



## Fourth Quarter 2016 Conference Call

Friday, January 27, 2017

12:00 PM (EST)

### ***Mario Alvarado:***

Good afternoon everyone, thank you for attending this conference call. It is the first time we do it in Spanish, and this is because given the circumstances we do not want the translation to English to generate any kind of misunderstanding.

A transcript in English will be available on the company's website after the conference call.

Today's presentation will be as follows:

First, given the importance of the situation generated by Odebrecht we would like to express the position of the Group.

Then Mónica Miloslavich, Chief Financial Officer, will explain the results of the Group with an emphasis on understanding the impact of the termination of the Southern Gas Pipeline (GSP) project.

Thirdly, Maria del Pilar Sabogal, Manager of Legal Area, will explain the process that follows after the termination.

Fourthly, Luis Diaz Olivero, Chief Operating Officer, will speak about our plan to divest non-strategic assets, and Claudia Drago, Chief Legal and Corporate Affairs Officer, will speak about anticorruption controls and a communications plan in light of a crisis.

Finally, we will have a Q&A session.

### **The Position taken by the Graña y Montero Group in the Odebrecht Case**

First of all, let me explain the position taken by Graña y Montero in the Odebrecht case:

It is important to note that the Graña y Montero Group does not authorize, recommend or make irregular payments of any kind because these conducts disobey the values and principles that have guided our behavior for more than 83 years.

In the 6 projects we developed in partnership with Odebrecht throughout our history, we have never seen, experienced, witnessed, or participated in any irregular actions related to the projects.

We could not imagine that there was a system specially designed to pay bribes.

By Odebrecht's own statements to the US Department of Justice, today we know that they had a parallel and secret organization led only by some of Odebrecht's senior executives who engaged in bribing, with an encrypted communication system and a parallel accounting. Obviously, they could not risk any partner finding out about this and reporting them.

It is important to note that Odebrecht neither is, nor has been, our main partner. From 2005 to 2014, period of investigation by the United States Department of Justice, the projects developed with Odebrecht accounted for less than 4% of the Group's total revenues.

In the same period, 83% of the projects carried out by Graña y Montero were the product of contracts with the private sector.

Since Odebrecht arrived in Peru, of the 50 or 60 projects that it has had and of the more than 1,000 we have had, we have only developed 6 with them, of which only 1 is still valid and we have always been a minority partner.

Because of the way in which the consortiums were formed, we had no control over the decisions, or the actions taken outside the scope of our activities. The payments made by the consortiums did not require the authorization of Graña y Montero. Management (executive management, financial or logistics) was not occupied by our company's executives and the election and payments to suppliers did not require the authorization of Graña y Montero.

In the 6 projects Odebrecht has always been the leading company.

Our main functions were associated with technical and field aspects such as the interferences solution, the relationship with unions and the selection of workers.

It is important to note that Graña y Montero has the most important database of workers in the country.

The banking institutions and multilateral agencies that accepted to finance the projects have always been first class, and their analysis to grant the loans reassured our decision to join these projects.

Odebrecht partnered up with us and with other Peruvian companies because the bidding documents required a Peruvian construction company to participate with a minimum share in the project, and due to our high capacity of implementation as the largest company in Peru and our reputation, that today is being damaged, we were a potential partner.

We have had more than 50 foreign partners throughout our history and this is the first time we have a problem of this type.



The Graña y Montero Group is listed on the Lima Stock Exchange since 1997 and is the only Latin American construction company to trade on the New York Stock Exchange since 2013, where we are subject to the most demanding international standards.

The United States Foreign Corrupt Practices Act (FCPA), to which we have voluntarily adhered to on the stock exchange, is very strict about compliance with anti-corruption and corporate governance policies.

For the last 22 years, the Group has had different tools to encourage ethical principles at all organizational levels, including the Ethics Charter, the Code of Conduct and the Anti-Corruption Policy.

In addition, the Group has an Ethical Channel (toll free number) that has received more than 211 cases and none has been related to corruption with public workers. This channel is administered by an external and independent company and the cases are evaluated by an ethical committee.

However, today we know that our efforts were not enough. Following the problem with Odebrecht, we are strengthening our policies and procedures for the selection of partners. We will be much more severe in our demands to integrate companies in the future.

Despite the critical situation, we are receiving very important lessons from this experience. We can assure you that we will not be in a situation like this again.

We will work hard so that our shareholders, employees, suppliers and society can continue to be proud of Graña y Montero as a Peruvian company.

Now, Monica Miloslavich will explain the results of the group in 2016 and the details to which we have referred.

### ***Mónica Miloslavich:***

#### **Backlog**

Due to the cancellation of the concession contract for the Southern Gas Pipeline Project, we have removed US\$ 895 MM from the Backlog. In spite of this, the Consolidated Backlog of US\$ 3,137.4 MM plus Recurrent Businesses of US\$ 693 MM amount to a Total Backlog of US\$ 3,830.2 MM, which represents 2.13 years of revenues for the Group, one of the highest ratios in the last four years. It is also important to emphasize that the backlog in the last 4 quarters, without considering the backlog of GSP, has continued to grow and this has been demonstrated by contracts awarded during the year.

These contracts have mainly been in the areas of Services and Engineering and Construction. In the Services area we were awarded contracts with Edelnor, Electrocaribe,

Chilectra, and Movistar; Adexus' backlog was added after its consolidation from August onwards, and two road maintenance contracts were awarded to Concar. In the Engineering and Construction area we were mainly awarded contracts for the construction of schools in Colombia; the expansion of Lima's Metro Line 1; the construction of a transmission line in Colombia; the construction of the Yellow Line, and among recently awarded contracts, the Toquepala mine.

On the other hand, the backlog of the Oil and Gas sector is reduced from 36% to 22% due to the elimination of the backlog of GSP, while the Transportation sector is increased by the contracts awarded for the extension of Lima's Metro Line 1 of the Yellow Line. According to geographical location, 76% of the backlog is in Peru, while Chile and Colombia account for 10% and 14% respectively.

### **Results**

Slide 8 on the Conference Call presentation shows the company's results as of 2016 with and without the estimated effects resulting from the termination of the Peruvian Southern Gas Pipeline Concession contract, detailing in every line of the Income Statement each of the impacts. It is important to mention that the effects of this termination recorded in the financial statements at the end of 2016 are based on company estimates with the information that we have available to date and under the most conservative scenario, however, we must emphasize that these numbers could be adjusted in the future.

### **Revenues**

Revenues as of 2016 decreased 21% mainly due to lower revenues in the Engineering and Construction area, which are explained by the fewer works under execution in GYM and Vial and Vives - DSD and Morelco, as well as lower sales in Stracon GyM. On the other hand, in the Infrastructure area, revenues reduced 10% compared to 2015, mainly due to lower sales in GMP because of the lower production of barrels per day, as well as lower oil prices, and a lower sale in Survial due to a smaller amount of maintenance works on the highway. This reduction is partially offset by the increase in sales in the Real Estate area, which is explained by the sale of land in Almonte for US\$ 29 MM in 2016 compared to US\$ 3.6 MM in 2015, as well as by the greater number of units delivered in 2016 (938 units versus 835 units in the previous year), the increase in sales of the Services area due to the consolidation of Adexus as of August and higher revenues in CAM for the new contracts awarded in the year.

### **Gross Profit**

While the gross profit is reduced in line with the reduction in sales, the margin increases from 9% to 10.6% in 2016. This is a consequence of the more stable results in the Engineering and Construction area, as well as of the profits generated by the sale of land of Almonte in the Real Estate area. On the other hand, the gross profit of the Infrastructure

area has been impacted by the decrease in oil prices, and the decrease of maintenance works in Survival.

### **Operating Profit**

At the level of the operating profit is where the effects of the termination of GSP contract are reflected. We see that in the case of administrative expenses, without the effects of GSP these would have been reduced in relation to the previous year.

Therefore, the operating profit goes from S/. 338 MM to S/. 254 MM keeping margins similar to those of the previous year. Aside of the effects from the cancellation of the concession, the operating profit would have reached S /. 325 MM, giving an operating margin of 5.4%.

### **Financial Expenses**

The increase in financial expenses is mainly explained by the increase in debt due to the financing of the contribution to GSP.

### **Net income**

Excluding the effects from the termination of GSP, the net income would have been S/. 136 MM, higher than that reported the previous year.

### **EBITDA**

Likewise, consolidated EBITDA as of 2016, without these effect, would have been 3% higher than the previous year, with a margin of 13.2% compared to a margin of 9.9% from the previous year.

As you can see on the table to the right of Slide 8 on the Conference Call presentation, this shows each of the effects caused by the termination of the GSP contract, which I will explain further afterwards.

### **Indebtedness**

Consolidated Financial Gross Debt for 2016 amounted to US\$ 865 MM. From the total debt, US\$ 380 MM correspond to working capital associated to the clients' accounts receivables and leasing's for the acquisition of machinery and equipment, US\$ 336 MM correspond to the debt of infrastructure projects and US\$ 147 MM correspond to financing the contributions of the Southern Gas Pipeline (GSP).

The reduction in the working capital debt during 2016 was of US\$ 41 MM due to the recovery in accounts receivables mainly in the Engineering and Construction Area. Likewise, this debt includes Adexus' debt, which is being consolidated since August.

On the other hand, the Project Finance debt increased by US\$ 34 MM, which is explained by the financing of the Norvial toll road expansion. It is important to mention that the debt in the Infrastructure Area is a non-recourse debt, with guarantees and cash flows from the project itself.

Although at the end of the year the debt does not include the commitments to be assumed by GSP, on Slide 9 of the Conference Call presentation we show the proforma debt with the inclusion of these commitments. These include: US\$ 52.5 MM resulting from the execution of the guarantee and US\$ 99.0 MM from the GSP bridge loan (net from an amortization of US\$ 30.0 MM), which has been applied in January of this year.

### **Impacts GSP**

As we explained above, the impacts registered are based on our best estimate and under the most conservative scenario, meaning, considering the Net Book Value of the investment at 72.25%.

Based on this, I will explain the impacts. The company made contributions for USD 241MM, has assumed the obligation to pay the proportional part of the guarantee of fulfillment of the concession, recently executed, as well as the proportional part of the bridge loan that the project had for USD 129 MM.

According to the estimates of the contributions made, we will have a loss of USD 21MM and both the amount of the letter of guarantee and the proportion of the bridge loan, will be fully recovered. This makes the total recovery amount USD 402MM, equivalent to 95% of all commitments by the company, under the most conservative scenario.

On the other hand, we have the accounting impacts. These are the write offs of the equity value that was being recorded in the financial statements in accordance with the accounting standards for USD 20MM and the discount of the future accounts receivable of USD 4MM, also based on accounting standards and, finally, the deferred income tax for the loss generated by USD 7MM. This makes a total provision of USD 38MM at the end of 2016.

Now I'll turn to Maria del Pilar Sabogal, lawyer in charge of the issues related to the recovery of our investment, to explain what is related to the recovery procedure of the net book value.

### ***María del Pilar Sabogal:***

According to the Concession Agreement, the Government has 12 months to carry out the auction of the Concession since the termination of the Concession. As the termination would operate on January 24, 2017, the 12-month period would expire on January 24, 2018.

As part of the process, the Government must appoint an audit firm of international prestige to determine the Net Asset Value of the Assets. Likewise, the Government could choose to appoint an intervener whose job would be to supervise the management of GSP. Moreover, the Government must define the bidding documents of the contest and the details of the auction process.

Within the 12-months period mentioned above, the Government can make a maximum of 3 summonings, lowering the base price of each call by up to 15% compared to the base price of the previous summoning. This leads to the base prices of the calls being: (i) 100% NBV for the first; (ii) 85% NBV for the second; and, (iii) 72.25% NBV for the third.

After 12 months, the Government must pay GSP the amount obtained in the auction, which, as mentioned, cannot be less than 72.25%. In light of that event, GSP must also transfer the Concession Assets to the Government so that it can transfer them to the new concessionaire.

I'll turn to Luis Díaz, Chief Operating Officer, who will explain the plan to meet these commitments.

***Luis Díaz:***

**Assets Divestment Plan:**

As reported in the relevant information communication on Tuesday 25, the Board of Directors of the Graña y Montero Group approved the Non-Strategic Asset Divestment Plan for an amount of US 300 MM. To this end, as part of management's reinforcement program, Mr. Antonio Rodriguez, Corporate Business Manager, has been appointed to lead a team composed of the Group's workers and external advisors specifically created to achieve this goal.

This aforementioned team will continue the efforts that started in 2016, which already has important advances with interested investors as well as with bidders working with the revenues mandate of one of the assets.

The estimated market value of the 8 assets included in this plan amounts to US 550MM while its book value is substantially lower. As a result of these revenues, the Group expects to reflect significant profits that will strengthen its equity in addition to achieving the primary objective of liquidity. The objective of the group linked to this plan is to obtain up to US 300 MM in cash. The final figure can be reduced depending on the actual needs to be met.

As shown on Slide 13 in the Conference Call presentation, the best estimate of management to date expects the Group to obtain cash of US 51MM in the first two quarters of 2017, US

170 MM in the third quarter and US 99 MM in the fourth quarter as part of these processes. If these estimates were met during 2017, the full financial obligations derived from the termination of the Peruvian Southern Gas Pipeline contract would have been repaid.

It is important to emphasize that in case of this situation, the Group would be the only beneficiary of the amounts recovered in the collection of the NBV estimated at US 402 MM, which would be set aside to continue investing in the sectors of interest of our Strategic Plan.

Now I'll turn to Dr. Claudia Drago who will explain the Communications Plan and the FCPA Action Plan.

***Claudia Drago:***

Good afternoon,

I would like to explain two important plans in which we are working. The first one in relation to our FCPA actions and the other specifically in relation to our communication plan in light of a crisis.

- On the first point, and although we are sure that our executives and workers have not participated in any of the criminal acts confessed by Odebrecht, we have preferred that it is a third independent company that ratifies the above. For that reason, we have hired an audit firm, which will do a forensic review of the 5 projects in which we were or currently are in association with Odebrecht
- In addition, we have hired an external consultant who is expert in the FCPA standard, in order to prepare the records for the projects mentioned above and to work on improving our procedures and controls, especially in relation to our partners and suppliers. This work is currently in execution.
- In addition, the Audit Committee approved reinforcing the internal Compliance area and giving it more capacity; likewise, FCPA training at executive and workers level will be continued, as it was done throughout 2016, seeking greater depth in training and segmenting it for a better understanding. The board of directors is also aware of the importance of reinforcing messages aligned with ethical behavior, what we call "Tone from the top" and that we have been spreading since October 2015.
- It is important to ratify what was mentioned by our CEO, Mario Alvarado, that the company has a Code of Ethics since 1995, a Code of Conduct and a confidential and an Ethical Channel (confidential and independent number to report incidents) which is managed by third parties and that messages about ethical behavior and based on our values, has been a constant in our company throughout these years.

**In relation to the Communication Plan in light of a crisis:**

- The first measure adopted was to call a permanent Crisis Committee, according to the Crisis Communication Handbook, where we analyzed scenarios and made decisions.
- We have hired an expert company in communications and crisis management, with whom we have worked on a communication plan during crisis that is currently being executed.
- We are constantly monitoring traditional media and social networks, we do a daily analysis of publications that mention our brand, we analyze the main scenarios where we are being mentioned negatively and we work and update Q&A daily, prior gathering information in-house that confirms each response that we include in said Q&A; we worked on an institutional message and did some written media and face-to-face interviews with our CEO Mario Alvarado.
- The possibility of giving more interviews is present, but it is a decision that comes from an exhaustive evaluation of the need and the positions that we have to clarify. This process is constant and we have a committed team of communicators and lawyers working on these issues daily.
- In addition, communication with our shareholders, financial entities, customers, partners and, of course, our employees is crucial. We already have people in charge of these plans who are working simultaneously and delivering them our institutional message.
- These actions make the position of the company clear and reduce the negative impacts on the brand.

Now we will move forward to the Q&A session. I'll give the word to Mario Alvarado.

***Mario Alvarado:***

Many thanks to everyone who participated in the presentation.

The questions and answers that we are going to have now will be assigned depending on the degree of specialization that they require in each case. Please go ahead.

***Operator:***

Ladies and gentlemen, we will now begin the question and answer session. If you want to ask a question please press \*1 on a phone; if you are on a speaker, please pick up your headset before pressing the keys. To remove your question press \* 2.

Please wait a moment while we prepare for the first question.

The first question comes from César Pérez Novoa with BTG Pactual. Ahead.

***César Pérez Novoa:***

Good afternoon everyone.

My first question corresponds to the Net Book Value for US\$ 402 million (if I heard correctly). I would like to understand how you come to this value and if this value would be debt free?

On the other hand, in the assets divestment schedule, you address US\$ 300 million as a potential figure – and then you speak of a larger future amount of USD 550 million. Without mentioning names, I would like to understand what types of assets would you be selling. That would be my question. Thank you very much.

***Mario Alvarado:***

Thank you for your question, Caesar.

Let's separate it into 2 parts.

Let me just comment that we have referred to the assets of a total of USD 550 million of non-strategic assets - we will not sell the USD 550 million, we will sell up to USD 300 million. And it is likely to be less than USD 300 million. But we have given ourselves a larger amount in the Board of Directors to have a certain level of flexibility. And if you want to know basically - if there is to be a summary, they are mainly real estate assets.

***César Pérez Novoa:***

I only heard up to USD 300 million and Mario had mentioned real estate assets. I do not know if I missed something there in the middle because the call was cut off.

***Luis Díaz Olivero:***

No, that was it. Now let me get into the detail about the NBV. The net book value (NBV) is the value that reflects all the assets invested in the Concession. Okay? The amount of USD 402 million is not a number that is derived exactly from that NBV.

Let me separate two things: The NBV, again, are the values that are reflected in the accounts of the Southern Gas Pipeline and that are, obviously, linked to everything that has been

invested since July or August of 2014 when the Concession began. That is why Dr. Sabogal presented that the Government has to appoint an intervener to look after those assets and, in addition, an independent audit firm will be hired to validate the value of those assets.

Just as a clarification: there has already been a process done before the reduction of the guarantee from USD 350 million to US \$ 262 million to clarify if the 25% of the investment or construction commitment at that time had been exceeded. There is an established methodology, there is an established process and that has to be logically validated by an external audit firm that has to be accepted by both parties (by us and by the Government).

Moreover, when we did the calculations to establish what the Graña y Montero Group is going to recover, we applied the conservative criterion that Monica mentioned, and we said that we are starting from the minimum guaranteed payment in the contract of 72.25 % of that Net Book Value.

After deducting a series of mechanisms based on an order of preference and recovery that obviously begin with workers and taxes and then deal with the bridge loan facilities guaranteed by Odebrecht, then the partners will be paid back. This distribution allows us to recover, as Monica says, 100% of the guarantee that has been executed, 100% of the bridge loan amounts that we have guaranteed in this transaction and US\$ 221 million of the equity we contributed. USD 220 million of the equity contributed that does not represent the total but almost the 95% of the total investment we have put into this project.

I do not know if this clarifies the question.

***César Pérez Novoa:***

Yes, I'm fine with that. Thank you very much.

***Operator:***

The next question comes from Francisco Suárez with Scotiabank. Please go ahead.

***Francisco Suárez:***

Good Morning. Thank you very much for this call and for this great effort to communicate so much information regarding GSP and congratulations for the initial comments, I think they are very clear regarding the separation of Odebrecht from you.

First, to understand the timing, could there be delays? Because before in a communication you had communicated that you could recover this in a period of 3 years and now mention

a period of 12 months, so I am a bit confused because I do not understand what could happen if they were 12 months or 3 years and I think it is an important topic.

Second, what could happen that could radically affect the Net Book Value of GSP and thus make the expectations of recovery lower?

And finally, to understand well, the sale of assets, unfortunately it seems easier to make it with Infrastructure assets and not to other assets such as Real Estate. But correct me if I am wrong.

Thanks again.

***Mario Alvarado:***

There are several questions.

The first has to do with timing. The contract says it should be in 12 months. We have always taken conservative positions and as relevant information communication we have said that we are prepared for the project to be delayed for up to 3 years. This is not what the contract says. María del Pilar has explained what the contract says, and the contract gives up to 12 months, but you always have to be prepared for situations that could take more time. So that means giving us a deadline or being prepared to manage a maximum delay of 3 years. That's a point that I think is important.

Second, about the Net Book Value, let me try to explain one thing: The Net Book Value is a methodology that was already used at a certain moment and that was already accepted by the Government and through which it was audited, say, this methodology, was verified and that is why the guarantee was reduced when the milestone passed the 25% - the Net Book Value was applied, it was shown that we had already executed 25% - because there was a larger amount - and with that, according to the contract, the guarantee was reduced from USD 300 million to USD 262 million. That same methodology is the one we used – that the Management of GSP used to calculate the current Net Book Value and from there we have taken the conservative position of 72.25%.

One has to be careful about this, because it is true that the bidders who have been in the Odebrecht exit process, which was frustrated by the statements in the United States, or by the acceptance of guilt in the United States, offered more than 100%, therefore we could say today that the interested bidders, if the bid were to happen on time, should offer 100% or more. However, according to the contract, they cannot pay us more than 100%. So, we have taken the conservative alternative of declaring the first auction deserted, declaring the second auction deserted, and also doing all that in a year.

There are many announcements and many interested, in fact it seems to me that yesterday or today, in the newspapers, I do not remember exactly the day, the Minister of Economy

said that he has been approached by five interested bidders. We have seen many interested bidders; the thing is to do the auction process well. This is something new, it is difficult to understand the concept of Net Book Value, but if all of this happened in the right timing, the process could be faster.

I do not know if we have answered your question well.

***Francisco Suárez:***

Yes. Thank you very much

***Mario Alvarado:***

I am sorry, I was missing your question on Real Estate versus Infrastructure assets.

Today we are interested in both assets. There are some infrastructure assets that are considered in the list of total assets and it is true that there is enough interest because it is an area of growth.

***Francisco Suárez:***

Okay. Many thanks.

***Operator:***

The next question comes from Jessy Espinosa, from Profuturo. Please go ahead.

***Jessy Espinosa:***

Hi, how are you?

My question is if you would have the ability to participate in other Concessions in the short term - in the next two years - and what would be the impact on the gross margins of no longer having the Gas Pipeline, especially in the part of Engineering and Construction?

***Mario Alvarado:***

Let's see, the first part is like this: In general, when we make an investment in Infrastructure, we are generally sought after by our ability to execute and that is what we will continue to do. What would be diminished, and what we should be conservative about is on our ability to finance, of what participation percentage we would take in the Concessionaires. In general, the reflection of the results of that is seen many years after because the first thing there is in a concession process is an engineering process, of construction, that implies an investment process and that begins to generate income in the stage of operation, which is several years ahead.

We continue in many processes and we have enough tools, I believe, to be able to continue participating in the processes to come regardless of whether we generate greater liquidity through the sale of assets, we would still participate.

***Jessy Espinosa:***

Okay. Perfect. And on the second question, on the margins?

***Luis Díaz Olivero:***

The Southern Gas Pipeline contract had no margins other than the standard margin on our Engineering and Construction area, so there should be no impact on them; in other words, we do not foresee neither an improvement nor a deterioration of the margins due to the Construction Contract, with which the backlog in general terms will continue to behave as it has behaved until now.

***Mónica Miloslavich:***

And as we have explained in the figures, the gross margin of the company, and if you see it in detail in each of the areas (specifically Engineering and Construction) has improved over the previous year despite the fact that the Gas Pipeline is not included.

***Jessy Espinosa:***

Okay. Perfect. Thank you very much.

***Operator:***

The next question comes from Darío Saldizán with Onyx. Please go ahead.

***Darío Saldizán:***

Good afternoon. Thank you very much for taking my question.

I wanted a bit more information on the contract. There are many references in relation to the conservative numbers that you are using for the calculations, but I wanted to know if there was any probability in the contract that the government has an option to bring up any investigation, any evidence of corruption or anything that might cancel this auction scheme within 12 months and allowed the government to use another mechanism. And if there is such a possibility, if there a clause of the contract that allows that to happen, what would be the solution? arbitration? what scenarios do you see?

Thank you very much.

***María del Pilar Sabogal:***

Let's see, I see that there are two parts to the question.

Regarding the possibility that the Government changes clauses of the Concession Contract to carry out the auction, this should not be the case since the contract establishes that the Concession must be auctioned in the same terms. Any change that the Government could do or could be analyzing to do would have to be coordinated, and with the consent of GSP, so the Concession must be auctioned in the same terms that that of the Concession contract today.

***Darío Saldizán:***

Excuse me. Just to clarify that point. To make it clear. And I apologize if I did not approach it in a transparent or correct way. My question is: is there a clause in the contract, currently, that could lead the government to change the auction scheme that is currently established?

For example: it is proved that Odebrecht paid someone inside ProInversión to win this contract - Graña was not part of the initial group - this was with the initial group. Is there an anti-corruption clause whereby, given the circumstances, the Government could take another path to resolve what would now be solved by an auction?

***María del Pilar Sabogal:***

Let's see, the anti-corruption clause, which is this clause that was widely commented, is the 516 which is a statement among a list of statements contained in the Concession Contract. In turn, the Concession Contract has a clause that states for what causal reasons the Concession ends. One of those causes is the falseness of the statements - one of which you are mentioning on the subject of corruption.

That causal of termination of the Concession results in precisely that, the termination of the Concession and follows the same process of termination as all other causals. There is no difference in the post-termination process, even if the termination was due to corruption.

Now, more specifically, the termination of the contract, as it is publicly known, happened because there was no financial closing, so the reason is already established and the contract has ended because of that causal. So from our side we do not see a discussion on this point.

***Darío Saldizán:***

Perfect. It is clear to me.

Now, another thing I wanted to ask you quickly. The fact that Graña bought the participation and was not in the initial group, allows you to participate in a future tender? Is that correct or not?

***María del Pilar Sabogal:***

The reasons for a potential disqualification are not given according to the date of entry, they are given according to other criteria, but that in the case of GSP do not affect the Graña y Montero Group. Thus, due to the effects of the regulation, the Graña y Montero Group does not have a disqualification as a consequence of the termination of the GSP Concession.

***Darío Saldizán:***

Perfect. Thank you

And the last question I have relates to the asset of the Metro Infrastructure (we will obviously not go into details), but if the Metro or Metro participation were a potential asset to sell within the assets to be sold or in participation, does the prospectus of the bond that has been established have any mechanism that prevents the sale of a stake or not?

***Mario Alvarado:***

Yes, let's talk about the bond.

***Dario Saldizán:***

Correct, about the bond.

***Mario Alvarado:***

Yes. The bond has mechanisms to limit the sale.

***Darío Saldizán:***

Okay. Change of control.

***Mario Alvarado:***

Yes. Exactly, it has mechanisms.

***Darío Saldizán:***

Perfect. Okay. Thank you very much.

***Moderator:***

The next question comes from Alonso Olaechea with Credicorp Capital. Go ahead.

***Alonso Olaechea:***

Hi. Thank you very much for the opportunity to ask this question.

First, I would like to confirm what you told Dario in the previous question about whether Graña y Montero, according to the GSP Concession contract, can participate in public

auctions of the same project? I understand that there is no limitation for other types of projects, but I wanted to emphasize that to make myself clear. I have that doubt.

And the following questions are related to the Engineering and Construction area.

You mentioned in 2016 you have definitely have improved margins compared to 2015, that you had significant losses in some projects. My question is related to the low activity and the low margins that have still had in 2016, since in the last two quarters the gross profit has been lower than, even, the administrative expenses of the area. How do you plan to manage this and how do you plan to manage net debt ratios from the same area, since this level is close to 4 and if we consider the drop in activity with the Gas Pipeline, it could be a bit more complicated?

***Mario Alvarado:***

Let's see, first of all let's separate the question because I think that in the Engineering and Construction area you mentioned that you are concerned about the low activity and on the other hand, about the margins. So in terms of the low activity, what we are looking at is that if we withdraw the piece of activity linked to the Southern Gas Pipeline or executed in the Southern Gas Pipeline, the total number of revenues in the construction company, particularly in the local construction company, which is usually the one that concerns us the most, amounts to USD 360 million.

Now, if you look at the backlog that is already a contract to execute next year, that backlog is much higher than the amount executed in the year 2016. That can be seen in the detail of the backlog, which is presented in the quarterly report we just released to the market.

So, the first question, or the first concern as to whether we are concerned about the activity: No, we are not worried, in fact, we could anticipate from that backlog that there will be more activity in the following quarters and in 2017 in general, at least in the GyM subsidiary that is the one that usually concerns us the most.

Now, I give the floor to Monica who can explain your question on the margins of Engineering and Construction area.

***Mónica Miloslavich:***

Like the Engineering and Construction area in the last two quarters of 2016, the margins have been like this, given the impacts, not because of GyM but because of the construction companies we have in Chile and Colombia, this is where there have been lower results than

those foreseen. The construction company in Peru has been strengthening its margins and improving throughout the year, obviously after the impacts that occurred in 2015.

***Alonso Olaechea:***

To clarify the question on Engineering and Construction. I see that revenues for 2016 were close to (inaudible) - That's over USD 1.1 billion and I see a slightly lower backlog in the area for next year according to what you have reported.

My question is associated with that lower backlog, in relation to last year's sales, let's say it could increase a bit, hold a similar sale or, as you say, be higher. What I am really worried about is the gross profit of the whole area compared to the administrative expenses. If you did not manage to cover them, I would like to know if you have any action plan for the next year or for the following months.

***Luis Díaz Olivero:***

Let's see, let's separate the subject again. The reported backlog of the Engineering and Construction area for the year 2017 is USD 858 million. If you detract from the activity of 2016 USD 140 million that have been implemented or that have been consolidated in the Southern Gas Pipeline, we are already saying that the backlog reported to date is equal to the sale of last year, with which we still have all the contracting and execution capacity from this year to overcome the situation. I think with that we clarify the subject on the activity.

This contracted backlog has standard margins for our area of Engineering and Construction which – let's say - by making an analogy, are around 8% or 9% as gross margin.

As far as we can see, the general expenses of all Engineering and Construction, according to the quarterly report presented, amount to a cumulative... are 251 million soles, which does not represent more than 5% of revenues, with which, the gross profit would definitely reach almost double the administrative costs; which is, in addition, within the standards of Engineering and Construction worldwide.

***Mónica Miloslavich:***

Perhaps what you are seeing is only the quarter, and it is important to look at it cumulatively. The whole year.

***Alonso Olaechea:***

Yes, alright. I wanted to listen to your perspective about it because I see the accumulated gross profit of the year in 245 and the administrative expenses in 250.

It was my concern, but I understand that the margins could be a bit better and have a better activity for the rest of next year. Thank you.

***María del Pilar Sabogal:***

Regarding the other part of the question, regarding the limitation of Graña and Montero to participate in the auction that will be made of the same project, and that a limitation could be established in the Concession contract, the answer is that the contract does not establish a limitation in this regard.

As we said, the rules do not establish, or we would not be involved in a limitation or impediment to participate. Eventually there might be something about it in the bidding documents, but that is something that is not known to date, so we could not be able to comment on that point. However, we have no contractual or legal limitation to date.

***Alonso Olaechea:***

Thank you very much.

***Operator:***

The next question is from Jose Larrabure of AFP Prima. Please go ahead.

***José Larrabure:***

Yes, how are you, good afternoon. I had a question regarding possible effect or contagion towards other projects where Graña may be involved with Odebrecht.

With the case of Chavimochic, I do not know if you could comment on the status and - say I can imagine that it has not been refinanced or I do not know what the impact has been. And also of other projects, for example the Metro Line 1 where the construction has finished but I do not know if you have evaluated from the contractual point of view and if at this point it is possible to make an evaluation of some type of fine, sanction or some type of impact that there could be due to your relationship with Odebrecht in this Association.

***Mario Alvarado:***

We understand that we are in a new world, one we have never seen before. Even the legislation is not clear on this issue, so we would have to speculate a lot.

It is necessary to separate the fact that we had the transaction with Odebrecht for the construction of the platform; we are not associated with them for the operation, which is what we do today. The platform has already been constructed and has its own course of investigation, one that is being denounced from these famous payments Odebrecht made abroad.

The truth is that we think there is no responsibility in the matter, independent of that we will be willing to face all the investigations that are necessary with the authorities.

***Luis Díaz Olivero:***

Adding to what Mario says, today the Metro Line 1 operation contract is a company 75% Graña y Montero and 25% Ferrovías de Argentina, thus these are completely separate issues and were completely separate processes.

Now, in the particular case of Chavimochic, to date, there is a clear statement by both consortium members, both Odebrecht and Graña y Montero, to sell the project.

We have clarified our intention to exit and the Government, for its part, has made public what Odebrecht should intend to do with each of its assets.

Apart from this situation, there is a real contractual situation which is that today there are two specific situations in that project that should be considered: there is an addendum pending signature that we do not know if it is going to be signed or not signed and there are some lands that have to be delivered in order to complete the construction and the project itself. What is also clear, because the government has said so publicly, is that in this particular case there is a failure on the part of the Government, which has to be resolved in the short term or the contract can be terminated.

So, clarifying, Graña y Montero's intention is to exit, regardless of what Odebrecht ends up doing and obviously it now depends a lot on what the Government wants to do, but legally we have the possibility of terminating the contract and leaving it where it is.

***José Larrabure:***

Thank you. One additional question. Regarding the accounts receivable, we see that the period has expanded. Are you seeing any kind of impairment in the accounts receivable in everything that is with Engineering and Construction?

***Mónica Miloslavich:***

No. We do not estimate any impairment in the accounts receivables that we have recorded in the accounting. During the year, a significant recovery has been made.

I think it would be interesting to analyze it and we can then share information, separating what comes from the Gas Pipeline itself (the accounts receivable coming from there) versus the rest of the business or GyM contracts. But we do not see problems of impairment in any of the accounts.

***José Larrabure:***

Okay. Thank you.

***Operator:***

Remember: if you want to ask a question please press \*1.

The next question is from Jean Pierre Fourmier with ASB. Go ahead.

***Jean Pierre Fourmier:***

Good afternoon. Thank you very much for the call.

I have a question on what you commented about the financial aspect of the balance, that the margins are not very affected for the businesses that you have in the Engineering and Construction area but the ability to take on debt can eventually affect the growth of the company. You said that basically in the next 12 months there is an asset divestment plan for up to USD 300 million and a program already prepared but I wanted you to tell me about a plan B. What happens if you do not get to sell these assets, or if there is a delay in the cash generation in that way. I am interested to know what have you discussed with the banks, what financial conditions would they be assuming and in any case the options that the company would take to be able to face those financial obligations.

***Mario Alvarado:***

Let's see, there are three parts that I will try to answer:

First, we should have, given the period established in the contract for the 12 months, waited for the collection of the Net Book Value that we have described in USD 402 in favor of the company and that should occur contractually within the next 12 months. However, we are not protecting our financial plan in the expectation of this collection but we have rather made available up to these USD 300 million to be able to accelerate, separate and guarantee to our financial creditors that this debt will be attended independently of this process of the NBV. But, if there was a partial sale, obviously what is going to happen is that it will have to accommodate the financial plan a little more to be able to serve our creditors.

Now, right now the specific conditions of those US\$ 299 dollars are separated into 3 relationships: the first, which is USD 150 million structured with Credit Suisse - we have talked to Credit Suisse and we are waiting for their confirmation, that the terms and financing conditions are maintained as originally agreed in 5 years; and the following week we have some meetings already scheduled to continue the talks with the banks from the bridge loan of the Gas Pipeline and with the Chubb Company that was the one that has honored the guarantee of fulfilment, in order to be able to finish the payment schedule negotiations in order to repay these debts.

Obviously, we preferred to approve the divestment plan and approve the financial plan we presented today before finalizing these negotiations because we needed the authorizations of the competent bodies of the Group to be able to have those assets available for sale and to be able to present a coherent plan. So, I suppose when we have a confirmation of what the terms are, we will publish the terms agreed upon with these creditors.

***Operator:***

The next question comes from Flor Felices de Inteligo. Please go ahead.

***Flor Felices:***

Good afternoon. My question is about the assets you mentioned you would sell according to the plan. Are these assets, both real estate and infrastructure, free of pledge or are they pledged in some way? Thank you.

***Mónica Miloslavich:***

Within the assets that are considered in that total, a couple of them are given as collateral and in any case if they are sold, they apply to the corresponding obligation. In any case it is part of these same operations that Luis mentioned - of these three commitments.

***Flor Felices:***

Okay. Thank you

***Operator:***

Again, if you have any questions, press \* 1.

The next question comes from Odeth Solomon of Prima AFP. Go ahead.

***Odeth Solomon:***

Good afternoon. Thanks for the call. I had a query on whether we can be given more detail on the USD 38 million provision: what part - or rather, what is inside the USD 21 million registered in administrative expenses on these provisions and also on the package of assets to sell - that is, can you give me a percentage of how much is real estate?

***Mónica Miloslavich:***

Ok. Let's see, in the presentation when we showed the sheet with the results, each line was disaggregated and showed how these impacts have been applied as a consequence of the termination of the contract.

The first amount, USD 21 million, which is the part that we would not recover from the contributions made, that is, USD 241 million less USD 220 million give us USD 21 million. The accounting rule requires that number to be recorded in the overhead line.

The second amount is the calculation of the discount of the future accounts receivables. All that money that we will recover will be registered in an account receivable in the company. The accounting standard, again, forces that amount to be discounted to present value at an established market rate. Those are the USD 4 million that have been registered in the line of income or financial expenses.

The third impact is a fully accountable impact. By accounting standards, we were recording 20% of the GSP profit in the financial statement of the Group in the line of participation in

associates. When canceling or terminating the contract we have to extort that record. That's USD 20 million.

And finally, since this loss is recoverable over time, the rule also allows us to make a provision for deferred income tax, which is USD 7 million.

The sum of these 4 concepts gives us USD 38 million net as a provision for the effects generated by the termination of the contract.

Have I clarified your doubt?

***Odeth Solomon:***

Yes. My next question was more about the assets package: the assets are real estate, but also infrastructure, do they have a proportion to have a clearer idea?

***Mario Alvarado:***

More than 60% are real estate assets.

***Odeth Solomon:***

Thank you.

***Operator:***

The next question comes from Lucía Calvo Pérez with Credicorp Capital. Go ahead.

***Lucía Calvo Pérez:***

Hi, how are you and thanks for the question.

In the event that the Consortium receives the guaranteed minimum payment of the Net Book Value of 72.25 million, you told us that you would recover more than 95% of the total commitments that include the invested capital, the corporate guarantee for the bridge loan, and the guarantee of fulfilment. My question is: what part of the Net Book Value is incorporated by the guarantee? Because I understood that it was a cost associated with breach of the Concession contract.

**Mario Alvarado:**

It is not included in the Net Book Value. One thing is how the Net Book Value is calculated and another thing is what is done with the funds coming from that payment.

**Lucía Calvo Pérez:**

Of course, because if you can only recover a maximum of 100%, then I am not clear about the calculation of the 402 million that you have calculated to recover.

**Mario Alvarado:**

When you share the Net Book Value of an amount, there is an order of preference and a number of payments that must be attended. Among these, the bridge loan is attended in its totality, whether it is paid directly by the partners (as we are buying ourselves) or through what the banks that could not receive that money today have pending to collect; then there would be the credits that some partners have over others, which generates an order of preference where the guarantee is included.

Okay. So here is an order of preference agreed between the shareholders of GSP that will set the rules on how that 72.25% is distributed and we are clearly in this process before Odebrecht's credit balance and that is why we recover a high percentage of the investment.

**Lucía Calvo Pérez:**

Thank you.

**Operator:**

This concludes our Question & Answer session. I would like to turn the conference back over to Mr. Mario Alvarado for any closing remarks.

**Mario Alvarado:**

Well, I want to thank everyone for their participation. It is obvious that we are going through a difficult time and what we want to assure you is that we will face it with a lot of strength and energy and we will be working as we have always done: in a transparent, ethical way



and we are going to achieve our aim of recovering all the level of prestige that we had and that is being hit in these moments.

Thank you very much!

***Operator:***

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.