAINED ITS BEST RESULT TO DATE IN YEAR 2005, WHICH WAS REFLECTED IN INCOME DOUBLING LAST YEAR FIGURE.

GyM

The most outstanding event in year 2005 for GyM was the 78% growth of the portfolio of contracts pending execution (backlog), which by the end of the year reached the record figure of 330 million dollars, doubling the invoicing in last months and securing growth and continuity in the coming years.

The most relevant event during the year was that GyM formed part of international consortiums that were awarded the concessions for the highways IIRSA Norte and Interoceanic, which connects Peru and Brazil. These concessions will result in an important activity volume in the coming 4 years and were achieved thanks to the Group strategy to develop concession agreements in the long term.

In July we commenced the civil works and mechanical assembly of the San Cristóbal Mining Project owned by Apex Silver and located in Bolivia. This contract confirms that our specialization in mining allows us to internationalize and is a clear recognition of the international standards achieved by GyM.

The leadership of our company in energy and mines projects **should be pointed out**, such as our participation in the Cerro Verde Sulfide Plant for Phelps Dodge, the new Ilo smelter plant for Southern Peru and important infrastructure works for Minera Yanacocha.

During year 2005, GyM increased its sales by 3%, reaching a volume close to US\$190 millions. Like in the last four years, it improved its gross margins obtaining 13,9%, compared to 13% in year 2004.

Mining Sector	<p>Minas Buenaventura: 5 additional kilometers of tunnels in Orcopampa. Minera El Brocal: Open pit for a 3-year term. Southern Peru: New smelter plant in Ilo. Minera Yanacocha: Leaching pads. Cerro Verde: Sulfide plant. Minera San Cristóbal: Civil works and electromechanical assembly.</p>
Energy Sector	<p>Pluspetrol Norte: Maintenance of miscellaneous highways and projects. Pluspetrol: Construction of two new locations for gas exploitation wells. Tractebel: Industrial gas distribution network in Lima. Etevensa: Civil works for the expansion of combined cycle plant. Ministry of Energy and Minas: Small electrical systems in Piura.</p>
Infrastructure Sector	<p>Norvial: Huacho – Pativilca Highway – Stretch from Km. 168 to Km. 184. PARSSA: Sewage works in Chimbote Sedapal: Maintenance of downtown Lima. IIRSA Norte: Paita-Piura-Bagua Grande-Rioja-Tarapoto-Yurimaguas: IIRSA Sur: Stretch 2 Urcos-Ocongate-Quincemil-Inambari. IIRSA Sur: Stretch 3 Inambari-Santa Rosa-Puerto Maldonado-Iberia-Iñapari.</p>

CONCAR

Year 2005 has been of great significance for CONCAR and for the Group strategy to develop the infrastructure concession business, which we believe will allow us developing large projects in the future.

In year 2005 the Peruvian Government invited tenders for 5 road concession projects, and thus the Graña y Montero Group formed part of consortiums that were awarded 3 of these contracts, including the large projects of IIRSA Norte and the Interoceanic Highway that connects Peru and Brazil.

The implementation of the IIRSA Norte Operation and Maintenance Project in 2006 will result in a significant sales increase for CONCAR in respect of the previous year and CONCAR will be in charge of the operation and maintenance of the longest stretch given in concession in Latin America (986 km).

CONCAR is at present the concessionaire of the Arequipa-Matarani Highway and the Ovalo Gutiérrez Parking Lot Concession, which is located on the border of San Isidro and Miraflores, and provides operation and maintenance services to the Ancón-Huacho-Pativilca Highway, given in concession to Norvial.

The equivalent of US\$5.2 millions were billed in 2005, with a significant EBITDA generation of US\$2.5 millions.

Plans of **the present government** include for the first 2006 semester the award of contracts on 5 important road projects: IIRSA Centro, Stretches 1 and 5 of the Interoceanic Highway on the south and two projects of the Coast-Highlands Program. If the schedule is achieved, year 2006 will be another important year for the development of the country roads and CONCAR strategy.

The above confirms that CONCAR is one of the companies with more growth opportunities to strengthen the generation of stable flows of the Graña y Montero Group in the long term since it has shown its abilities and leadership in a road concession business in Peru.

Below is a description of the operating projects.

Arequipa–Matarani Highway Concession

In year 2005, traffic income in this 100.7 km. long concession increased by about 10% in respect of last year.

Operation and Maintenance of the Ancon–Huacho–Pativilca Highway

In year 2005, CONCAR successfully performed operation and maintenance works in this 182.66 Km. long highway, provided support to Norvial in procedures for technical solutions of specific problems and implemented a program to improve customer service and relations with customers.

Operation and Maintenance of the IIRSA Norte Paita–Yurimaguas Highway

In year 2005 CONCAR was awarded the Operation and Maintenance Contract on IIRSA Norte Highway, which is about 955.1 Km. long and which commencement of operations has been planned for early 2006.

Ovalo Gutierrez Parking Lot Concession

CONCAR has entered into a 30-year concession agreement on the underground parking lot for 220 vehicles, built on an area of 8,200 m² in Ovalo Gutierrez.

3. **RESPONSIBILITY: A socially responsible behavior towards customers, shareholders, personnel and the community**

SOCIAL RESPONSIBILITY

Based on our corporate identity, vision, mission and values, this year Social Business Responsibility was formally inserted in the development of our operations when the Corporate Social Business Responsibility Policy was signed.

The Letter of Ethics, signed in 1995, the Risk Prevention Policy (1999) and the Environmental Policy (1998) form part of this process and have established a clear behavior standard for its customers, shareholders and personnel and the community.

In year 2004, Graña y Montero executed the World Agreement promoted by UN Secretary General as an evidence of the company's social and environmental commitment.

The main internal objective group of **this socially responsible behavior** is personnel and its main external objective group are the various publics forming part of the community, the shareholders and the customers with which it works in the development of its operations.

For this reason, the various companies forming part of the Corporation promoted in the year specific actions in the following fields:

1. **Human Resources** working in the company are the main objective group of the Social Business Responsibility policy and for this reason, personnel policies and programs ensuring their development and welfare as a support of their good performance and satisfaction are given priority.

In year 2005, a series of recommendations arising from studies on the organization of companies GyM, GMD and GMP were implemented, with very satisfactory results. These studies will be made on an annual basis in order to meet the proposed needs and recommendations and thus improve the organizational climate of the Corporation in all respects.

GRAÑA Y MONTERO
December 05
Statistics – Population

Organization	Corporate Management	GyM	GMD	GMP	GMI	Concar	Total
Main Office	33	105	61	40	20	12	271
Projects	0	567	765	99	65	127	1,623
Total	33	672	826	139	85	139	1,894
Gender	Corporate Management	GyM	GMD	GMP	GMI	Concar	Total
Male	22	557	594	116	78	119	1,486
Female	11	115	232	23	7	20	408
Total	33	672	826	139	85	139	1,894
Hierarchy	Corporate Management	GyM	GMD	GMP	GMI	Concar	Total
Top Management	21	6	6	8	2	2	45
Employees	12	666	820	131	83	137	1,849
Workers	0	7,861	0	132	0	0	7,993
Total	33	8,533	826	271	85	139	9,887

Among the so many results obtained from these organizational climate studies, it should be pointed that 83.17% of our employees is proud of the achievements of the companies where they work.

The main reasons to be satisfied with the work, according to the last Organizational Climate Study, are the following:

Organizational Climate Survey	%
Satisfaction	72%
Working spirit	79%
Relation with the management	71%
Working organization (methods, tools)	72%

In order to promote the personal welfare of the Group workers, which were more than 9,200 in the year, the company has developed a sound **Security and Environmental Preventive Training Program**.

Ages of Employees	Total	Percentage
From 20 to 30 years	632	33%
From 31 to 40 years	708	38%
From 41 to 50 years	344	18%
From 51 to 60 years	179	9%
From 61 to 65 years	17	1%
65 years and more	14	1%
Total	1894	100.00%

GRAÑA Y MONTERO
December-05
Statistics – Training

Employees	Corporate Management	GyM	GMD	GMP	GMI	Concar	Total
Engineers with postgraduate studies	10	37	24	11	7	2	91
Other professionals with postgraduate studies	5	4	10	2	3	0	24
Professionals in engineering	3	390	407	43	51	8	902
Other professionals	12	101	120	18	7	11	269
Total Professionals	30	532	561	74	68	21	1,286
Technicians	3	140	265	65	17	118	608
Total Employees	33	672	826	139	85	139	1,894

Workers	Corporate Management	GyM	GMD	GMP	GMI	Concar	Total
Specialized workers	0	1,203	0	132	0	0	1,335
Non-specialized workers	0	4,018	0	0	0	0	4,018
Subcontractors		2,640					2,640
Total	0	7,861	0	132	0	0	7,993

Total Personnel	33	8,533	826	271	85	139	9,887
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Trainees	0	32	40	3	1	2	78
Independent professionals	0	9	16	2	151	0	178
Total	0	41	56	5	152	2	256

Total General	33	8,574	882	276	237	141	10,143
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2. **Risk Prevention and Environment.** Graña y Montero are committed to be leaders in environmental performance and risk prevention through its Integrated Management System in all sectors in which it is involved, which results in the creation of value for its customers, personnel and shareholders and the adjacent communities.

It is a traditional principle of all employees of Corporación Graña y Montero to be responsible with the environment and the health of its workers during the activities. Our Risk Prevention and Environmental Policies are based on said principle.

To ensure compliance with this commitment, our organization has an integrated management system for risk prevention and environment developed under the guidelines of OHSAS 18001 and ISO 14001 Standards. This system is audited by the IDB on an annual basis, which allows us to keep evidence of an effective and efficient implementation.

In year 2005, Corporación Graña y Montero achieved 19'155,000 man hours as a result of the work performed by about 7 thousand workers who made their best efforts to develop their activities in compliance with the main principles of security integrated to work and respect for the environment and complete the required number of hours of training in risk prevention and environmental management, which make 377,613 hours. Our personnel's commitment to the Corporation's policies has allowed us closing year 2005 with zero environmental incidents and a frequency index of 1.13, which value is within optimal international parameters.

The investment made by our organization to secure the physical integrity and health of its workers is reflected in the creation of a preventive culture and the protection of workers against working risks and their resulting environmental impact. Thus, in year 2005, about 380 thousand hours have been invested to train and raise awareness in our personnel on job risks, and about US\$2,5 millions have been invested to acquire personal and collective protection equipment.

These results have been appreciated by our customers during the year, who, in exchange for our efforts, have renewed their contracts with us and executed new ones, thus making our commercial relation longer.

3. **Knowledge Management:** One of the main guiding principles of the Group strategic development is the commitment to train all members of the organization and manage the Group's knowledge. The responsibility for this task has been entrusted by the Group to the Corporate Learning Center (CCA) created in 1998, which this year has given 8,302 hours of classes in the Basic Program for Young Engineers, 18,008 hours of classes in the Professional Development Program, 1,636 hours in the Collective Memory Program and 16,862 hours of External Training.

**Training
Man Hours**

DESCRIPTION	GyM	GMI	GMP	GMD	CONCAR	TOTAL
Basic Program – Young Engineers	4,284	132	266	3,500	120	8,302
Professional Development	7,778	1,069	4,625	4,478	58	18,008
Collective Memory	1,597	39	-	-	-	1,636
External Training	5,690	775	2,462	6,809	1,126	16,862
Total General	19,349	2,015	7,353	14,787	1,304	44,808
Monthly Average of Employees	556	85	259	848	136	1,884
Ratio = Training Hours / Employees	35	24	28	17	10	24
Risk Prevention and Environmental Management – Workers	342,560	752	33,341	-	360	377,013

The total number of man hours invested in training, which is 44,808, should be pointed out. In addition, man hours invested in training third parties in social responsibility, which were 3,033, and the average number of training hours per employee of all companies of the Corporation, which is 24 man hours per employee, should also be stressed.

4. **Relations with the Community**: The relations with the community and, in particular, the execution of projects, must be developed in a positive context of harmony and mutual respect, within which the company promotes and performs activities contributing to the sustainable development of the communities where it operates. Based on our social responsibility practice, the Group companies make their best efforts to help these communities. These efforts go beyond the project period and are particularly aimed at directing these actions towards the areas of education, community and environment. During the year, various actions were made in local populations with an immediate influence on the projects undertaken, which are detailed below.

COMMUNITY

SOCIAL INITIATIVE	OBJECTIVE GROUP	PLACE
Sanitary Installations	Young People of Human Settlements – 1360 hours.	Chimbote
Training in Native Communities	Native People, 11,080 hours.	Loreto, Lot 1AB and Lot 8

SOCIAL INITIATIVE	OBJECTIVE GROUP	PLACE
Gifts and food for children on Christmas	Children of Pérez Aranibar Childcare Center	Lima
Collaboration on Christmas for the children of the Ministry of Energy and Mines employees	Ministry of Energy and Mines	Lima
Guided visits for students of the National Engineering University	Students of the National Engineering University	Pisco, Paracas and Talara
Study for a comprehensive diagnosis of Organos and Talara	People of Organos and Talara	Talara
Collaboration for Christmas	National Volunteers Center of Peru	Lima
Treatment with ambulances and medical personnel	Settlements adjacent to Ancón and Paraíso	Ancón
Office materials and others	Police Stations of the Peruvian National Police	Ancon, Huacho, Pativilca
Collaboration for various activities	Fire Corps	Chancay
Summer campaign – Sunday transit reorganization	Internal and external population	Arequipa, Matarani
Service by 60 policemen of the Peruvian National Police (highway policemen and transit policemen)		Arequipa, Matarani
2 ambulances		Arequipa, Matarani

T-shirts, flags and highways	Rescue Police	Arequipa, Matarani
Trips to the beach for poor children	Circa	Arequipa
Facilities for annual collection at Uchumayo Tollbooths	Ladies' Association Supporting the National Cancer Institute - ADAINEN	Arequipa

SOCIAL INITIATIVE	OBJECTIVE GROUP	PLACE
Customer-Partner Workshop	Carriers	Arequipa
Painting of and posting of security signals on areas near highway	Municipality of Matarani	Arequipa
Christmas gatherings to serve chocolate	Municipalities of Matarani and Uchumayo	Arequipa

EDUCATION

SOCIAL INITIATIVE	OBJECTIVE GROUP	PLACE
Family planning/Transmitting values to our children	Mothers of the Colquijirca Dining Room and Villa de Pasco Peasant Communities, 120 hours.	Cerro de Pasco
Development of women engaged in fishery	Mothers of peasant communities: Smelter, Villa de Pasco, Huaraucaca, Santa Rosa and Colquijirca, 165 hours.	Cerro de Pasco
Role of Cerro de Pasco women	Mothers of the peasant community of Tinyahuarco, 180 hours.	Cerro de Pasco

Community cleaning	Mothers of the Santa Rosa peasant community, 40 hours.	Cerro de Pasco
Community development project	Young people from different communities of Tinyahuarco, 180 hours.	Cerro de Pasco

SOCIAL INITIATIVE	OBJECTIVE GROUP	PLACE
Communication in the family (family violence and self-esteem, prostitution and STDs, alcoholism, organization of dining rooms).	Mothers of the Nueva Esperanza Dining Room at Chilcaymarca Community, 180 hours.	Arequipa, Orcopampa
Rational use of electric power. Personal hygiene.	People from Orcopampa and Corococha, 270 hours.	Arequipa, Orcopampa
Family planning	People from Anaro, 27 hours	Arequipa, Orcopampa
Women at present and leadership.	Mothers of the Glass of Milk Program, 600 hours.	Ilo
Hygiene guidelines for school-age children, 100 hours.	Elementary 3 rd grade students of School N° 4021 Alcides Carrión - Ventanilla Pork Park, 100 hours.	Callao
Food and healthy nutrition - Preparation of school lunchboxes.	Mothers, 35 hours.	Callao (Twinza, Sarita Colonia – 1 st and 2 nd sectors), Villa Mercedes, Acapulco, Alcides Carrión, Franciso Bolognesi and Juan Pablo II
History of water, water care, management of secondary water networks.	High school 4 th and 5 th grade students of School Jacques Cousteau, 120 hours.	Lima

Disaster management and emergency plans.	Elementary and high school teachers of School N° 4021 Alcides Carrión – Ventanilla Park, 63 hours.	Callao
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EDUCATION

SOCIAL INITIATIVE	OBJECTIVE GROUP	PLACE
Sexual health	Parents of School Niño Jesús de Belen in Chorrillos, 53 hours.	Lima
Family welfare - "dad and mom can give me 10 minutes of their time".	Parents of School Niño Jesús de Belen in Chorrillos, 23 horas.	Lima
Alcoholism and drug addiction, gangs and crime.	Students of both genders (between 15 and 18 years old), schools José Carlos Mariátegui and José María Arguedas in Santa Anita, 150 hours.	Lima
Training in security and environment	Independent drivers	Eten, Salaverry, Chimbote, Supe, Pisco, Mollendo, Cusco, Juliaca and Ilo
Scholarships to prepare thesis to obtain the Title of Geologist and Oil Engineer	National Engineering University	Lima
Beach tourism brochures	Arequipa Chamber of Commerce	Arequipa
Leaflets with recommendations on security-safe driving	Users of the Arequipa-Uchumayo Highway	Arequipa
3-day training for 100 drivers in coordination with MAPFRE	Carriers	Arequipa

ENVIRONMENT

SOCIAL INITIATIVE	OBJECTIVE GROUP	PLACE
Modification of final waste disposal procedures (non-incineration)	Population general in	Ancón, Huacho, Pativilca.
Implementation of temporary garbage deposit systems	Users in general	Ancón, Huacho, Pativilca.
Garbage collection in urban areas	Population general in	Ancón, Chancay and Supe
Participation in the Ecological Patrol, clearing of areas adjacent to the Uchumayo Relief Road and beaches	Population general in	Uchumayo and beaches
Cleaning of beaches	Population general in	Eten and Salaverry, Chimbote, Supe, Mollendo and Ilo
Environmental remediation service	Neighboring populations	Chimbote, Supe, Pisco, Mollendo and Ilo
Expenses for environmental studies	Neighboring populations	Eten, Salaverry, Chimbote, Supe, Mollendo, Cusco, Juliaca and Ilo

Corporate Government

Important decisions have been adopted in year 2005 in order to implement the best corporate government policies.

In year 1996 Graña y Montero decided to list in the Lima Stock Exchange and since then, has complied with the main Corporate Government Standards as regards transparency, representation and information to shareholders.

We presently have about 1000 shareholders and the company's Board of Directors has a majority of 5 external directors that are not officers of the company. In addition to the Annual Report, we issue quarterly reports about the situation of the Group, inform the Stock Exchange and CONASEV of any important events and have a web page with complete information about the company.

In year 2005 we have adopted important decisions to establish the best Corporate Government practices. The main measures adopted are described below. They were ratified by the Shareholders' Meeting held on May 31, 2005, where the amendments to the Bylaws and the Organization and Operation Regulations of the Shareholders' Meeting were approved, including rules for the representation of the shareholders.

At a Board meeting held on May 31, 2005, the Regulations governing the Board of Directors and the Board Committees were approved:

- Audit and Process Committee
- Human Resources and Remunerations Committee
- Investment Committee
- Three types of Directors were recognized:
 - External independent directors
 - External directors
 - Internal directors
- The number of directors was increased to 9, resulting in a majority of external directors (3 external, 2 external independent and 4 internal directors).
- The Executive Committee in charge of the Group coordination was created with 4 internal directors and the 5 general managers of the Group's operating companies.
- External directors were incorporated in the boards of directors of the 5 operating subsidiaries.
- The Secretary's Office of the Board of Directors was created.
- The Shareholder Service Office was created.

Composition of the Board of Directors

As of December 2005, the Board of Directors was composed of the following members:

- | | |
|-------------------------------------|-------------------------------|
| ▪ José Graña Miro Quesada | Chairman |
| ▪ Carlos Montero Graña | Vice Chairman |
| ▪ Roberto Abusada Salah | External Independent Director |
| ▪ Augusto Baertl Montori | External Independent Director |
| ▪ Jean-Louis Dupoirieux | External Director |
| ▪ Pyers Griffith Mostyn | External Director |
| ▪ Teodoro Harmsen Gómez de la Torre | External Director |
| ▪ Mario Alvarado Pflucker | Internal Director |
| ▪ Hernando Graña Acuña | Internal Director |

- José Graña Miró Quesada: Chairman of the Board of Directors. Architect. Also Chairman of the Board of Directors of subsidiaries GyM, GMP, GMD and CONCAR. Vice Chairman of the Board of Directors of GMI. Also Director of Empresa Editora El Comercio S.A. and EDEGEL S.A.A.
- Carlos Montero Graña: Vice Chairman of the Board of Directors. Civil Engineer. Also Vice Chairman of the Board of Directors of GyM and GMP and Director of GMD and GMI. President of Ecotec and Director of CONCAR.
- Roberto Abusada Salah: Director. Doctor in Economy (Cornell, USA). Director of GMD, CONCAR, Mauricio Hochschild y Cía. Ltda. S.A.C. and Instituto Peruano de Economía IPE.
- Augusto Baertl Montori: Mines Engineer. Executive President of Gestora de Negocios e Inversiones S.A. and IMA Latin America Inc. Also Chairman of the Board of Directors of Agrícola Chapi S.A. and Director of Interbank, GMP and FIMA.
- Jean-Louis Dupoirieux: Director. Civil Engineer. Project Director in Vince-Construction Grands Projets (France) and also Director of Sociedad Concesionaria Puente de Chiloe (Chile).
- Pyers Griffith Mostyn: Director. Licentiate in Languages from Durham University, United Kingdom. Director of Corporate Finance and Advisory of HSBC Bank plc. Managing Director of The Peru Privatization and Development Fund and Director of Refinería La Pampilla.
- Teodoro E. Harmsen Gómez de la Torre: Director. Civil Engineer. President of GMI S.A. Director and professor of the MDI Master Program. Professor Emeritus of the School of Science and Engineering of the Pontifical Catholic University of Peru. Also Honorary Member of the American Concrete Institute in the USA and Honorary Member of the Peruvian Engineering Academy and the Peruvian Engineers' Association.
- Mario Alvarado Pflucker: Director. Civil Engineer and Master in Engineering Management from George Washington University, USA. He is also presently director of GMD, GMI, GyM, GMP, CONCAR, Larcomar, Norvial and América Leasing.
- Hernando Graña Acuña: Director. Industrial Engineer. Director of GMI, GMP, Ecotec S.A. and CONCAR. Executive Vice President of GyM and President of Norvial S.A. Also Director of CAPECO and TGP.

Committees

As of December 31, 2005, the Board Committees are composed as follows:

- Audit and Process Committee: Members:
 - Roberto Abusada Salah
 - Jose Graña Miró Quesada
 - Pyers Griffith Mostyn
- Human Resources and Remunerations Committee: Members:
 - Augusto Baertl Montori
 - Jean-Louis Dupoirieux
 - Carlos Montero Graña
- Investment Committee: Members:
 - José Graña Miró Quesada
 - Hernando Graña Acuña
 - Teodoro Harmsen Gómez de la Torre

Executive Commission

The Executive Commission is responsible for the Group coordination and is composed of the 4 internal directors and the 5 general managers of the Group's companies.

José Graña Miró Quesada	Chairman
Carlos Montero Graña	Vice Chairman
Hernando Graña Acuña	Director
Mario Alvarado Pflucker	Managing Director
Juan Manuel Lambarri	GyM General Manager
Francisco Dulanto Swayne	GMP General Manager
Jaime Dasso Botto	GMD General Manager
Walter Silva Santisteban	GMI General Manager
Jaime Targarona Arata	CONCAR General Manager

Main Executives

- Mario Alvarado Pflucker: Corporate General Manager since 1997, with more than 25 years in the Graña y Montero Group. He obtained the Degree of Bachelor in Civil Engineering from the Ricardo Palma University and the Master Degree in Engineering Management, Major in Construction Management, from George Washington University from the USA. He is presently director of GMD, GMI, GyM, GMP and CONCAR as well as of Larcomar, Norvial and America Leasing.
- Juan Manuel Lambarri Hierro: General Manager of GyM since 2001. Civil Engineering graduated from the Pontifical Catholic University of Peru and the Top Management Program (PAD) of the University of Piura. He joined the Graña y Montero Group in year 1982 and is also presently Director of GyM.
- Hernando Graña Acuña: Director. Industrial Engineer. Director of GMI, GMP, Ecotec S.A. and CONCAR. Executive Vice President of GyM and President of Norvial S.A. Also Director of CAPECO and TGP. He has been working in the Graña y Montero Group since 1977.
- Francisco Dulanto Swayne: General Manager of GMP S.A. since its foundation in 1984. Director since 1988. Studies at the National Engineering University, ESAN and University of Piura (PAD). He has been working in the Graña y Montero Group since 1974. Also Director of Consorcio Terminales and CLHB (Bolivia). He was President of SPE (Society of Petroleum Engineers), Chapter Lima, in 1991, and Director of the National Society of Mining and Oil and Energy in the 1993-1994 and 2005-2006 periods.
- Jaime Dasso Botto: General Manager of GMD since 2000. Degree of Bachelor in Electronic Engineering and Master Degree in Software Development from Stevens Institute of Technology, USA. Commercial Manager of GMD from 1994 to 1999. Also Director of GMD.
- Walter Silva Santisteban R.: General Manager from 1998 to 2005 and Managing Director since 2006. Degree of Bachelor in Civil Engineering from the National Engineering University. He is also presently Director of ECOTEC.
- Jaime Targarona Arata: General Manager of CONCAR since August 2005. Civil Engineer of the Autonomous University of Guadalajara and MBA from the San Ignacio de Loyola University. He worked as Civil Engineer for different projects, Commercial Manager of the Special Projects Division in GyM and General Manager of Graña y Montero Mexico.
- Luis Díaz Olivero: Corporate Financial Manager since December 15, 2004. Industrial Engineer with MBA from the University of Pittsburgh. He has been working in the Graña y Montero Group since 1993. Financial Manager of GMP S.A. from 1998 to 2000 and Financial Manager of GyM from 2001 to 2004.
- César Neyra Rodríguez: Internal Audit and Management Process Manager. Bachelor Degree in Accounting from the Federico Villarreal National University. Complete studies of the Master in Management and Finance Program of the University of the Pacific. Studies on quality improvement systems and graduated on Six Sigma Methodology from Caterpillar University in Mexico and the USA.

- Claudia Drago Morante: Corporate Legal Counsel since 2000. Lawyer from the University of Lima. PADE studies on Corporate Law and Finance at ESAN. Legal Counsel to GMD from 1997 to 2000. Secretary of the Board of Directors of Graña y Montero S.A.A. Representative before the Stock Exchange and officer in charge of the Shareholder Service Office.

Family Ties

José Graña Miró Quesada, Chairman of the Board of Directors, has a third degree blood relationship with Yamile Brahim Graña, shareholder of the company, and a fourth degree blood relationship with Director Hernando Graña Acuña. Teodoro Hans Harmsen Andress, Director of GMP, has a first degree blood relationship with Teodoro Harmsen Gomez De La Torre, Director of Graña y Montero S.A.A.

Capital

The company's capital as of December 31, 2005 is S/.206'335,227.70 resulting from the amortization of portfolio shares and a capital reduction agreed by the Board of Directors on January 31, 2005, by delegation of the Shareholders' Meeting held on December 22, 2003, and from the capitalization and capital reduction approved at the Shareholders' Meeting held on May 31, 2005.

Main Shareholders

List of Shareholders as of December 31, 2005

SHAREHOLDER	31/12/2005	
Graña Holdings	62,417,287	21.18%
Vinci Construction	42,356,031	14.37%
AFP INTEGRAL	18,901,213	6.41%
Carlos Montero Graña	18,691,715	6.34%
Byron Development	16,450,600	5.58%
AFP PROFUTURO	15,136,961	5.14%
Genesis Smaller Companies SICAV	11,766,571	3.99%
Genesis Smaller Comp. Port	10,000,000	3.39%
Hernando Graña Acuña	8,703,182	2.95%
Francisco Dulanto Swayne	6,799,779	2.31%
AFP HORIZONTE	4,822,933	1.64%
Hugo Rangel Zavala	4,993,790	1.69%
BWS (Vinci trust)	4,706,226	1.60%
Yamile Brahim Graña	4,342,189	1.47%
Bamas International Investment Corp.	3,907,971	1.33%
Ducktown Holdings S.A.	3,784,888	1.28%
Corporación Cervesur S.A.	3,509,146	1.19%
Emerging Sovereign Master Fund Ltd.	3,095,650	1.05%
	244,386,130	82.91%

The main shareholders are Graña Holdings, represented by José Graña Miró Quesada, Chairman of the Board of Directors, and Vinci Construction of the French group that is presently the largest construction company in the world.

Brief Historical Outline

The Group was organized in the city of Lima in 1933 under the name of Gramonvel S.A. Ingenieros.

- Municipality of Miraflores
- Lima Maternity Hospital
- City of Talara
- Las Palmas and Talara Air Bases
- Nestlé Factory

In 1949, the company merged with Morris y Montero, resulting in the creation of a new firm Graña y Montero S.A.

- Southern Pan-American Highway
- Ministry of Economy and Finance
- Banco Wiese Ltda.
- First National Bank
- Sears Roebuck del Perú

Consortium Ingenieros Contratistas Generales was created in 1964.

- Employee Hospital
- Chimbote Iron and Steel Factory
- Cañón del Pato Hydroelectrical Station
- Jorge Chávez Airport
- Monterrico Racecourse
- Paseo de la República Avenue
- Sheraton Hotel

In 1980 Graña y Montero S.A. started a diversification process as a result of the creation of GMI, the engineering consulting company, GMP, the oil services company, and GMD, the information technology services company.

- Cuajone Mining Project
- Chavimochic Irrigation Project
- Banco Continental
- Machu Picchu Hydroelectrical Station
- Cuzco Hospital
- Drilling of 51 oil wells in Talara
- Outsourcing of the Lima Stock Exchange
- Project Management of Melía Hotel in Dominican Republic.

Concar, the road operation and maintenance company, was founded in 1994.

The holding company was created in 1996 and in 1997 Graña y Montero S.A.A. increased the capital stock through a public offering of shares, thus becoming an open corporation.

- Arequipa-Matarani Highway Concession
- Ventanilla Thermal Station
- Four Season Hotel in Mexico
- Sulfuric Acid Plant for Southern Peru
- Chincas Irrigation
- Lima Cement Factory

Consortio Terminales was created in 1998.

- Concession for fuel terminals in 9 ports of Peru.
- Marriott Hotel in Lima
- Cerro Verde Mining Project

Norvial S.A., concessionaire of road network N° 5, was created in 2002.

- Ralco Hydroelectrical Station in Chile
- Ilo Smelter Plant
- San Cristóbal Mine in Bolivia
- Yanacocha Mining Project
- Camisea Gas Separation Plant in Pisco
- Cerro Verde Mining Project
- Operation of the Camisea Maritime Terminal in Pisco

Management Analysis

IMPORTANT DECISIONS HAVE BEEN TAKEN IN 2005 TO ADOPT THE BEST CORPORATE GOVERNMENT PRACTICES

SUMMARY

The consolidated activity grew by 8.8% in year 2005, reaching S/.915.2 MM.

The gross margin and the operating margin increased by 210 pbs. and 200 pbs., accordingly, reaching 19.1% in the first case and 13.3% in the other case.

The available income for year 2005 increased by 86.8%, reaching S/.32.7 MM

The accumulated EBITDA¹ by the end of year 2005 was S/.173.6 MM, which is equivalent to 18.9% of the Group activity and represents an improvement of 17.4% in respect of the previous year.

In 2005 the financial debt decreased by S/.14.5 MM and consequently, the Group leverage decreased from 2.15x to 2.01x.

The Group backlog at the end of the year was US\$517 MM. From this amount, US\$258.6 MM will be executed in year 2006.

PROFIT AND LOSS

The activity volumes of Graña y Montero Group for year 2005 were S/.915.2 MM, a growth of 8.8% in respect of the previous year. This year the growth of the Group activity was led by the increase in the oil business activity (+19.9%) and was seconded by growth in the concessions operation (+8.5%), infrastructure (+8.1%) and engineering (+6.1%) businesses. The information technology business (+2.3%) grew in a more moderate way.

The oil business grew due to an increase in the activity of Lots I and V, which kept a combined production higher than 900 barrels per day since August 2005. This production increase is in turn strengthened by a high crude price that favors this line of business. On the other hand, the activity of the fuel storage and delivery business, the activity related to the operation of the Camisea Dock in Pisco and the well drilling service were within the expectations for this year, thus consolidating this business.

The increase in the business of operation of road and parking lots concessions in respect of the previous year is based on the heavier traffic in the Arequipa–Matarani Highway Concession, which has even allowed to neutralize the effect of the blockades that took place at the beginning of 2005. In turn, additional works for the operation of the Ancón–Huacho–Pativilca Highway also allowed this activity to grow.

The growth of the infrastructure business in year 2005 is supported by the works performed for the Cerro Verde Mining Project and the Sociedad Minera San Cristobal Mining Project in Bolivia as well as the coming into effect of the strategic alliance with the Wong Group for the remodeling of its “Metro” stores and the construction of its new “Eco” store, which increased the activity of its building division. It should be pointed out that in the fourth quarter, this business achieved 41% of its year activity, which explains the important growth in the consolidated activity of the Group shown in the graph at the end of this page. Likewise, this volume of the fourth quarter will be kept stable during year 2006 to execute this year backlog, as commented below in this report.

The growth of the engineering business in 2005 was based on the Framework Engineering Agreement for the Cerro Verde Mining Project and on more service orders under the Framework Engineering Agreement the company has entered into with Compañía Minera Antamina S.A.

52% of the consolidated gross income comes from businesses not related to construction. As explained in previous reports, the increase in the infrastructure business activity recorded in the last quarter of the year leveled the origin of gross income, which had been depending on the businesses not related to construction in the last quarters. In addition, it should be pointed out that while the participation in the infrastructure business activity for year 2005 has been kept at 70%, a figure similar to the previous year, the participation of the gross income of the business not related to construction has increased by 300 pbs, reaching 52%.

The Group gross income increased by 220 Pbs., reaching 191% of the activity, which represents S/.174.6MM. Gross income improvement in the oil business (+647 pbs) and the infrastructure business (+94 pbs) explains this increase in profitability due to its important participation in the consolidated activity of the Group. Gross margins of the businesses of concessions operation (+633pbs), engineering (+370pbs) and information technology (+230 pbs) also grew significantly, thus consolidating the general improvement of the Group gross income.

The gross income of the oil business added up to S/.59.8MM., based on better results in the extraction and production line of Lots I and V as well as the good times undergone by the crude price. In turn, gross income of fuel storage and delivery was kept at levels equivalent to the previous year, both in Peru and Bolivia.

The growth of the infrastructure business gross margin is based on the higher profitability of its civil works division and the increase in the profitability of its real estate division, which benefited from the sale of the plot of land previously owned by COPRESA at Angamos Avenue at the end of year 2005. It should be pointed out that the high activity level of the construction company in the last quarter allowed obtaining a gross margin of 13.65% in that same period.

The operating margin of year 2005 improved by 220 pbs. in respect of the previous year, reaching 13.3% of the activity. The increase in the gross margin of the Group businesses, explained above, as well as keeping the general expenses below 6% have allowed the operating margin keep a positive trend, reaching S/.120.3 MM at the end of the year.

The net financial expenses were reduced by 8.9% in respect of the end of the previous year, reaching a total of S/.29.9 MM. A higher generation during the last quarter allowed resuming the debt reduction program of the Group, which, combined with the lower financial costs, has an impact on the decrease in the financial expenses for the year. Likewise, this decrease in the financial expenses, combined with the EBITDA increase, which is commented below, boosted coverage to 5.79x, which represents an improvement of 1.30x in respect of the previous year.

The available income for year 2005 was increased by 86.8%, reaching S/.32.7 MM. The improvement in the margins commented above, combined with the reduction in the financial expenses, boosted the increase of the available income at the end of the year. In addition, it should be stressed that the effect of the reduction in the item "other expenses" (-62.1%) was neutralized by the effect of the exchange difference in the fourth quarter, generated by political uncertainty, which prevented a higher increase in the final income.

The accumulated EBITDA² at the end of year 2005 reached S/.173.6 MM, which represents 18.9% of the Group activity as well as a growth of 17.4% in respect of the previous year. Similarly to gross income, the recovery of the infrastructure business activity in the last quarter increased its share in the Group EBITDA², in comparison to the previous quarters. However, this recovery did not prevent the other businesses not related to construction to increase their share in the annual generation of the Group by more than 4%. Finally, it should be pointed out that this year generation from the stable mid- and long-term flows, such as concessions and outsourcing businesses, reached 53.6% of the EBITDA² against 38% of the previous year.

BALANCE SHEET

The financial debt decreased during year 2005 by S/.14.5 MM and consequently, the Group leverage decreased from 2.15x to 2.01x. Although the working capital needs have pressured current liabilities by making them increase by 20.7%, the total financial debt has reduced by 5.9%, which, together with the good results from year 2005, allowed the Group close with a leverage index of 2.01x.

Current liquidity at the end of year 2005 was 1.21x. An increase in the working capital needs of the infrastructure business related to the growth of the activity in the last quarter, which reached its peak in December 2005, has negatively pressured this indicator. It is expected that at the beginning of the year, this pressure decreases when the activity becomes stable.

The Financial Debt / EBITDA¹ decreased to 1.35x. The combined effect of the EBITDA increase and the reduction of the financial debt allowed this ratio to decrease by 0.33x at the end of the year. It should be pointed out that the Group has an average debt duration of 31 months, which is consistent with this ratio, notwithstanding the prepayment of Graña y Montero S.A.A. corporate bonds, second issue, which were paid off in October 2005.

BACKLOG AND PERSPECTIVES

The Group backlog at the end of the year reached US\$517 MM, equivalent to 1.94x of the activity in the last 12 months. From this total, US\$258.6 MM were executed in year 2006, US\$121.6 MM in 2007 and the balance from 2008 and so forth.

As commented in the previous report, the activity recovery in the 2005 third and fourth quarters will continue inert due to the backlog to be executed in 2006. Upon completion of this report, the last one has reached 97% of the activity executed at the end of year 2005, which allows ensuring that the Group will be able to easily overcome any economic nervousness arising from the electoral process.
