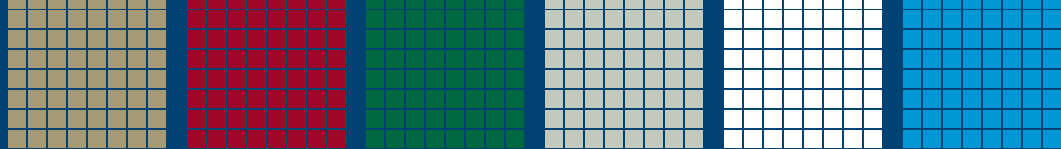


GRANNA Y

MONTAÑO

GRUPO

2006



TUANING

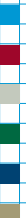
EXPE-

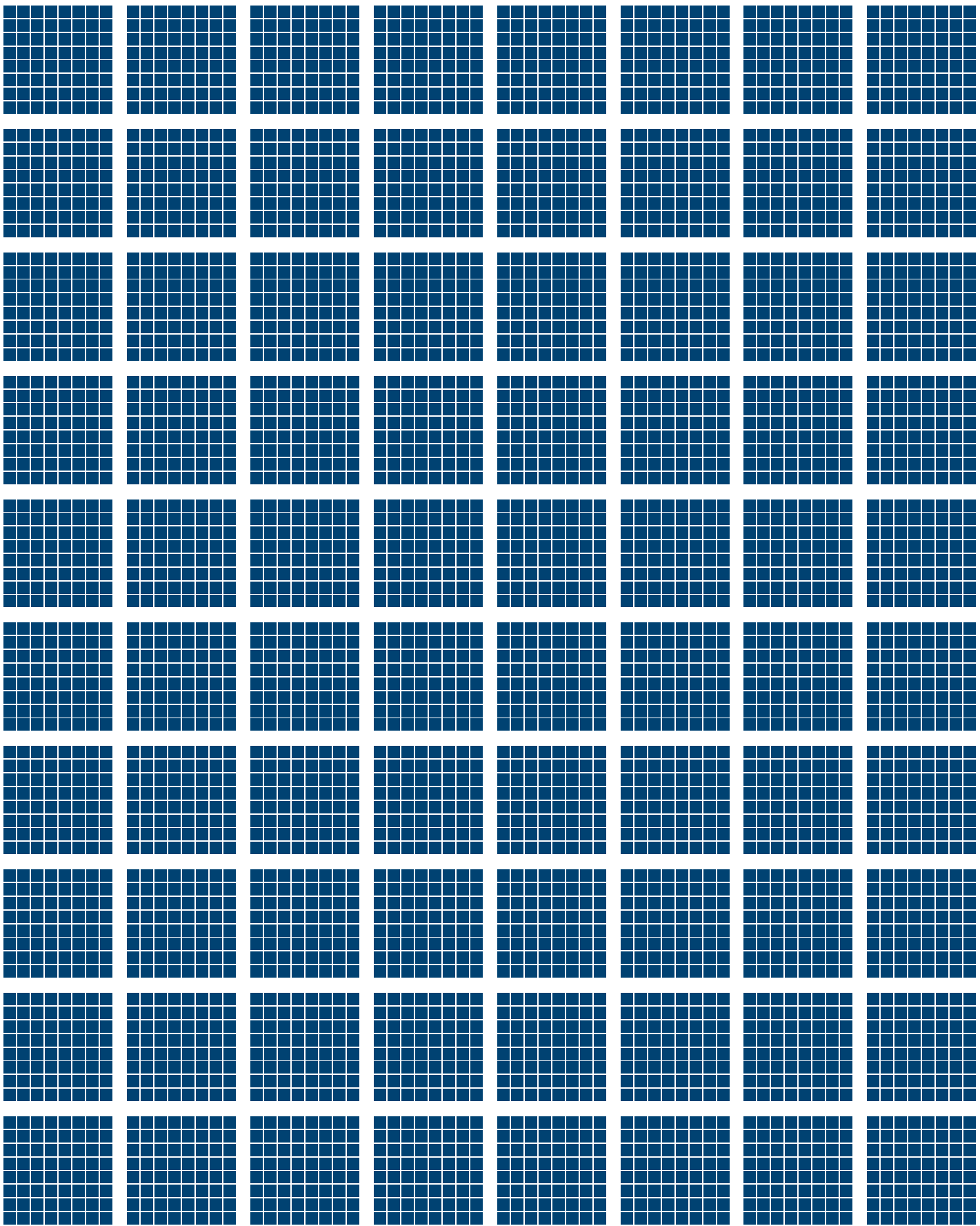
RIANCIAS

INTO

WOW-

LEGE





### Liability Statement

This document contains true and sufficient information on the operations of Graña y Montero S.A.A. during the year 2006.

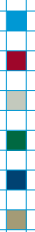
Notwithstanding the liability of the issuer, the undersigned assume responsibility for its content in accordance with the applicable legal provisions.

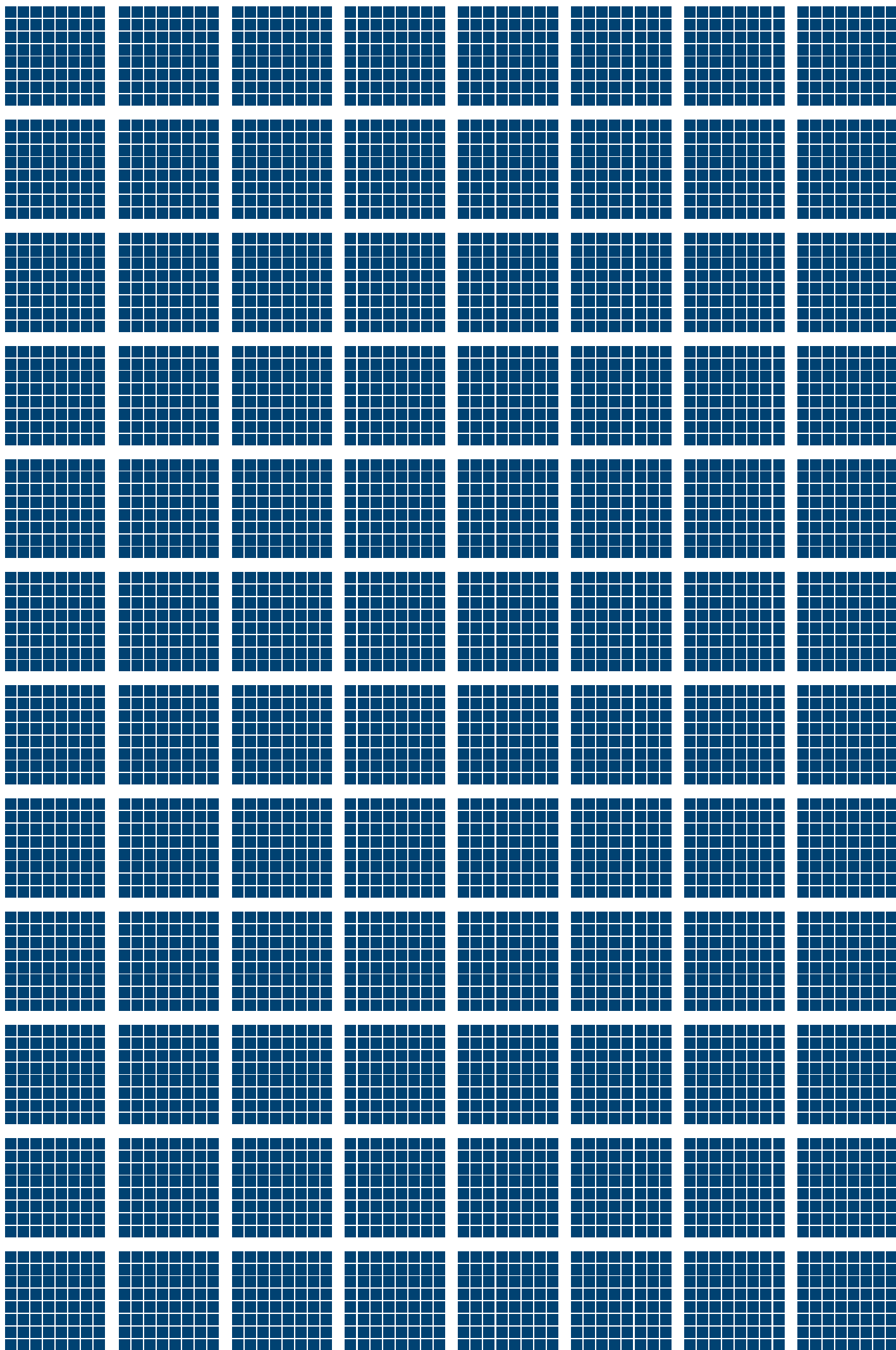
**Mario  
Alvarado  
Pflucker**

Corporate  
General  
Manager

**Gonzalo  
Rosado  
Solís**

Corporate  
General  
Accountant





Letter to the Shareholders

Developing new professional skills

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Source of experience and knowledge

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Larcomar  
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Experience within everyone's reach

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# Turning experiences into knowledge

**Knowledge management has become the core theme for the Group's future development, in order to ensure its growth and continued existence.**

**With the growth that we are experiencing and the greater sophistication of the projects we are undertaking, knowledge management has become of paramount importance. The knowledge of each professional in the group, as well as that of the organization as a whole, must be well managed so as to turn our experiences into knowledge.**



## Key Figures 2006

32

### Constant Values in Thousands of New Soles as of December 2006

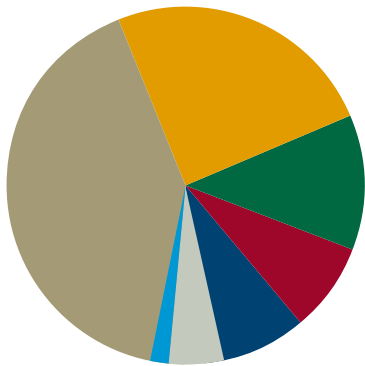
	2003	2004	2005	2006	Equivalent USD Thousands
Activity	807,571	840,974	931,666	1,320,849	413,153
Turnover	811,200	833,731	910,454	1,188,813	371,853
Gross Profit	124,290	141,991	183,826	272,755	85,316
Profit before worker's share and income tax	24,461	47,460	72,741	174,373	54,543
Net Profit	8,034	17,515	32,724	104,918	32,818
<b>OIBDA</b>	<b>135,540</b>	<b>147,502</b>	<b>180,860</b>	<b>275,603</b>	<b>86,207</b>
<b>Number of Professionals</b>	<b>643</b>	<b>984</b>	<b>1,286</b>	<b>1,380</b>	

**Graña y Montero is a group of 6 companies that provide Engineering and Infrastructure Services, with over 1300 professionals and operations in 4 Latin American countries.**

Its mission is to satisfy its clients' needs for Engineering and Infrastructure Services beyond contractual obligations, working in an atmosphere in which personnel are motivated and are able to develop, respecting the environment in harmony with the communities in which it operates, while ensuring a return for its shareholders.

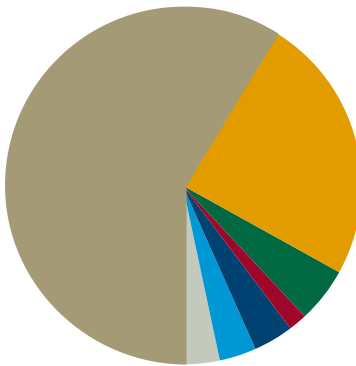
Its vision is to be the Engineering and Infrastructure Services Group with the highest compliance rates in Latin America.

**Activity by Sector 2006**



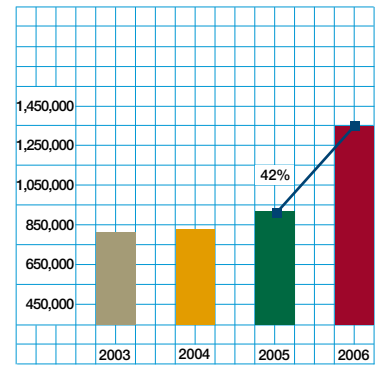
Mining	44.1%
Energy and Petroleum	24.6%
Construction and Industry	12.11%
Technology	6.64%
Infrastructure	6.22%
Public Sector	4.78%
Entertainment	1.47%

**OIBDA by Subsidiary**



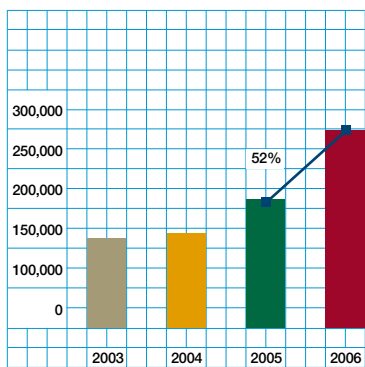
GyM S.A.	59.08%
GMP S.A.	24.09%
GMD S.A.	4.94%
GMI S.A.	1.78%
Concar S.A.	3.72%
Larcomar S.A.	3.31%
Graña y Montero S.A.A.	3.09%

**Activity**  
(S/. Thousands)



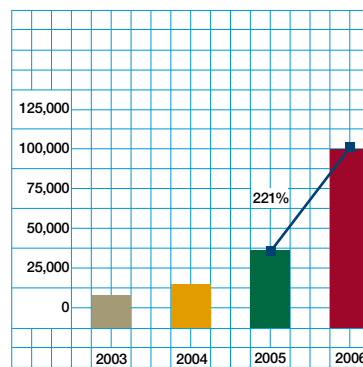
2003	807,571	
2004	840,974	
2005	931,666	
2006	1,320,849	42%

**OIBDA**  
(S/. Thousands)



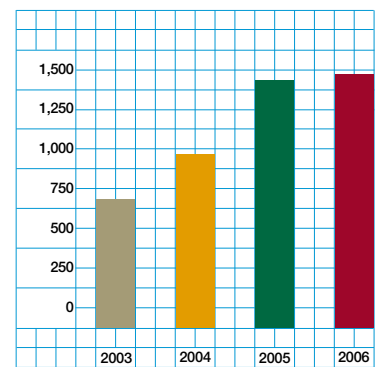
2003	135,540	
2004	147,502	
2005	180,860	
2006	275,603	52%

**Net Profit**  
(S/. Thousands)



2003	8,034	
2004	17,515	
2005	32,724	
2006	104,918	221%

**Number of Professionals**



2003	643
2004	984
2005	1,286
2006	1,380

## Letter to the Shareholders

32

### Dear Shareholders

We are pleased to present the excellent results obtained for the year 2006, the best year in the history of the Group.

In fact, sales as well as profits are the best in the history of the Company, which was founded 73 years ago as a construction company and has now become a diversified Engineering Services Group involved in other activities such as Petroleum, Systems and Highway Concessions.

Activity for the year amounted to 413.15 million dollars with growth of 42% over the previous year and net profits exceeding 32 million dollars, which is three times the figure for the preceding year.

Most importantly, these results have enabled us to fulfill our plan to consolidate the Group from a financial point of view as well as in the strategic aspect. We have managed to reduce the net debt 50%, ending the period with a cash reserve of 30 million dollars. This permits us to program our strategic investments adequately, with the objective of becoming a more structurally solid group, growing mainly in

long-term business in the areas of Hydrocarbons, Infrastructure and Mining Services.

During the year 2006 we made noteworthy progress on these investments. Early in the year, we signed an agreement with the Electric Company of Piura ("Empresa Eléctrica de Piura") in order to acquire its Natural Gas business, with a commitment to build a new Fractioning Plant in Talara requiring an investment of approximately 14 million dollars. In the month of April, we initiated a concession contract for the operation and maintenance of the Northern IIRSA Highway from Paita to Yurimaguas that, with its 960 Kms., is one of the longest in the world; and in the month of November, we won the contract bid for the Buenos Aires-Canchaque Highway, which is the first concession related to a major program called "Costa-Sierra" (Coast-Highlands).

In addition to these new, long-term business projects, our traditional business has continued growing and becoming increasingly more sophisticated. During the year we executed the new Concentrator Project at Cerro Verde, the San Cristóbal Mining Project in Bolivia and the Detailed Engineering for the San José Mining Project in Argentina; and other projects were initiated, such as the new Camisea





José Graña  
Miró Quesada

President

**“ At Graña y Montero, we have always understood that knowledge management is one the guiding principles of the Group’s strategic development”**

*– José Graña Miró Quesada*





Mario Alvarado  
Pflucker

General  
Manager

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**“We quickly noticed that we learned from preparing courses as well as teaching them, and then the internal educator would become a reference source for inquiries”**

*– Mario Alvarado Pflucker*

33

II Gas Separation (Flume) plant and the Software Design Service for the Oficina de Normalización Previsional (Office of Pension Standardization) systems.

These contracts enabled us to close the year with a 591 million dollar contract backlog.

The aforementioned figures and the contract portfolio demonstrate the success of the Strategic Plan.

However, we are aware that soon we will be celebrating our 75th anniversary, thanks to the prestige earned over so many years. Therefore, the fact that this development can continue only if it is accompanied by an effort to strengthen our Values of Quality, Compliance, Reliability and Efficiency is taken into consideration in the Strategic Plan. Considering that our growth must be based on the enhancement of the business skills of the over 1300 professionals who work for the group, we have created a program called "Learning to Grow", through which 80,478 man hours of training have been imparted over the past year, making Knowledge Management a key element of the Group's strategy.

This strategic development has clearly placed us in a leadership position in Peru and in a situation where expectations are high. This past year Peru had democratic

elections which allow us to expect quite favorable economic forecasts for the coming years; and our group has been able to develop valuable skills and experience in carrying out the type of infrastructure projects that the country will need for its growth, permitting us to look toward the future with great optimism.

Before closing, we would like to point out that in 2006 our company obtained the Award for the Best Annual Report in the Corporate Governance contest held by UPC, which is a clear acknowledgement of our commitment to Transparency, correct information for our shareholders and best practices in Corporate Governance.

Lastly, we would like to thank our clients and workers for permitting these successes that bring us such good prospects.

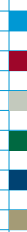
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**José Graña  
Miró Quesada**  
*President*

**Mario Alvarado  
Pflucker**  
*General Manager*

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DOVE  
LOPPING  
NEW  
PROFESSIONAL  
SHITLES

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8

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8



# Diversification

Over 20 years ago, we adopted a diversification strategy in order to increase the stability of our business without distancing ourselves from our basic knowledge; so we zeroed in our efforts on turning the company into an Engineering and Infrastructure Services Group. Today, what was once a construction company has become a group of 16 companies clustered in 6 operating companies, thereby achieving the objective of having the new companies generate over half of the operating profits of the Group.

# GMD



**GMD**  
the **Information Technology Services** company, that has a Technological Operations Center for outsourcing systems services.



**GMI**  
the **Engineering Consulting** company that has a subsidiary specializing in Environmental Engineering called ECOTEC.

# GMI







# GMP

## GMP

the **Petroleum Services company** that provides well drilling services for third parties, operates two petroleum fields in northern Peru and has formed Consorcio Terminales, a consortium with Oiltanking of Germany for the operation of fuel terminals in Peru and Bolivia. During 2006, a Natural Gas Fractioning Plant was acquired in Talara.

# GyM



## GyM

the original construction company, which has four divisions: **Electromechanics, Civil Works, Buildings and Real Estate.**



## CONCAR

the company specializing in the **operation and maintenance of highways** in concession.

# concar

## LARCOMAR

the company that operates **Larcomar Entertainment Center** in the Lima district of Miraflores and that recently opened its Fashion Center.

# Larcomar



## Concessions

In recent years we have been successful in our objective of ensuring the stability of the Group by developing knowledge and skills in design, construction, finance and the operation of Infrastructure Concessions, which is clearly the way that large projects will be carried out in the future.

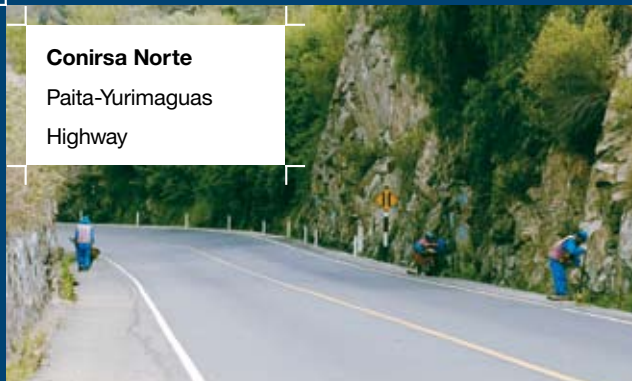
The Builder-Concessionaire model generates extensive synergies between the different business lines of the Group. In the economic aspect, the cycles of concessions are long-term, sometimes 60 years, in comparison with 1 or 2-year construction contracts. Lastly, although concessions are capital intensive, they produce greater margins that are far more stable, using capital stemming from construction which requires less capital. In operations, the two areas strengthen and complement each other in their execution and maintenance.

Currently, we own shares in the concession companies listed below.

### CONIRSA NORTE

A company that began the construction of the 980 Km Paita-Yurimaguas Highway in 2006.

**Conirsa Norte**  
Paita-Yurimaguas  
Highway



### CONIRSA SUR

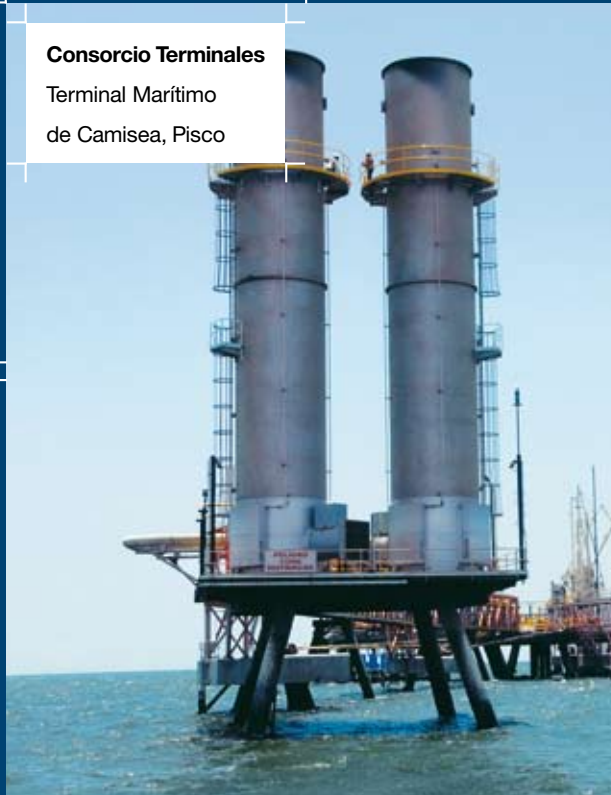
A company that began the construction of the 2nd and 3rd sections of the Interoceanic Highway to Brazil in 2006.

### Consorcio Terminales

Terminal Marítimo  
de Camisea, Pisco

### CONSORCIO TERMINALES

in association with Oiltanking of Germany, which operates fuel storage terminals in Peru and the Camisea Loading Dock in Pisco, and is completing new Sodium Sulfhydrate Storage and Dispatch facilities at the Matarani Port.





**CONCAR**

concessionaire of the Arequipa-Matarani highway and the Ovalo Gutiérrez parking garage in Miraflores, and operator of the northern Lima highway and the northern IIRSA highway from Paita to Yurimaguas

**Norvial**

Operación de la Carretera Huacho-Pativilca



20

**CLHB**

Hydrocarbon Logistics Company of Bolivia (Hydrocarbon Logistics Company of Bolivia), is also operated by Consorcio Terminales. This company is included in the Bolivian Decree of Nationalization of Hydrocarbons, which has not yet been implemented.

**TGP**

(Transportadora de Gas del Perú), the company that won the contract bid for the construction of a transportation and distribution system for Camisea gas.

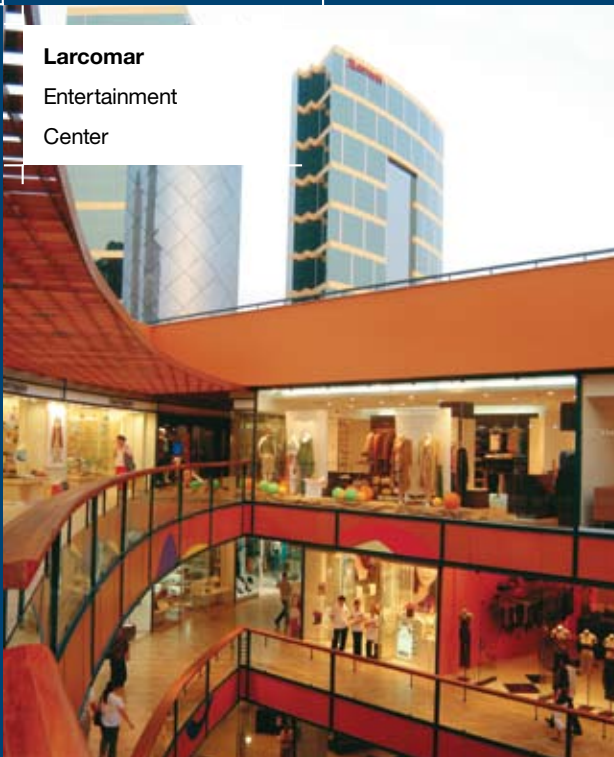
**NORVIAL**

Concessionaire of Road Network No. 5, the Northern Lima highway from Ancón to Pativilca.

20

**Larcomar**

Entertainment Center



**CANCHAQUE**

The future concessionaire for the Buenos Aires Canchaque Highway, contract bid awarded in November of 2006.

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**LARCOMAR**

Concessionaire of the Larcomar Entertainment Center in Miraflores.



# International Development

Throughout the year, our Group has had contracts in four other countries as a result of a decision we made some years ago to strive to develop business outside of Peru, due to the need to be competitive internationally rather than in a single market.



## BOLIVIA

GyM is finishing work on the Construction and Assembly of equipment for the San Cristóbal Polymetallic Mining Project in the Potosí area.

Through CLHB, in association with Oiltanking, we operate the fuel Transport and Storage system in Bolivia.



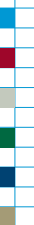
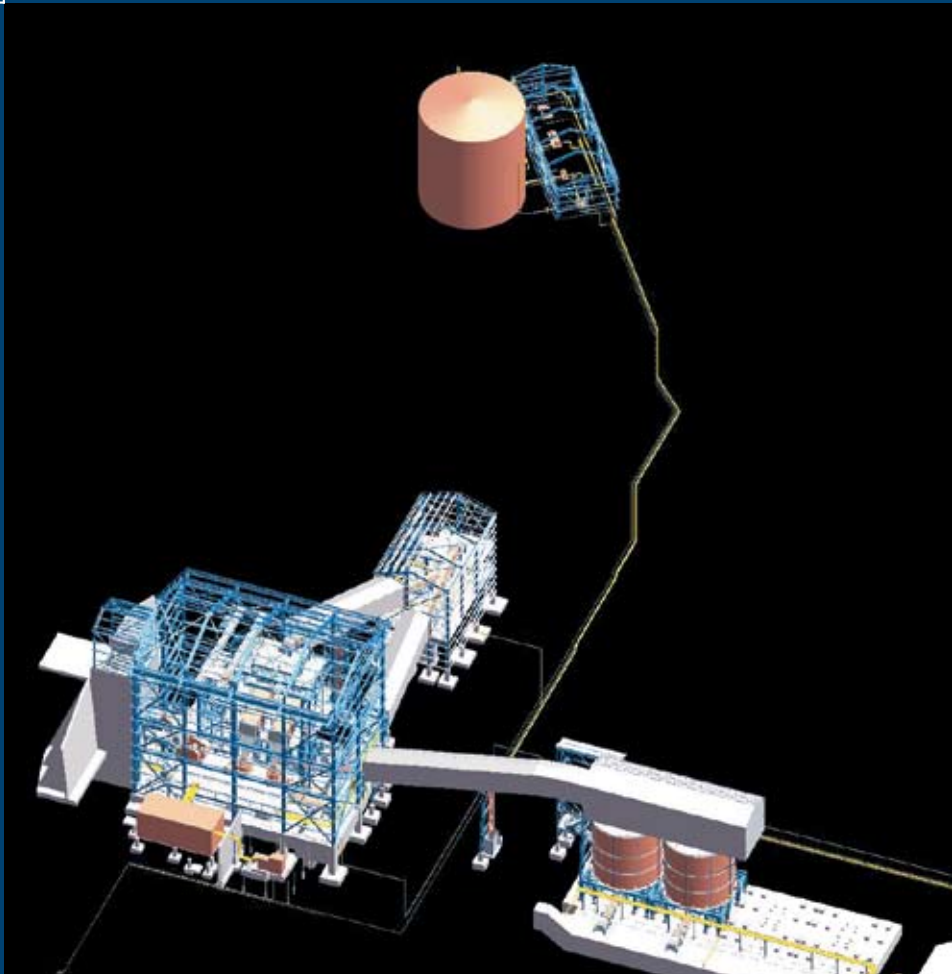
**REPÚBLICA DOMINICANA**

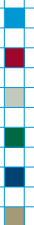
GMI supervises the Ciudad Colonial (Colonial City) Shopping Center, property of Sol Meliá Group, and manages the 1800-room Palace Resorts Hotel Project in Punta Cana.



**ARGENTINA**

GMI is in charge of the Detailed Engineering for the San José Mining Project in the province of Patagonia, Argentina.





SOURCE

OF

EXPER-

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AND

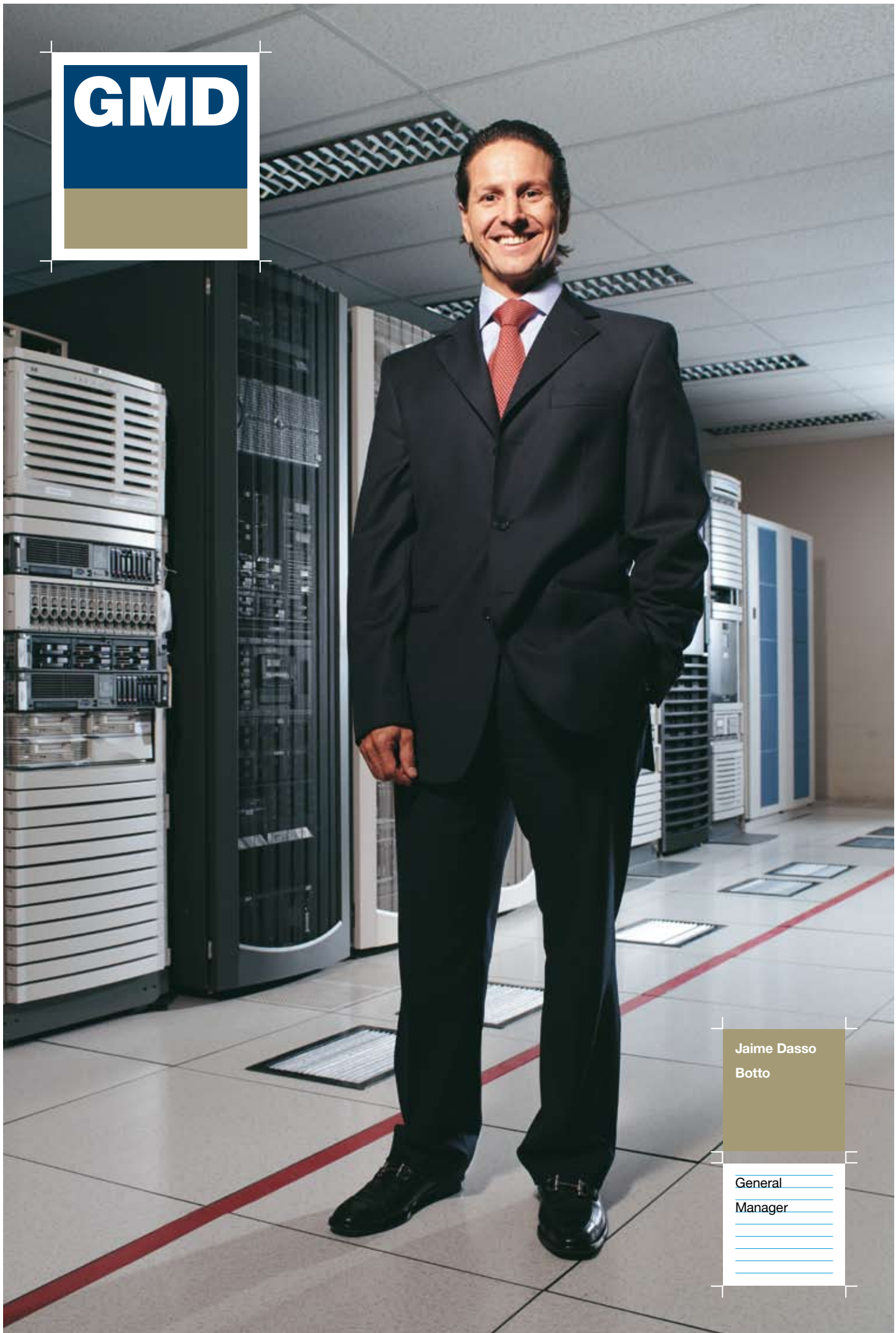
8

KNOW-

LEDGE

8





Jaime Dasso  
Botto

General  
Manager



**“The projects we carry out today are increasingly sophisticated and complex, and they provide us with a new set of experiences and knowledge”**

*– Jaime Dasso Botto,  
General Manager*





**GMD**

## Information Technology Services

In the year 2006 GMD increased its market share in Outsourcing and Technological Services, and consolidated its leading position in the Software Factory business. These results have enabled us to improve our financial position and lay the foundations for solid future growth.

The total activity of the company for the year was US\$ 33.17 million, which represents growth of 13.75% with respect to the year 2005 and the EBITDA margin was 14%. During the year investments of US\$ 1.9 million were made for the purpose of maintaining the growth of the Outsourcing business and following the strategy of executing projects with stable flows.

The activity generated by the Outsourcing and Software Factory business amounted to US\$ 21.83 million, which accounts for a 15% growth compared to the year 2005 and 67% of the total activity of the company. This growth only validates our vision and further consolidates our leadership in this market segment. In the business of technology sales,

GMD had 30% growth, maintaining the profitability of the previous year in accordance with the planned commercial selectivity strategy.

During the year 2006 GMD was able to renew and expand 100% of the Outsourcing and Technology Service contracts, in addition to being recognized once again by our partners – Cisco Systems, Hewlett Packard and Microsoft – as their major partner in the country.

In 2005 a Human Management strategy aimed at improving the workplace climate, identifying competencies by role, assessing performance and recognizing adherence to our values, permitted a 14% improvement in the workplace climate, definition of the profile of a GMD employee and simplification of the organizational structure. The GMD intranet, including human, commercial, project and administrative management, was implemented during the year, allowing us to improve communication between the company and our collaborators. During 2006 GMD reaffirmed its commitment to Quality Management, renewing the ISO 9001 certification in all its processes and raising the software factory level to CMMI-3, thereby guaranteeing reliability and quality in the development and maintenance of software.

### Sector Industria y Comercio

#### 26 empresas

#### del Grupo Romero

Ampliación del contrato actual hasta el año 2009.

Outsourcing Integral de Tecnología. Aplicación de Notas SAP en Servidor de Desarrollo R/3, Soporte Basis de SAP.

#### Avícola San Fernando

Renovación y ampliación del contrato hasta el año 2010. Outsourcing Integral de Tecnología y Soporte de los Sistemas Oracle Suite.

#### Backus

Renovación del Outsourcing del sistema comunicaciones y Outsourcing del Servicio de Help Desk a nivel nacional.

#### Grupo Hoschschild

Outsourcing del Servicio del Help Desk a nivel Regional. Migración y soporte SAP. Consultoría en seguridad de TI.

#### Cía. Minera Antamina S.A.

Portal Web Corporativo, Configuración de Project Server y Generación de Reportes.

#### Minsur S.A.

Soporte a la Operación de SAP, Metodología de Procesos.

#### Suez Energy Perú S.A.

Consultoría SAP – Reportes de Flujo de Caja, Configuración y desarrollo de Sales & Distribution, Reportes de seguimiento.

#### Cementos Pacasmayo

S.A.A. Cobranzas Intercompañías, Consultoría Técnica y Funcional SAP, Reporte de Saldos y Movimientos Bancarios, Control de Créditos por Proveedor.

### Sector de Telecomunicaciones

#### Telefónica

Software Factory Sistemas ATIS: Atención de Clientes, Facturación y Cobros e Integración.

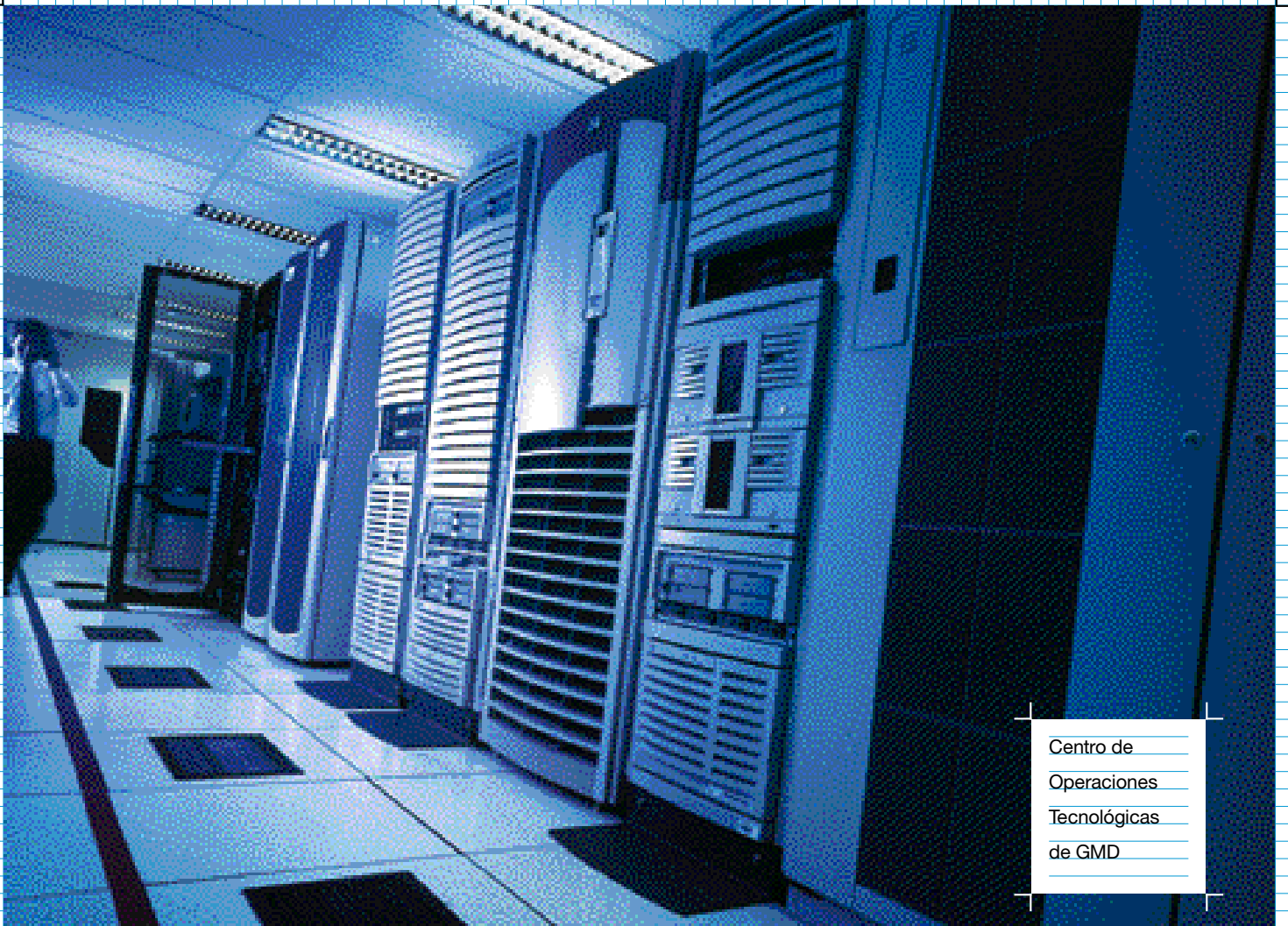
#### Terra Networks Peru S.A.

Generación de avisos de cobranza, Migración de Base de datos de clientes.

#### SITEL

Plataforma Telecomunicaciones para Servicio de Carrier de Telefonía.





Centro de Operaciones Tecnológicas de GMD

10

### Sector Industria y Comercio

#### ONP

(Oficina Normalización Previsional): Software Factory de DyM II, Outsourcing de los DataCenters y atención a usuarios y Outsourcing del Archivo.

#### SUNARP

(Zona Registral IX): Outsourcing integral de mesa de ayuda.

**SBS** (Superintendencia de Banca y Seguros): Implementación de Telefonía IP Cisco.

### Banca y Finanzas

#### AFP Integra

Software Factory, Mantenimiento evolutivo, correctivo, perfecto y adaptativo, extracción de datos, gestión de consultas y soporte de aplicaciones: Recaudación, Beneficios,

Afiliaciones y Traspasos, Inversiones, Contabilidad, Acreditación, Estado de Cuenta, Sistemas Web

#### AFP Horizonte

Outsourcing de Mantenimiento de Aplicaciones: Gestión Provisional, Ingresos, Administración y Recursos Humanos. Apoyo a la Implementación

de Plataforma Unificada y Sarbanes Oxley (SOX).

Desarrollo de Proyectos: Multifondos, Planes de Permanencia, Portal Único de Recaudación, Desigualdades Mínimas.

#### HSBC Bank Perú S.A.

Implementación del Sistema de operaciones de arrendamiento financiero (WINLEASING).

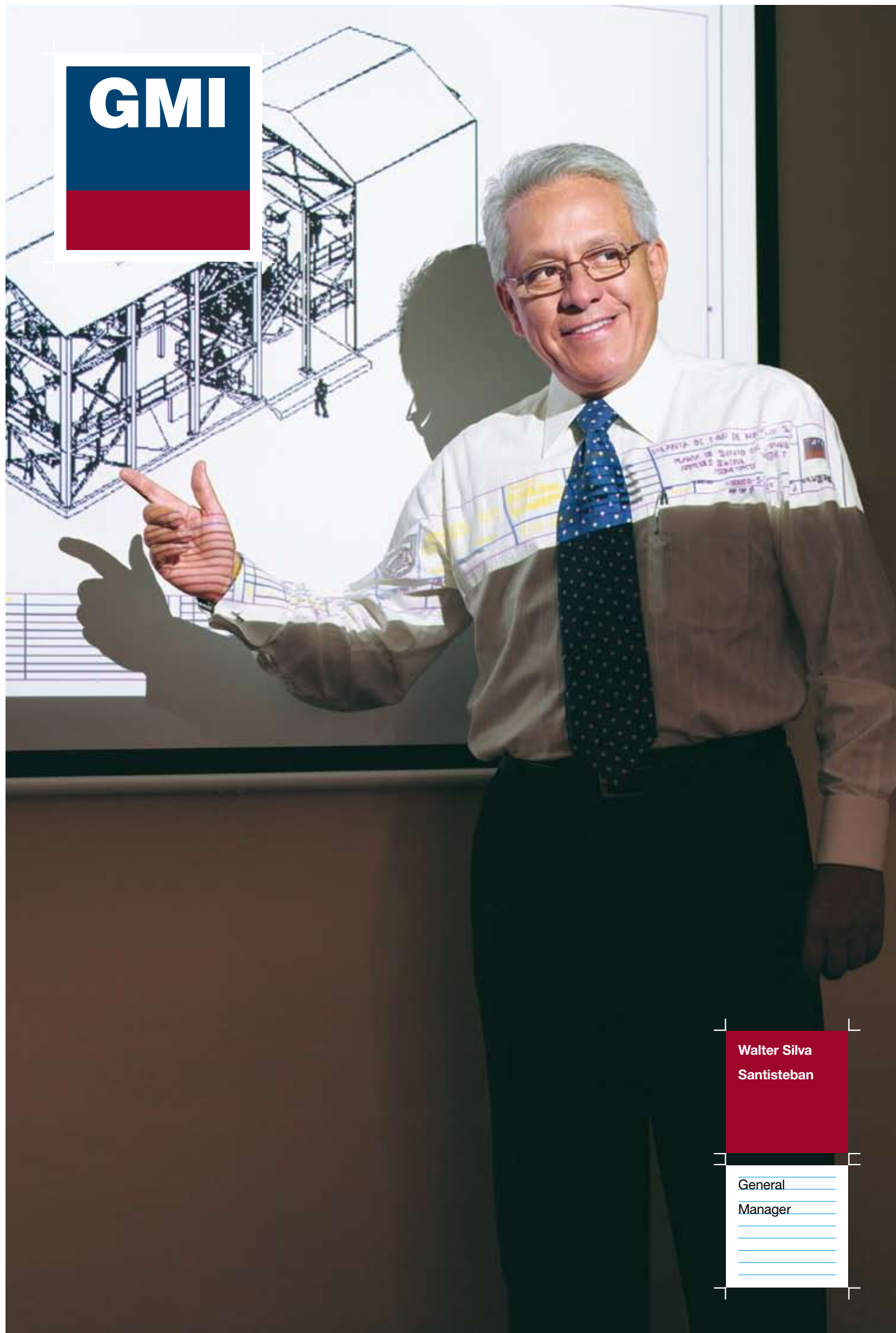
#### Banco Financiero del Perú

Implementación del Sistema de operaciones de arrendamiento financiero (WINLEASING).

#### El Pacífico Vida S.A.

Consultoría Gestión Documental (Filenet) para la Gerencia Actuarial y la Gerencia de Contabilidad.





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Walter Silva  
Santisteban

General  
Manager

10

10



**“At GMI, our services demand experience and knowledge, which led us to identify, retain, organize, apply and disseminate the lessons learned”**

***– Walter Silva Santisteban,  
General Manager***



## Consulting Engineering

For GMI it has been an important year in terms of the advancement of our consolidation strategy in the Mining Sector. We continued providing our Engineering services through framework contracts with Cía. Minera Antamina and Minera Cerro Verde, and entered into a new framework contract with Rio Tinto Minera Perú Limitada S.A.C.; simultaneously, new projects were initiated with already established clients such as Cía. Minera Volcán, Minera Yanacocha S.R.L., Doe Run Peru and Minsur, as well as with new clients such as Marcobre S.A.C. and Bear Creek Mining Corporation. Additionally, as part of our strategy of diversification into the Hydrocarbons sector, this year we signed framework contracts with Repsol and Pluspetrol.

Our sales totaled US\$ 9.6 million, which represents growth of 48% compared to the previous year, with an operating profit of US\$ 1.4 million. The year ended with a backlog of US\$ 6.4 million and predictable flows of US\$ 4.2 million.

Regarding our international activity, we successfully culminated the detailed engineering for Minera Santa Cruz's Gold Concentration Plant in Argentina, having dedicated 614,130 man hours, and the supervision of the Palma Real Shopping Center in Punta Cana, Dominican Republic.

Likewise, we started out the supervision of Club Meliá Paradisus Punta Cana for Sol Meliá. For the Mexican chain, Palace Resorts, we continued supervising its first 1875-room hotel in the Dominican Republic for the second year.

Part of the GMI's strategy is the implementation of new technologies and procedures in order to remain at the forefront of the industry, as well as on-going training of its personnel, to which 5,760 hours have been dedicated over the past year.

In 2006 efforts were focused internally on the development and implementation of Improvement Plans, which led to greater efficiency in the Document Control Department through the implementation of SISDOC, its own Document Control System; additionally, the Knowledge Management Portal was implemented and ISO 9001-2000 Certification in "Engineering Consulting Services" was obtained in relation with our Quality Management System.

### Sector Minería

#### Compañía Minera

##### Antamina

Bajo el Contrato Marco de Ingeniería se desarrollaron aproximadamente 50 proyectos entre los que podemos mencionar:

- Ingeniería Conceptual Variante a Laguna Canrash
- Proyecto Nuevas Facilidades Yanacancha
- Proyecto ampliación capacidad Planta de Nitrógeno
- Revisión de Estándares y Especificaciones
- Optimización del sistema de reactivos 3ra. Etapa
- Nuevo Taller Bahía de Llantas
- Mejoramiento del Sistema Contra Incendio

- Línea de Retorno de Agua Seepage Tucush
- En Geomática el Monitoreo Topográfico para el control de estabilidad de taludes en la carretera de acceso a Antamina así como la Topografía de Mina. Primer Contrato Marco de Mantenimiento Predictivo para los servicios Monitoreo de condición a los equipos y componentes estructurales de Antamina.

##### Sociedad Minera Cerro Verde S.A.A.

Bajo el Contrato Marco de Ingeniería se desarrollaron 40 Proyectos resaltándose:

- Ingeniería Nuevo Laboratorio Químico para Lixiviación y Concentradora
- Nuevo Tanque de Acido en Matarani (10000TM)

- Túnel Camiones de Concentrados Cerro Verde-Matarani
- Mejoramiento Descarga de Acido Aglomeración
- Sistema Protección Contra Incendios Tanques Almacenamiento Combustible Norte y Sur.

##### Minera Santa Cruz S.A.

- Se concluyó la Ingeniería de Detalle Proyecto San José

##### BHP Billiton Tintaya S.A.

- Bajo el Contrato Marco de Servicios:
- Supervisión y Aseguramiento del control de calidad de los trabajos para la Elevación del nivel 4000 a 4005 de la Presa de Relaves de Camacmayo.

##### Compañía Minera

##### Volcán S.A.A.

- Ingeniería de Detalle

Ampliación Planta Victoria de 2000 a 4000 TMPD.

- Estudio Técnico Planeamiento y Selección de Alternativas Paso a Desnivel Zona de Botadero Rumiallana
- Ingeniería Básica Ampliación Planta Victoria de 2000 a 4000 TMSPD.

- Estudio Técnico Automatización de los sistemas de bombeo de la Planta Concentradora de la Unidad de Producción.

##### Río Tinto Minera Perú Limitada S.A.C.

Bajo el Contrato Marco se desarrollaron los siguientes Proyectos:

- Ubicación Pista de Aterrizaje La Granja
- Ingeniería Rehabilitación Carretera Querocoto-La



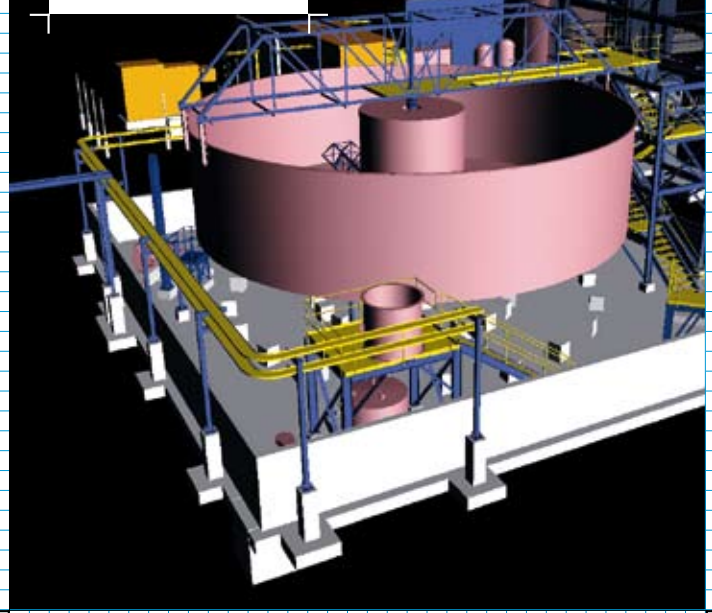
**Cemento Andino**

Tarma, Perú



**Minera Santa Cruz**

Argentina



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- Granja y Supervisión de las Obras.
- Ingeniería y Supervisión Ampliación Campamento.
- Ingeniería de Detalle Electrificación Comunidades vecinas a La Granja

**Doe Run Perú**

- Se inició el servicio de Ingeniería de Detalle de las Obras fuera del límite de batería del Contrato de Fleck Chemical Industries.

**Marcobre S.A.C.**

Se inició el Estudio de Factibilidad Definitivo de la Mina Justa.

**Bear Creek Mining**

**Corporation**

- Estudios de Ingeniería Proyecto Corani

**Edificaciones e Industria**

**Neptunia**

- Gerencia de Proyecto del Nuevo Almacén de Contenedores Vacíos en el Callao.

**Primax**

- Nueva Planta de Recepción, Almacenamiento y Despacho de Productos de Petróleo.

**Logística Químicos del Sur LQS**

- Diseño Integral de las Instalaciones del Terminal NaSH

**Cemento Andino S.A.**

- Contrato de Locación de Servicios de Limpieza Industrial y Manejo de Residuos a cargo de nuestra subsidiaria Ecotec S.A.

**Hidrocarburos**

**Petroperú S.A.**

- Supervisión de los trabajos de Remediación Ambiental en Refinería La Pampilla y su Planta de Ventas.

**Refinería La Pampilla**

Bajo Contrato Marco de Ingeniería de Proyectos de Inversión se desarrollaron aproximadamente 40 proyectos entre los

que podemos destacar:

- Ingeniería de Detalle para Agitadores
- Conversión del tanque diesel en gasolina BTX
- Adecuación de Cubeto a Estándares de Repsol (Cubeto modelo)

**Pluspetrol Perú**

**Corporation**

- Se inició el Contrato de Servicios de Ingeniería para la Planta de Gas en Malvinas y Planta de Fraccionamiento en Pisco Lote 88.

**Infraestructura y Transportes**

**Provias Nacional**

- Supervisión de Plan Piloto del BID para la Evaluación de Pavimentos Económicos de los tramos: Capizapa-Picota, Tambo-Osno y Yauri-San Genaro.
- Supervisión de la Rehabilitación y Mejoramiento de la Carretera Casma Yaután Huaraz, tramo: Yupash Huaraz, Sector: Km

120+00 al Km 140+000.

- Se continuó la Supervisión de la Obra de Rehabilitación y Mejoramiento de la Carretera Aguaytia-Pucallpa Tramo III: Neshuya-Pucallpa.

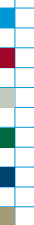
**Minera Yanacocha S.R.L.**

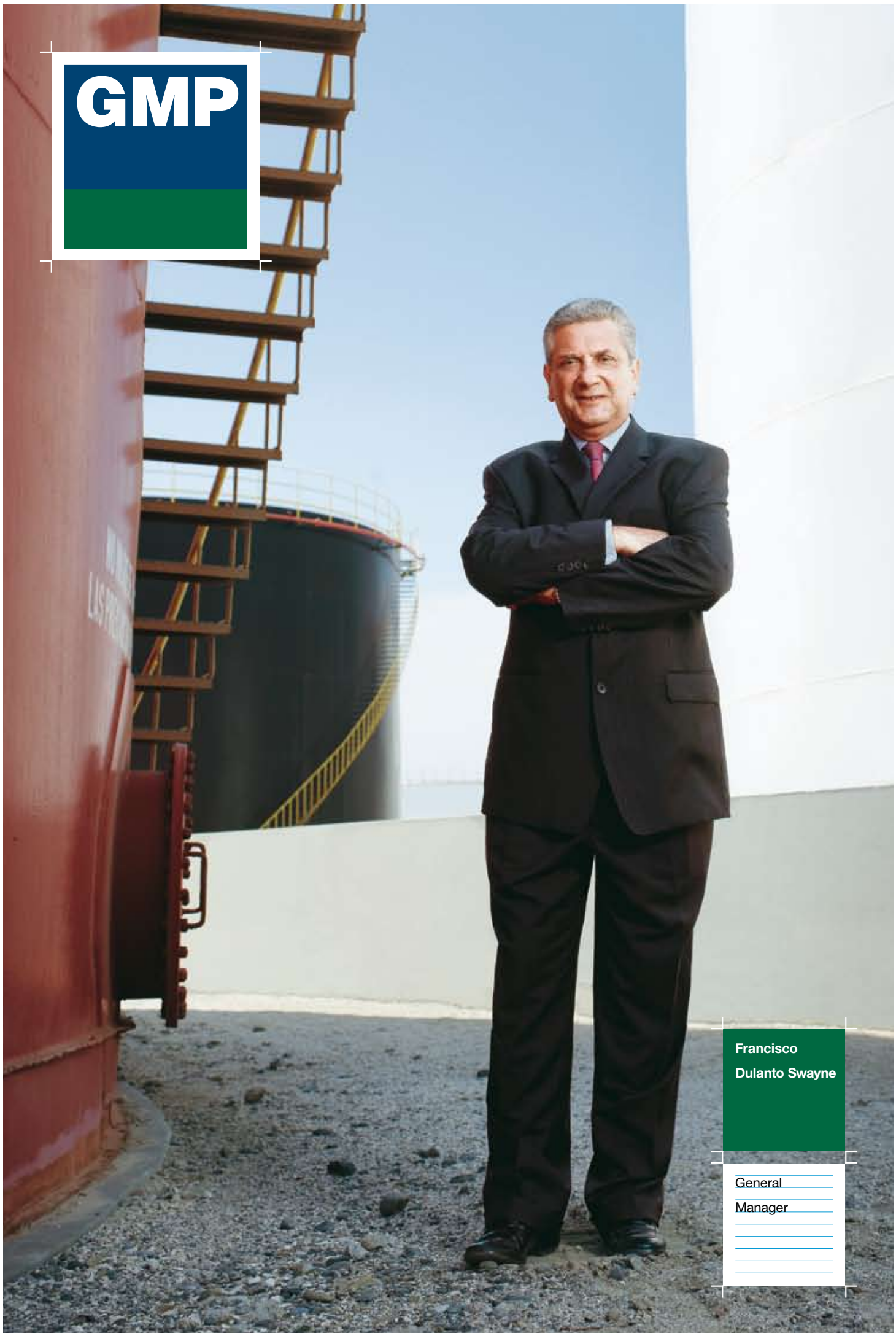
- Se inició la Supervisión de la Construcción de la Carretera Chilete San Pablo Yanacocha (Carretera Kuntur Huasi).

**GyM**

- Reconocimiento del Trazo, inspección geotécnica Concesión del Sistema de Distribución de Gas Natural en los Departamentos de Ica, Ayacucho y Junín
- Actualización del Diseño Nuevo Terminal de Contenedores Muelle – Concesión Terminal Portuario del Callao
- Estudios de accesos y seguridad Lomas de Lachay
- Evaluación Geológica en Gabinete de Pipeline II de Camisea

64





Francisco  
Dulanto Swayne

General  
Manager

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**“I recognize that in over 30 years I’ve been with the Graña y Montero Group, the experiences and knowledge that my superiors have conveyed to me are the most valuable resource I could have received from them”**

***– Francisco Dulanto Swayne,  
General Manager***





**GMP**

## Petroleum Services

For GMP, the year 2006 was once again a year with very good results, reflected in EBITDA of 20.8 million dollars, which is 16% more than that of the previous year; simultaneously, it was a year in which important strategic investments set about.

The results obtained for the year, the economic environment and the political situation have permitted us to begin developing several investment projects.

In February of 2006, a contract was signed with Minera Cerro Verde for the construction and operation of a sodium sulfhydrate terminal at the Matarani port. This is a ten-year contract we are executing partnered with Santa Sofía Puertos and Oiltanking. Additionally, in the month of November a 5-year contract was signed with SPCC for the

expansion of the aforementioned Terminal and the reception, storage and dispatch of sodium sulfhydrate. The start-up of operations at this new terminal is expected for the first quarter of the year 2007, through the new company "Logística de Químicos del Sur" (LQS / Southern Chemical Logistics).

In April of 2006 a contract was signed for the acquisition of natural gas liquids separation and fractionation plants from the electric company in Piura, Empresa Eléctrica de Piura, by which we agreed to build a new plant to begin operating in April of 2008, processing 40 million cubic feet of gas per day and requiring an investment of approximately 14 million dollars.

### Petroleum and Gas Production

The year's production of petroleum in Northwestern lots I and V was a record 330,021 Barrels. The net unit value of our crude oil basket increased 22.14 % compared to the previous year.

The sale of Natural Gas was 1,024 MM CF.

### Drilling

During the year, 21 wells were drilled with a total depth of 82,813 feet. Two of these were drilled in Lot I in order to develop the reserves of GMP S.A.

### Talara Gas Plant

(apr - dec)

In the month of April 2006, operations of the existing natural gas liquids separation and fractionation plants commenced. A volume of 8,300 MMCF of gas was processed, resulting in the production of 228,700 barrels of natural gas liquids (NGL) and the sale of LPG and light solvents in the local market.

In the second semester, the process engineering and basic engineering designs for the new plant were outlined

### Storage and Dispatch

In the year 2006, Consorcio Terminales (GMP-Oiltanking) dispatched an average of 51,946 Barrels of derivatives per day from the 9 terminals it operates in the country.

The average storage contracted by our users

was 1.5 million Barrels, with average use of our installed capacity of 66%.

It should be noted that throughout the year, operations involving the reception, storage and Ilo-La Paz transportation of Diesel 2 were conducted for YPFB Bolivia.

### Camisea Terminal In Pisco

During the year 153 shipments of products (propane, butane, diesel 2 and naphtha) with a total volume of 11.9 million barrels were dispatched.

This volume represents an increase of 8% in comparison with the previous year.

### CLHB (Bolivia)

It is public knowledge that on May 1, 2006, the Bolivian government issued a decree by which 50% + 1 of the shares of CLHB, as well as other companies,

were nationalized; however, by the end of the year the conditions pertaining to this nationalization were not yet defined and agreed upon. Throughout the year, operations of the pipelines and storage and dispatch plants were carried out as usual. The volume transported through the multipurpose pipelines was 7.0 million barrels (23% more than in the previous year) and the volume dispatched from the plants was 11.6 million barrels (24% more than in 2005). CLHB is no longer consolidated with the results of GMP and a provision has been set up for the potential impact of nationalization.





- A** Planta de Gas Verdun  
Talara
- B** Lote V pozo 2893  
Piura
- C** Planta de Gas Parinas  
Mollendo
- D** Planta de Almacenaje y Despacho  
Mollendo
- E** Terminal Marítimo de Camisea  
Pisco







Juan Manuel  
Lámbarri Hierro

General  
Manager



**“Within the organization itself, we have developed a course called Programming and Productivity which has enabled us to substantially improve the profitability of the company”**

*– Juan Manuel Lámbarri Hierro,  
General Manager*





## Construction

In the year 2006 GyM consolidated its leadership in the market. It executed work projects for a record value of 310 million dollars, which is an increase of 62% compared to the previous year, and obtained after-tax profits of 23 million dollars; that is, more than double the figure for the preceding year. These results are backed by a consistent enhancement in our efficiency, reflected in a 16% gross margin and a significant backlog substantially composed of contracts with stable flows, in accordance with the strategy of the Group.

The most important contract obtained during the year is the Expansion of the Malvinas Gas Compression Plant for the Camisea project, which requires a high degree of specialization. In this case, our company assumes this challenge taking responsibility for the entire project.

In line with the strategic objective of specializing in mining, in October our company was awarded a contract on the construction of the Civil Works and Mechanical Assembly

for the Cerro Corona Project located in the department of Cajamarca. Additionally, in the early months of 2007, we will be finishing the Civil Works and Mechanical Assembly for the San Cristobal Mining Project of APEX Silver in Bolivia.

Aligned with the government priority of expanding sanitation coverage in Peru, in the latter part of the year 2006 we were awarded 3 important contracts for Sedapal which will result in an improvement of services benefiting approximately 300,000 persons.

It should be noted that during the year we carried out a program called Simplifica (Simplifying) conceived to enhance our project management processes with the aim of sustaining our future growth efficiently.

In line with the Group's Learning to Grow Strategy, GyM developed a training project at all levels of the company, the highlight of which was the training week called "Developing the GyM Style". Through this event, 62 young professionals who had recently joined the company received an average of 50 hours of training each.

### Sector Minería

#### Minera Yanacocha

Obras Civiles Gold Mill

#### Minas Buenaventura

11,610 m de túneles y 520 m de chimeneas en Orcopampa y 362 m de túneles en Poracota

#### Minera El Brocal

Tajo abierto por un plazo de 3 años

#### Cerro Verde

Planta de Sulfuros

#### Minera San Cristóbal

Obras Civiles y Montaje Mecánico

#### Minera MILPO

Presa Cerro Lindo

#### Minera Antamina

Estanques en Huarmey

### Southern Peru

Nueva Fundación de Ilo

### Sector Energía

#### Pluspetrol Norte

Mantenimiento de Carreteras y proyectos varios.

#### Pluspetrol

Obras Civiles Ampliación Instalaciones de Malvinas.

#### Enersur

EPC de la Planta de Gas y Obras Civiles de la Estación Generadora de Chilca.

#### Cálida

Red de Distribución de Gas en Lima

### Sector

### Infraestructura

#### IIRSA Sur -Tramo 2

Urcos-Ocongate-Quincemil-Inambari

#### IIRSA Sur-Tramo 3

Inambari-Santa Rosa-Puerto Maldonado-Iñapari.

#### IIRSA Norte

Paita-Piura-Bagua-Rioja-Tarapoto-Yurimaguas.

#### Sedapal

Lotes 6 y 7. Conexiones domiciliarias de agua y desagüe para 30 mil viviendas.

#### Norvial

Carretera Huacho-Pativilca. Ejecución de los Puentes Huaura y Pativilca.

### Sector Edificaciones y Desarrollos Inmobiliarios

#### Corporación Wong

6 mil metros cuadrados techados en diversos locales.

#### Tejidos San Jacinto

Ampliación de almacenes

#### Centro de

#### Entretención Larcomar

Fashion Center

#### Edificio Residencial

#### Bolognesi

Miraflores

#### Edificio Residencial

#### Terrazas de San Felipe

Jesús María

#### Edificio Real 10

Oficinas en San Isidro

#### Universidad de Piura

Nuevo local en Monterrico

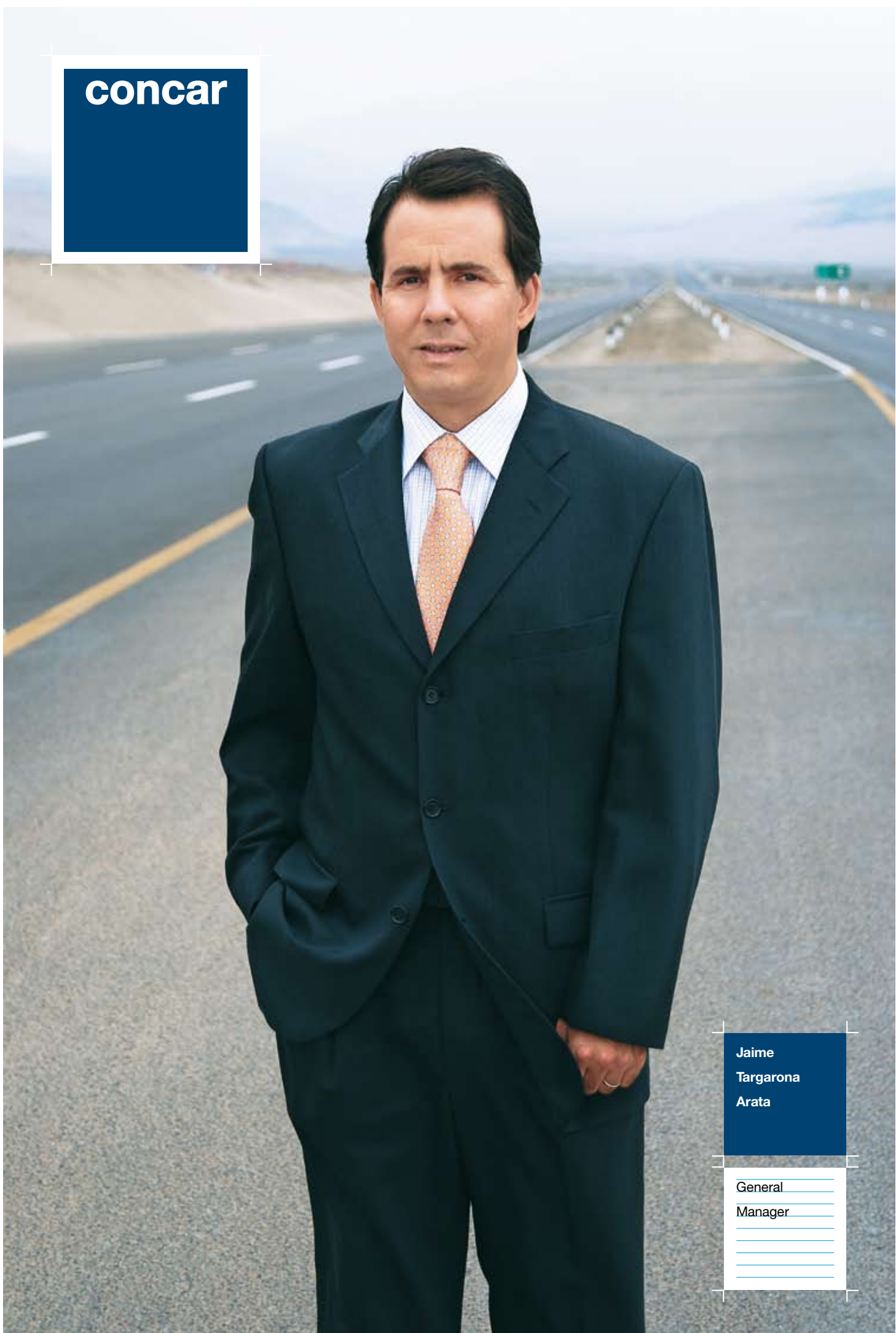




- A Cerro Verde**  
Planta de Sulfuros
- B Minera Yanacocha**  
Obras Civiles Gold Mill
- C Minera San Cristobal**  
Obras Civiles y Montaje
- D Carretera IIRSA Norte**  
Tarapoto -Yurimaguas
- E Edificio Residencial Terrazas de San Felipe**  
Jesús María







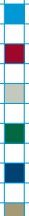
Jaime  
Targarona  
Arata

General  
Manager

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**“In Highway Concession Operations, we have obtained valuable knowledge in recent years that we are committed to structuring and developing”**

***– Jaime Targarona Arata,  
General Manager***



## Highway Operation and Maintenance

The year 2006 was of paramount importance to CONCAR. In April, work was initiated on the Operation and Maintenance of the Northern IIRSA Highway - the most important of our projects- which is a concession for the operation and maintenance of a 1,000 Km highway, the longest highway in the world.

In the last quarter of 2006, Graña y Montero S.A.A. was awarded the Concession Contract for the Buenos Aires – Canchaque highway in the department of Piura, which pertains to the “Costa Sierra” (Coast-Highlands) group of projects that are to support the “Sierra Exportadora” (Exporting Highlands) program that the government is fostering. CONCAR will be the company in charge of the operation and maintenance of this highway once it is built.

We also continue providing operation and maintenance services on the Norvial S.A. highway that joins Ancon, Huacho and Pativilca, as well as the Arequipa Matarani Highway Concession, that was expected to be finished in

May of 2006, but had a one-year extension or until it is handed over to a new concessionaire. The income from this concession increased by over 15%, while those of the Ovalo Gutierrez Concession rose 6% in comparison with the previous year.

These results allowed CONCAR to grow more than 100% in 2005. This significant growth has been reflected in the strengthening of our team of professionals throughout the year.

The new Administration intends to continue with the infrastructure concessions program; for 2007, calls for tenders are scheduled for the following projects: IIRSA Center, Road Network # 1, Road Network # 4 and Sections 1 and 5 of the Southern Interoceanic Highway, in addition to 3 or 4 projects pertaining to the Coast – Highlands Program. Considering that participation in this type of projects fits in with one of the main strategies of the Group, the generation of stable flows, we are confident that CONCAR shall continue to be one of the companies with the greatest growth opportunities in the long term, as the company’s skills and leadership continue to be demonstrated in the highway concession business in Peru.

The current concession and operation contracts are described below:

### Arequipa – Matarani Highway Concession

During 2006, revenue from traffic related to this 100.7 Km highway concession increased by more than 15% in comparison with the previous year.

### Contract on the Operation and Maintenance of the Ancon – Huacho – Pativilca Highway

During 2006, CONCAR satisfactorily carried out the Operation and Maintenance of the 182.66 Km highway and also assisted its concessionaire, Norvial S.A., in preparing procedures for technical solutions that improved the service provided to the users and enhanced relations with them.

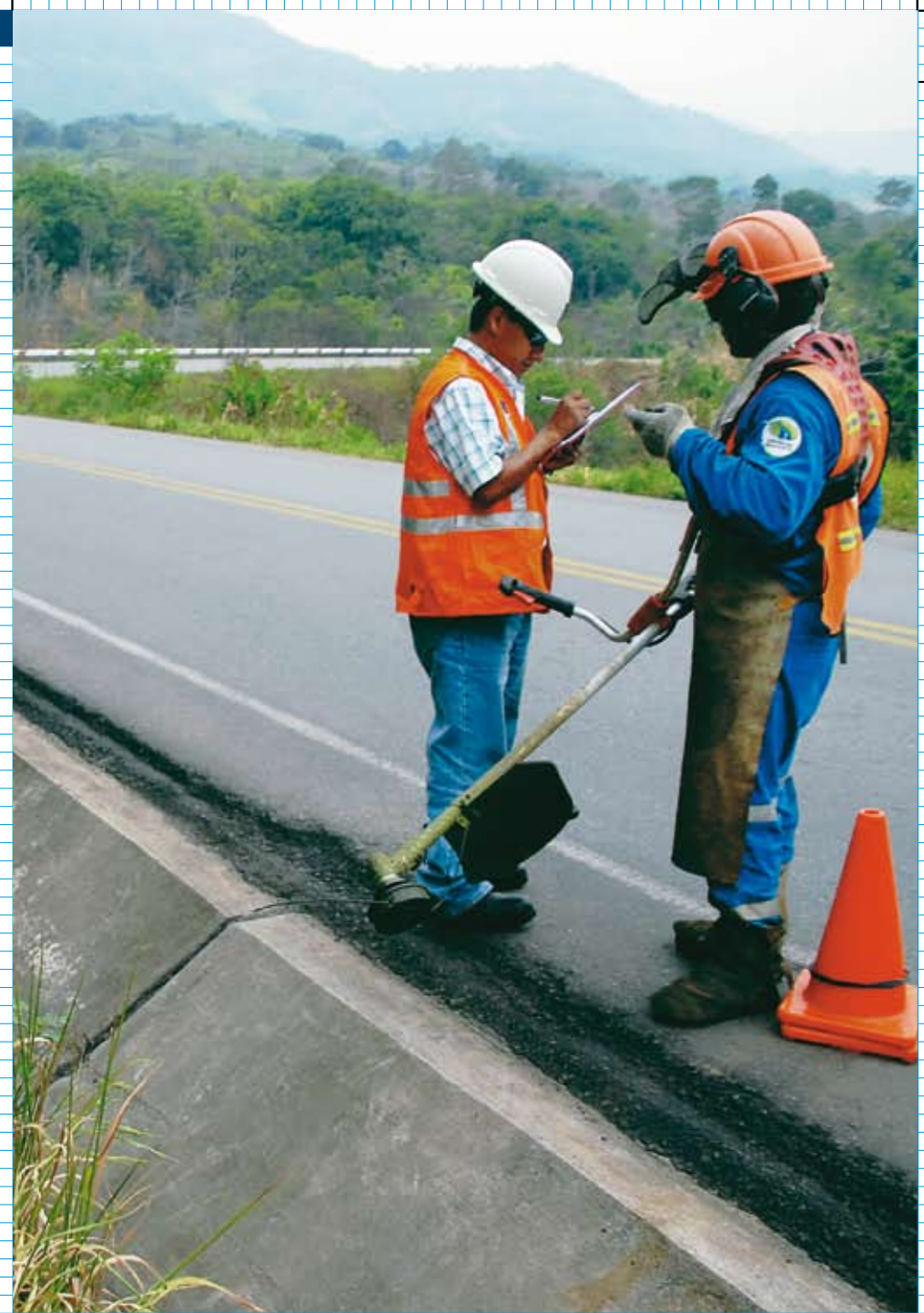
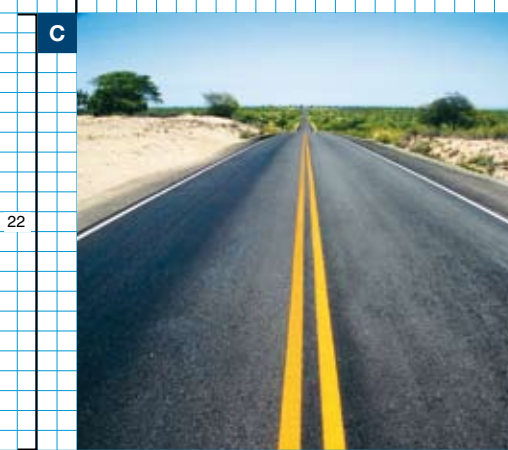
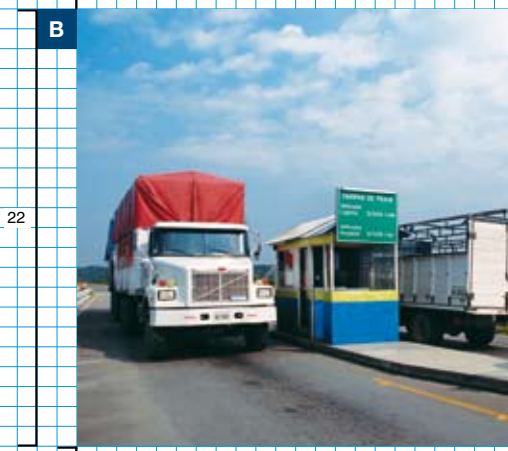
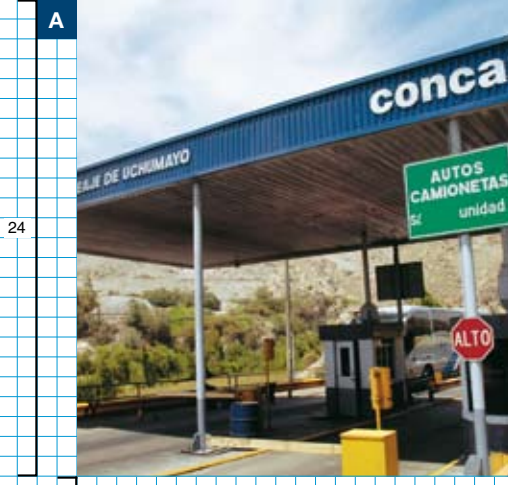
### Contract on the Operation and Maintenance of the Northern IIRSA Highway between Paita and Yurimaguas

On April 12, 2006, CONCAR satisfactorily started out works on the Operation and Maintenance of the Northern IIRSA highway, which is nearly 1000 Km long.

### Concession for the Ovalo Gutierrez Parking Garage

CONCAR has the 30-year Concession Contract on this underground parking garage built in an 8,200 m2 area under the Ovalo Gutierrez traffic circle, with space for 220 vehicles.





- A Peaje de la carretera Arequipa - Matarani
- B Operación de la carretera IIRSA Norte
- C Nuevo Pavimento de la Carretera Piura - Paita
- D Construcción del nuevo puente del río Pativilca para Novial
- E Mantenimiento carretera IIRSA Norte







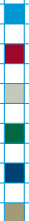
Antonio  
Rodríguez  
Canales

General  
Manager

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**“Our daily task is to be an organization with the capacity to innovate and learn”**

***– Antonio Rodríguez Canales  
General Manager***





# Entertainment Center

During the year 2006, Larcomar consolidated its leadership as the best tourism and entertainment center in Peru, expanding its commercial area with the opening of 46 new stores and increasing its area available for leasing by 25%.

The commercial management of Larcomar, oriented toward offering the best experience in an atmosphere of quality and security, has triggered a 5-million visitor rate, including 500 thousand tourists during the year 2006, which was 4% more than in 2005 and enabled our operators to invoice a total of US\$ 29 million dollars, 10% more than in the previous year.

A very important aspect of the operations at Larcomar has been the success attained by inserting it in a tourism circuit, introducing Larcomar as the modern facet of the city of Lima, a concept which has been endorsed by major travel agencies, hotels and public institutions and is disseminated in international fairs and important tourism forums.

These strategies have made it possible to maintain a 98% occupation rate of the areas available for leasing during 2006, and to open the Fashion Center in December with 95% of its new stores leased, with a conservative forecast of 40% growth in total sales for 2007.

The total activity of the company for the year amounted to US\$ 6.1 million, which generated EBITDA of US\$ 2.9 million, 12% and 11% more than in the year 2005 respectively. All commitments related to the structural debt, which was reduced by US\$ 2.9 million, were fulfilled punctually.

Over the past few years, with the collaboration of 198 workers, the organization has gained considerable experience that has been reinforced with 25 man hours of training and leadership programs.

The thriving results obtained over the past 4 years combined with a committed organization enable us to forecast future growth in the shopping and entertainment malls industry as well as in tourism, generating an increase in stable flows and the generation of real estate and construction synergies with our shareholders.

### Principales operadores,

Alpaca 111

Nike

Air Sport Club by Nike

Liliana Castellanos

GMO

NU

Íbero

Giuliana Testino

Tatoo

HushPuppies

Florsheim

Swatch

Timberland

Pizza Hut

Burger King

KFC

Bembos

Starbucks

Tony Romas

Laritza

Café Café

Mangos

Makoto

Aura

Gótica

UVK

La Dama Juana

### Anunciadores y Franquicias

Backus

Phillip Morris

Telefónica

Claro









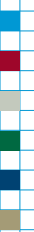
EXPLORE  
ADVANCE  
ATTAIN  
EVERY  
ONES  
REACH

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## Business Social Responsibility

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Our Strategic Plan reflects our belief that the development of our prestige is based on reinforcing our Values, among which our Business Social Responsibility Policy - mainly focused on education - stands out.

During the year 2006, in cooperation with the Universidad del Pacífico (University of the Pacific), a Handbook for the Selection and Management of Social Responsibility Actions was designed for use by Project Managers with the aim of increasing efficiency in the selection of social actions that they may carry out throughout their projects.

The Letter of Ethics, signed in 1995, the Risk Prevention Policy (1999) and the Environmental Policy (1998) form part of this process and have set clear behavioral guidelines when dealing with our clients, shareholders, personnel and community.

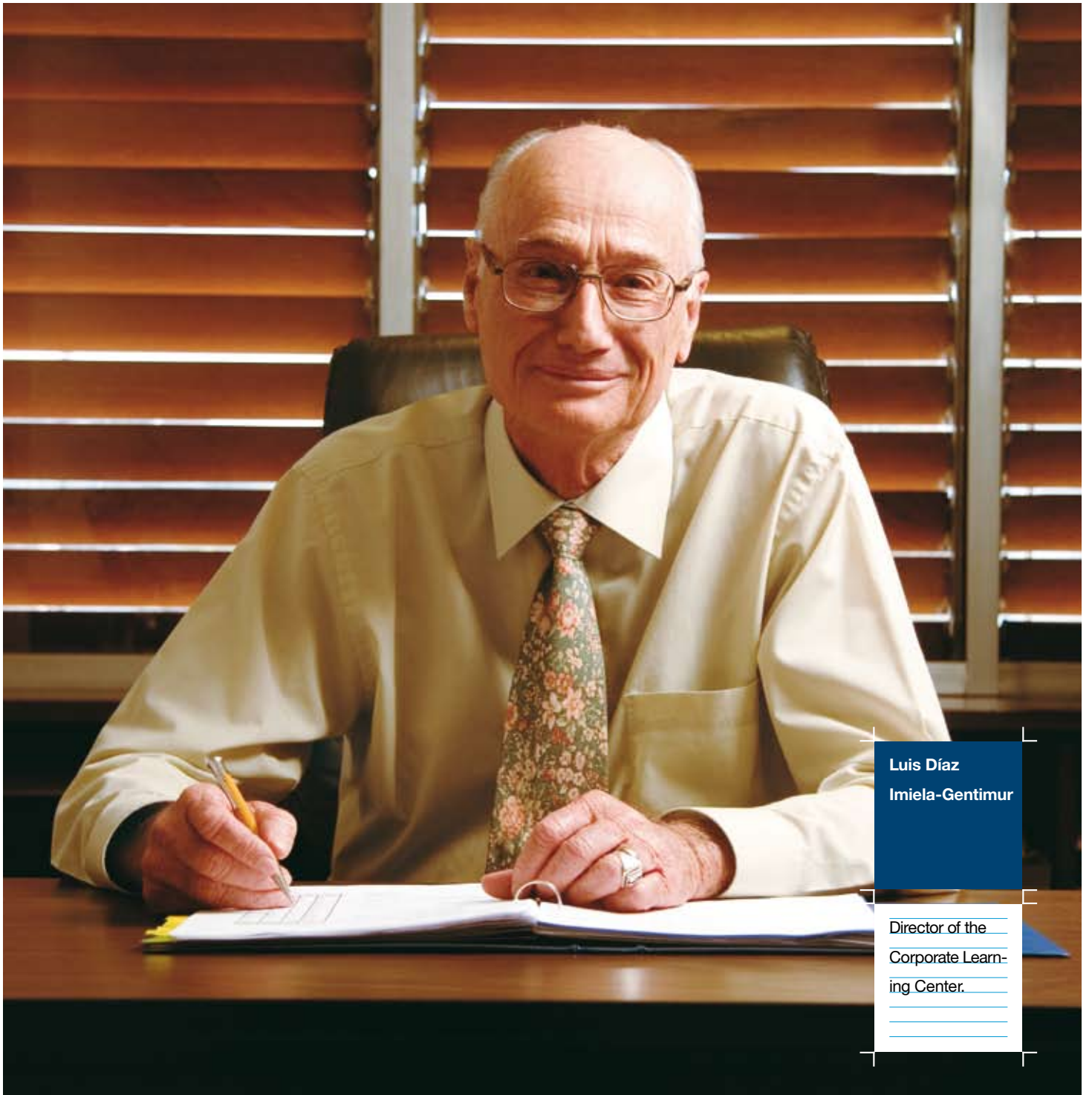
During the year 2004, Graña y Montero joined The Global Compact promoted by the Secretary General of the United Nations as a demonstration of our commitment to the social and environmental aspect of the company. The commitment to continuously support this Compact is reflected in the company's current policies practiced by all employees through Good Corporate Governance and a daily attitude

based on our principal values, which are Quality, Compliance, Reliability, and Efficiency.

Therefore, during the year the different companies that make up the corporation promoted specific actions in the areas of Human Resources, Risk Prevention and the Environment, Knowledge Management and Community Relations.

Internally, our personnel are the main target group of this responsible social behavior; externally, it is the different sectors, such as the community, shareholders and clients, with which the group has ties in carrying out its operations.

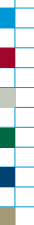
In the year 2006, the Group's Knowledge Management Program has been given new emphasis with the "Learning to Grow" project, which we believe will be the key to future growth, as explained further on in this report.



Luis Díaz  
Imiela-Gentimur

Director of the  
Corporate Learning Center.

**“We have enhanced the Group’s Knowledge Management with the project ‘Learning to Grow’, which is the key to future growth.”**



**1. The Human Resource**

The personnel who work for the company are the primary target group of the Business Social Responsibility policy; therefore, they are given top priority in the set of policies and programs that guarantee their development and welfare as a basis for their good performance and satisfaction.

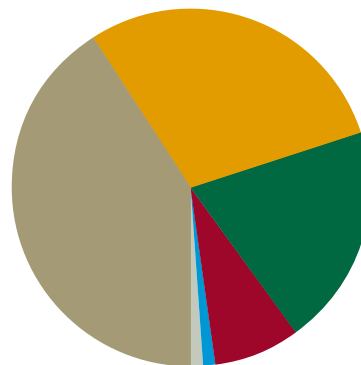
During the year 2006, a series of recommendations stemming from the Organizational Climate studies conducted at GyM and GMD with highly satisfactory results were implemented. These studies shall be conducted annually for the purpose of satisfying needs and handling recommendations proposed, which will in turn lead to an even better Organizational Climate in all aspects of the Corporation.

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**Organizational Climate Survey**

Satisfaction	71.0%
Working Spirit	73.5%
Relation with management	69.5%
Organization of Work (methods, tools)	66.0%

**Distribution by Age Group**



From 20 to 30 years of age	736	31%
From 31 to 40 years of age	916	39%
From 41 to 50 years of age	445	19%
From 51 to 60 years of age	222	9%
From 61 to 65 years of age	27	1%
66 years of age or more	17	1%

Among the many results of these studies, one that merits special mention is that 74.5% of our employees feel proud of the achievements of the companies for which they work.

In order to foster personal welfare among the Group's manual laborers, numbering over 8,000 during the year, the company developed a sound, annual Preventive Training program within our integrated Risk Prevention and Environmental Management system.

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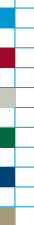




Erika Pastor

GyM  
Project Manager

**“Our staff is the number one priority within the Social and Business Responsibility policy, thus guaranteeing their development and welfare.”**



## Statistics – Training

	Management	GyM	GMD	GMP	GMI	Concar	Larcomar	Total
<b>Employees (Payroll)</b>								
Engineers with Postgraduate Degrees	10	39	16	14	6	2	0	87
Other Professionals with Postgraduate Degrees	4	3	11	1	3	0	4	26
Engineering Professionals	3	402	457	48	96	27	3	1036
Other Professionals	17	106	55	19	15	12	7	231
<b>Total Professionals</b>	<b>34</b>	<b>550</b>	<b>539</b>	<b>82</b>	<b>120</b>	<b>41</b>	<b>14</b>	<b>1380</b>
Technicians	3	140	296	92	42	371	39	983
<b>Total Employees</b>	<b>37</b>	<b>690</b>	<b>835</b>	<b>174</b>	<b>162</b>	<b>412</b>	<b>53</b>	<b>2,363</b>
<b>Laborers</b>								
Skilled Laborers	0	1,013	0	149	73	0	0	1,235
Unskilled Laborers	0	3,385	0	0	0	0	0	3,385
Sub-Contractors	0	914	0	0	0	0	0	914
<b>Total Laborers</b>	<b>0</b>	<b>5,312</b>	<b>0</b>	<b>149</b>	<b>73</b>	<b>0</b>	<b>0</b>	<b>5566</b>
<b>Total Personnel</b>	<b>37</b>	<b>6,002</b>	<b>835</b>	<b>323</b>	<b>235</b>	<b>412</b>	<b>53</b>	<b>7897</b>
Interns	0	48	34	2	1	1	2	88
Independent Professionals	0	6	8	2	150	0	0	166
<b>Total</b>	<b>0</b>	<b>54</b>	<b>42</b>	<b>4</b>	<b>151</b>	<b>1</b>	<b>2</b>	<b>254</b>
<b>Overall Total</b>	<b>37</b>	<b>6,056</b>	<b>877</b>	<b>327</b>	<b>386</b>	<b>413</b>	<b>55</b>	<b>8151</b>

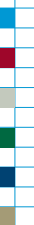
Statistics – Headcount

	Corporate Management	GyM	GMD	GMP	GMI	Concar	Larcomar	Total
<b>Organization</b>								
Headquarters	37	124	182	49	88	4	21	505
Projects	0	566	653	125	74	408	32	1,860
<b>Total</b>	<b>37</b>	<b>690</b>	<b>835</b>	<b>174</b>	<b>162</b>	<b>412</b>	<b>53</b>	<b>2,365</b>
<b>Gender</b>								
Male	26	569	271	150	125	356	38	1,535
Female	11	121	564	24	37	56	15	828
<b>Total</b>	<b>37</b>	<b>690</b>	<b>835</b>	<b>174</b>	<b>162</b>	<b>412</b>	<b>53</b>	<b>2,363</b>
<b>Hierarchy</b>								
Upper Management	23	6	6	9	3	2	9	58
Employees	14	684	829	165	159	410	44	2,305
Interns	0	48	34	2	1	1	2	88
Independent Professionals	0	6	8	2	150	0	0	166
Laborers	0	5312	0	149	73	0	0	5,534
<b>Total</b>	<b>37</b>	<b>6,056</b>	<b>877</b>	<b>327</b>	<b>386</b>	<b>413</b>	<b>55</b>	<b>8,151</b>

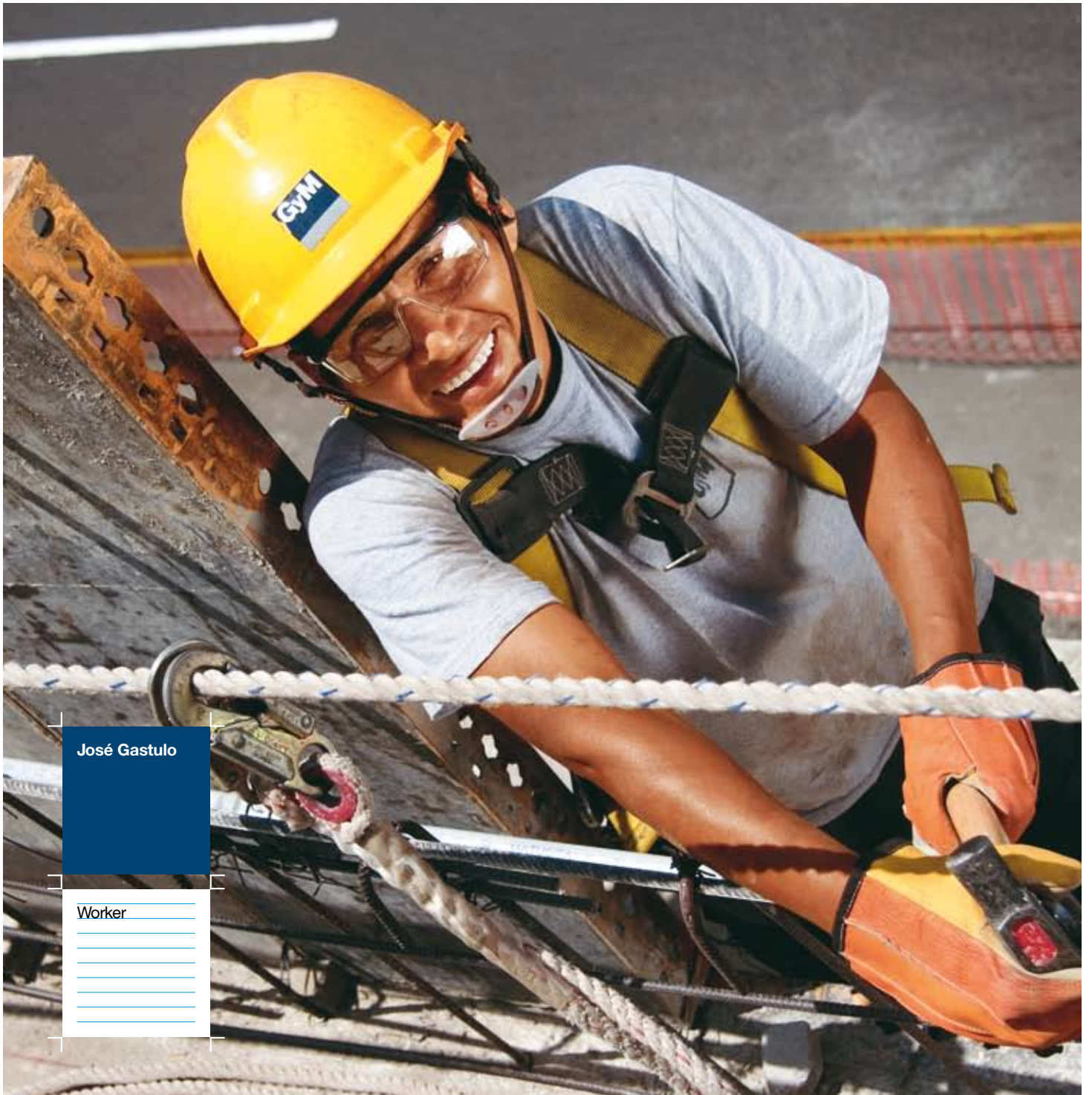
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José Gastulo

Worker

**“672,376 hours have been invested by approximately 8 thousand workers, while adhering to the fundamental principles of safety in the workplace and respect for the environment.”**



## 2. Risk Prevention and the Environment

Graña y Montero is fully committed to leadership in environmental performance and risk prevention through its Integrated Management System applied to all sectors where its activities are conducted, thereby creating value for its clients, personnel, shareholders and neighboring communities. This philosophy is a significant part of our Business Social Responsibility Policy.

Maintaining responsible conduct regarding the environment and the health of the workers while carrying out their activities is a traditional practice among all of the employees at the Graña y Montero Corporation. It is a principle upon which our Risk Prevention and Environmental Policies are based.

In order to guarantee the fulfillment of this commitment, our organization has an integrated risk prevention and environmental management system developed according to the guidelines of OHSAS 18001 and ISO 14001 standards, which is audited annually by the IDB, thereby enabling us to show evidence of effective, efficient implementation.

During the year 2006 the Graña y Montero Corporation invested 627,376 hours in training on Risk Prevention and Environmental Management for its 8,000 workers, who have

striven to work abiding by the fundamental principles of safety in the workplace and respect for the environment.

The commitment of our personnel to the policies of the Corporation has enabled us to end the year 2006 with zero environmental incidents and an accident frequency rate of 0.69, a value within the range of optimum international standards.

The investment that our organization makes to guarantee the health and safety of its workers is reflected in the establishment of a preventive culture and the protection of workers from work-related risks and the associated environmental risks. In this regard, during the year 2006, nearly 630 thousand hours were invested in instructing and raising awareness among our personnel on work-related risks, as well as approximately US\$ 4 million in the acquisition of personal and collective protection equipment.

Throughout the year, these results have merited recognition from our clients who, in virtue of our effort, have renewed and granted us new contracts, thereby extending our commercial relationship.





### 3. Knowledge Management

The commitment toward Knowledge Management, as the core feature of the group's development, received new emphasis this year with the launch of the "Learning to Grow" strategy.

This includes handling the different areas of knowledge of the Group in a professional manner and training the members of the organization to strive for cultural change and to consolidate the group as an "organization that learns".

As a result, the growth rate of training during the year was 80% compared to 2005 and the companies have formed a Board of Directors at the Corporate Learning Center (known by its Spanish acronym, CCA)- made up of the General Managers and the Human Resources Managers- for the purpose of developing mechanisms for the "Learning to Grow" program.

In 2006, 80,478 man hours were spent on training; that is, a ratio of over 35 hours per employee, compared to 24 hours per

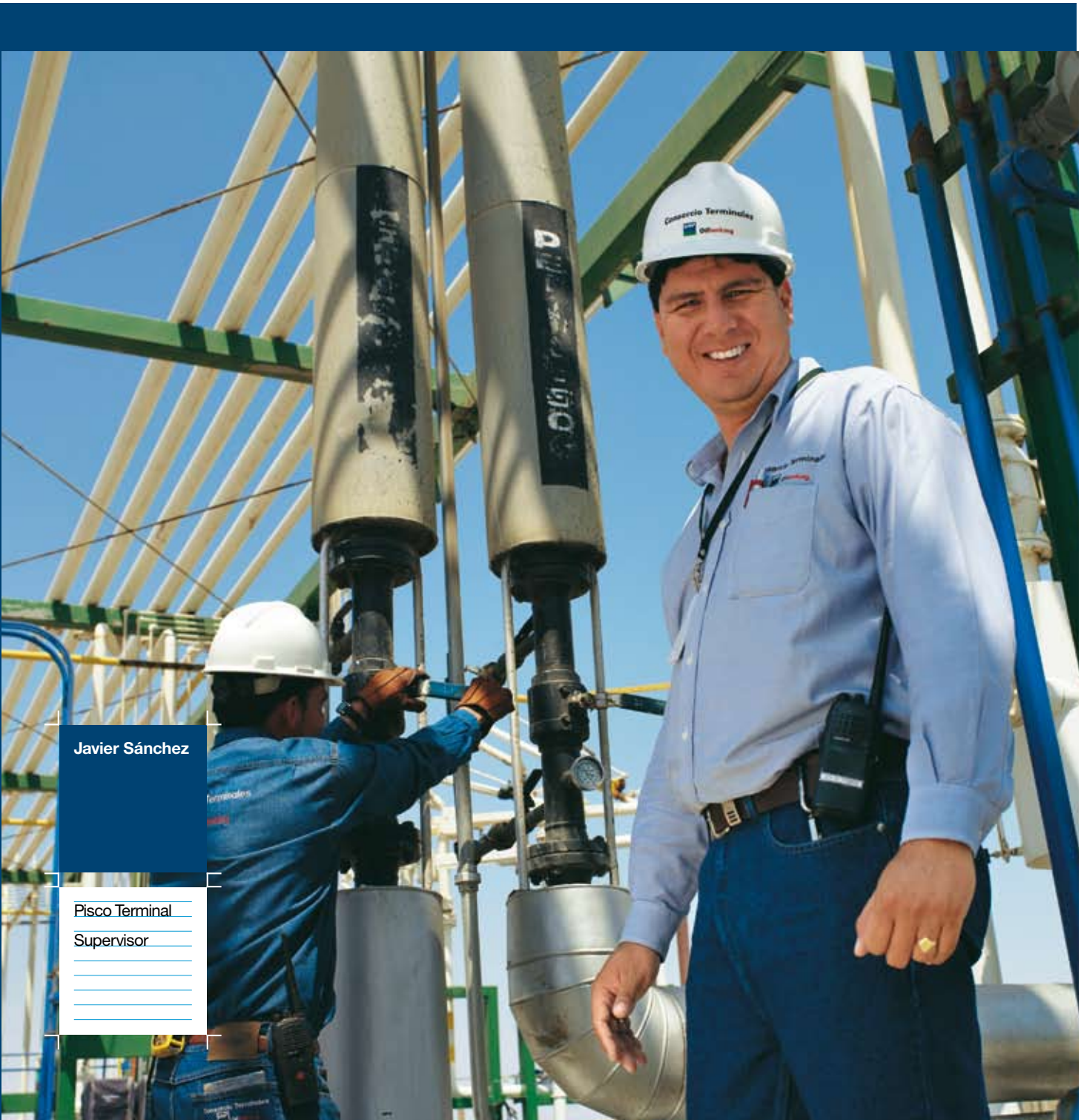
employee back in 2005. Of this training, 64% was in-house in the Young Engineers, Professional Development and Collective Memory programs.

Within this training, programs that merit special mention are the "Developing the GyM Style" program for our Young Engineers, which was rolled out in the second semester and included a one-week retreat, and the "Development of Young Project Managers", which is to start in the coming months with the collaboration of a well-known postgraduate school.

In terms of knowledge management, the companies have worked on their respective information systems allowing them to make the knowledge generated in their operations available to all employees, as well as informative bulletins on relevant occurrences. Additionally, during the year, 20 talks were given on collective memory regarding the most interesting projects of the Group.

#### Training Man Hours

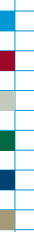
	GyM	GMD	GMP	GMI	Concar	Larcomar	Total
<b>Description</b>							
Basic Program – Young Engineers	6,504	756	250	3,717	238	826	12,291
Professional Development	19,477	5,648	9,139	1,638	754	736	37,392
Collective Memory	880	372	0	92	38	190	1,572
External Training	9,247	11,680	3,756	314	3,324	902	29,223
<b>Overall Total</b>	<b>36,108</b>	<b>18,456</b>	<b>13,145</b>	<b>5,761</b>	<b>4,354</b>	<b>2,654</b>	<b>80,478</b>
Promedio Mensual de empleados							
<b>Ratio =</b>							
<b>Hours of Training / Employees</b>	<b>49.16</b>	<b>22.15</b>	<b>43.82</b>	<b>67.7</b>	<b>16.4</b>	<b>49</b>	<b>35.36</b>
<b>Risk Prevention and Environmental Management - Laborers</b>	<b>593,107</b>	<b>0</b>	<b>24,232</b>	<b>1,199</b>	<b>8,792</b>	<b>46</b>	<b>627,376</b>

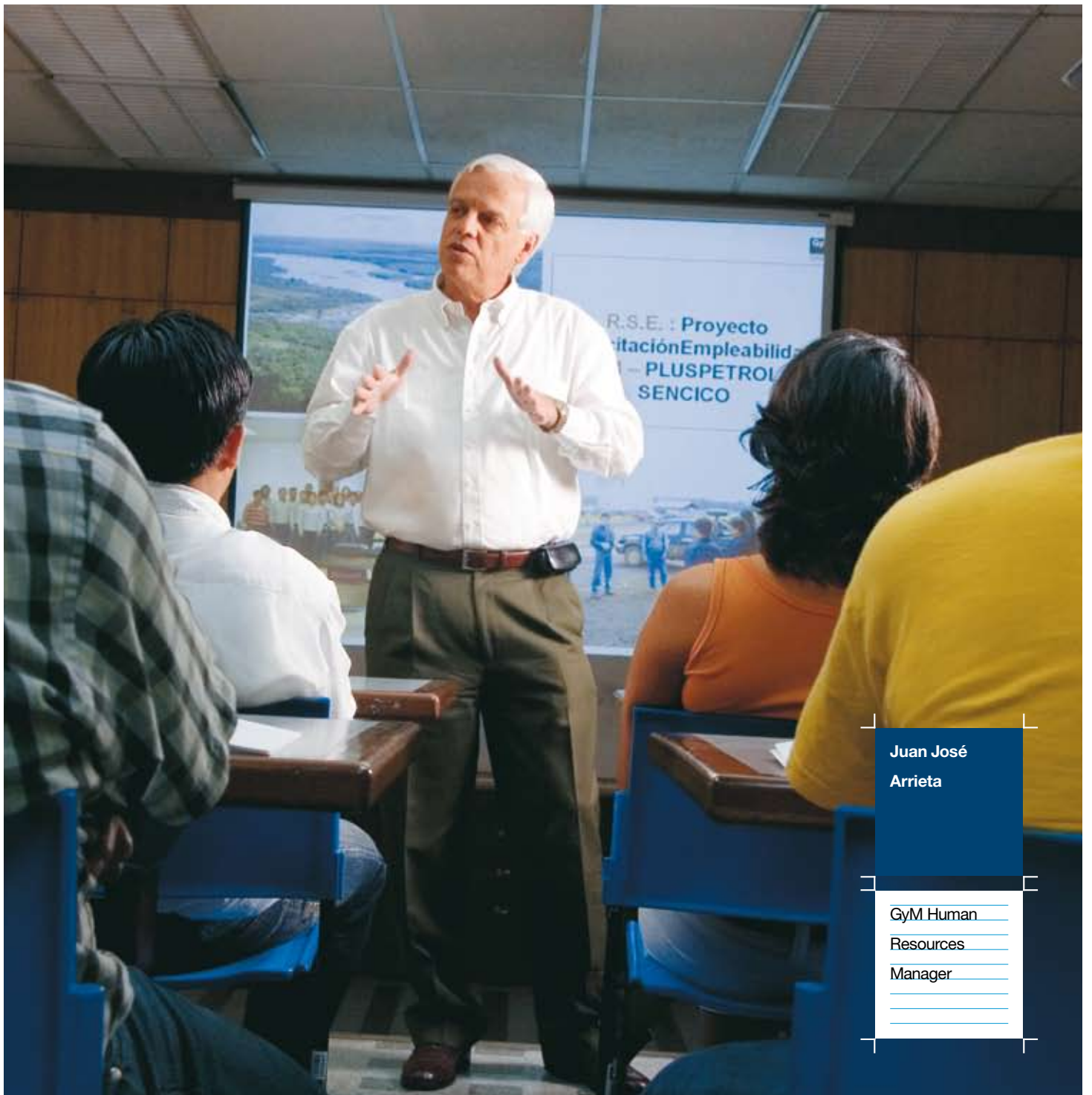


Javier Sánchez

Pisco Terminal  
Supervisor

**“Each company has worked on its respective information system, allowing the knowledge generated to be made available to all the employees.”**





Juan José  
Arrieta

GyM Human  
Resources  
Manager

**“In 2006, we benefited approximately 14,000 persons with a series of activities aimed at the Community and the Environment, as well as 6,000 more with specific actions in the field of education.”**



**4. Community Relations**

Community relations, especially in the execution of projects, should be developed in a positive atmosphere of harmony and mutual respect, within which the company promotes and carries out activities that contribute to the sustainable development of the communities where it operates. These situations are analyzed previously based on the Social Initiative Management Guide designed in cooperation with the Universidad del Pacífico (University of the Pacific).

Based on our Social Responsibility practice, the companies in the Group make a contribution to the development of these communities that goes beyond the time period during which they are working in these areas. Specifically, they ensure that these actions are related to the areas of Education, the Community and the Environment.

It should be noted that the training programs are being carried out in remote communities such as Andoas in Loreto or Potosí in Bolivia, in order to incorporate as many workers as possible from the places in which we operate.

During the year 2006, with our Social Responsibility program, approximately 14,000 persons benefited from several actions within the Community and the Environmental area. In the area of Education, approximately 6,000 persons have benefited and 494,997 hours of training have been provided.

During the year, different activities were carried out among the local populations in the immediate area of influence of the projects we executed, as described below.

**Community**

Initiative	Target Group	Location
Support for the Preventive Program "Adolescent Stage of Life" at the MINSA Hospital in Puente Piedra: stadiometers, scales and career counseling provided.	Youths from 12 to 16 years of age	Puente Piedra / Lima
Repaired water connections and replaced plumbing hardware at public schools.	Local Public Schools	Puente Piedra - S.J. de Lurigancho- Independencia -Comas / Lima
Promotion and hiring of local suppliers of: concrete boxes and lids, uniforms and metallic carpentry.	Small and Micro Businesses	Puente Piedra / Lima
Generation of direct employment with suppliers	Unemployed local residents	Puente Piedra / Lima

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**Community**

Initiative	Target Group	Location
Children's Christmas show and donation of gifts in coordination with the Hospital in Puente Piedra.	Children of the area	Puente Piedra - Valle Chillón / Lima
Economic support for the "Il Happy Faces Campaign" to provide medical care to patients with cleft lip and other congenital malformations.	Local Community	Cajamarca
Oral Health Campaign: Distribution of packets of oral hygiene products.	Local Populations	San Cristóbal; Río Grande and Culpina / Bolivia
Refurbished desks and chairs.	CEI "Vista Alegre" School	Orcopampa / Arequipa
Donation of classroom furniture: desks, metal file cabinet, table and chairs.	C. E. No. 4021 School in Parque Porcino	Ventanilla / Lima
Implementation of computer laboratory: desks and computers.	"Virgen del Carmen" School	Colquijirca settlement / Cerro de Pasco
Training: "Handicrafts Workshop"	Women in the Glass of Milk Program	Colquijirca settlement / Cerro de Pasco
Follow-up on project for the Creation and Generation of Sources of Employment in Guinea Pig Breeding.	Local Population	Colquijirca settlement / Cerro de Pasco
Christmas celebration.	Children at the schools with which we worked during the year 2006.	El Valor - San Juan de Chiple
Christmas celebration.	Boys and Girls of the villages, pre-schools, and schools near the toll booths.	Toll Booth Project in Moyobamaba, Aguas Claras, Pedro Ruiz, Bagua, Pucara, Olmos, Chulucanas, Paita, Pesaje Bagua, Pacayzapa C-21 settlement

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**Education**

Initiative	Target Group	Location
<p>Leadership Development.</p> <p>Recruitment and selection of candidates in coordination with leaders of neighborhood grassroots organizations to establish groups for 19 workshop courses. A meeting was held with the coordinators of the five plans in order to distribute the number of persons that would participate per plan, based on social conditions, giving priority to persons who were unemployed and needed help, since upon completion of the workshop and evaluation of the participants who passed, there would be opportunity for employment with the company.</p>	<p>Community Leaders</p> <p>Coordinators of the five plans in Puente Piedra (leaders elected by grassroots organizations and recognized by Puente Piedra City Hall)</p>	<p>Puente Piedra- San Juan de Lurigancho-Comas-Independencia / Lima</p>
<p>Theory and Practical Job Training "Installation of Drinking Water and Sewage Systems"</p>	<p>Unemployed Local Residents</p>	<p>Puente Piedra / Lima</p>
<p>Convention: "Water Fair": Exhibition of sanitary products and training on ecological alternatives and sanitary installations</p>	<p>Local Population: Homemakers and the General Public</p>	<p>Puente Piedra / Lima</p>
<p>Cultural Forum: "Towards a New Water Culture"</p>	<p>Community Leaders</p>	<p>Puente Piedra / Lima</p>
<p>Support for the program "Show me your Job" at the Zapallal police station by holding a workshop, "Basic Civil Works Course" taught by instructors from GyM.</p>	<p>Youths at Risk</p>	<p>Zapallal - Puente de Piedra / Lima</p>



Education

Initiative

Target Group

Location

Workshop Seminar on Property Registration as a contribution to the titling process.

Leaders of Associations and shanty towns  
Community leaders and members of associations

Puente Piedra / Lima

Information Technology - Internet Course.

Students of Public School No. 82891 El Tambillo – District of Chetilla, Cajamarca

Cajamarca

Volunteer Teaching: keynote lectures provided by GyM engineers on current subjects for students in the last semester of Civil Engineering at the Universidad Nacional de Cajamarca (National University of Cajamarca)

Students in the last semester at the Engineering School of the Universidad Nacional de Cajamarca (National University of Cajamarca)

Cajamarca

Volunteer Teaching: Keynote lecture on "Risk Prevention"

Students from the Industrial Electricity and Auto Mechanics program at SENATI

Potosí, Bolivia

Theory and Practical Job Training in "Training Workshops for Pipeline Welders, Structure Welders, Maniobristas and Oxigenistas"

Local Population

Uyuni, Bolivia

Theory and Practical Job Training: "Basic Training Workshops on Mechanical Assembly"

Local Population

Andoss / Iquitos

Theory and Practical Job Training: "Training Course for Construction Workers – Metalmechanics" for natives.

Native Communities

Iquitos

Training "Workshop on Jam Making"

Mothers in the Glass of Milk Program

Chilcaymarca- Orcopampa/ Arequipa

Talks on Communication and Family Violence

Community

Chilcaymarca- Orcopampa/ Arequipa

Educational talk on "Raising Pigs"

Local Population

Colquijirca settlement / Cerro de Pasco

Education

Initiative

Target Group

Location

Talk on "Sexually Transmitted Diseases - AIDS"

Mothers in the Glass of Milk Program

Colquijirca settlement / Cerro de Pasco

Talk on "Cancer Prevention"

Mothers in the Glass of Milk Program

Colquijirca settlement / Cerro de Pasco

Training: "Dessert Making Workshop"

Mothers in the Glass of Milk Program and children's dining hall

Colquijirca settlement / Cerro de Pasco

Talks on "Responsible Sexuality"

4th and 5th-year high school students at the José Carlos Mariategui school

Colquijirca settlement / Cerro de Pasco

Talk on "Self-esteem and Leadership"

Students at the José Carlos Mariategui school

Colquijirca settlement / Cerro de Pasco

Job Training Workshop on "Knits for Export"

Adult Women

Colquijirca settlement

Theory and Practical Job Training: "Basic Training Workshops: Masonry, Carpentry and Safety"

Local Community

Chavín / Ica

Job Training Workshop: "Food Handling"

Mothers Clubs  
Owners of Boarding Houses

Yambrasbamba / Ica

Basic Training Workshop: "Metalmechanics Assistants"

Local Young Population

Ilo, Moquegua

TECSUP -GyM Theory and Practice Training: "Polyvalent Workers, Civil Construction, Assembly and Alignment"

Civil Construction Workers

Arequipa

Volunteer Teaching: "Seminar on Social Security" given by a GyM Social Worker

Students at the School of Social Historic Sciences of Univ. San Agustín in Arequipa

Arequipa

Implementation of a computer laboratory: desks, computers, printer, Server and network wiring

"Sta. Maria de los Angeles" Primary School

Arequipa

## Education

## Initiative

## Target Group

## Location

Motivational Workshop: "Senior Citizens

"

Personal Development Workshop:  
"Communication and Conflict  
Management"

Theory and Practical Job Training:  
"Basic Training for Civil Construction  
Laborers"

Talk given to our insured workers  
to provide information on benefits  
provided by ESSALUD.

Preventive Health Program by raising  
awareness among workers on the  
importance of preventing tuberculosis.

Preventive Health Program through  
pre-employment examinations and  
vaccination against yellow fever, tetanus  
and rubella.

Drafting of files containing social  
information on workers for use in  
socioeconomic study.

Social Projection Program contributing  
to the formation of small family  
businesses -Workshop on Art and  
Handicrafts.

Self-awareness and Self-knowledge  
Workshop, stimulating and improving  
self-esteem.

Senior Citizens at Surquillo Health  
Center

Network of Workers against Family  
Violence and Chile Abuse

Neighborhood Organizations

General Public

General Public

General Public

General Public

Mothers of the Community of  
Condorcocha

General Public

Surquillo, Lima

Miraflores, Lima

Downtown Lima

Condorcocha  
Tarma

Condorcocha  
Tarma

Condorcocha  
Tarma

Condorcocha  
Tarma

Tarma, Junín

Condorcocha, Tarma  
Huaraz



Education

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Initiative

Target Group

Location

Relaxation Workshop, with exercises to relieve muscular tension and stress.

General Public

Huaraz

Workshop - Alcohol and Alcoholism, raising awareness among workers to change attitudes about alcohol.

General Public

Condorcocha, Tarma  
Huaraz

Workshop - Alcohol and alcoholism, discussing "The Effects of Alcoholism on Families"

Mothers of the Community of Condorcocha

Condorcocha - Tarma

Workshop - Human Sexuality, brainstorming on risk behaviors.

General Public

Condorcocha, Tarma  
Huaraz

Workshop - Human Sexuality, brainstorming on risk behaviors.

Mothers of the Community of Condorcocha

Condorcocha, Tarma

Workshop - Human Sexuality, brainstorming on risk behaviors.

Students at the "Antenor Rizo Patrón" school

Tarma

Workshop - Conditioning factors in the consumption of drugs, discussion on the issue.

General Public

Condorcocha, Tarma  
Huaraz

Preventive Health Program, Prevention and Screening - Cervical and Breast Cancer .

Mothers of the Community of Condorcocha

"Santa Teresa" Medical Center in Tarma.

Children's Christmas show and refreshments (hot cocoa)

Children of the Community of Condorcocha

Condorcocha

Tarma

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**Environment**

**Social Initiative**

**Target Group**

**Location**

Manufacturing and installation of dumpsters.

Local Population

San Cristóbal, Bolivia

Provided machinery and equipment for the reopening of the Copacabana Las Viñas drainage channel, at the request of the "San Lorenzo Irrigation Association" in coordination with area residents.

Local Owners' Association  
Local Population

Puente Piedra / Lima

Refurbishing of restrooms.

C.E.I. 337 Paul Harris School in the province of Ilo

Ilo, Moquegua

Donation of Recycling Bins in coordination with the Student Council.

"José Carlos Mariategui" School

Colquijirca settlement / Cerro de Pasco

Awareness-raising campaign for the conservation of the environment.

Local Population and Authorities

San Cristóbal, Bolivia

Educational and hands-on lecture about water and environmental conservation.

Primary school students at the Cruce Cayalti school

El Valor -Utcubamba Amazonas

Educational and hands-on lecture about water and environmental conservation.

Primary school students at the San Juan de Chiple school

San Juan de Chiple- Cutervo - Jaen, Cajamarca

Formation of Ecological Brigades.

Badges given to children chosen for the Ecological Brigade

El Valor -Utcubamba Amazonas

Formation of Ecological Brigades.

Badges given to children chosen for the Ecological Brigade

San Juan de Chiple- Cutervo - Jaen, Cajamarca



## Corporate Governance

**José Graña**  
President



**Carlos Montero**  
Vice President



**Roberto Abusada**  
Independent  
External Director



In the year 1996 Graña y Montero became an open corporation and issued shares on the stock market, implementing and complying since that time with the principal Good Corporate Government Standards regarding transparency, representation and information provided to the shareholders.

During the year 2006, we consolidated our image among Peruvian companies as a model in implementing the best Corporate Governance practices. Throughout the year we were invited to present and share our experience, as speakers at major events organized by the Colombian Stock Exchange and the IDB in different cities in Colombia, including the II International Congress on Corporate Law held this last November in the city of Cartagena where we were invited to speak on our international experience.

It was also in 2006 that the company obtained the Award for

the Best Annual Report, in recognition of the relevance, transparency, clarity and auditability of the information, in the Corporate Governance Contest organized by the Universidad Peruana de Ciencias Aplicadas (Peruvian University of Applied Sciences).

In addition to the Annual Report and the quarterly reports on the Group's status, we constantly report to the market on important events of the Group. For the second year, we have issued a report on Compliance with Good Corporate Governance Standards, including additional information to that requested by Conasev and we have worked on improving our website, continually adding more information on the company.

In 2006, our Regulations of the Shareholders Meeting and the Board of Directors were enhanced, incorporating information management standards. Through the Shareholder Service





**Augusto Baertl**  
Independent  
External Director



**José Chlimper**  
Independent  
External Director

**Jean Louis Dupoirieux**  
External Director



**Teodoro E. Harmsen**  
External Director



**Mario Alvarado**  
Internal Director



**Hernando Graña**  
Internal Director



Office, we handled nearly 40 inquiries from minority shareholders. Additionally, for the first time, our Board of Directors worked on a Self-Assessment Process, extending it to the Boards of Directors of the subsidiary companies and obtaining interesting conclusions that enabled us to make internal improvements.

Currently we have approximately 700 shareholders. On the company's Board of Directors we have a majority of external directors who are not employees of the company, 3 of which are also independent, having been chosen for their professional quality and prestige, with no shares in the company. In March 2006, Mr. José Chlimper Ackerman joined the Board to replace Mr. Piers Griffith Mostyn

**Composition of the Board of Directors**

As of December of 2006 the composition of the Board of Directors is the following:

**José Graña Miro Quesada**

President

**Carlos Montero Graña**

Vice President

**Roberto Abusada Salah**

Independent External

Director

**Augusto Baertl Montori**

Independent External

Director

**José Chlimper Ackerman**

Independent External

Director

**Jean-Louis Dupoirieux**

External Director

**Teodoro E. Harmsen**

**Gómez de la Torre**

External Director

**Mario Alvarado Pflucker**

Internal Director

**Hernando Graña Acuña**

Internal Director

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### Composition of the Board of Directors

**José Graña Miró Quesada**, Chairman of the Board of Directors. Architect. He is also, Chairman of the Boards of Directors of the subsidiaries GyM, GMP, GMD and CONCAR, and a Director of GMI and Larcomar. Likewise, he is a Director of the publishing company, Empresa Editora El Comercio S.A., and RELAPASA.

**Carlos Montero Graña**, Vice President of the Board of Directors. Civil Engineer. Additionally, he is the Vice President of the Board of Directors of GyM and GMP, Director of GMD, GMI and CONCAR.

**Roberto Abusada Salah**, Director. Doctor of Economics (Cornell, USA). Director of GMD, CONCAR, Mauricio Hochschild y Cía. Ltda. S.A.C. and Director of the Peruvian Institute of Economics (IPE).

**Augusto Baertl Montori**, Mining Engineer. CEO of Gestora de Negocios e Inversiones S.A. and of IMA Latin America Inc. Additionally, he is Chairman of the Board of Directors of Agrícola Chapi S.A. and a Director of Interbank, GMP and FIMA.

**José Chlimper Ackerman**, Engineer with a Master's Degree in Economics and Business Administration from North Carolina State University. Chairman of the Board of Directors of Corporación Drokasa and of the Sociedad Agrícola Drokasa, where he also holds the position of CEO. Director of Ace Home

Center and Banco Central de Reserva del Perú (Central Bank of Peru). Director of Consorcio Exportador S.A. and GMD.

**Jean-Louis Dupoirieux**, Director. Civil Engineer. He is a Project Director at Vinci-Construction Grands Projets (France) and a Director of GyM.

**Teodoro E. Harmsen Gómez de la Torre**, Director. Civil Engineer. CEO of GMI S.A. and Director of the Master's program DI. Professor emeritus of the School of Science and Engineering at PUCP. He is also an Honorary Member of the American Concrete Institute, of the College of Engineers and the Peruvian Academy of Engineering, among other distinctions.

**Mario Alvarado Pflucker**, Director. Civil Engineer with a Master's degree in Engineering Administration from George Washington University, USA. Currently, he is also a director of GMD, GyM, GMP, CONCAR, Larcomar, Norvial and America Leasing.

**Hernando Graña Acuña**, Director. Industrial Engineer, with a post-graduate degree in Mining Engineering from the University of Minnesota, USA. He is a Director of GMI, GMP, Ecotec S.A. and CONCAR. Executive Vice President of GyM and CEO of Norvial S.A. He is also a Director of CAPECO and TGP.

### Committees

As of December 31, 2006, the composition of the Committees of the Board of Directors is the following:

#### Auditing and Processes Committee

Composed of:

Roberto Abusada Salah  
José Graña Miró Quesada  
Jean Louis Dupoirieux

#### Human Resources and Remunerations Committee

Composed of:

Augusto Baertl Montori  
José Chlimper Ackerman  
Carlos Montero Graña

#### Investment and Risk Committee

Composed of:

José Graña Miró Quesada  
Hernando Graña Acuña  
Teodoro E. Harmsen Gómez de la Torre

### Executive Commission

The Executive Commission, which is responsible for the coordination of the Group, is composed of 4 Executive Directors and 6 General Managers of the companies in the Group.

**José Graña Miró Quesada**

**Carlos Montero Graña**

**Hernando Graña Acuña**

**Mario Alvarado Pflucker**

**Juan Manuel Lámbarri Hierro**

**Francisco Dulanto Swayne**

**Jaime Dasso Botto**

**Walter Silva Santisteban Requejo**

**Jaime Targarona Arata**

**Antonio Rodríguez Canales**

President

Vice President

Director

Managing Director

General Manager GyM

General Manager GMP

General Manager GMD

General Manager GMI

General Manager CONCAR

General Manager LARCOMAR

### Principal Executives

**Mario Alvarado Pflucker** Corporate General Manager from 1997 up to date. He obtained a bachelor's degree in Civil Engineering from Universidad Ricardo Palma (Ricardo Palma University) and a Master's Degree in Engineering Management, specializing in Construction Management, from George Washington University, USA. Currently, he is also a Director of GMD, GyM, GMP, CONCAR, Larcomar, Norvial and América Leasing.

**Juan Manuel Lámbarri Hierro** General Manager of GyM from 2001 up to date. Civil Engineer, graduate of the Pontificia Universidad Católica del Perú (Pontifical Catholic University of Peru) and the Upper Management Program at the Universidad de Piura (University of Piura). He joined Graña y Montero in 1982 and is currently a Director of GyM.

**Hernando Graña Acuña** Executive Vice President of GyM. Industrial Engineer with a post graduate degree in Mining Engineering from the University of Minnesota, USA. He is a Director of GyM, GMI, GMP, Ecotec S.A. and CONCAR and President of Norvial S.A. Additionally, he is a Director of CAPECO and TGP.

**Francisco Dulanto Swayne** General Manager of GMP S.A. since the company was founded in 1984. Director since 1988. He studied at the Universidad Nacional de Ingeniería (National Engineering University), ESAN and PAD Universidad de Piura (University of Piura Upper Management Program).

He has been working for the Graña y Montero Group since 1974, and is also a Director of Consorcio Terminales and CLHB (Bolivia). He was the President of SPE (Society of Petroleum Engineers), Lima Section in 1991 and Director of the National Society of Mining, Petroleum and Energy from 1993 to 1994 and 2005 to 2006.

**Jaime Dasso Botto** General Manager of GMD from 2000 up to date. He obtained a Bachelor's degree in Electronic Engineering and a Master's degree in Software Development from Stevens Institute of Technology, USA. He was the Commercial Manager of GMD from 1994 to 1999. Currently, he is also a Director of GMD.

**Walter Silva Santisteban Requejo** General Manager of GMI from 1998 to 2005 and Managing Director from 2006 up to date. He obtained a Bachelor's degree in Civil Engineering from the Universidad Nacional de Ingeniería (National Engineering University). Currently, he is also a Director of ECOTEC.

**Jaime Targarona Arata** General Manager of CONCAR since August of 2005. Civil Engineer, graduate of the Universidad Autónoma de Guadalajara (Autonomous University of Guadalajara), with an MBA from San Ignacio de Loyola University. He has served as a Civil Engineer on different projects, as Commercial Manager of the Special Projects Division of GyM and as the General Manager of Graña y Montero Mexico.

**Luis Díaz Olivero** Corporate Finance Manager since

**Luis Díaz Olivero** Corporate Finance Manager since December 15, 2004. Industrial Engineer with an MBA from the University of Pittsburgh. He has been working for the Group since 1993. He was the Finance Manager of GMP S.A from 1998 to 2000 and Finance Manager of GyM from 2001 to 2004.

**Miguel Valentín Ghezzi** Business Development Manager since October of 2006. Business Administration Degree from the Universidad del Pacífico (University of the Pacific) with an MBA from Harvard Business School. He has been working with the Group since November of 2004. He is a Director of CONCAR and Larcomar. He was the General Manager of CONCAR S.A. from 2004 to 2005; then he was placed in charge of Financing for the Northern IIRSA Highway from 2005 to 2006. Previously, he worked for Citibank in the Corporate Finance Area.

**César Neyra Rodríguez** Manager of Internal Auditing and Management Processes. He has a Bachelor's degree in Accounting from Universidad Nacional Federico Villarreal (Federico Villarreal National University) and a Master's degree in Business Administration and Finance from the Universidad del Pacífico (University of the Pacific). He has also studied Quality Improvement Systems and completed the program on Six Sigma Methodology at Caterpillar University in Mexico and the USA.

**Claudia Drago Morante** Corporate Legal Advisor from 2000 up to date. Attorney, graduate of the University of Lima. Completed the Upper Management Program on Corporate Law and Finance at ESAN. She was the Legal Advisor of GMD from 1997 to 2000.

### Kinship

Mr. José Graña Miró Quesada, Chairman of the Board of Directors, has first degree kinship with Mr. Miguel Valentín Ghezzi, a Director of Concar and Larcomar and Business Development Manager at Graña y Montero, third degree kinship with Ms. Yamile Brahim Graña, shareholder of the company, and fourth degree kinship with the Director, Mr. Hernando Graña Acuña. Lastly, Mr. Teodoro Hans Harmsen Andress, a Director of GMP, has first degree kinship with Mr. Teodoro Harmsen Gomez De La Torre, a Director of the company.



### Capital

The capital of the company as of December 31, 2006 amounted to S/.235,786,936.70, represented by 336,838,481 shares with a nominal value of S/. 0.70 each as a result of the increase in capital stock agreed upon by the General Meeting of Shareholders on March 23, 2006.

### Major Shareholders

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

### List of Major Shareholders as of 12.31.2006

Shareholder	Shares	%
Graña Holdings	71,326,555	21.18%
Vinci Construction	53,779,791	15.97%
AFP INTEGRRA	35,095,268	10.42%
AFP PRIMA	28,795,740	8.55%
Bethel Enterprise	21,359,718	6.34%
AFP Horizonte	21,105,116	6.27%
Byron Development	16,426,512	4.88%
AFP Profuturo	15,274,528	4.53%
Genesis Smaller Companies SICAV	13,446,098	3.99%
<b>Total</b>	<b>276,609,326</b>	<b>82.12%</b>
Other	60,229,155	17.88%
<b>Grand Total</b>	<b>336,838,481</b>	<b>100.00%</b>

**Evolution of Shares**

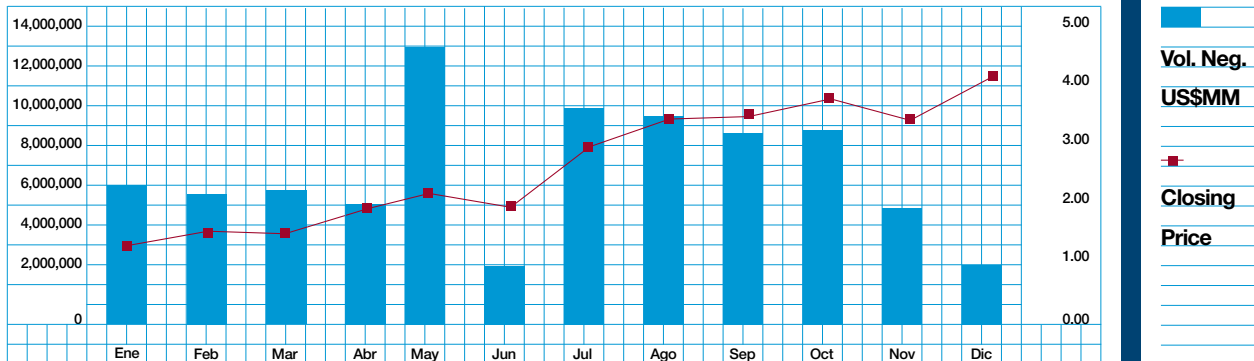
During the year 2006, the profitability of the shares reached 450% including the effect of the issuance of fully paid-in shares in May. The stock market quotation was S/0.85

per share in January and S/4.00 per share at year-end closing. The average liquidity during the period was 92.03 % and the volume traded during the year totaled S / . 275,329,437.34.

**Monthly Quotations on Shares**

ISIN Code	Mnemonic	Year-Month	2006 Quotations				Price Avg. S./.
			Opeing S./.	Closing S./.	Max S./.	Min S./.	
PEP736581005	GRAMONC1	2006-01	0.85	1.13	1.16	0.77	0.92
PEP736581006	GRAMONC1	2006-02	1.22	1.32	1.34	1.05	1.22
PEP736581007	GRAMONC1	2006-03	1.30	1.30	1.32	1.20	1.28
PEP736581008	GRAMONC1	2006-04	1.31	1.75	1.76	1.28	1.47
PEP736581009	GRAMONC1	2006-05	1.75	2.00	2.20	1.70	1.96
PEP736581010	GRAMONC1	2006-06	2.00	1.90	2.15	1.90	1.98
PEP736581011	GRAMONC1	2006-07	1.90	2.90	3.00	1.90	2.45
PEP736581012	GRAMONC1	2006-08	2.99	3.33	3.40	2.75	3.05
PEP736581013	GRAMONC1	2006-09	3.30	3.65	3.70	3.20	3.36
PEP736581014	GRAMONC1	2006-10	3.70	3.86	4.00	3.70	3.81
PEP736581015	GRAMONC1	2006-11	3.88	3.65	3.95	3.60	3.86
PEP736581016	GRAMONC1	2006-12	3.66	4.00	4.00	3.65	3.93

**Volume Negotiated**



**Securitized Bonds**

In October 2003 the company and its main subsidiaries placed Securitized Bonds on the market partially guaranteed by IDB and the FMO in the amount of US\$ 50 million, with semi-annual interest payments and an expiration date in September 2011. At

the end of December 2006, the balance of these bonds was S/. 116,871,000 (US\$ 36.8 MM). During the year 2006, the company obtained the approval of the Assembly of Bondholders and the Guarantors to reduce the levels of the IDB and FMO guarantees, release the reserve account and relax certain conditions on the structure of the Bonds that generated operating and tax inefficiency. These modifications do not affect the classification of the bonds, which continue to have an AAA rating.

**Securitization Bonds**

ISIN Code	Mnemonic	Instrument	2006 Quotations				Price Avg. %
			Opening	Closing	Max	Min	
			%	%	%	%	
PEP80070F083	INTE0BTG1U	Securitization Bonds	101.39	101.32	101.39	100.32	100.39

**Short-term Instruments**

In November, the company obtained approval from CONASEV to offer a line of short-term instruments on the capital market in the amount of US\$ 20 million for a two-year period. On

November 28, the company issued S/. 5,000,000 against this line for a period of 6 months, at a rate of 5.06%.

**Short-term Instruments**

ISIN Code	Mnemonic	Instrument	2006 Quotations				Price Avg. %
			Opening	Closing	Max	Min	
			%	%	%	%	
PEP7658VO24	G&M2CP2A	Commercial Paper	97.56	97.56	97.56	97.56	97.56

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# Historical Summary

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## 1933

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

## 1949

In 1949, the company merged with Morris y Montero, forming Graña y Montero S.A.

## 1954

In 1954 the Consorcio de Ingenieros Contratistas Generales (Consortium of General Contractor Engineers) was founded.

## 1980

En 1980 Graña y Montero S.A. initiated a diversification process with the creation of GMI, the Engineering Consulting firm, GMP, the Petroleum Services company, and GMD, the Information Technology Services company.

Miraflores City Hall

Lima Maternity Hospital

City of Talara

Las Palmas Air Force Base

Nestlé factory

Southern Pan American Highway

Ministry of Economics and Finance

Banco Wiese Ltda. (bank)

First National Bank

Sears Roebuck of Peru

Hospital del Empleado (Hospital for Workers)

Chimbote Steel Plant

Cañón del Pato Hydroelectric Station

Jorge Chávez Airport

Monterrico Horse Racetrack

Paseo de la República avenue

Sheraton Hotel

Cuajone Mining Project

Chavimochic Irrigation Project

Banco Continental (bank)

Machu Picchu Hydroelectric Station

Cuzco Hospital

29,030 feet drilled in 5 wells during 2004

Technology Outsourcing for the Lima Stock Exchange

Management of Hotel Melía Project in the Dominican Republic



Fábrica de Cementos  
Lima



Hospital del Seguro  
Social del Empleado



Cerro Verde



Terminal Marítimo  
de Camisea, Pisco



**1994**

In 1994, Concar, the company specializing in the Operation and Maintenance of highways in concession, was founded.

**1996**

In 1996 the Holding Company was founded and in 1997 Graña y Montero S.A.A. increased its capital stock through public stock offering, thereby turning the company into an Open Corporation.

**1998**

In 1998 Consorcio Terminales was founded in association with Oil Tanking of Germany to manage, store and distribute fuel in the northern and southern sections of the country.

**2002**

In 2002 Norvial S.A., the concessionaire for Road Network No. 5, was founded.

**2005**

In 2005, the Concessionaires IIRSA Norte and IIRSA Sur (northern and southern highways) were founded.

Arequipa-Matarani Highway Concession

Ventanilla Thermolectric Power Plant

Four Seasons Hotel in Mexico

Sulfuric Acid Plant for Southern -Peru

Chinecas Irrigation Project

Marriott Lima Hotel

Camisea: Fractioning Plant

Ralco Hydroelectric Station, Chile

Operation of the Camisea Maritime Terminal in Pisco

Cerro Verde Concentration Plant

SPCC Smelter in Ilo

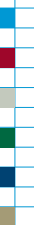
Ancón-Huacho-Pativilca Highway

New Camisea Malvinas Gas Plant

Interoceanic Highway

Tarapoto-Yurimaguas Highway

APEX San Cristóbal mine in Bolivia



## Administration Analysis

### Regarding the economic and financial situation

#### Summary

The consolidated Activity for the 2006 period increased by 41.8% compared to the year 2005, totaling S/. 1,320.8 MM (US\$ 413.2 MM). Contracts related to Energy and Mines are the source of 69% of this Activity.

The OIBDA attained by the end of 2006 was S/. 275.6MM, which represents 52.4% growth. Of this OIBDA<sup>1</sup>, 37.2% corresponds to Stable Flows from Concessions and long-term contracts.

Available Profits for the year 2006 amounted to S/. 104.9 MM, meaning a 220.6% growth.

The Financial Debt decreased by 23.8% and the Net Cash Reserve Debt decreased 59.4%, resulting in reduced leveraging of 1.54x, as well as a Financial Debt / OIBDA<sup>1</sup> ratio equivalent to 9.5 months and 10.7x coverage of Financial Expenses.

The Group's Backlog amounted to US\$ 591.5 MM. Of this total, US\$ 347.2 MM is to be executed during the year 2007.

#### Profit and loss

The consolidated Activity of the Graña y Montero Group at the end of the 2006 period had grown 41.8% compared to the equivalent consolidated Activity for 2005, amounting to S/. 1,320.8 MM. The increase in Activity during 2006 stemmed mainly from the Infrastructure Business, which grew S/. 330.4 MM (+51.2%). All the other lines of business of the group grew during the year as follows: the Petroleum Business by S/ 22.4 MM (+16.9%), the Concession Operation Business by S/. 16.1 MM (+81.0%), the Engineering Business by S/. 9.0 MM (+41.5%), the Information Technology Business by S/. 8.8 MM (+9.1%) and Larcomar by S/ 3.0 (+18.2%).

The Infrastructure Business Activity had been robust since the end of 2005 due to contracts on the Cerro Verde mining project, the Expansion of the SPCC Plant in Ilo and the Sociedad Minera San Cristóbal Project in Bolivia, which were completed this last quarter. The new contracts on the Expansion of the Malvinas Plant for Pluspetrol, the civil works and manufacturing of structures for the Cerro Corona Copper Concentrator, as well as Dirt Moving contracts for Brocal IV and revamping and maintenance on Lot 1AB are

good indications that similar robustness can be expected during 2007.

The price of petroleum throughout the year 2006 was favorable for the Extraction – Production Activity in Lots I and IV, as well as the Well Drilling line of this business. In the fuel Storage and Dispatch business, an increase in the cost of transporting fuel between Peru and Bolivia was favorable during this period. Lastly, the Talara Natural Gas Processing Plant, acquired at the beginning of the year from Empresa Eléctrica de Piura S.A. (EPPSA), more than compensated the effect of no longer consolidating the activity of Compañía Logística de Hidrocarburos Boliviana, explained further on in this report.

The activity of Operations in Concession in 2006 increased as a result of the start-up of work related to the Concession Contract on the Operation of the Paita – Yurimaguas Highway (Northern Multimodal Section) in April. Additionally, the extension of the concession for the Arequipa – Matarani Highway through May 2007 until the concession for Section 5 of the Southern Inter-oceanic Highway is awarded, prevented a contraction of activity that would have offset a significant part of this growth.

The robustness of the Engineering Business may be

supported on an increase in service orders in relation with the framework contracts with Antamina, Minera Cerro Verde and Repsol for La Pampilla Refinery, as well as the Engineering contract entered into with the Hothschild Group's Minera Santa Cruz for the development of the San José mining project in Argentina.

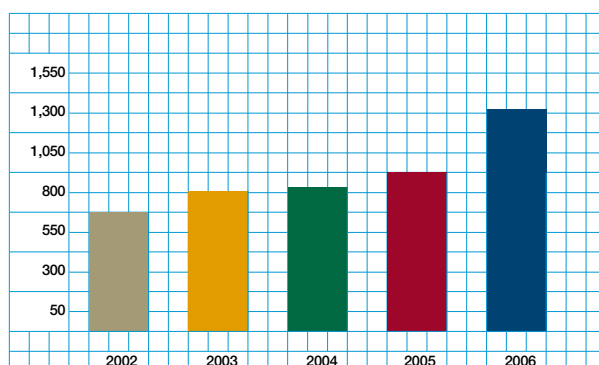
The growth of the Information Technology Business is due to greater activity in the Technology, Technological Services and Software Factory lines of business.

A greater average percentage of occupation of commercial locations throughout 2006 compared to the previous year, in addition to greater average consumption among visitors, resulting in higher varied sales for Larcomar, are among the main reasons underlying increased Activity in this business.

It is worth mentioning that, of the Activity for the 2006 period, 69% was related to contracts with the Energy and Mining sector, validating the Group's strategy of zeroing in its sources of income on this sector.

### Annual Consolidated Activity

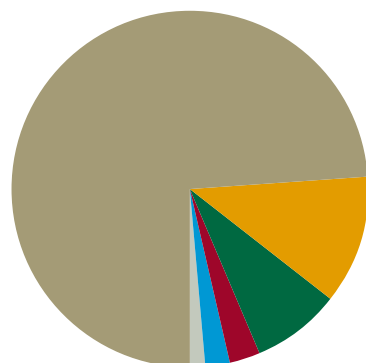
(S/. 000)



2002	692
2003	808
2004	841
2005	932
2006	1,321

\* The activity of Larcomar S.A. has been included in preceding quarters for purposes of comparison

## Activity by business



Infrastructure	73.9%
Engineering	11.8%
Concession Operations	8.0%
Information Technology	2.7%
Petroleum Services	2.3%
Other	1.3%

**42.1% of the consolidated Gross Profit was provided by lines of Business unrelated to Construction.** The increased percentage of Activity from the Infrastructure Business due to the previously explained growth has shrunk Gross Profit from lines of business unrelated to Construction down to 42.1%. However, while the percentage of Activity from the Infrastructure Business lies in the ballpark of 74% for the 2006 period, the Gross Profit percentage from this line of business accounted for 58% of the group's Profit.

**Gross Profit rose 48.4%, reaching S/. 272.8 MM.**

The increase in Gross Profit of the Infrastructure Business (+81.3%) is a by-product of greater Activity in this business; the increase in the Gross Profit from Petroleum Business (+9.3%), Concession Operations (+82.0%) and Larcomar (+20.3%) support this growth. It should be noted that, as a consequence of greater than usual margins for the Infrastructure business, the consolidated Gross Margin improved by 92 basic points, amounting to 20.7% of the Activity.

In addition to the growth in Gross Profit generated by the increase in Infrastructure Business Activity, the Gross Margin of this business improved 13.9% to 16.7% as a consequence of greater profitability in all its divisions. As a result of these factors, the Gross Profit from this business amounted to S/.

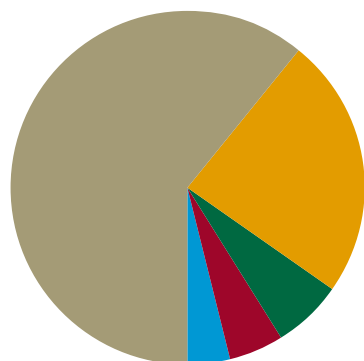
162.5 MM at the end of the period.

The Gross Profit from the Petroleum Business amounted to S/. 65.3MM due to good results in its extraction and production line in lots I and V, to well-drilling services and to the outcomes contributed by the operation of the Talara Gas Processing Plant that made it possible to compensate and overcome the effect of the deconsolidation of CLHB results. Gross Profit for the fuel Storage and Dispatch line was equivalent to that reported for the preceding year.

The Gross Profit of the Highway Concession Operation Business is explained by the 8 months that the Contract on the Concession for the Operation of Paita – Yurimaguas Highway (Northern Multimodal Section) was in effect during the 2006 period.

Lastly, greater Activity related to the Information Technology Business, Larcomar and the Engineering Business generated an increase in the Gross Profits reported by these lines of business, which amounted to S/. 13.6 MM, S/. 11.1 MM and S/. 8.9 MM respectively.

## OIBDA Per line of business



Infrastructure	60.87%
Petroleum Services	24.09%
Information Technology	4.94%
Operation of Concessions, ,	3.72%
Engineering	1.79%
Other	4.60%

**Operating Profit totaled S/. 213.0 MM, representing an Operating Margin of 16.1%.** The aforementioned increase in Gross Profits, enhanced by the fact that consolidated General Expenses accounted for 4.5% of the Activity, materialized a 68.7% increase in Operating Profit.

**Net financial expenses decreased by 26.4%, totaling S/ 25.7 MM.** The contraction of financial debt achieved during the first quarters of the year as a consequence of the Group's financial liability reduction policy is reflected by lower financial expenses for this period. This, combined with the increase in OIBDA explained further on in this report, resulted in 10.7x coverage, which represents an improvement of 5.5x in comparison with the previous year.

**Available Profit totaled S/. 104.9 MM, implying growth of 220.6%.** Greater Operating Profit, combined with lower financial expenses, explains this improvement in Available Profit. A point worth noting is the favorable effect produced by the decline of the exchange rate which cushioned a significant portion of the rise in Other Disbursements resulting from the provision set up for CLHB investment devaluation.

**The cumulative OIBDA as of the end of the year 2006 was**

**S/. 275.6 MM, representing growth of 52.4 % compared to the previous period.** As in the case of Gross Profit, the growth of the Infrastructure Business Activity increased its share of the group's OIBDA, resulting in the generation of 39.1% of the OIBDA by businesses unrelated to Infrastructure and Construction. Additionally, it should be mentioned that long-term stable flows such as concessions and outsourcing provided 37.5% of the OIBDA. This resulted in 1.55x coverage over the Group's Financial Expenses plus General Expenses unrelated to these lines of business, assuming that the latter will not decline in the event of a total loss of their Activity.



## Balance Sheet

**Consolidation of Larcomar.** After the completion of the first phase of the Commercial and Financial Relaunch of Larcomar, which included the opening of a 4,400m<sup>2</sup> Shopping Center and the construction of a permanent Exhibition Hall for pieces from the Gold Museum, the Group decided to withdraw Larcomar from Investments Available for Sale and to consolidate it as an additional subsidiary.

During the year 2007 the Group expects to conclude a process for refinancing the Financial Liabilities of this business in order to improve the ratio between the generation of debt and its average due date.

Grounded in the aforementioned, as of the third quarter the Group incorporated Assets totaling S/. 80.3 MM, Liabilities totaling S/. 72.9 MM and Minority Interest totaling S/ 7.5 MM. into its Balance Sheet.

**Effects of deconsolidation of Compañía Logística de Hidrocarburos Boliviana (CLHB).** As consequence of the Nationalization of Hydrocarbons in Bolivia, and as a recommendation of our auditors, the financial statements of CLHB were deconsolidated and a provision was set up for 50% of our share value at this company and charged against income in 2006. Although no agreement has been reached on valuation mechanisms vis-a-vis the shares to be transferred to the Bolivian government or the method of payment, the Group and Oiltanking, its German partner in CLHB, continue in negotiations.

**The Financial Debt decreased by S/. 67.9 MM during the 2006 period. This entails a 23.8% reduction in the group's financial debt, which reduced its leveraging from 2.18x to 1.54x.** The generation of cash attained during 2006, combined with a postponement of the investments forecasted for the year as a consequence of the electoral setting in the second quarter, allowed the flows to be channeled toward Financial Debt reduction. This effect, along with increased equity due to positive results for the year, resulted in a 0.65x reduction of the total leveraging of the group.

**The current liquidity as of the end of the period was 1.29x, an improvement of 0.08x.** As a consequence of having reduced leveraging to 1.5x and not requiring additional cash to reduce its financial debt - where excess cash is generated by the businesses combined with the funds from the reserve and provision for the Securitized Bonds released last quarter

- the Group opened time deposit accounts with diverse financial institutions for a total of S/. 101.6 MM (US\$ 31.7 MM). These deposits are earning interest at market rates, pending strategic investments that the Group expects to make during upcoming quarters.

**Financial Debt / OIBDA decreased to 0.59x.** The increase in OIBDA combined with the reduction of Financial Debt shall permit the group to cancel the entire Financial Debt in 9.5 months. It should be noted that the group maintains an average expiration date of 31 months, which results in significant generation of additional liquidity for the group.

**Securitized Bonds.** On November 10, 2006, the second Bondholders' meeting took place. A series of changes was approved in relation with the financial conditions and guarantees on the bonds that will yield future savings for the group. As a consequence of the foregoing, US\$ 8.8 MM of the reserve account and US\$ 3.3 MM of the structure's provision account were released, leaving them freely available. Additionally, the level of guarantees from the IDB and the FMO shrunk so that in the future guarantees shall be maintained on 37.5% of the balance of bonds issued. A series of modifications to the securitization structure were also approved, making the operations of the group more flexible and cutting down the effective issuance cost.

The foregoing did not affect the rating of the instruments, which kept the AAA rating given prior to these changes.

**Commercial Paper.** In the month of November 2006, CONASEV approved the Group's Second Short-Term Instrument Program for a maximum amount of US\$ 20 million or the equivalent in New Soles for two years. The purpose of this program is to diversify the Group's sources of short-term financing.

Under this program, toward the end of November, Commercial Papers were issued in the amount of S/. 5 MM at an AER of 5.06%. The funds were used to replace short-term financial liabilities related to the Information Technology business.

