

2011

Doing Deals in Peru

*Salinas De Maras
(salt ponds)
Cuzco, Peru.*



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Over the last ten years the Peruvian economy has shown significant upward trend which has been mainly reflected in a sustained year-on-year GDP growth. In 2010, Peru's GDP increased by 8.8%, with which the Peruvian economy ended a decade long growth with an average of 5.7%.

Furthermore, as of August 2011 the Peruvian economy had grown for twenty-four consecutive months. Thus, during the period between September 2010 and August 2011 (12 months), the Peruvian economy grew by 8.14%. GDP is expected to increase by 6.3% and 5.7% over 2011 and 2012, respectively, according to the forecasts released by the Peruvian Central Reserve Bank in September 2011.

As a result of the above-mentioned positive trends, between 2008 and 2009 Peru received, from the world's main risk rating agencies, credit rating upgrades and investment grade. Additionally, in August 2011 Standard & Poor's raised Peru's credit rating from "BBB-" to "BBB".

The ranking of best countries to invest in, prepared annually by Forbes, the prestigious American finance and economy magazine, is an additional indicator showing the strengths of the Peruvian economy. It ranks Peru as the second best country to invest in Latin America.

On the other hand, the newly-elected Government, which began its mandate on July 28, 2011, has confirmed in local and international forums its intention to maintain the focus on attracting all private and public investors who wish to invest in Peru. It is worth noting that one of the major policies of the newly elected Government is to seek to make the economic benefits available to all social stratum, especially to those living in extreme poverty conditions. Undoubtedly, this will require greater efforts to be made in the education, health care and human development fronts.

There are great opportunities for doing business in Peru and PwC is in an unbeatable position to accompany those who wish to take better advantage of them. In this regard, this is the fourth consecutive year in which PwC publishes *Doing Deals in Peru*, which contains the latest and most reliable information on the major macroeconomic, tax, corporate, labor, financial, social and industrial matters. We are confident this document will prove to be an effective tool to obtain an overall and detailed perspective of the key elements that should be included in your decision-making to start and develop successful businesses in Peru.

Together with this guide, we would like to offer 87 years of experience providing business advisory services in Peru as well as the capabilities and talents of our multidisciplinary team of professionals who are ready and best prepared to help you create value for your business.

As always, we remain available at your convenience.

A handwritten signature in black ink, appearing to be 'E. Chong', written in a cursive style.

Esteban Chong
Territory Senior Partner

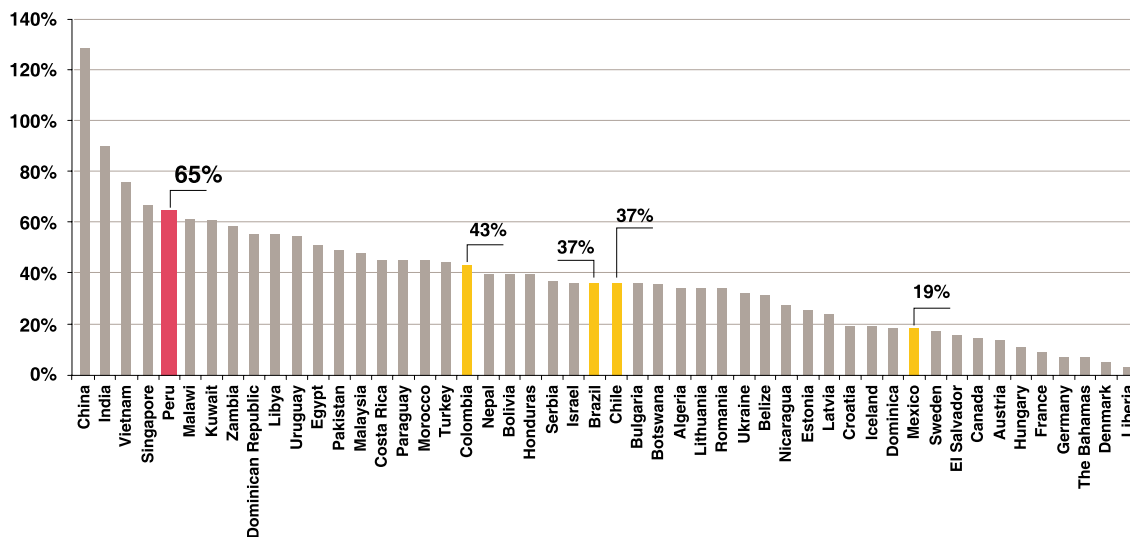


1.

Macroeconomic Analysis

Economic Performance

World Economic Performance - GDP % Growth by country, 2002 - 2010



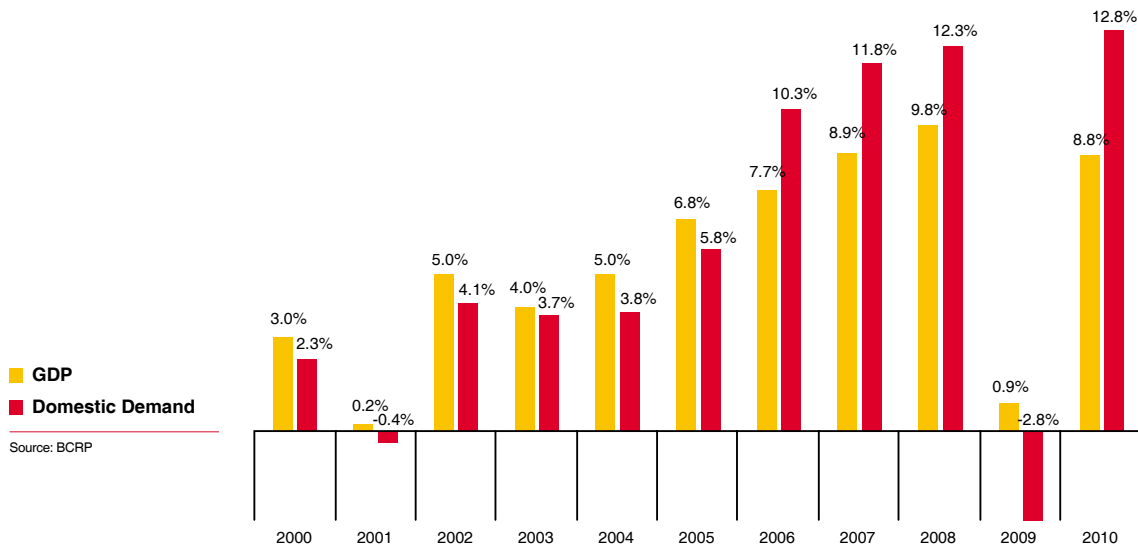
Source: FMI (Fondo Monetario Internacional)

Main Macroeconomic Indicators

	2008	2009	2010
GDP Growth (%)	9.8%	0.9%	8.8%
Unemployment Rate (%)	4.2%	4.0%	NA
Fiscal Deficit (% of GDP)	0.0%	1.9%	0.6%
Fiscal Surplus(% of	2.1%	0.0%	0.0%
Public Debt (% of GDP)	24.1%	27.2%	23.9%
Current Account (% of GDP)	-4.2%	0.2%	-1.5%

Source: BCRP (Banco Central de Reserva del Perú) and MTPE (Ministerio del Trabajo y Promoción del Empleo)

Gross Domestic Product and Domestic Demand



In 2010 GDP grew 8.8 percent, and as a result the Peruvian economy closed the decade with an average growth of 5.7 percent.

Domestic demand expanded 12.8 percent in 2010 and reversed the 2.8 percent decline of 2009. This growth is associated with the recovery of private expenditure on consumption and investment, which grew 6.0 and 22.1 percent, respectively, as well as with the process of inventory rebuilding.

GDP, type of expenses and trade balance

	2008	2009	2010
Domestic Demand	12.2%	-2.8%	12.8%
Private Consumption	8.7%	2.4%	6.0%
Public Consumption	2.1%	16.5%	10.6%
Private investment	25.8%	-15.1%	22.1%
Public investment	42.8%	25.5%	26.5%
Exports	8.8%	-3.2%	2.5%
Imports	20.2%	-18.6%	23.8%
Gross Domestic Product	9.8%	0.9%	8.8%

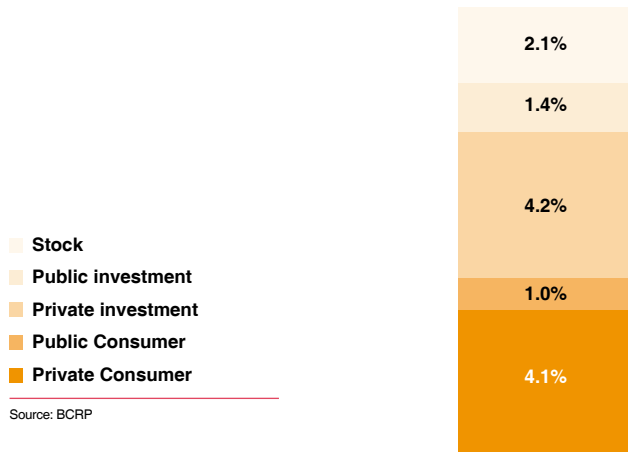
Source: BCRP

Private consumption grew 6.0 percent in 2010, exceeding the decade's average (5.0 percent). The year's growth was underpinned by increased disposable income (10.6 percent), employment growth (4.2 percent) and an improved climate of confidence.

Private investment tends to be one of the most volatile components of spending during periods of boom and boost economic cycle and is very sensitive to changes in the terms of trade. During 2009, within a context of high uncertainty, the implementation of some investment projects was postponed, which led to a 15.1 percent drop in private investment. However, a set of important investment projects and optimistic business expectations led to a rapid recovery of private investment during 2010 (22.1 percent).

Real imports of goods and services grew 23.8 percent in 2010, mainly driven by higher domestic demand for consumer goods and capital goods for plant expansions, drilling of oil wells, power plant construction, start of mining projects, and others.

Domestic Demand during 2010 (share in variation)



GDP Growth

	2008	2009	2010
Agriculture and Livestock	7.2%	2.3%	4.3%
Agriculture	7.4%	0.9%	4.2%
Livestock	6.0%	4.4%	4.4%
Fishing	6.3%	-7.9%	-16.4%
Mining and fuel	7.6%	0.6%	-0.8%
Metals	7.3%	-1.4%	-4.9%
Fuel	10.3%	16.1%	29.5%
Manufacturing	9.1%	-7.2%	13.6%
Based on raw materials	7.6%	0.0%	-2.3%
Non-primary	8.9%	-8.5%	16.9%
Electricity and water	7.8%	1.2%	7.7%
Construction	16.5%	6.1%	17.4%
Commerce	13.0%	-0.4%	9.7%
Other services	9.1%	3.1%	8.1%
GDP	9.8%	0.9%	8.8%
Primary sectors	7.4%	1.0%	0.9%
Non- primary sectors	10.3%	0.8%	10.4%

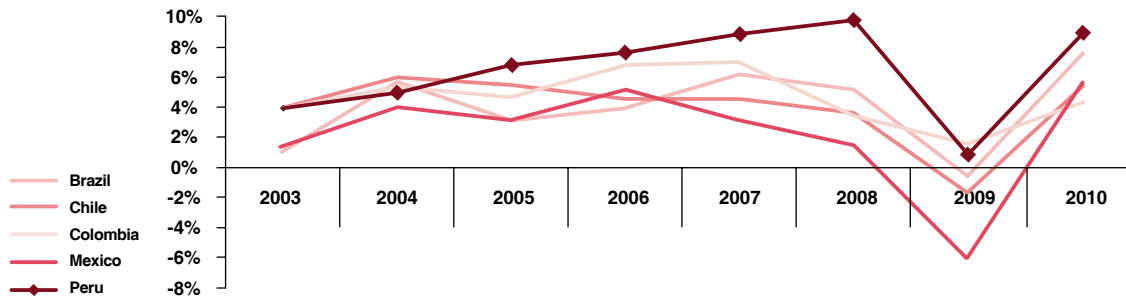
Source: BCRP

At the industry level, growth was driven by the expansion of non-primary sectors linked to domestic demand. Construction and non-primary manufacturing increased by 17.4% and 16.9%, respectively, the highest in 16 years. The construction sector was boosted by the resumption of private investment projects delayed by the crisis and by the implementation of new projects.

The strong expansion of non-primary manufacturing, which exceeded expectations, was driven by sectors linked to domestic demand: food and beverages, textiles, products oriented to construction and input (paper and printing activities, chemicals, rubber and plastics).

Meanwhile, commerce grew 9.7% thanks to wholesale and retail growth, and to the dynamism of the automotive trade. Also, according to the MEF (Ministerio de Economía y Finanzas), the services sector, consisting of electricity and water and other services, grew 7.5%.

Peru is leading the growth in the region

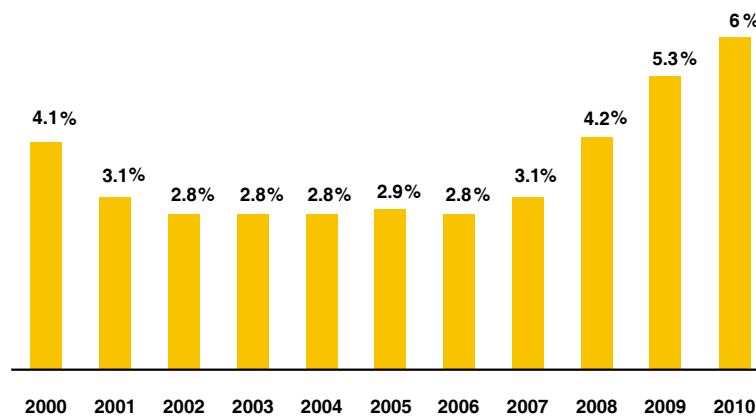


Source: FMI

The emerging economies have been positively impacted by the recovery of international trade (particularly Asia), rising terms of trade, and buoyant domestic demand. In particular, the economies of Latin America, which in 2010 grew 5.8 percent, benefited from strong consumption and investment, as well as from external demand.

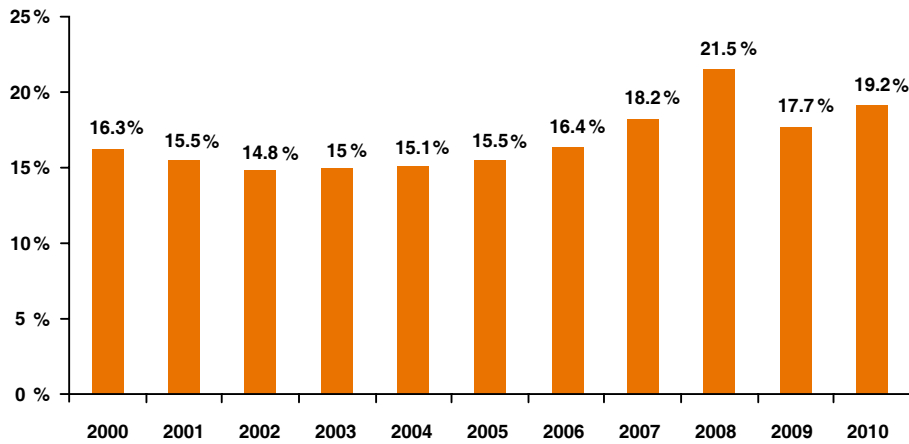
During 2010, Peru had one of the highest regional GDP growth rates. Most of the growth in 2009 and 2010 can be attributed to public investment.

Public investment (% of GDP)



Source: BCRP and INEI (Instituto Nacional de Estadística e Informática)

Private investment (% of GDP)



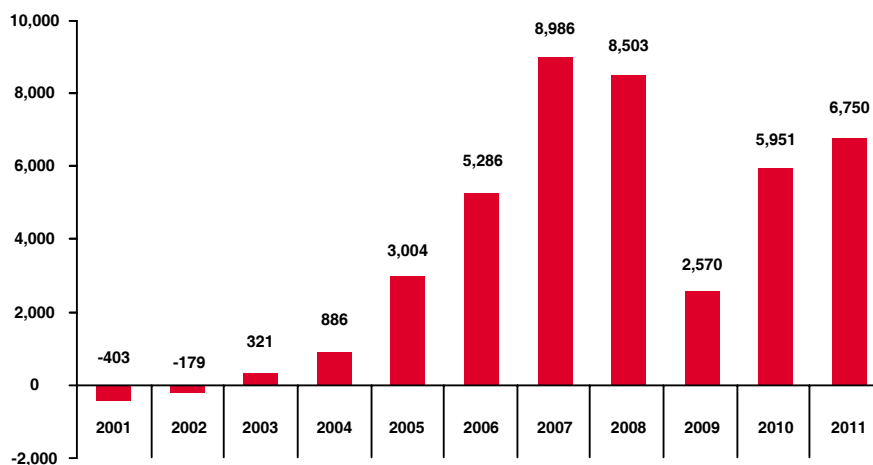
Source: BCRP

Non-Financial Public Sector (% of GDP)

	2009	2010
1. Current Revenues of the Central Govern-	18.6%	19.8%
2. Non-Financial Expenditure of the Central Government	19.5%	19.3%
3. Others	0.4%	0.1%
4. Primary outcome (1-2+3)	-0.6%	0.6%
5. Interest	1.3%	1.2%
6. Balance (4-5)	-1.9%	-0.6%

Source: BCRP

Trade Balance (Millions of USD)



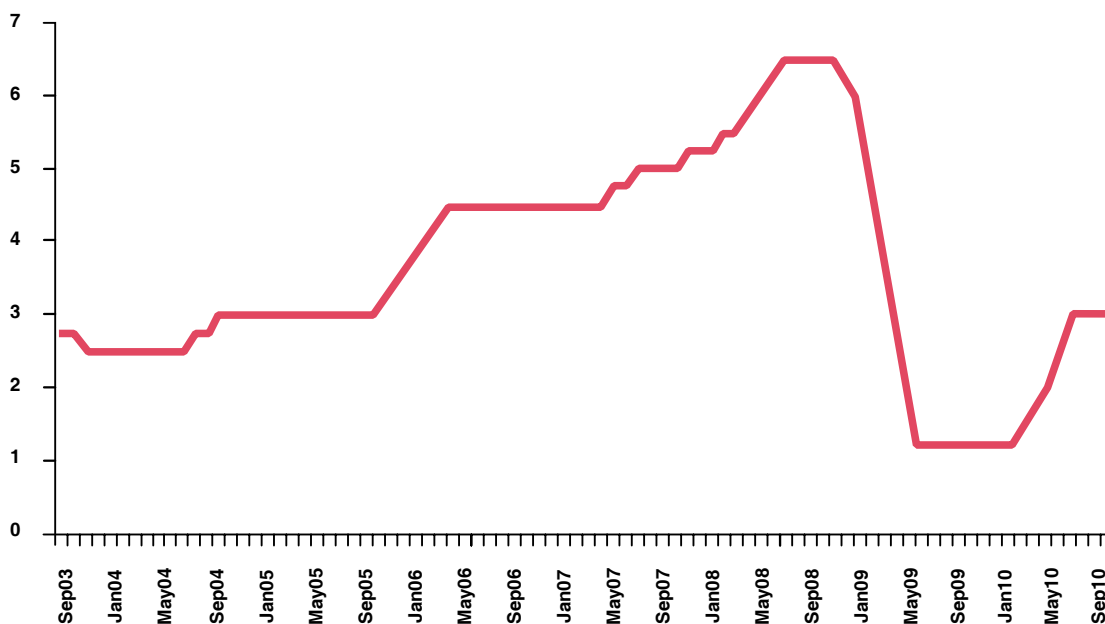
Source: BCRP

Commercial Partners (share)

	Export			Import	
	2009	2010		2009	2010
United States of America	18%	17%	United States of America	20%	19%
China	15%	15%	China	15%	17%
Switzerland	15%	11%	Brazil	8%	7%
Canada	9%	9%	Ecuador	5%	5%
Japan	5%	5%	Japan	4%	5%
Germany	4%	4%	Colombia	4%	4%
Chile	3%	4%	Mexico	3%	4%
Spain	3%	3%	Argentina	4%	4%
Brazil	2%	3%	Chile	5%	4%
Italy	2%	3%	South Korea	3%	3%
South Korea	3%	3%	Germany	3%	3%
Ecuador	2%	2%	Nigeria	2%	2%
Colombia	2%	2%	Canada	2%	2%
Netherlands	2%	2%	India	1%	2%
Belgium	1%	2%	Italy	2%	1%
Rest	15%	15%	Rest	19%	18%

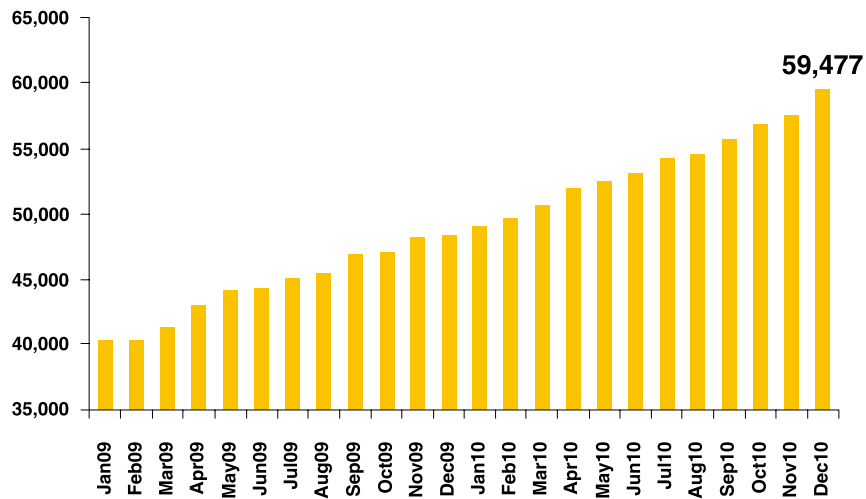
Source: MINCETUR (Ministerio de Comercio Exterior y Turismo del Perú)

Referential interest rate (per cent)



Source: BCRP

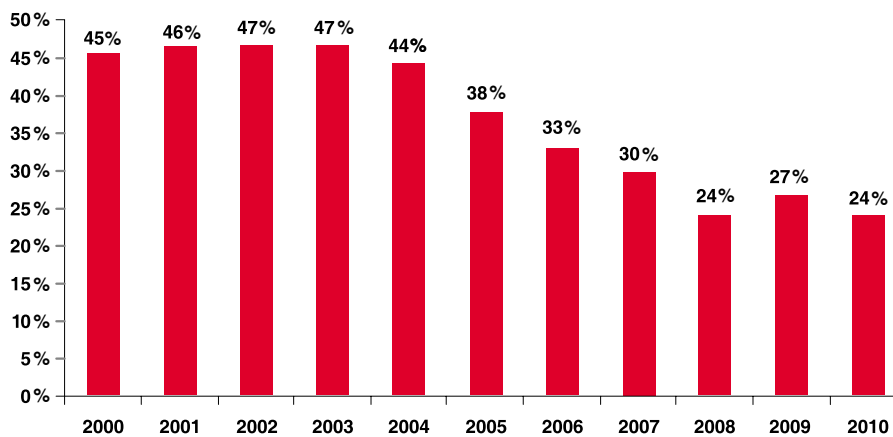
Credit to the private sector (Millions of USD)



Source: BCRP

Credit to the private sector continued to show high growth in line with the increased economic activity.

Public debt (% of GDP)



Source: BCRP

Tax Issues

Important Tax Development (Taxation on indirect transfer of shares)

On July 21, 2011, Peru enacted Law No. 29757, which introduces amendments to Law No. 29663 and incorporates rules on issues that were not addressed in Law No. 29663 of February 2011 (which incorporated taxation on indirect disposal of shares of Peruvian entities). The main rules of this new regime are:

De Minimis Indirect Transfers of Peruvian Shares

Law No. 29663 provided no thresholds, so even de minimis transfers of a foreign entity's shareholding (which in turn owned, directly or indirectly, shares of a Peruvian entity) triggered a taxable indirect transfer of Peruvian shares, provided certain conditions were met.

Under Law No. 29757, a taxable indirect transfer of Peruvian shares is deemed to occur when shares of a foreign entity, which in turn owns, directly or indirectly through other entities, shares of a Peruvian entity, are transferred and both of the following conditions are met:

- 1) During the 12 months prior to the transfer, the fair market value ("FMV") of the shares of the Peruvian entity owned by the foreign entity equals 50% or more of the FMV of the shares of the foreign entity; and
- 2) During any given 12-month period, shares representing 10% or more of the foreign entity's share capital are transferred.

If these two conditions are met, the taxpayer, when calculating the amount realized from the foreign entity's share transfer should consider the transfers that occurred during the 12-month period mentioned above in condition 2.

It should be noted that, although the provisions of Law No. 29757 are not clear in this respect, we consider that the condition related to the 10% of the foreign entity's share capital is also applicable in the other scenario which generates indirect transfer of shares, that is, when a foreign entity issues new shares as a consequence of a capital increase and such shares are issued below par value.

Calculation of Gain from Indirect Share Transfer

In connection with the calculation of gain arising from the indirect transfer of Peruvian shares, Law No. 29757 incorporates the following rules:

- The taxable income is determined by multiplying the fair market value of the shares of the foreign entity which being transferred by the proportion that the FMV of the Peruvian entity's shares represents of the FMV of the foreign entity's shares.
- The basis is determined by multiplying the basis of the foreign entity's shares being transferred by the proportion that the FMV of the Peruvian entity's shares represents of the FMV of the foreign entity's shares. This basis must be supported with documents issued in accordance with the laws of that foreign entity's jurisdiction or other documents listed by the Peruvian tax authorities (yet to be stipulated).

It should be noted that the modifications to the Regulations of the Income Tax Law enacted by Supreme Decree No. 136-2011, in force since July 10, 2011, established that there is also no obligation to obtain a Certificate of Invested Capital in the case of indirect transfer of Peruvian shares (which is a procedure that must be followed by foreign persons or entities to certify their tax cost of goods and or shares prior to their disposal).

Basis of shares acquired prior to the effective date of Law No. 29663

For foreign entity shares acquired prior to the effective date of Law No. 29663, that is, February 16, 2011, Law No. 29757 provides that the basis is the greater of:

- The FMV of these shares on February 15, 2011; or
- The basis itself.

For the purposes of determining the FMV mentioned in the first condition above, if the shares are traded in a centralized mechanism of negotiation (i.e., a stock exchange), then the FMV is deemed to be the closing price on February 15, 2011 or the last quote published. If they do not have a quote price or are not traded in a centralized mechanism of negotiation, then the FMV is determined based on the foreign entity's net equity based on a balance sheet audited by an internationally recognized firm during the 12-month period prior to February 15, 2011.

Joint and several liability

Law No. 29663 provided that, in any event, the Peruvian entity whose shares are indirectly transferred has joint and several liability for the tax

liability payment when, within the 12 month period prior to the transfer, the foreign transferor qualified as a related party by reason of control, management or equity.

However, Law No. 29757 reduces that joint and several liability because it includes a rule under which the Peruvian entity whose shares are

transferred, directly or indirectly, would no longer be jointly and severally liable for the non-resident transferor's capital gain tax liability, provided that the buyer is a Peruvian resident (since the buyer would have to withhold the corresponding capital gains tax).

income, such entities are allowed to deduct expenses, to the extent that they are necessary to produce taxable income or to maintain its source. Requirements, limits and/or caps may be applicable for the deduction of certain expenses, such as financial expenses (thin-capitalization rules apply), bad debt provisions, salaries, travel expenses, gifts, among others.

• However, certain expenses are not tax deductible, such as those derived from transactions with (i) entities domiciled in tax havens included in the list attached to the Peruvian Income Tax Law's regulations, (ii) permanent establishments located in tax havens, or (iii) with entities that obtain revenues or income through tax havens. Notwithstanding, expenses derived from the following transactions are excluded from the above mentioned limitation: (i) interest on loans, (ii) insurance premiums, (iii) lease of aircraft and ships, (iv) maritime freight and (v) toll for passing through the Panama channel.

• Depreciation is applied under the straight line method. The limit for the depreciation expense allowed for tax purposes is the one registered for accounting purposes; however, in no case may the tax depreciation exceed the following maximum rates:

• Companies incorporated in Peru are considered domiciled for income tax purposes and, therefore, subject to Income Tax at a 30% rate on net income determined on a worldwide basis. Branches, agencies and permanent establishments incorporated in Peru of non-domiciled companies or entities are subject to Income Tax at a 30% rate on their Peruvian source income only.

• In order to comply with their annual Income Tax liability, the aforementioned entities must make monthly advanced payments by applying a coefficient to their monthly net revenues. The coefficient is determined by dividing the income tax calculated for the previous year by the total taxable income of the same year. New companies or companies with tax losses meet their monthly advance obligations by paying 2% of monthly net revenues. It is possible to reduce the coefficient or even suspend the monthly advance payments under certain conditions. Any unpaid balance or excess payment is paid or credited, respectively, upon the filing of the annual Income Tax return, which must be filed no later than the first 4 months of the tax year following that to which the Income Tax liability corresponds (e.g.: 2011 annual Income Tax return must be filed no later than April 2012). The Fiscal year is the calendar year.

• For the purposes of determining their taxable

Corporate Income Tax

Buildings	5%
Cattle (both labor and reproduction) and fishing nets	25%
Vehicles (except railroads) and any kind of ovens	20%
Machines and equipment used for mining, oil and construction activities, except furniture, household and office goods	20%
Equipment for data processing	25%
Machines and equipment acquired as from January 1st, 1991	10%
Other fixed assets	10%

Withholding taxes

- Income paid to non-domiciled entities is subject to the following withholding tax rates:

Interest paid from loans entered into with non-related parties, provided certain requirements are met	4.99%
Interest paid in consideration of loans with related parties	30%
Interest paid by Peruvian financial entities or banks to foreign beneficiaries, for credit lines used in Peru	4.99%
Royalties	30%
Digital services	30%
Technical assistance, provided certain formal requirements are met (otherwise a 30% rate would apply)	15%
Lease of vessels or aircraft	10%
Other income	30%

- It should be noted that domiciled taxpayers cannot deduct the withholding tax of a third party, except in the case of loans provided by non-domiciled creditors, to the extent that the debtor has contractually assumed the obligation of bearing the withholding tax.
- Capital gains derived from the sale of securities through the stock exchange received by non-domiciled entities or individuals are subject to income tax at a rate of 5%. If the security is not traded in the stock exchange, a 30% income tax rate is applicable.
- In the case of the following services in which activities are performed both in Peru and abroad, the Peruvian tax provisions deem that non-domiciled beneficiaries obtain Peruvian source income at the following percentages:

Taxable transaction	Peruvian source income	Effective tax rate
Insurance	7%	2.1%
Lease of vessels	80%	24%
Lease of aircrafts	60%	18%
Air transport	1%	0.3%
Maritime transport	2%	0.6%
Telecom services	5%	1.5%
International news services	10%	3%
Distribution of movies, records and similar products	20%	6%
Supply of containers	15%	4.5%
Broadcasting rights of live foreign TV shows in Peru	20%	6%

Market Value and Transfer pricing rules

- For tax purposes, the value assigned for any transaction must meet market value standards (arm's length). If the value assigned to a transaction differs from its market value, either by overvaluation or sub-valuation, the Tax Administration may adjust it for both purchaser and the seller. Should one of the parties be a non- domiciled entity, such adjustment will be unilateral (only for the domiciled party).
- In the case of transactions between related parties or transactions with tax havens, the value of the goods and services must be determined in accordance with transfer pricing rules, with the mandatory requirement in most of the transactions to support such value with a transfer pricing study; otherwise penalties may be imposed.

Individual Income Tax

- Income Tax on individuals in Peru is determined by the domicile of the individual rather than by residence. Foreign individuals are deemed to be domiciled in Peru for tax purposes, if they have been physically present in Peru for more than 183 calendar days within a 12 month period. Temporary absences of up to 183 days within a 12 month period do not interrupt the continuity of their presence.
- The tax status of the individual (domiciled or non-domiciled) is determined at the beginning of each fiscal year. Changes regarding such condition that may occur during the fiscal year shall become effective from the start of the next fiscal year. This means that non-domiciled individuals, who meet conditions to be considered as Peruvian tax residents, must wait until the next year to effectively acquire tax domiciled treatment.
- Domiciled individuals are subject to Income Tax on their worldwide income, whereas non-domiciled individuals are only taxed on their income from a Peruvian source. In this case however, the individual is entitled to a foreign tax credit for the taxes paid on foreign income taxable in Peru, determined by his/her average Peruvian tax rate applied on his/her foreign income, with a limit of the tax actually paid abroad.
- Income tax on domiciled individuals is imposed on a scale of income levels, as shown below:

Level	Reference in tax units	Tax rate
1 st	Up to 7 UIT*	0%
2 nd	From 7 up to 34 UIT	15%
3 rd	From 34 up to 61 UIT	21%
4 th	Above 61 UIT	30%

* UIT (Unidad Impositiva Tributaria) - Tax Unit

- Capital gains derived from the sale of stocks received by domiciled individuals are subject to an effective 5% income tax rate.
- A tax exemption is applicable to the first 5 Tax Units (1 Tax Unit is equivalent to USD 1,200, approximately).
- Losses can be offset against capital gains obtained in the same fiscal year. They cannot be carried forward.
- No withholding obligation. Income tax must be paid upon the filing of the annual income tax return.
- Income tax on non-domiciled individuals is imposed at a flat rate of 30% on their Peruvian source income. No deductions or credits are allowed for non-domiciled individuals.
- Capital gains derived from the sale of stocks are levied with a 5% rate, provided that:
 - a) The shares are listed in the Stock Public Registry; and,
 - b) The shares are traded through the Lima Stock Exchange.
 Otherwise, a 30% rate is applied.

Withholding obligation

- Acquirer has the obligation to withhold the corresponding income tax.
- Such obligation is not applicable when the sale is conducted through the Lima Stock Exchange. In this case, the transferor must pay the corresponding tax within the first 12 days of the month following the generation of the capital gain.

Tax Exemptions

- a) Capital gains made by the direct or indirect alienation of securities underlying an Exchange Traded Fund (ETF) when such alienation is performed for the constitution of ETF, the sale of the ETF unit or the management of its investment portfolio.
- b) Capital gains made by the sale of treasury bonds to the extent they meet certain conditions.

Tax Treaties

- Tax treaties to avoid double taxation with Canada, Chile and Brazil (they follow the OECD Model Tax Convention) are currently in force.
- Our country has also entered into tax treaties with Spain and Mexico (which follow the OECD Model Tax Convention), but are not yet in force.
- In addition, Peru is a member of the Andean Community of Nations, in which Bolivia, Colombia and Ecuador are also current members. These countries have a Tax Treaty in force which has been prepared under the United Nations Model.

Free Trade Agreements

- Since 2006, Peru has signed trade deals with the United States, Canada, Singapore, and China; concluded negotiations with the European Union (EU) and Korea; and begun trade talks with Japan and others.

1.2.1. Payroll taxes

Health contributions

- Employers shall make monthly payments equal to 9% of the remuneration paid to employees, that is, the insured compensation, which is equivalent to the total compensation paid to the employee.
- Employees shall be affiliated either to the National Health System (“EsSalud”) or the Private Health System (“EPS” or “Entidades Prestadoras de Salud”), according to which option they choose. In this last case, a portion (25%) of the amount paid to the EPSs may be used by the employer as a credit to be offset against EsSalud contributions.

Complementary insurance for risky work

- Employees who perform high risk activities established in Law No. 26790, such as mineral extraction, iron and steel smelting, among others, must have a complementary insurance for risky work, which coverage includes healthcare, temporary or permanent disability pensions and burial expenses as a consequence of a work accident or professional disease suffered by employees. This insurance is compulsory and must be paid by the employer.
- Employees hired through workers cooperatives; special, temporary or complementary services companies; contractors and subcontractors; as well as any other intervening/participating institution that assigns personnel to a company where risky activities are performed, are obliged to contract the complementary insurance for risky work.
- In addition, employers that hire work services or labor through the abovementioned companies are obliged to verify that all the employees assigned to its offices, have been duly insured according to the corresponding legal provisions. Otherwise, they will have to contract the insurance (on its own), in order to guarantee the coverage of the referred employees, under penalty of being jointly liable with such companies to the employees of said entities and the National Health System, for the obligations established by Law.

Pension fund contributions

- Employers shall apply monthly withholdings for pension fund contributions equal to 13% of the remuneration received by the employee, in case he/she is affiliated to the National Pension System, or 13.2%, approximately, in case he/she is affiliated to the Private Pension System (in this case, 10% corresponds to the personal pension account, and almost 3% to insurance and commissions for managing the fund).
- Should the foreign individual leave Peru upon conclusion of his/her labor contract, the respective pension funds deposited in the Private Pension System may be wired to an account of the employee in a foreign bank (the aforementioned 10%).
- Below we set forth a summary of the payroll contributions:

Payroll tax	Employer	Employee	Rate
Health Contributions	●		9%
Complementary Insurance for Risky Work	●		1.30%
National Pension Fund		●	13%
Private Pension Fund		●	13.2 % approx

1.2.2. Financial Transactions Tax (FTT)

- Obligations that are fulfilled through cash payments, the amount of which exceeds S/.3,500 or US\$1,000, must be performed through a bank account or deposit, wire transfers, payment orders, credit cards, non-negotiable checks, among other means of payment provided by entities of the Peruvian financial system.
- Any obligation that is not performed using such methods (i.e. payments in cash), does not allow deduction of the expense or recognition of the cost for tax purposes, nor recognition of tax credits.

On the other hand, according to article 9 of Law No.28194, operations that are subject to FTT are, among others, the following:

- a) Credits or debits made in bank accounts, in which case the accountholder is the taxpayer. However, credits, debits or transfers made between accounts of the same accountholder are not subject to FTT.
- b) Purchase of certified checks, bank certificates, traveler checks or other financial instruments in which the bank accounts mentioned in item a) are not used. In this case the taxpayer is the purchaser of the mentioned instruments.

The financial transactions tax (FTT) rate for fiscal year (FY) 2011 has been established at 0.005% as of 1 April 2011.

The FTT may be expensed for Income Tax purposes according to rules applicable to this tax. It should be noted that, among others, the following transactions are exempted of the FTT:

- Credits or debits made in bank accounts opened at the employers' request exclusively in order to deposit the salaries of their employees.
- Credits or debits in bank accounts of severance indemnities (compensation for time of service of the employee).
- Credits.

1.2.3. Temporal Net Assets Tax (TNAT)

- Companies subject to corporate Income Tax are obliged to pay the TNAT, except those which are in pre-operative stages or have begun them as from January 1 of the FY for which the TNAT must be paid.
- The taxable basis is the value of the net assets set forth in the taxpayer's balance sheet as of December 31 of the year prior to the one that corresponds to the tax payment, adjusted with the deductions and amortizations accepted by the Peruvian Income Tax law. Thus, the amount of the temporary net assets tax is determined by the application of the following rates on the taxable basis:

Rates	Net Assets
0%	Up to S/. 1'000,000
0.4%	Excess of S/. 1'000,000

- It should be noted that the amount paid for the TNAT by the taxpayer is a credit to be offset with its corporate Income Tax obligations. If not totally offset, the remaining TNAT may be refunded by the Tax Administration.

1.2.4. Value Added Tax (VAT)

The following transactions are subject to VAT:

- Sales of moveable goods made within Peru.
- Services rendered within Peru.
- Importation of services (services economically used within Peru by a domiciled entity).
- Importation of goods.
- Construction agreements; and,
- The first sale of real estate performed by constructors.
- As of 1 April 2011, the value-added tax (VAT) rate is 18%.

The VAT Law follows a debit/credit system and, input VAT (paid in purchases of goods and services) may be offset with output VAT (originated by taxable operations). Any VAT credit that is not offset in a certain month, can be carried forward (at historical values) to be offset with any future output VAT. It should be noted that VAT credit cash refunds are only available for exporters and some entities at a pre-operative stage, provided certain conditions are met (as explained below).

Early recovery of VAT

- Companies at a preoperative stage with large projects may apply for the early recovery of VAT, which allows them to obtain a VAT credit refund prior to starting operations. An Investment Agreement with the Government (the Ministry of its sector) is required and a minimum investment must be met.

VAT exporter's positive balance

- Exportation of goods (including the sale of goods in international zone of ports and airports) as well as some services performed for foreign entities are taxable at zero rate. VAT paid upon the acquisition of goods, performance of services, construction agreements and importation of goods related to the exported goods or services grants a VAT exports positive balance which may be refunded by the Tax Administration.
- The positive balance may be offset with (i) output VAT, (ii) income tax, (iii) any other outstanding tax debt in favor of the Central Government. In the event that the positive balance exceeds the amount of the aforementioned tax obligations, the taxpayer may apply for a refund (which may be made in cash or by check).

1.2.5. Excise Tax (ISC)

- The sale of some specific goods, such as fuel, cigarettes, beer, liquor, vehicles, among others, is subject to excise tax.
- Tax rates are determined according to the type of good or service.

1.2.6. Cutome Duties

- Customs duties are imposed on the CIF value of the imported goods, at rates of 0%, 6% and 11%. There are no restrictions on imports and exports, although there is a limited list of products, which cannot be imported or exported. Exports are not subject to any taxes. The importation of most capital goods are subject to the 0% rate.
- Peru is a member of the World Trade Organization (WTO) and various bilateral agreements providing for most-favoured-nation treatment on a reciprocal basis. Peru is also a member of the Andean Community and the Latin American Integration Association - LAIA (formerly the Latin American Free Trade Association).
- The Government is empowered to grant duty exemptions under certain circumstances and also to suspend temporarily the assessment of duties on certain products. Customs duties are imposed on an Ad-Valorem basis -the CIF value of the imported goods-. Goods are classified for customs duty purposes under the Harmonized System.

Drawback regime

- Pursuant to the drawback regime, the exporter may apply for the refund of the custom duties that it paid upon: (i) the importation of the goods contained in the exported goods; or, (ii) the importation of the goods that are consumed during the production of the exported goods.
- The refund rate is currently 5% of the FOB value of the exported good, provided that amount does not exceed 50% of the good's production cost. The refund will be applicable for each kind of good exported by the exporter and for the first USD 20 million worth of goods exported per year (the excess will not be subject to refund).
- For this purpose, article 1 of Supreme Decree No. 104-95-EF establishes that the beneficiaries of the drawback regime are the manufacturer – export companies whose cost of production has been increased by the custom duties paid upon the importation of: (i) raw material; (ii) intermediate products; or, (iii) parts incorporated or consumed in the production of the exported good. It should be noted that fuel or any other energy source, used to generate heat or energy for purposes of obtaining the exported good, is not considered as raw material.

1.2.7. Stability Agreements

Investors may enter into stability agreements with the Government, either under the general regime or specific regimes (i.e. mining and oil).

Under the general regime, investors may enter into Legal Stability Agreements that guarantee them, for a 10-year period, the following:

- Stability of the Income Tax regime with respect to dividends and profits distribution, in force at the time the agreement is entered into.
- Stability of the monetary policy of the Peruvian Government, according to which there is a total absence of exchange controls, foreign currency can be freely acquired or sold at whatever exchange rate the market offers and funds can be remitted abroad without any previous authorizations.
- Right of non-discrimination in relation to local investors.

On the other hand, under the mining regime, local mining companies may enter into stability Agreements of Guarantees and Investment Promotion Measures that guarantee them, for 10 or 15 years, among others, the following:

- Stability of the overall tax regime.
- Stability of the overall administrative regime.
- Free disposal of funds (foreign currency) arising from export operations.
- No exchange rate discrimination.
- Free trade of products.
- Stability of special regimes in relation to tax refunds, temporary importations and similar regimes.

Oil companies may enter into stability agreements that guarantee them, for the term of the contract, among others, the following:

- Stability of the overall tax regime.
- Free disposal of funds (foreign currency) arising from export operations.
- Free convertibility of its funds.
- Free trade of products.

Taxation of the Mining Industry

Mining Royalty

- The payment obligation is born at the closing of each quarter, and the basis of calculation is the operating profit or sales revenues of each quarter (January-March, April-June, July-September and October-December).

- The operating profit of the mining companies is obtained by deducting from the income generated from the sales of metallic and non metallic mining resources of each quarter, the cost of sales, operating expenses (including selling expenses and administrative expenses) incurred in order to generate such income. Such expenses and costs must be at market value.

- The cost of sales comprises direct materials used, direct labor and indirect costs of the production sold. The cost of sales and the expenses will be determined according to the accounting standards, except in the case of exploration expenses, which, in order to calculate the mining royalty, must be amortized over the life of the mine. The higher depreciation or amortization generated from revaluations or capitalized interest will not be considered in the cost of sales or operating expenses.

The costs will be allocated to the calendar quarter in which sales revenues are generated, while operating expenses related to sales revenues shall be allocated to the calendar quarter in which they are imputed, and common expenses shall be proportionally allocated according to their accrual. Exploration expenses shall be proportionally amortized over the expected life of the mine, according to the confirmed and probable reserves and actual production.

- The revenues generated by sales of metallic and non-metallic mineral resources, regardless of their condition, will be allocated to the calendar quarter in which they are delivered or available, while in the case of foreign trade, the INCOTERM agreed in the contract will be considered as the delivery date.

In the case of sales made to domiciled related parties by mining companies, they will have to consider the market value that corresponds to the sale of processed products, at the cost of sales incurred by the mining company, the additional cost incurred by the related entity and the operating expenses incurred for its generation. When, as a result of the implementation of transfer pricing regulations related to methods based on income, an adjustment to the annual operating income occurs, such adjustment must be attributed to the first calendar quarter of the year following that of the corresponding adjustments.

- Despite the changes regarding the way of calculating the tax base, the adjustments from the final liquidations, as well as from discounts, returns and other items of a similar nature that correspond to the practice of the market place will continue to apply to the sales revenue.

These adjustments will affect the calculation basis for the calendar quarter in which they are granted or made. Said adjustments shall be duly accredited. Liquidations which are not entirely absorbed in a determined calendar quarter will not affect the calculation basis for the subsequent calendar quarters.

- An effective tax rate will apply on that operating profit, which will be calculated according to the operating margin for the quarter, in regard to the progressive rates of 1% up to 12%. The operating margin is calculated by dividing the quarterly operating profit from the income generated by the sales of said quarter.

The amount payable will be the higher amount obtained from comparing the application of the effective rate to the operating profit with 1% of the revenue generated by the sales of the calendar quarter.

No.	Operating Margins		Marginal Rate
	Minimum	Maximum	
1	0%	10%	1.00%
2	10%	15%	1.75%
3	15%	20%	2.50%
4	20%	25%	3.25%
5	25%	30%	4.00%
6	30%	35%	4.75%
7	35%	40%	5.50%
8	40%	45%	6.25%
9	45%	50%	7.00%
10	50%	55%	7.75%
11	55%	60%	8.50%
12	60%	65%	9.25%
13	65%	70%	10.00%
14	70%	75%	10.75%
15	75%	80%	11.50%
16	More than 80%		12.00%

- Royalty payers must file a quarterly tax return within the last twelve working days of the second month following the month in which the royalty liability arises. Such tax return shall determine the basis for calculating mining royalties.

The tax return shall be filed in local currency. However, in the case of royalty payers who are allowed to keep their accounting records in foreign currency and/or receive and/or perform foreign direct investment in foreign currency, they shall convert to local currency each item included in said tax return, by using the average sale exchange rate published by the Superintendence of Banking and Insurance in force at the due date or payment, whichever occurs first. The payment must be made in local currency.

For each unit of production, the tax return must independently determine the tonnage of mineral treated from each concession.

- The amount actually paid for this royalty will be considered as a deductible expense for Income Tax purposes. This expense shall be applied in the year in which the tax is paid.

- Exceptionally, and without prejudice to the compliance of the final declaration and payment of the tax for the period October to December 2011, in the months of October, November and December 2011, the mining companies will make monthly advance payments that will be determined by multiplying the following:

- i) revenues generated by sales per month,
- ii) operating margin for the year 2010, which is calculated by dividing the operating income of that year from the income generated by the sales of the same period
- iii) the effective rate applicable established by the modified law.

- Royalty payers must declare and make the advance payment until the last working day of the following month.

Advance payments will be deducted from the royalties determined for the October-December quarter.

If it is an amount payable, it must be paid within the first twelve days of February, 2012 (second month following the birth of the royalty of the last quarter of 2011). Conversely, if proven that the advance payments exceed the royalty payable, the excess amount will be applied against royalties that expire after the filing of the tax return in which it was determined.

Special Mining Tax

- The payment obligation is born at the closing of each quarter, and the calculation basis must be the operating profit or sales revenues of each quarter (January-March, April-June, July-September and October- December).
- This tax is levied on the operating profit obtained by the mining company, from sales of metallic mineral resources, as well as from own consumption and unjustified withdrawals of those assets.
- The operating profit of the mining companies is obtained deducting from the income generated from the sales of mining resources of each quarter, the cost of sales, operating expenses (including selling expenses and administrative expenses) incurred in order to generate such income. Such expenses and costs must be at market value.

For these purposes, expenses and costs incurred for own consumption and unjustified withdrawals of mineral resources are not deductible.

- The cost of sales comprises direct materials used, direct labor and indirect costs of the production sold. The cost of sales and the expenses will be determined according to the accounting standards, except in the case of exploration expenses, which, in order to calculate the special mining tax, must be amortized over the life of the mine. The higher depreciation or amortization generated from revaluations or capitalized interest will not be considered in the cost of sales or operating expenses.

The costs will be allocated to the calendar quarter in which sales revenues are generated, while operating expenses related to sales revenues shall be allocated to the calendar quarter in which they are imputed, and common expenses shall be proportionally allocated according to their accrual. Exploration expenses shall be proportionally amortized over the expected life of the mine, according to the confirmed and probable reserves and actual production.

- The revenues generated by sales of metallic mineral resources, regardless of their condition, will be allocated to the calendar quarter in which they are delivered or available, while in the case of foreign trade, the INCOTERM agreed in the contract will be considered as the delivery date. In the case of own consumptions and unjustified withdrawals of mining products, it will be allocated in the quarter according to the date of the withdrawal.

In the case of sales made to domiciled related parties by mining companies, they will have to consider the market value that corresponds to the sale of processed products, at the cost of sales incurred by the mining company, the additional cost incurred by the related entity and the operating expenses incurred for its generation. When, as a result of the implementation of transfer pricing regulations related to methods based on income, an adjustment to the annual operating income occurs, such adjustment must be attributed to the first calendar quarter of the year following that of the corresponding adjustments.

- The adjustments from the final liquidations, as well as from discounts, returns and other items of a similar nature that correspond to the practice of the market place will continue to apply to the sales revenue.
- An effective tax rate will apply to that operating profit, which will be calculated according to the operating margin for the quarter, with regard to the progressive rates of 2% up to 8.4% established by the law. The operating margin is calculated by dividing the quarterly operating income, from the income generated by the sales of such quarter.

No.	Operating Margins		Marginal Rate
	Minimum	Maximum	
1	0%	10%	2.00%
2	10%	15%	2.40%
3	15%	20%	2.80%
4	20%	25%	3.20%
5	25%	30%	3.60%
6	30%	35%	4.00%
7	35%	40%	4.40%
8	40%	45%	4.80%
9	45%	50%	5.20%
10	50%	55%	5.60%
11	55%	60%	6.00%
12	60%	65%	6.40%
13	65%	70%	6.80%
14	70%	75%	7.20%
15	75%	80%	7.60%
16	80%	85%	8.00%
17	More than 85%		8.40%

- Taxpayers must file a quarterly tax return within the last twelve working days of the second month following the month in which the special tax liability is born. Said tax return shall determine the basis for calculating special tax.

The tax return shall be filed in local currency. However, in the case of taxpayers who are allowed to keep their accounting records in foreign currency and/or receive and/or perform foreign direct investment in foreign currency, shall convert to local currency each item included in said tax return, by using the average sale exchange rate published by the Superintendence of Banking and Insurance in force at the due date or payment, whichever occurs first. The payment must be made in local currency.

- The amount actually paid for this special tax will be considered as a deductible expense for Income Tax purposes. This expense shall be applied in the year in which the tax is paid.
- Exceptionally, and without prejudice to the compliance of the final declaration and payment of the tax for the period October to December 2011, in the months of October, November and December 2011, the mining companies will make monthly advance payments that will be determined by multiplying the following:

- i) revenues generated by sales per month,
- ii) operating margin for the year 2010, which is calculated by dividing the operating income of that year from the income generated by the sales of the same period
- iii) the effective rate applicable established by the modified law.

- Taxpayers must declare and make the advance payment until the last working day of the following month.

Advance payments will be deducted from the special tax determined for the October-December quarter. If it is an amount payable, it must be paid within the first twelve days of February, 2012 (second month following the birth of the special tax of the last quarter of 2011). Conversely, if proven that the advance payments exceed the special tax payable, the excess amount will be applied against the special tax that expires after the filing of the tax return in which it was determined.

- This tax is administered and collected by the Tax Administration.

Special Mining Contribution

- This contribution, which is a public resource originated from the exploitation of non renewable natural resources, is applicable to mining companies with projects with Tax Stability Agreements in force. Such companies will voluntarily enter into agreements with the Peruvian Government for the purpose of paying this contribution. This special contribution shall be determined for each Stability Agreement entered into.

- The revenues generated by sales of metallic mineral resources, regardless of their condition, will be allocated to the calendar quarter in which they are delivered or available, while in the case of foreign trade, the INCOTERM agreed in the contract will be considered as the delivery date.

- The costs will be allocated to the calendar quarter in which sales revenues are generated, while operating expenses related to sales revenues shall be allocated to the calendar quarter in which they are imputed, and common expenses shall be proportionally allocated according to their accrual. Exploration expenses shall be proportionally amortized over the expected life of the mine, according to the confirmed and probable reserves and actual production.

- The adjustments from the final liquidations, as well as from discounts, returns and other items of a similar nature that correspond to the practice of the market place will continue to apply to the sales revenue.

These adjustments will affect the basis of calculation for the calendar quarter in which they are granted or made. Said adjustments shall be duly accredited. Liquidations which are not entirely absorbed in a determined calendar quarter will not affect the calculation basis for the subsequent calendar quarters.

- An effective tax rate will apply on the operating profit, which will be calculated based on the operating margin of the quarter, according to the progressive rates of 4% up to 13.12%.

Progressive Rates

No.	Operating Margins		Marginal Rate
	Minimum	Maximum	
1	0%	10%	4.00%
2	10%	15%	4.57%
3	15%	20%	5.14%
4	20%	25%	5.71%
5	25%	30%	6.28%
6	30%	35%	6.85%
7	35%	40%	7.42%
8	40%	45%	7.99%
9	45%	50%	8.56%
10	50%	55%	9.13%
11	55%	60%	9.70%
12	60%	65%	10.27%
13	65%	70%	10.84%
14	70%	75%	11.41%
15	75%	80%	11.98%
16	80%	85%	12.55%
17	More than 85%		13.12%

- For the abovementioned calculation, companies may deduct the amounts paid for mining royalties and contractual mining royalties which expire after entering into the agreement with the Peruvian Government. If the amount paid for such items is greater than the determined contribution, such amount shall be carried forward to the following calendar quarters until it is fully exhausted.
- Contribution payers must file a quarterly tax return within the last twelve working days of the second month following the month in which the special contribution liability is born. Said tax return shall determine the basis for calculating the special contribution.
- The tax return shall be filed in local currency. However, in the case of contribution payers who are allowed to keep their accounting records in foreign currency and/or receive and/or perform foreign direct investment in foreign currency, they shall convert to local currency each item included in said tax return, by using the average sale exchange rate published by the Superintendence of Banking and Insurance in force at the due date or payment, whichever occurs first. The payment must be made in local currency.
- The amount actually paid for this special contribution will be considered as a deductible expense for Income Tax purposes. This expense shall be applied in the year in which the contribution is paid.
- The resources obtained by its application are revenues for the Public Treasury, and its administration and collection corresponds to the Tax Administration.
- Contribution payers of mining activity may make monthly advance payments for the contribution corresponding to the fourth quarter of fiscal year 2011.

Corporate Issues

Business entity issues

Guide to “doing business” entities

Choice of entity

The corporation is the entity most commonly used by foreign investors. However, there are no significant local tax differences between corporations, branches or partnerships.

Foreign investors may also set up a branch, which is taxed like a corporation, with the difference that branches are only subject to income tax on Peruvian source income.

Capital requirements

There are no specific rules establishing percentages for foreign investment participation. There is no minimum capital requirement, except for banks, financial entities and certain other controlled companies.

Shareholders’ requirements

The minimum number of shareholders required is two. There is no requirement for the shareholders to be only Peruvian.

There is no general requirement stating that directors or managers must be Peruvian residents or nationals. However, Peruvian residence of at least one of the legal representatives is recommended for practical reasons.

Repatriation of funds

Repatriation of funds is totally unrestricted.

Tax considerations

Capital gains, as defined by the income tax law, are taxed as ordinary corporate income.

Forms of business enterprise

The General Law of Companies (Ley General de Sociedades - LGS), the Commercial Code and a number of other laws, decrees and regulations govern financial, commercial and industrial activities. The General Law of Companies regulates the incorporation and conduct of business entities in general. Special laws affect the conduct of industrial, mining, telecommunications, banking and insurance activities to varying degrees, however, as well as companies operating under special conditions.

The varieties of commercial entities recognized in the General Law of Companies are as follows:

1. Sociedad Anónima (S.A.) - Joint Stock Corporation

Private Corporation (S.A.)

The corporation is the most commonly used business entity, and constitutes the basis for the other forms of S.A. (below). Contributions to capital are represented by shares. Liability is limited to the amount of the contribution. A minimum of two partners is required.

Private Closed Corporation (Sociedad Anónima Cerrada - S.A.C.)

No more than twenty shareholders are allowed, its shares are not listed on the stock exchange, and the transfer of shares may be subject to restrictions.

Public Corporation (Sociedad Anónima Abierta - S.A.A.): One or more of the following requirements must be met

- i. An initial public offering of shares or convertible bonds has been carried out.
- ii. It must have more than 750 shareholders.
- iii. Over 35 percent of the share capital has to be distributed among 175 or more shareholders.
- iv. The company is incorporated as a public corporation.
- v. All shareholders with voting rights unanimously agree to abide by this regime.

All its shares must be registered with the Stock Exchange and the corporation is subject to the supervision of the National Supervisory Commission of Companies and Securities (Superintendencia de Mercado de Valores - SMV).

2. Sociedad Comercial de Responsabilidad Limitada (S.R.L.) - Company with limited liability

- Similar to the closed corporation (see above). No more than twenty partners are allowed. All partners or quota holders have limited liability, and their capital is divided into quotas, for which no documents or titles are issued.

3. Sucursal-Branch

Permanent establishment of a local or foreign company outside its domicile, dedicated to one or some of the activities which constitute the corporate purpose of the company. The branch

does not have legal independence or legal status. However, it is considered independent from the foreign parent company for tax purposes.

4. Contrato de Asociación en Participación (Participation Account Agreement) and Consorcio (Consortium or Joint Venture Agreement)

Unincorporated joint ventures and collaboration agreements. Entities indicated in paragraphs 1 through 3 above must be registered before the Public Registry corresponding to their domicile. The issuance, transfer or cancellation of shares must be reported to Superintendencia Nacional de Administración Tributaria - SUNAT.

Government supervision

Government supervision is limited, in general, to the following:

- Analysis of accounting records in connection with taxes imposed by SUNAT.
- Supervision of insurance, financial and banking operations, as well as examination of financial statements of the companies under the control of the Superintendencia de Banca y Seguros y AFPs - SBS and SMV.
- Supervision and inspection of establishments where certain goods, such as drugs or chemicals, are produced.

Corporation

The most common form used by national or foreign investors to conduct business in Peru is the joint stock corporation (sociedad anónima). Incorporation procedures:

- The incorporation of a local corporation is relatively simple. The corporation may be formed either through the founders' agreement (privately) or through a public subscription of shares. In the latter case, a project must be prepared and submitted for approval to SMV.

The corporation may be incorporated by two

or more persons (acting on their own or as duly accredited legal representatives of others) or legal entities, who must execute a Public Deed of incorporation, which must be authenticated by a Notary Public and registered before the Public Registry. The deed must contain the following:

- The Articles of Association and Bylaws and the particulars of the signatories of the deed.
- The express intention to incorporate a corporation.
- The share capital amount.
- The number of shares in which it is divided.
- The share capital form of payment.
- The contribution of each shareholder, either monetary or in-kind (including in this case the corresponding valuation report).
- The appointment and particulars of the first board of directors of the corporation, if applicable.

The Bylaws must include the following:

- The name, corporate purpose and address of the corporation.
- The proposed duration (definite or indefinite).
- The date on which operations will commence.
- The amount of the authorized share capital and the number of shares into which it is divided, as well as their respective value and the amount paid-in for each share.
- Classes of shares into which the share capital is divided, number of shares in each class, characteristics, special or preferential rights which are granted, and ancillary rights or additional obligations, as the case may be.
- Regime of the shareholders meeting, its faculties, quorum, conditions, and time sequence for shareholder meetings, conditions for the validity of its resolutions, timing of meetings and exercise of voting rights.
- Regime of the board of directors; its powers, the number of directors to be elected, appointment procedure, the method for filling vacancies, the conditions and time sequence for directors meetings, and remuneration for those elected as directors, if applicable.

Management of the entity

The shareholders exercise the control of a corporation through the general shareholders meeting. The management of the business is normally delegated to a board of three or more directors and to the managers, except for closed corporations, where the existence of a board of directors is not mandatory. Powers of each body are defined in the General Law of Companies and in the Bylaws of the corporation. Directors and Managers are not required to hold shares. Minutes of all shareholders' and directors' meetings must be kept in legalized minute books or on loose-leaf pages. Every corporation must keep a legalized share registry book in which the creation, issuance, rights, transfer, liens and guarantees granted in respect of the company's shares must be registered. At the official year-end, the directors must prepare and submit to the shareholders the corporate financial statements, together with their report on the corporation's activities.

- Regime of the management.
- Form and timing for submitting to the shareholders the company's performance and results of each year for their approval.
- The requirements for increasing or reducing the share capital and modifying the corporation's by-laws.
- Rules for the distribution of profits.
- The procedure to be followed in case of dissolution and liquidation.

A copy of the Public Deed must be delivered by the Notary Public in order to be registered before the Public Registry. Registration formalities normally take about 20 days. The public registration fee amounts to 1.08 percent of the Peruvian Tax Unit (S/. 3,600 for the year 2011) plus 0.003 percent of the registered capital. Notary Public's fees depend on the extension and complexity of the Public Deed.

Capital structure

Matters of interest related to the capital structure of Peruvian corporations are summarized below.

- Except for banks, financial entities, insurance companies and pension fund administrators, labor service intermediation entities, there is no legally required minimum authorized capital.
- Shares are nominative and different classes are allowed (bearer shares are prohibited).
- The issuance of shares with and without voting rights is permitted.
- Shares can be issued once they have been fully subscribed and paid-up at least 25 percent.
- Bylaws may establish limitations on the transfer of shares but may not prohibit transfers.
- The corporation may not grant loans or guarantees with the guarantee of its own shares, not even for the acquisition of the latter, under responsibility of the board of directors.
- A corporation is entitled to issue bonds or debentures creating debt in favor of their holders.

General shareholders meetings

An annual general meeting of shareholders must be held within three months of the year-end. At this meeting, shareholders approve, among other subjects, the management, the financial statements of the past year, the dividend distribution (if any), and the membership of the board of directors.

Other meetings are held when required by the corporation, and the agenda states the reason for calling the meeting.

Increase or decrease of share capital and modification to the bylaws

Increase or decrease of share capital and modification to the Bylaws may only be decided by an absolute majority of shareholders at a general shareholders' meeting. Shareholders representing not less than two-thirds of the subscribed shares with voting rights must be present or represented

Relationship of shareholders, directors and officers

by proxy. If the required number of shareholders is not obtained at the first meeting, a second meeting must be called at which shareholders representing not less than three-fifths of the subscribed shares with voting rights must be present or represented by proxy. No agreed resolution will be valid if the required representation of shareholders is not present at either of these two meetings.

Voting rights

Voting rights for the different classes of shares are normally established in the Bylaws, each share being entitled to one vote. Proxies for shareholders' meetings may be granted by letter, fax and other similar methods, if provided in the Bylaws.

Non-voting-right shares are allowed. These shares are not taken into account in determining the quorum of the general shareholders' meeting. However, they grant preferential rights for profit distribution.

Dividends

Unless otherwise stated in the bylaws, the shareholders at the annual general meeting decide the distribution of dividends. The rules for dividend distribution are as follows.

- Dividends are only to be paid based on profits obtained or on free reserves, and provided the company's net worth is not lower than the paid-up share capital.
- Unless otherwise stated in the Bylaws or agreed on by the general shareholders' meeting, all shares of the corporation (even if not fully paid-in) have the same right to dividends, no matter when they have been issued or paid.
- Distribution of dividends in advance is valid, except for those corporations that have an express legal prohibition.
- In the event that the general shareholders' meeting approves the distribution of a dividend in advance, with no favorable report from the board of directors, the shareholders who vote in favor of such a distribution shall be jointly, severally and exclusively responsible for the payment.
- Directors may be empowered to decide on the distribution of dividends in advance.

Dissolution and liquidation

Dissolution must be agreed by the general shareholders' meeting. The corresponding resolution must be published on three consecutive occasions within ten days following the agreement. The registration of the dissolution before the Public Registry must be performed within ten days following the last publication.

A corporation must enter into a liquidation process if it incurs losses in excess of two-thirds of its paid-in capital. A corporation that continues to operate after accumulating losses in excess of more than two-thirds of its paid-in capital is deemed to be an "irregular" company and, as such, loses its limited liability status, whereupon the shareholders, directors and managers assume unlimited responsibility for all obligations incurred.

Liquidators designated by the shareholders conduct

the liquidation proceedings. The liquidators are empowered to sell the company's assets, pay the liabilities and distribute any remaining balance of equity among the shareholders.

Books and records

Banks, insurance companies and other supervised companies are required to publish their balance sheets and profit and loss statements in *El Peruano*, the official gazette, and another daily newspaper. A standard form for presentation is requested, but the information required is minimal.

Statutory audit

Annual audits by independent public accountants are mandatory in the following circumstances.

- For banks, insurance companies and in general, companies listed on the Lima Stock Exchange.
- When established by the company's by-laws.
- When specifically requested by shareholders representing not less than 10 percent of the company's subscribed shares with voting rights.
- In a closed corporation, when it is requested by shareholders representing at least 50 percent of subscribed shares with voting rights.
- When the corporation qualifies as an open corporation.
- If the entity has either assets or revenue equal to or in excess of 3,000 tax units, in a given year, which is equivalent to S/. 10,800,000 or US\$ 3,900,000 (S/. 2.76 per US\$ 1.00).

Company with limited liability (S.R.L.)

In limited liability companies (S.R.L.), the capital stock is divided into equal quotas, accumulative and non divisible, which may not be denominated shares. No title or document is issued to the holder. There cannot be more than 20 partners, and they do not have personal liability for the company's obligations.

An S.R.L. will have a corporate name and may also use an abbreviation of its name, to which "Sociedad Comercial de Responsabilidad Limitada," or its abbreviation, "S.R.L.," should be added.

Companies with limited liability are incorporated by Public Deed, which must contain the following:

- The contribution of each partner indicating the manner in which it is carried out, along with a valuation report for in-kind contributions.
- Ancillary services to which the partners have committed, indicating their form, the remuneration to be received by those who will perform said services, and reference to the possibility that they may be transferred with the sole consent of the managers of the company.
- Procedures and timing for calling meetings, which are to be carried out by the manager via fax, e-mail or any other means that allows a record of receipt to be kept. Communications shall be addressed to the domicile designated by the partner for that purpose.
- Requirements and other formalities for the modification of the Articles of Association and the Bylaws, for the extension of the company's duration

and for its transformation, merger, spin-off, dissolution, liquidation and extinction.

- Formalities to be followed for the increase and reduction of the capital stock, indicating the eventual preemptive right of the partners and the conditions under which capital not assumed by the partners may be offered to third persons.
- Preparation and approval of the financial statements, quorum and voting procedures and the right to the distribution of profits in relation to the participation of each partner in the capital stock, unless otherwise provided for in the by-laws.
- Other rules and procedures deemed convenient for the organization of the company, as well as any other licit agreements that do not contradict the principles of the S.R.L.

The deed of incorporation may impose restrictions and conditions for the transfer of quotas but may not prohibit transfers altogether.

Management of the company is entrusted to one or more managers, who may or may not be partners, and who represent the company in each and every matter related to its corporate purpose. As a consequence of their appointment, managers hold general and special representation powers.

Branch of a foreign corporation

Under Peruvian legislation, a branch is any secondary establishment through which a company performs certain activities included in its corporate purpose in a different location from its domicile.

To register a branch of a foreign corporation, the legal representative of the corporation in Peru must execute an appropriate Public Deed before a Notary Public. The following documents must be attached to the deed:

- Copy of the charter and Bylaws (memorandum and Articles of Association) of the foreign corporation.
- Copy of the board of directors' or competent body's resolution to establish the branch in Peru. This resolution should specify:

- a. Amount of assigned capital.
- b. Declaration that the activities to be performed by the branch are within the corporation's purpose.
- c. Domicile of the branch.
- d. Name of the person designated as permanent legal representative and other representatives in Peru, powers vested in them and the express assumption of the Peruvian legislation for those obligations of the branch.

- Certification of the corporation's existence issued by the competent authority.

The above-mentioned documents require certification by a Notary Public or appropriate government officials in the country of incorporation of the company. The local Peruvian consul must authenticate the signatures. After that, the Ministry of Foreign Affairs in Lima must authenticate the Peruvian consul's signature. An official translator must translate any document that is not in Spanish,

in order to file it before the Public Registry for its registration.

The business of the branch is directed by the person appointed by the parent company, whose powers of attorney are duly registered before the Public Registry. Such power may be revoked only by the parent company or by the holder of an overriding power of attorney in Peru. The scope of the representative's power of attorney may vary according to the parent company's policy but should be sufficiently extensive to allow adequate representation in Peru. It is recommended to allow delegation of certain powers, such as the signing of checks. There is no regulation requiring filing of the financial statements of the parent company in Peru.

It is important to note that the Peruvian Government has adopted the Hague Convention of October 5, 1961, which abolishes the requirement of legalization for foreign public documents to be used only in signatory countries.

The referred convention came into effect in Peru on October 1, 2010.

Participation Account Agreement

Two or more parties can enter into an agreement to carry out a particular business activity under this type of agreement. Pursuant to this agreement, one of the associates is the managing partner who agrees to share in the results or profits of one of its businesses with another individual or legal entity who is the silent partner (or partners), in consideration of the contribution of goods or services to the business.

The managing partner operates the business and is responsible towards third parties. This agreement does not give rise to an entity different from the managing partner.

Consortium or Joint Venture Agreement

Under this form of collaboration agreement two or more parties associate to actively and directly participate in a certain business for the purpose of obtaining an economic profit. However, each party maintains its independence. Each party is individually liable to third parties for the activities

of the agreement. When the Consortium or Joint Venture enters into agreements with third parties, there is joint liability for the partners if it is stated in the agreement or when determined by law. The agreement sets the extent of participation in the results; otherwise it is deemed to be equal for all the parties. For tax purposes, it is considered a separate taxable entity when independent accounting records are kept (in certain circumstances one party can keep the accounting of its shares in the agreement).

Work Force and Labor Charges

Labor Relations

Labor and management relations

Peruvian labor legislation is characterized for being atomized into many laws and regulations. However, the creation of a single General Labor Law is foreseen, which will comprise the entire labor legislation.

With regard to the labor relationship, it should be noted that once this is initiated, employees are under a trial period of three months, during which they can be dismissed for any cause without indemnity. The trial period can be extended to six months or one year for skilled employees, or those appointed for management and positions of trust.

Payroll

Peruvian employers with more than 3 employees are obliged to use the system of "Electronic Payroll". This document - carried out electronically - contains information of the employees, professional services agreements, trainees, outsourced personnel, among others, and has to be submitted monthly to the Tax Administration.

As of July 23, 2011, new provisions regarding pay slips have been established:

- i) Handing over of pay slips to employees may be certified now using different types of technologies (i.e. intranet, email, as long as due certainty of issue is recorded and its effective receipt by the employee is guaranteed).
- ii) If an employer has less than 100 employees, pay slips have to be duly signed and stamped; but if it has more than 100 employees, signature may be replaced by a digital signature with prior agreement of the employees and the corresponding registration at the Labor Authority.

Indirect Hired Employees

Currently, Peruvian labor legislation establishes two kinds of agreements in order to hire employees indirectly: intermediation and outsourcing agreements.

The intermediation agreement consists of the rendering of temporary, complementary and highly-specialized services. Through this agreement, the intermediary entity assigns employees to a company in order to perform services under instructions of the latter, while their labor relationship continues to be with the intermediary entity. It is important to highlight

that intermediary entities assume the labor costs involved in the employees' assignment. Moreover, they need to be registered with the Labor Authority, being required to post a guarantee letter to cover any possible unpaid social benefits while rendering services.

On the other hand, an outsourcing company is an entity that is hired to render specialized service or work, as long as it assumes the services to be rendered under its own risk, with its own financial, technical and material resources, assumes responsibility for the result of its activities and its employees are under its exclusive subordination. Some characteristic elements of an outsourcing company are, among others, that it should have more than one client, its own equipment, its own working capital and the service fee must not be determined per employee but for an integral service.

Unions

Employees in construction, transportation and industrial companies commonly form the strongest unions, the most important of which are the Confederación General de Trabajadores del Perú (C.G.T.P.) and the Central de Trabajadores del Perú (C.T.P.).

In order to form a union, a minimum of 20 workers is required.

Unions or workers' representatives usually negotiate salary increases, fringe benefits and other special conditions through collective bargaining with employers.

Agreements reached with unions that comprise more than one-half of a company's employees are applicable for all employees, even though they are not members of the union.

Fringe Benefits

Voluntary and statutory fringe benefits, usually granted to the personnel, are deemed by the employers as an additional cost of employment. In this regard, fringe benefits established are those related to medical care, vacations, recreational expenses, bonuses, among others.

Additionally, as of May 2009, legal bonuses paid in July and December will not be subject to any social contribution, but will pay income tax.

Even though this provision was applicable to workers under public and private regimes until December 31st 2010, in June of 2011 its application has been extended to December 31st 2014.

Employer's Payroll Costs in Peru

Salaries

Compensation is commonly paid in the form of wages and salaries or by way of commissions, and may be paid in either Peruvian or foreign currency. Compensation is subject to statutory social contributions and employee taxes.

The employer may also agree with employees whose monthly compensation is not less than two tax units (equivalent to S/. 7,200 or approximately US\$ 2,600) that their compensation be paid as an annual package calculated on an annual basis, including all legal and conventional benefits with the exception of profit sharing.

Profit sharing

There is a general system of participation in company profits. Employees of companies which perform activities generating corporate income are entitled to participate in the profits of the company, provided the company has more than 20 employees, and they are subject to the labor regime for private company employees.

Employees share the profits of the company through the distribution of a percentage of the company's net income before taxes. This percentage varies according to the employer's business:

Fishing	: 10%
Telecommunications	: 10%
Industry	: 10%
Mining	: 8%
Wholesale, retail and restaurants	: 8%
Other activities	: 5%

Overtime

Overtime, including work on statutory holidays, is payable at a premium agreed on between the parties, which may not be lower than 25% of the ordinary hourly rate for the first two hours, and 35% for the following hours.

Normal working hours should not exceed 8 hours per day or 48 hours per week. This 48 hour work week applies to any employee with the exception of those appointed to management and positions of trust.

Night Shift Additional Payment

Employers with employees who work between 10:00 p.m. and 6:00 a.m. are obliged to pay an additional payment. This additional amount corresponds to an increase of at least 35% of the daily working hour rate.

Vacations

Employees are entitled to paid annual vacations of one month upon completion of each year of service, with a minimum attendance of 260 days if the work week is six days long and 210 days if five days long.

The employer and the employee may agree to allow up to two year's vacation to accumulate. However, at the end of the first year the employee should take a seven-day vacation period. If the employer does not grant vacations to the employee, a payment equivalent to two monthly compensations must be made (one corresponding to the work performed and the other as indemnity for not having taken vacations).

Severance indemnity (CTS)

Employees are entitled to a tax-free severance indemnity to be received upon death, retirement, resignation, or dismissal. This indemnity is equivalent to one month's salary plus one-sixth of a salary for each year of service.

Employers are obliged to deposit the CTS on a semiannually basis in banking or financing institutions and in the currency (national or foreign) chosen by the employee. These deposits must be made within the first fifteen (15) days of May and November each year, on the basis of 1/12 of the retribution received by the employee in April and October respectively, considering only the whole months worked, in the corresponding semester.

While in 2009 the CTS deposited in banking or financing institutions was entirely available (100%), from May 2011 until the termination of their employment, employees may only dispose of 70% of the excess of six gross salaries.

Termination of employment

The employer may not dismiss an employee for reasons of behavior or qualification without granting the employee a reasonable term of not less than six calendar days to defend him/herself in writing against such charges, unless it is a serious misdemeanor, or a term of thirty calendar days to prove his/her qualification or correct the behavior.

Should the employee be terminated and no fair cause exists (dismissal without grounds), the employee will have the right to receive a severance payment equal to 1.5 monthly salary for each year of service, up to a maximum of 12 salaries for indefinite term labor contracts and 1.5 salaries for each month left in the contract term for fixed term contracts.

Social Security Administration for Health Services (ESSALUD)

There is a general state system of social security for health services, which is administered by EsSalud, providing health coverage as established by law.

In general, all dependent employees registered on the payroll are covered by EsSalud, the labor relationship being the only requirement for obtaining coverage, regardless of the term of employment or the number of hours worked per day, week or month.

Employers must contribute for all their employees, including foreign employees registered on the payroll, based on the total monthly compensation, including compensation in kind, with certain exceptions such as profit sharing payments and extraordinary bonuses. The rate of this contribution is 9% of his/her compensation.

National Pension Fund

The National Pension Fund, managed by the Oficina de Normalización Previsional-ONP, provides pensions to retired employees who have

reached the age of 65, provided they have fulfilled their contribution for a minimum of 20 years. This contribution amounts to 13% of the employee's compensation.

Private Pension System

Private pension fund administrators, locally known as AFP (Administradora de Fondos de Pensiones), manage an alternative pension system. AFPs guarantee pensions for retirement, handicap and survivorship pensions and burial expenses.

For these purposes, employees must contribute 10% of their monthly compensation, plus commissions for the AFP and insurance premiums for handicap and burial coverage, making a total contribution of approximately 13.17% of their compensation.

Industrial Work Training National Service (SENATI):

According to Law 26272, individuals or legal entities that develop industrial activities included in Category D of the "International Standard Industrial Classification of all Economic Activities (CIIU)" are obliged to make contributions to

SENATI (Servicio Nacional de Adiestramiento en Trabajo Industrial), paying a percentage of 0.75% over all remunerations paid to their workers.

Labor Audit System

The labor authority is in charge of overseeing and ensuring that employers fulfill labor and provisional provisions. Also, this entity is in charge of providing technical assistance to the employers as well as the employees, protecting their corresponding rights.

The labor authority is entitled to impose fines on employers who infringe the labor law.

Financial Accounting Reporting

IFRS and the accounting practices in Peru

Peru was one of the first countries in the region in implementing International Accounting Standards (IASs) as the national accounting framework, and from the beginning of the second millennium on, it adopted International Financial Reporting Standards (IFRS), which include IAS. At that time, the endorsement of such accounting frameworks was not made in full because certain application differences arose which resulted in Peru not being considered as an IFRS country.

As it is widely known, IFRS gather in one single set of standards the IFRS and IAS issued by the International Accounting Standards Committee (IASC) as well as the SIC and IFRIC interpretations. According to the Peruvian General Corporate Law, the financial statements of Peruvian companies should be prepared in accordance with accounting principles generally accepted in Peru (Peruvian GAAP), which comprise:

- a) The legal and regulatory requirements on accounting matters, and
- b) The IFRS made official through resolutions issued by the Peruvian standard-setter, the Consejo Normativo de Contabilidad (CNC). At the present date, considering the most recent approvals of certain standards and pronouncements by the CNC, the major differences between IFRS and Peruvian GAAP are as follows:

- Under Peruvian GAAP until December 31, 2004, financial statements were required to be adjusted to reflect the effects of inflation based on a methodology approved by the CNC. The balances restated for inflation were considered to be the historical opening balances to prepare the financial statements for 2005. Under IFRS, Peru did not qualify as a hyperinflationary country after 1992; therefore the financial statements starting from that date should not be restated for inflation according to IAS 29 - Financial Reporting in Hyperinflationary Economies.

- For Peruvian GAAP purposes, the CNC approved maintaining the application of the equity method of accounting to investments in subsidiaries presented in separate financial statements of an entity that issues consolidated financial statements. IFRS, IAS 27 (modified) - Consolidated and Separate Financial Statements, only permits investments in subsidiaries, presented in separate financial statements, to be accounted for at cost or at fair value, as indicated in IAS 39.

As described above, it is clear that an entire standard-approving process existed in Peru for all new and amended accounting standards to be issued by IASB to be applicable in Peru. However, pursuant to the following resolutions, this situation has changed and the full application of IFRS has been endorsed in Peru, mandatory both for entities subject to the oversight of CONASEV (the Peruvian securities and company regulator) and for non-regulated entities provided certain parameters are met:

- CONASEV issued a resolution dated October 14, 2010 that required the application of IFRS in the preparation of the annual and interim financial statements of all entities subject to its oversight. This requirement will be applied in the preparation of the financial statements for the year ending December 31, 2011. The scope of this resolution does not extend to entities regulated by the banking and insurance regulator SBS, because Peru is a country that first applies IFRS 1 - First Adoption.
- As established under Law 29720 – “Law promoting the issue of securities and strengthening the capital markets,” entities other than those subject to the oversight of CONASEV, with annual revenue from sales of goods or provision of services or with total assets equal to or exceeding 3 thousand Peruvian taxable units (UIT, the Spanish acronym) are required to present audited financial statements prepared in accordance with the provisions and within the timeline determined by CONASEV. The referential UIT comes into effect on January 1 of each year. It is understood that the effective adoption year would be 2010. Full application of IFRS, will probably come into effect from 2012. The issue is pending of the complementary regulations that will govern the application of this law.

Environmental and Social Aspects

During 2011 the Peruvian state approved the document “Plan Nacional de Acción Ambiental” (PLANAA). This document has a ten year vision regarding the country’s most important environmental goals. The objective of this plan is to provide a baseline for an increase in sustainable investment in the country in line with actual needs and reality. The PLANAA identifies strategic actions aimed to meet international environmental commitments, among which are included those set forth in the Millennium Development Goals as well as those adopted under the United Nations Conference on Environment and Development (UNCED), Rio Declaration and Programme 21, among other important agreements.

Since the foundation of the Ministry of the Environment (MINAM) in 2008, there has been a process of institutional strengthening regarding the environmental issues in the country. In this sense, it is important to mention that the legal framework is constantly being updated in order to improve the State’s environmental performance. The PLANAA 2011 – 2021 becomes the national environmental planning instrument in accordance with the National Environmental Policy (NEP: Política Nacional del Ambiente) and the General Environmental Law (Ley General del Ambiente).

National Environmental Policy

Compliance of the National Environmental Policy is mandatory for the entities that comprise the National Environmental Management System (SNGA), with government authorities at all three levels, national, regional and local, required to set specific goals and performance indicators in their own environmental plans, which should be consistent with its multi-year programs, their investment strategies and associated social costs, as well as the priority goals and strategic actions contained in the National Environmental Action - PLANAA Peru: 2011-2021.

PLANAA Goals Towards 2021

1. Water: 100% of urban domestic sewage is treated and 50% of it is reused.
2. Solid waste: 100% of municipal solid waste is handled, recycled and properly disposed of.
3. Air: 100% of the priority cities implement their action plans for improving air quality and meet the Environmental Quality Standards for Air.
4. Forest and Climate Change: Zero rate of deforestation for 54 million hectares of forest under various categories of land-use planning, together

with other initiatives contributing to reduce GHG emissions by 47.55 generated by the change of land use, as well as reducing vulnerability to climate change in the country.

5. Biological Diversity: Conservation and sustainable use of ecosystem diversity, species and genetic resources of the country; increasing the organic production surface by 80%; the value of bio exports by 70%, the investment in eco-business by 59% and the value of goods and / or services coming from Natural Protected Areas by 100%.

6. Mining and Energy: 100% of small-scale and artisanal mines implement and / or have environmental management tools, and 100% of medium and large mining and energy companies improve their environmental performance.

7. Environmental Governance: 100% of entities in the National Environmental Management System implemented the National Environmental Policy and environmental management tools.

Some Key Facts and Figures

- Peru is one of 15 countries with the greatest biological diversity in the world.
- 25,000 plant species (5th country in the world: 10% of the world total) of which 30 % are endemic.
- Occupies the second place in bird species (1816 species) and third in amphibians (408 species) and mammals (462 species).
- 2,000 fish species (10% of the world total) and 36 of the 83 cetacean species of the world.
- 11 eco-regions, 28 of the 32 weather types and 84 of the 117 life areas of the world.
- 66 million hectares of forest (9th country in the world by forest area), 4th in tropical forest and has 13% of the Amazon forest.
- 7.6 million hectares of land with capacity for agriculture, 17 million hectares for grazing, 55.2 million hectares of protected land and more than 18 million hectares of natural protected areas.
- There are 12,000 lakes and 77,600 m³ water/person spread heterogeneously throughout the country. While 55% of the national population live on the coast, which has only 2% of the water, in the forest where 14% of the population live it has 98% of the water. The national consumption of surface water is 20,000 million m³/year.
- Due to illegal extraction and commerce the loss of 10 million hectares has generated important challenges in deforestation. There is big potential for the development of agriculture, agribusiness, fisheries, aquaculture, hydrocarbon industries, mining and metal works, tourism, biofuels production and alternative energies.

- The population growth rate is 1.6%, the demographic density is 17.6 person/Km². 70% live in urban environments that grow rapidly and with little planning.
- Peru is a multi-cultural country with more than 14 ethno linguistic families and 72 ethnic groups. The indigenous cultures are important centers of traditional knowledge and are part of the science and technology equity of the Country and the world.

Business and Society (Consultation and participation)

In May 2010 Peru approved Consultation Law which requires that indigenous and tribal peoples be consulted on issues that affect them. It also requires these peoples to be able to engage in free, prior and informed participation in policy and development processes that affect them.

The principles of the Consultation and Participation Law are in line with ILO (International Labor Organization) convention No. 169 which relates not only to specific development projects, but also to broader questions of governance, and the participation of indigenous and tribal peoples in public life.

It is expected that the granting of concessions for exploration and exploitation of natural resources which affect indigenous people will need to be consulted.

Business and Environment (General Environmental Law 28611)

Every company is responsible for the emissions, discharges and other negative impacts that are generated upon the environment, health and natural resources as a consequence of their activities. This responsibility includes risks and environmental damages that are generated by action or lack of it.

The companies should adopt prevention measures of environmental damage risk within the source of their generation.

The assessments for investment opportunities or projects at a prefeasibility, feasibility and definitive level for which public or private entities are responsible, which could have an impact on the environment, must consider the necessary costs to preserve the environment of the locality where the project will be executed.

The national, sectorial, regional and local authorities, by means of legislation, promote tax

incentives in order to stimulate the development of investment projects with clean production (technologies) and business activities in general, taking into account that clean production (technologies) comprises the continuous application of a preventive and integrated environmental strategy for processes, products and services with the objective of increasing the efficiency, managing resources rationally and reducing the risks to the population and the environment of not accomplishing sustainable development.

The State promotes, spreads and facilitates the voluntary adoption of CSR policies, practices and mechanisms by businesses.

Two important principles related to Business and Environment (GEL 28611):

- **Article VIII- Principle of Cost Internalization**
- **Article IX – Principle of Environmental Responsibility**

Both of them state that he who contaminates, pays.

It is important to mention that the environmental and social regulation is customized to each sector (own Maximum Allowable Limits) or Ministries (for example: Ministry of Production, Ministry of Energy and Mining) and enforced at the three levels of Government.

Society and Environment (General Environmental Law 28611)

The rights of indigenous peoples, farming and native communities, all recognized in the Political Constitution, must be defended at all cost. The assessments of exploration, exploitation and use of natural resources authorized within the land of indigenous peoples must adopt the necessary measures to avoid the destruction of their cultural, social or economic integrity or their traditional values.

In the case where projects or activities are to be developed within the land of indigenous people and native communities, the consulting procedures are addressed preferably to establish agreements with their representatives with the ultimate goal of protecting their rights and their traditional customs as well as establishing compensation measures for the use of their resources.

Also, any activity (mining, fisheries or municipal) needs the permission of the urban or rural community in the form of a social license that is present across all sectors (Mining, Agriculture, Forestry and Tourism).

Environmental Impact Assessment (EIA)

The Environmental Impact Assessment is carried out under the National System of Environmental Impact Assessment (SEIA). The latter establishes that every human activity that represents construction, buildings, services and other activities, as well as policies, plans and public programs that cause significant environmental impact is subject by law to the National System of Environmental Assessment (SEIA).

The SEIA is composed of the MINAM as the directorial and administrative entity which oversees the integration and trans-sectorial mechanism. It is also composed of national, regional and local authorities called Competent Authorities. Finally, the authority in charge of supervision and enforcement is the OEFA (Organismo de Evaluación y Fiscalización Ambiental).

In order to obtain a license to operate, a company must have an Environmental Certificate issued by the Competent Authority.

Peruvian Trends

Since 2006 and until 2010 Peru has grown at an average of 7.2% per annum, mainly in agriculture (agricultural exports), mining and services. The projection of private investment between 2011 and 2013 shows that it will be concentrated in the mining and hydrocarbons sectors, infrastructure and industry, which will allow further development to promote the creation of jobs, with the consequent increased revenues and improved quality of life for the population. In this sense the State will need to guarantee the proper environment for investment which includes taking environmental and social precautions, which should not be described as constraints on the economy or investment, but as forces that promote competitiveness and economic development opportunities, in a sustainable environment.

With the implementation of an environmental and social institutionalization process in Peru, new initiatives and legislation should be expected, strengthening the role of the state in environmental and social regulation in the years to come, bringing new opportunities for companies with a mature approach to sustainability.



2.

Industry Analysis

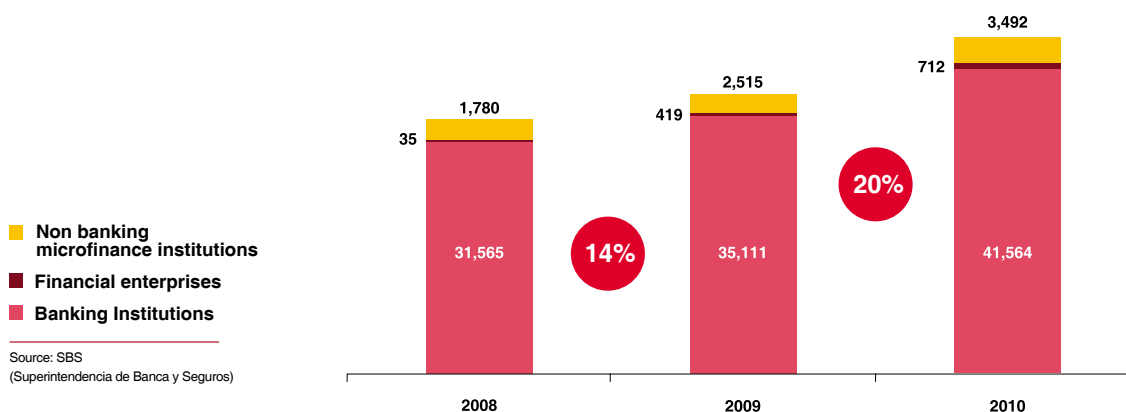
Financial Industry

2.1.1. Financial System

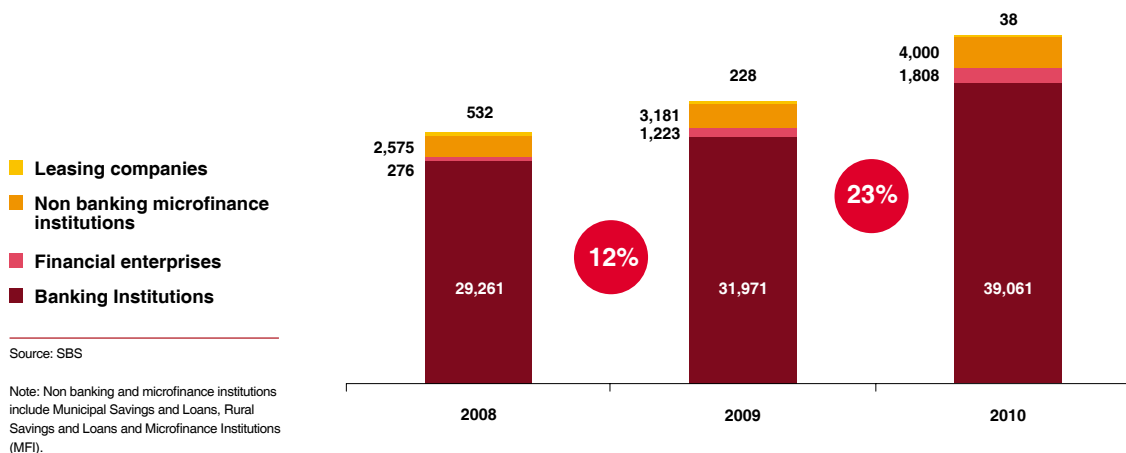
Deposits and Loans

The banking system has the largest proportion of deposits (90.8%) and loans (87%) in the entire financial system. In second place, but far smaller, are Municipal Savings and Loans Institutions (representing 6.4% in deposits and 6.7% in loans).

Growth in deposits (Millions of USD)



Growth in loans (Millions of USD)



Direct Loans by credit type

Commercial loans (Millions of USD)

	2010	Variation 2010/2009
Banking Institutions	26,008	30%
Financial enterprises	604	1154%
Municipal Savings and Loans	1,411	153%
Rural Savings and Loans	244	259%
Microfinance Institutions	116	251%
Leasing companies	32	-86%
Financial system	28,415	36%

Source: SBS

Microenterprise loans (Millions of USD)

	2010	Variation 2010/2009
Banking Institutions	897	-54%
Financial enterprises	555	-13%
Municipal Savings and Loans	878	-30%
Rural Savings and Loans	239	-17%
Microfinance Institutions	174	-8%
Leasing companies	7	634%
Financial system	2,749	-36%

Source: SBS

Consumer loans (Millions of USD)

	2010	Variation 2010/2009
Banking Institutions	6,646	17%
Financial enterprises	627	35%
Municipal Savings and Loans	599	19%
Rural Savings and Loans	134	20%
Microfinance Institutions	37	-38%
Leasing companies	0	
Financial system	8,043	18%

Source: SBS

Mortgage loans (Millions of USD)

	2010	Variation 2010/2009
Banking Institutions	5,510	26%
Financial enterprises	23	-68%
Municipal Savings and Loans	127	41%
Rural Savings and Loans	16	36%
Microfinance Institutions	24	47%
Leasing companies	0	
Financial system	5,700	25%

Source: SBS

Municipal Savings and Loans

Obtain funds from the general public and specialize in financing operations primarily catering to small and micro enterprises that have been previously unable to access traditional bank financing

Rural Savings and Loans

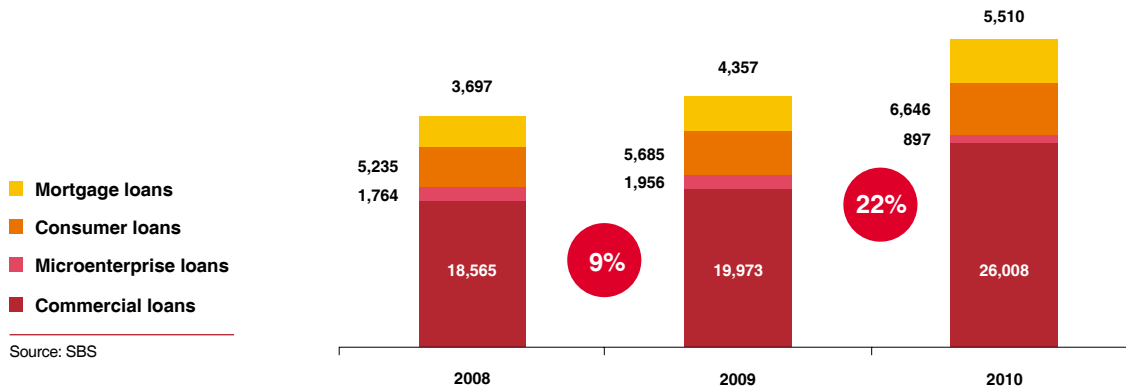
Specialized in providing financing to medium, small and micro enterprises in remote areas.

Microfinance Institutions (MFI)

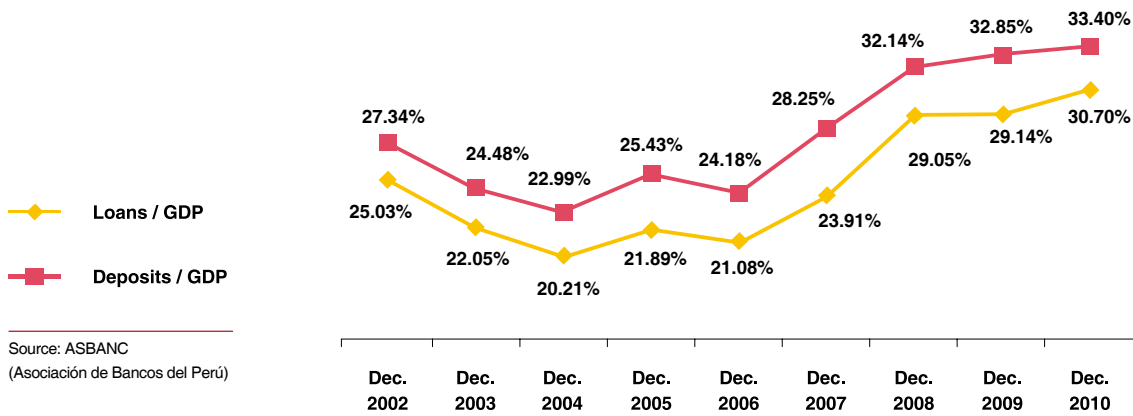
Major focus on providing financing to individual entrepreneurs as well as small and micro enterprises. They do not receive deposits from the public.

- During 2010, in a context of economic recovery, total loans granted by banks expanded by 22.2%. Wholesale banking showed a greater dynamism as a consequence of a recovery in private spending, particularly the regained strength of investment projects and the inventory replenishment process. Retail banking also grew because of higher consumer spending, which primarily reflected the improved expectations regarding the economic situation of average families. The healthy expansion of credit led to an improvement in portfolio quality, almost to pre-crisis levels.

Banking loans (Millions of USD)



Financial system
Deposits / GDP
ratio and Loans /
GDP ratio



2.1.2. Banking System

Deposits

Deposits in the last two years and their respective variation

Banking Institutions	Deposits 2009 (Millions of US\$)	Deposits 2010 (Millions of US\$)	Variation 2010/2009
Banco de Crédito del Perú	13,214	15,379	16.39%
Banco Continental	7,296	9,083	24.50%
Scotiabank Perú	5,574	6,159	10.49%
Interbank	3,932	4,195	6.70%
Banco Interamericano de Finanzas	1,103	1,224	10.96%
Mibanco	841	1,096	30.39%
Citibank	849	1,003	18.17%
HSBC Bank Perú	450	899	99.82%
Banco Financiero	651	870	33.71%
Banco Santander Perú	256	458	78.85%
Banco de Comercio	341	426	24.97%
Banco Falabella Perú	210	306	46.17%
Banco Ripley	132	206	56.18%
Deutsche Bank Perú	181	170	-6.46%
Banco Azteca Perú	82	90	8.87%
Total	35,111	41,564	18.38%

Source: SBS

Loans

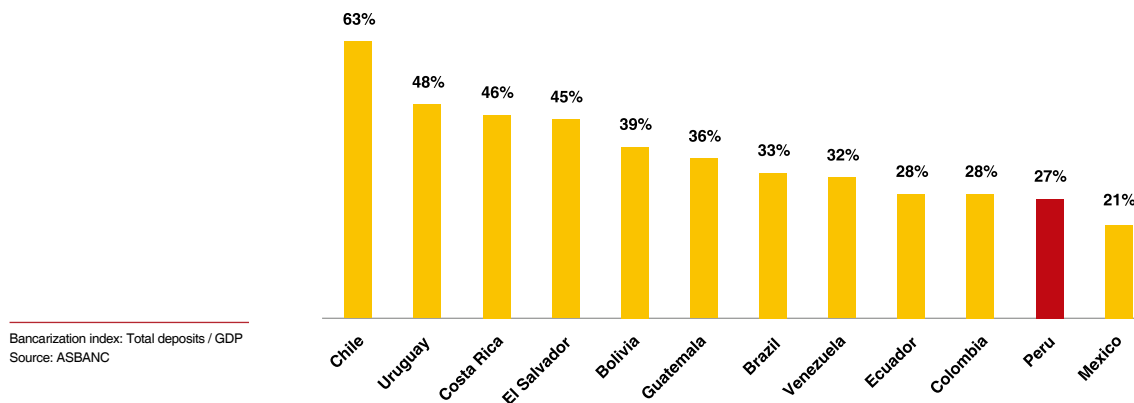
Loans in the last two years and their respective variation

Banking Institutions	Loans 2009 (Millions of	Loans 2010 (Millions of US\$)	Variation 2010/2009
Banco de Crédito del Perú	11,101	13,734	23.72%
Banco Continental	7,266	9,030	24.27%
Scotiabank Perú	4,909	5,834	18.84%
Interbank	3,528	4,402	24.77%
Mibanco	1,041	1,302	25.09%
Banco Interamericano de Finanzas	937	1,076	14.85%
Banco Financiero	744	897	20.55%
HSBC Bank Perú	535	642	19.92%
Citibank	677	623	-7.94%
Banco Falabella Perú	368	479	30.05%
Banco de Comercio	328	383	16.83%
Banco Ripley	267	318	18.86%
Banco Santander Perú	197	258	30.96%
Banco Azteca Perú	73	84	15.41%
Deutsche Bank Perú	0	0	0%
Total	31,971	39,061	22.17%

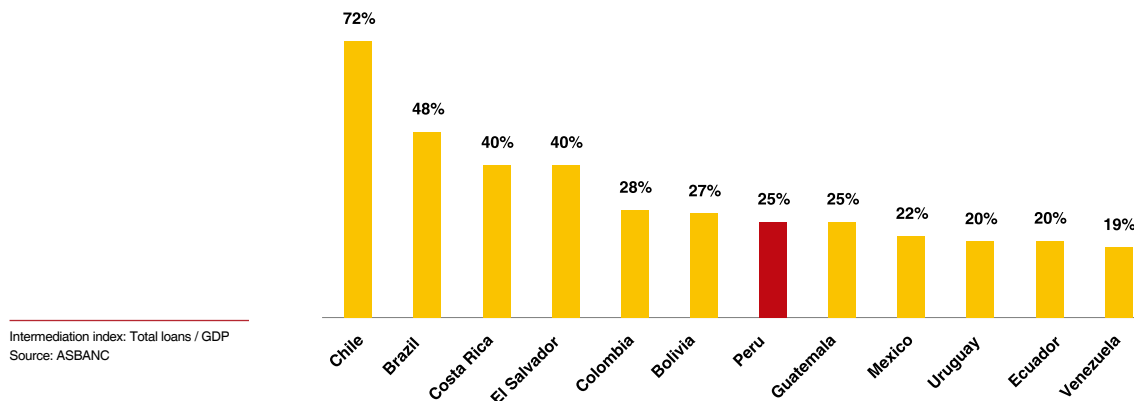
Source: SBS

Banking System Deposits / GDP ratio and Loans / GDP ratio Country comparison

Banking System Deposits / GDP (Dec. 2010)



Banking System Loans / GDP (Dec. 2010)



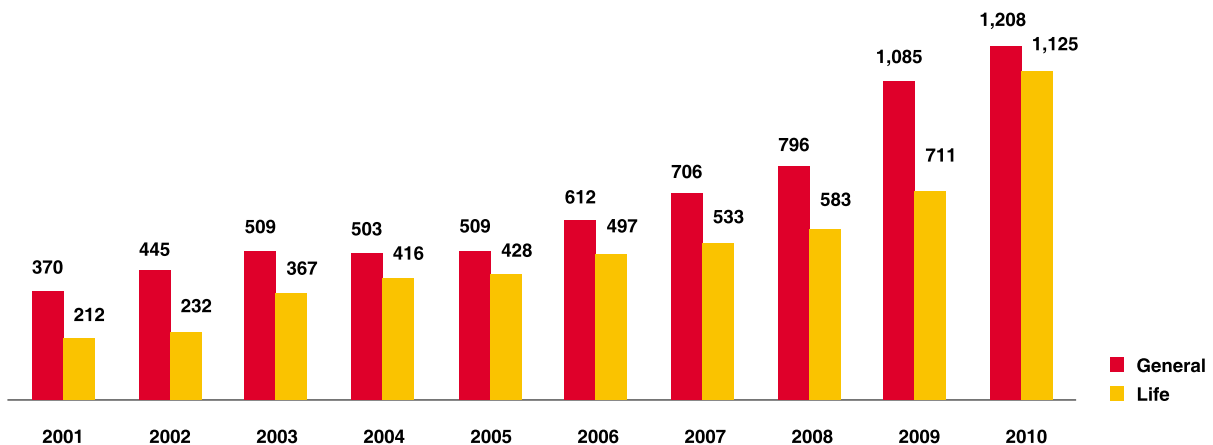
Insurance premiums: types and levels of market penetration

Total insurance premiums (Millions of USD)

Insurance Companies	Premiums 2010	Variations 2010/2009
Rímac	782	15%
El Pacífico Peruano Suiza	329	4%
El Pacífico Vida	278	37%
InVita	178	69%
Mapfre Perú	174	15%
Interseguro	168	100%
La Positiva	150	16%
La Positiva Vida	129	76%
Mapfre Perú Vida	60	12%
Protecta	29	125%
Cardif	23	64%
Ace	22	39%
Secrex	10	-11%
Insur	1	100%
Total	2,333	26%

Source: SBS

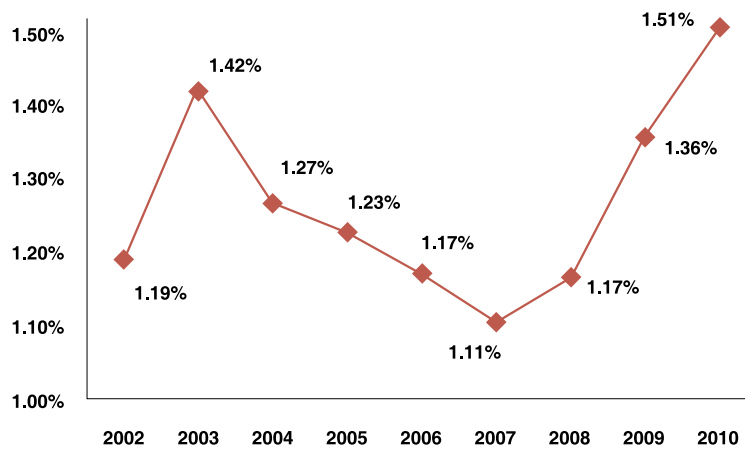
Premiums by type (Millions of USD)



Source: SBS

• While the insurance industry has been quite dynamic in recent years, its size and importance within the country's economy is still low compared with the average in Latin America. The low penetration is closely related to the relatively low banking penetration in Peru.

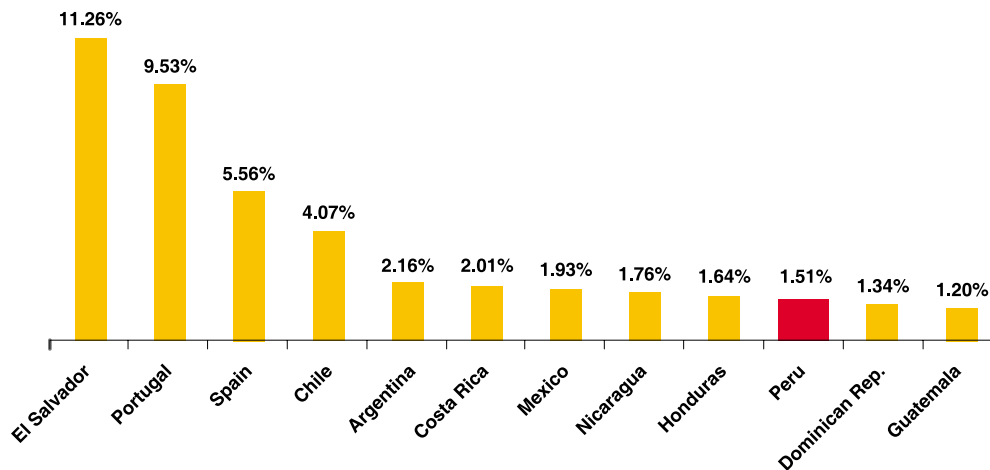
Peruvian market penetration (Total premiums/GDP)



Source: SBS

Market penetration in Latin America during year 2010

(Total premiums/GDP)



Source: ASSAL (Asociación de Supervisores de Seguros de América Latina)

2.1.4. Pension System

Private Pension Fund (PPF)

During 2010, the growth of the domestic economy was accompanied by the good performance of the Private Pension Fund System (PPFS), which showed a recovery in the growth rate of new membership, the number of affiliated individuals, the value of managed assets and the volume of contributions made during the year, indicators that have been recovering since 2009, after the impact of the 2008 international financial crisis.

Assets under management by domestic companies

(Millions of USD)

Company	Total fund value Dec-2010	Variation 2010/2009
Prima	9,765	33%
Integra	9,470	26%
Horizonte	7,272	29%
Profuturo	4,570	30%
Total	31,077	30%

Source: SBS

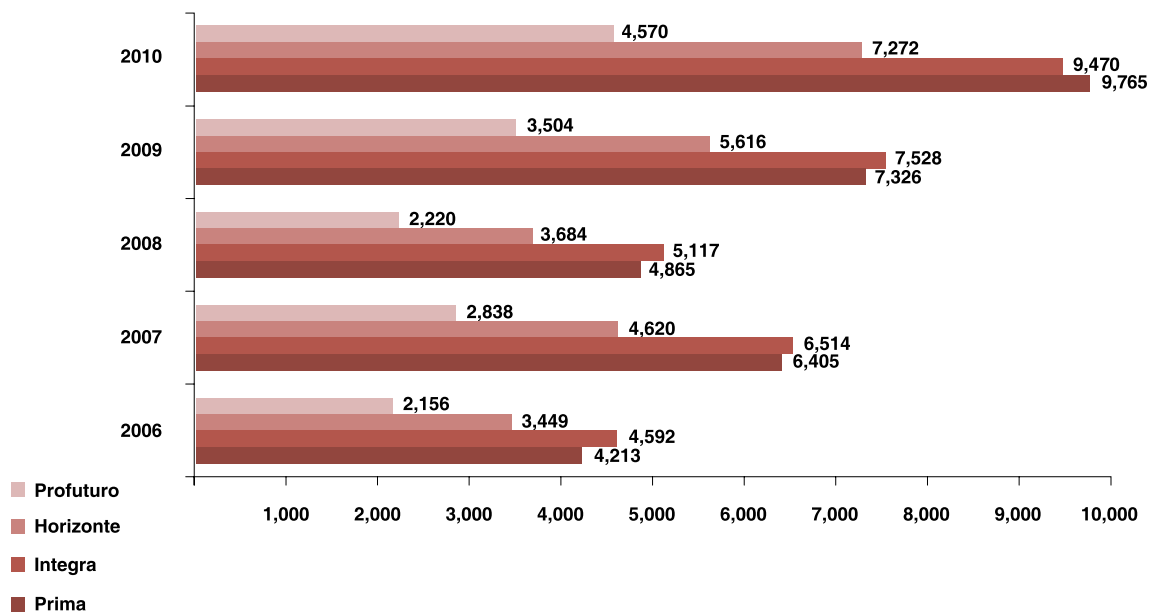
Affiliates

	Total fund value Dec-2010	Variation 2010/2009
Active affiliates (year - end)	4,458,045	3.8%

Source: SBS

Assets under management: Yearly fluctuations

(Millions of USD)



Source: SBS

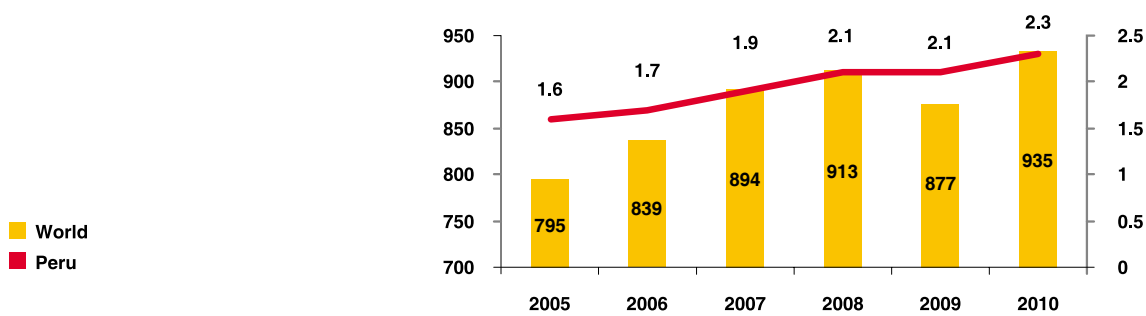
2.1.5. Latest events in the Financial System

- Mr. Julio Velarde was ratified as President of the Central Reserve Bank of Peru. This is a positive and clear message to local and international markets as it provides peace of mind to economic agents.
- The country's economic stability together with the SBS's (the Peruvian banking, Insurance and pension fund regulator) prudent practices of regulation and oversight, continued to attract investors to enter the Peruvian market. Thus, in 2010, two new financial institutions were authorized to operate in Peru: Financiera Uno, whose majority shareholder is IFH Retail, and Leasing Peru S.A., whose main shareholder is Leasing Bancolombia S.A. Four representative offices of financial institutions, not yet operating in Peru, were also authorized: Banco Itaú from Brazil, Banco Latinoamericano de Comercio Exterior (Bladex), Morgan Stanley Bank N.A. from the U.S. and Bank of Tokyo from Japan.
- Sura Group (Colombian) has acquired the regional operation of ING Group and as a consequence has obtained the control of AFP Integra and ING Fondos in Peru.
- Peruvian Congress raised to 50% the maximum limit of investments that Private Pension Funds may have abroad.
- From year 2012, the International Financial Reporting Standards will become mandatory for companies in the Peruvian market.

Tourism

Context

Tourist arrivals (Millions)

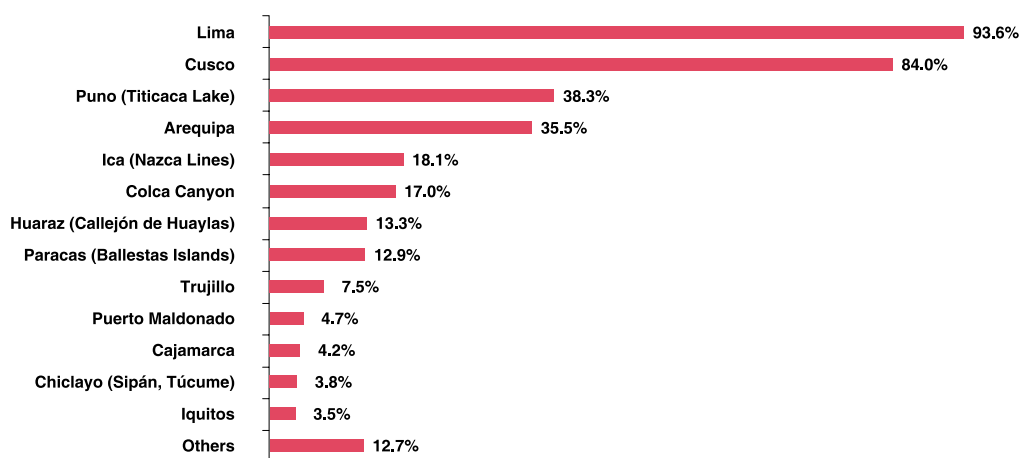


Source: UNWTO Tourism Highlights Report 2010 and MINCETUR (Ministerio de Comercio Exterior y Turismo)

Worldwide, international tourist arrivals reached 935 million in 2010, up 17.6% over 2005.

In Peru, the growth rate was 44% for the same period.

Most visited cities

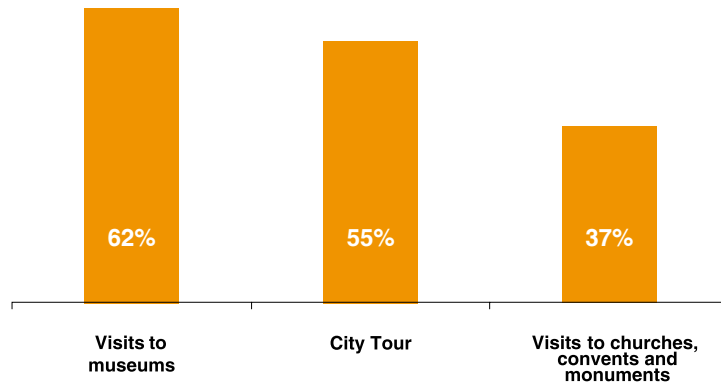


Source: BADATUR (Base de Datos Turísticos del Perú)

The main activities carried out in the two most visited cities in Peru are visits to museums in Lima and visits to Machu Picchu in Cusco.

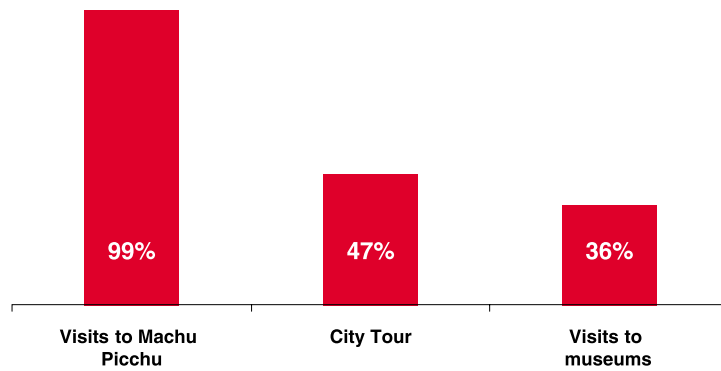
Lima

Source: BADATUR



Cusco

Source: BADATUR



SWOT



- Machu Picchu as one of the Seven Wonders of the World.
- Peru is recognized by prestigious international journals as one of the best tourist destinations.
- Eleven sites in Peru are included in the UNESCO World Heritage List.
- Diversity of tourist attractions (natural, historical and cultural).
- Excellent natural conditions for adventure tourism and ecotourism.



- Insufficient and inadequate sanitation infrastructure in tourist destinations.
- Deficient infrastructure support to access the tropical rainforest and highland routes.
- Low frequency of flights within the country.
- Lack of diversification of tourist routes, which are mainly concentrated in Cusco and Lima.
- Lack of market competition in air transportation, in order to lower costs.



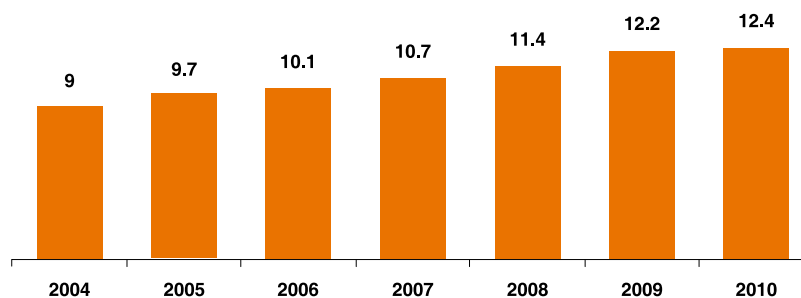
- Peru's sustained economic stability.
- Expansion of hotels and tourists services through private investment.
- Entry of new operators in the commercial aviation market.
- Peruvian cuisine is one of the best in the world.
- Construction of the Interoceanic Highway (Peru-Brazil)
- Increase of international demand for experiential tourism.



- Decline in public safety.
- Poor infrastructure in many parts of the country.
- Natural disasters in some of the Peru's top tourism destinations.
- Deterioration in country's image caused by constant strikes and work stoppages.
- Lack of policies to promote commercial aviation development.

Supply

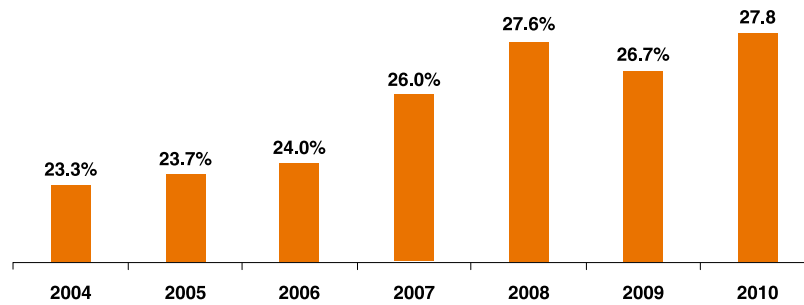
Lodging establishments (Thousands)



Source: MINCETUR

In 2010, total lodging facilities reached 12,397, increasing by 1.6% compared to 2009.

Net rate of room occupancy



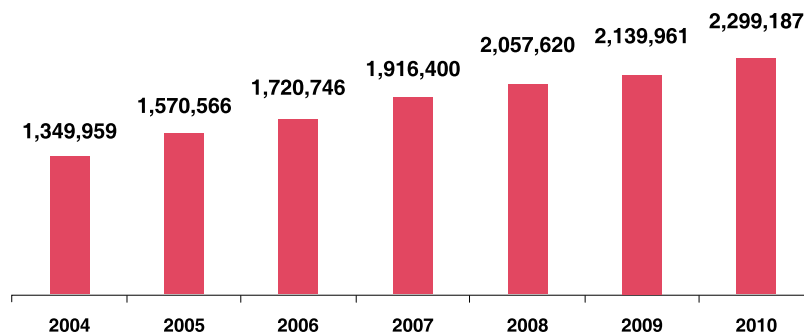
Source: MINCETUR

The net rate of room occupancy reached 27.8% after decreasing slightly to 26.7% in 2009, as a result of the global financial crisis.

The peak period for the net rate of room occupancy occurs in July due to the national holidays.

Demand

Foreign tourist arrivals

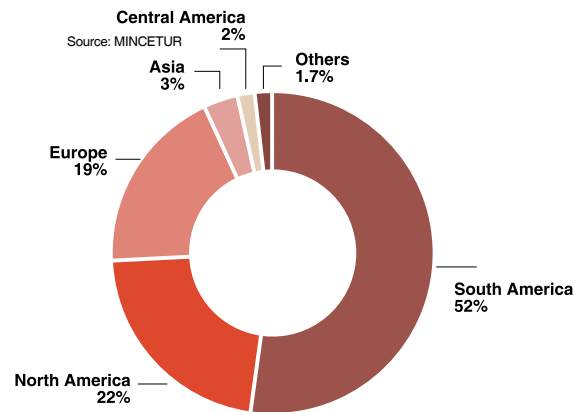


Source: MINCETUR

* 2005-2010 preliminary figures

In year 2010 Peru received more than 2 million international tourist arrivals, up 7.4% over the previous year.

International arrivals by place of residence



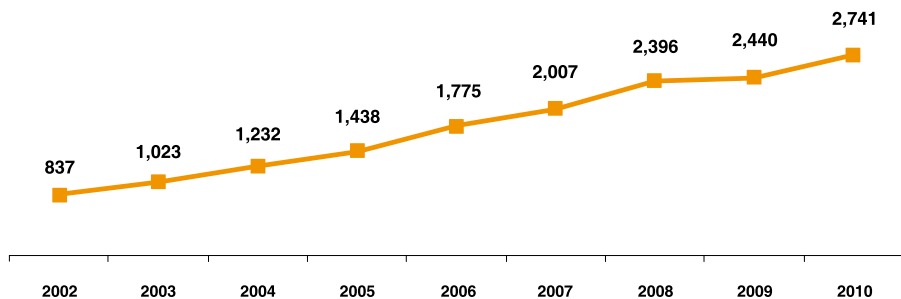
Slightly over half of international tourists came from South America (52%), followed by North America (22%). Europe occupies the third position with 19%.

These three regions concentrate 93% of the total international tourist arrivals.

The largest percentage of tourists came from Chile with 25.9%, followed by the United States with 18.2%.

Source: MINCETUR
* 2005-2010 preliminary figures

Foreign exchange earnings (Millions of USD)

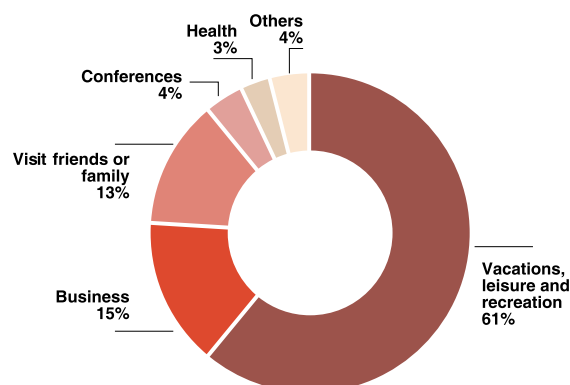


Source: MINCETUR
* 2005-2010 preliminary figures

Foreign exchange earnings reached US\$ 2,741 million in 2010, up from US\$ 2,440 million in 2009, i.e. an increase of 12.4%.

Furthermore, foreign exchange earnings have increased since 2002 at an annual average rate of 16.2%.

Purpose of visit

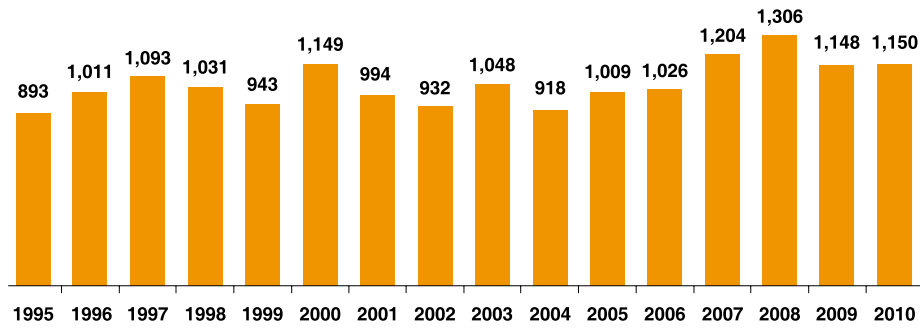


According to the Foreign Tourist Profile 2009 (Promperu), travel for vacations, leisure and recreation accounted for over half of all international tourist arrivals to Peru (61%). Additionally, 15% of international tourists reported travelling for business purposes and 13% for visiting friends or family.

Source: MINCETUR
* 2005-2010 preliminary figures

Market

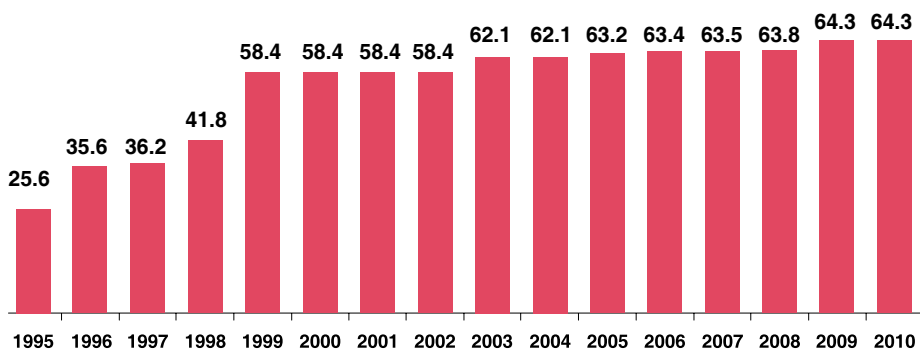
Per capita expenditure (USD)



Source: BADATUR, BCRP

Each foreign tourist spent US\$ 1,150 in Peru in 2010. This per capita expenditure has increased by 29% since 1995, at an annual average rate of 2.3%.

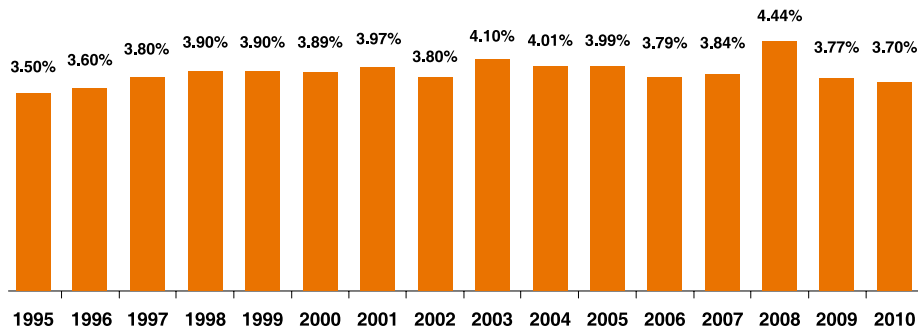
Foreign direct investments in tourism (Millions of USD)



Source: PROINVERSIÓN (Agencia de Promoción de la Inversión Privada)

Foreign direct investment in tourism in Peru has been stable at around US\$ 64 million in the last two years.

Tourism contribution to GNP



Source: BADATUR, INEI

The tourism sector comprises nearly 4% of the Peruvian GDP.
Over the last ten years, tourism's highest share in the Peruvian GDP was recorded in 2008.

Mining

Current market - Ranking of mining production 2010

Element	Global Ranking	Ranking Latin America
Silver (Ag)	1	1
Zinc (Zn)	2	1
Tin (Sn)	3	1
Lead (Pb)	4	1
Gold (Au)	6	1
Mercury (Hg)	4	2
Copper (Cu)	2	2
Molybdenum (Mo)	4	2
Selenium (Se)	9	2
Cadmium (Cd)	12	2
Iron (Fe)	17	5

Source: MINEM (Ministerio de Energía y Minas)

Current market - Mining exports

Mineral	Exports Jan - Dec (Million USD)		Variation (%)	Accumulated Exports May 2011 (Million USD)
	2009	2010		
Copper (Cu)	5,933	8,870	49.5%	4,420
Gold (Au)	6,802	7,756	14.0%	3,490
Zinc (Zn)	1,225	1,691	38.0%	697
Silver (Ag)	214	118	-44.9%	86
Lead (Pb)	1,112	1,579	42.0%	920
Tin (Sn)	476	663	39.3%	418
Iron (Fe)	299	523	74.9%	442
Molybdenum (Mo)	272	492	80.9%	233
Others	28	29	3.6%	11
Total	16,361	21,721	32.8%	10,717

Source: MINEM

Current market - Ranking of mining companies by income

Mining Company	Income (Million USD)		Variation (%)	Accumulated Income at June 2011 (Million USD)
	2009	2010		
Minera Yanacocha S.R.L.	2,077,373	1,851,788	-10.9%	S/I
Southern Peru Copper Corporation, Sucursal del Perú	2,223,338	3,153,534	41.8%	1,636,418
Sociedad Minera Cerro Verde S.A.A.	1,757,510	2,368,988	34.8%	1,484,881
Minera Barrick Misquichilca S.A.	1,269,925	1,199,966	-5.5%	612,225
Compañía de Minas Buenaventura S.A.A.	598,961	808,462	35.0%	539,119
Minsur S.A.	472,931	831,520	75.8%	469,171
Cementos Lima S.A.	305,778	371,447	21.5%	190,058
Volcan Compañía Minera S.A.A.	477,555	680,891	42.6%	343,741
Shougang Hierro Perú S.A.A.	296,083	690,096	133.1%	560,814
Gold Fields La Cima S.A.	342,461	474,824	38.7%	298,229
Sociedad Minera El Brocal S.A.A.	220,728	219,193	-0.7%	135,811
Cementos Pacasmayo S.A.A.	182,885	220,763	20.7%	109,642
Compañía Minera Milpo S.A.A.	259,198	382,354	47.5%	249,297
Yura S.A.	153,458	206,658	34.7%	87,667
Sociedad Minera Corona S.A.	85,333	120,527	41.2%	76,423
Cemento Andino S.A.	125,758	153,629	22.2%	70,664
Compañía Minera Poderosa S.A.	106,014	144,351	36.2%	83,044
Compañía Minera Atacocha S.A.A.	88,005	123,127	39.9%	74,746
Compañía Minera Raura S.A.	56,215	92,319	64.2%	49,510
Compañía Minera San Ignacio de Morococha S.A.	25,823	39,417	52.6%	17,417
Castrovirreyna Compañía Minera S.A.	15,934	15,393	-3.4%	13,331
Total	11,238,728	14,149,247	25.9%	7,102,208

Source: MINEM

Highlights

1. In the year 2010, metal and non metal mining exports reached the figure of US\$ 21,721 million, which constitutes the highest figure in mining history.
2. Likewise, exports grew by 32.8% due to higher average prices (37.9%) of copper, gold, zinc and lead.
3. Average exported volume in 2010 was 3.4% lower, with regard to 2009, as a result of the lower deliveries of gold (9.5%) of the main producers: Yanacocha and Barrick.
4. At the end of 2010, according to the Ministry of Energy and Mines, a total of 10,325 mining concession holders were registered, of which 3,824 belong to small mining, 2,640 to artisan mining and 3,861 to the regime of large and medium mining.
5. Mining GDP decreased in 2010 by 4.9% with regard to 2009, due to lower production of lead, gold, tin, silver, zinc and copper.
6. Current projects portfolio consists of 45 investment projects for a total of US\$ 42,621 million, distributed in the following manner: 8 expansion projects for US\$ 5,097 million, 11 projects in construction for US\$ 16,589 million, 2 projects in evaluation for US\$ 51 million, and 24 projects in exploration for US\$ 20,884 million.

Source: BCRP

Main ongoing Mining Projects

contents <

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Mining Company	Project	Resource	Start of operation (estimated)	Investment (Millions of USD)
Extensions				
Compañía Minera Antamina S.A.	Antamina	Cu, Zn	2011	1,100
Sociedad Minera Cerro Verde S.A.A.	Cerro Verde	Cu	2012	1,000
Shougang Hierro Perú S.A.A.	Marcona	Fe	2011	1,000
Southern Peru Copper Corporation, Sucursal del Perú	Cuajone, Fundición, Toquepala y Refinería de Ilo	Cu	2012	600
Votorantim Metais - Cajamarquilla S.A.	Cajamarquilla	Zn	2011	500
Minera Barrick Misquichilca S.A.	Lagunas Norte	Au	2012	400
Compañía Minera Miski Mayo S.R.L.	Bayóvar	Phosphates	2012	300
Sociedad Minera El Brocal S.A.A.	Colquijirca	Polymetallic	2011	197
Total		-	-	5,097
In Construction				
Xstrata Perú S.A.	Las Bambas	Cu	2014	4,200
Minera Yanacocha S.R.L.	Minas Conga	Au, Cu	2015	3,500
Anglo American Quellaveco S.A.	Quellaveco	Cu	2014	3,000
Minera Chinalco Perú S.A.	Toromocho	Cu	2013	2,200
Xstrata Tintaya S.A.	Antapaccay	Cu	2012	1,500
Hubday Minerals Inc.	Constancia	Cu	2015	846
Marcobre S.A.C.	Marcobre (Mina Justa)	Cu	2012	744
La Arena S.A.	La Arena	Au, Cu	2012	360
Invicta Mining Corporation S.A.C.	Invicta	Polymetallic	2013	93
Minsur S.A.	Pucamarca	Au	2011	90
Compañía Minera Coimolache S.A.	Tantahuatay	Au	2011	56
Total		-	-	16,589
In Evaluation				
Bear Creek Mining Company, Sucursal del Perú	Santa Ana	Ag	2012	51
Reliant Ventures S.A.C.	San Luis	Ag, Au	N/A	N/A
Total		-	-	51
In Exploration				
Anglo American Michiquillay S.A.	Michiquillay	Cu	2016	700
Apurímac Ferrum S.A.	Hierro Apurímac	Fe	N/A	2,300
Bear Creek Mining Company, Sucursal del Perú	Corani	Ag	2014	428
Cañariaco Copper Peru S.A.	Cañariaco	Cu	N/A	1,565
Canteras del Hallazgo S.A.C.	Chupacaca	Au	2015	700
Compañía Minera Milpo S.A.A.	Pukaqaqa	Cu	N/A	300
Compañía Minera Milpo S.A.A.	Hilarión	Zn	2013	300
Compañía Minera Quechua S.A.	Quechua	Cu	2013	490
Hochschild Mining Plc	Inmaculada	Ag, Au	2013	168
Jinton Mining (Peru) S.A.C.	Llama TY01	Au	N/A	N/A
Jinzhao Mining Peru S.A.	Pampa de Pongo	Fe	2012	3,280
Junefield Group S.A.	Cercana	Cu	N/A	N/A
Lumina Copper S.A.C.	Galeno	Cu	2014	2,500
Minera Antares Perú S.A.C.	Haquira	Au, Cu, Mo	2013	301
Minera CN S.A.C.	Los Calatos	Cu, Mo	N/A	2,200
Minera Cuervo S.A.C.	Cerro Ccopane	Fe	N/A	N/A
Minera Sulliden Shahuindo S.A.C.	Shahuindo	Au	2012	90
Minera Yanacocha S.R.L.	Chaquicocha	Au	N/A	400
Compañía Minera Milpo S.A.A.	Magistral	Cu	2012	402
Río Blanco Copper S.A.	Río Blanco	Cu	2015	1,440
Río Tinto Minera Perú Limitada S.A.C.	La Granja	Cu	2014	1,000
Southern Peru Copper Corporation	Los Chancas	Cu	2013	1,200
Southern Peru Copper Corporation	Tía María	Cu	N/A	950
Minera Kuir Kullu S.A.	Ollachea	Au	2014	170
Total		-	-	20,884
Total project portfolio		-	-	42,621

Source: MINEM

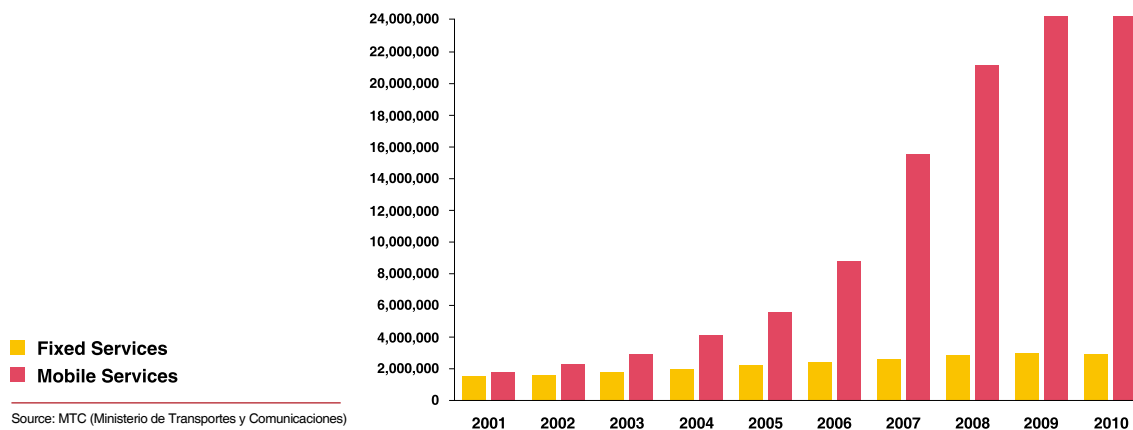
Telecommunications

Top Companies - 2010 Net Sales (Millions of USD)

Ranking	Company	2009	2010
1	Telefónica del Perú S.A.A.	2,521.4	2,630.2
2	Telefónica Móviles S.A.C.	1,231.6	1,347.0
3	América Móvil Perú - Claro	811.1	918.5
4	Nextel del Perú S.A.	268.4	307.1
5	Telefónica Multimedia S.A.C.	162.0	183.5
6	Telmex Perú S.A.	138.8	153.2
7	Brightstar Perú S.R.L.	187.2	124.4

Source: Ranking de las 500 mayores empresas del Perú y las 500 mayores de América Latina – Revista América Economía.
Ranking of Peru's Top 500 Companies and Latin America's Top 500 - America Economía Magazine

Evolution of telephone services



Fixed Telephone Services by Company (Millions of USD)

Company	2008	2009	2010
Telefónica del Perú S.A.A.	2,295,037	2,180,835	2,139,716
Telefónica Móviles S.A.C.	475,971	594,510	515,347
Telmex Perú S.A.	74,958	103,827	105,888
Americatel Perú S.A.	17,883	25,306	30,438
Impsat Perú S.A.	5,537	5,527	5,686
Gilat to Home Perú S.A.	1,114	1,537	1,916
Rural Telecom S.A.C.	998	935	962
Convergía Perú S.A.	182	680	893
Infoductos y Telecomunic. Perú S.A.	1,135	645	649
Nextel del Perú S.A.	13	10	311
Valtron E.I.R.L.	99	151	221
Total	2,872,927	2,913,963	2,802,027

Source: MTC

Mobile Telephone Services by Company

Company	2007	2008	2009	2010
Telefónica Móviles S.A.C.	9,436,371	12,239,630	15,600,558	18,447,249
América Móvil Perú - Claro	5,508,188	6,722,326	8,266,516	9,544,506
Nextel del Perú S.A.	472,688	610,647	833,287	1,123,394
Total	15,417,247	19,572,603	24,700,361	29,115,149

Source: MTC

Investment Opportunities

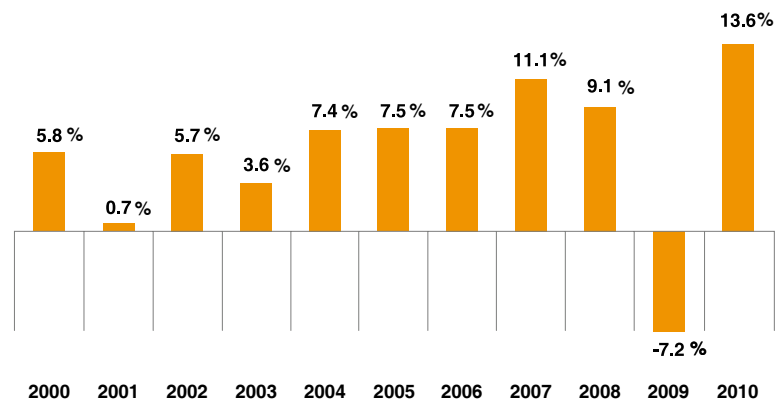
Project	Company Awarded	Concession Award
Integration of rural areas to the mobile services network – Selva	Móviles	4Q10
Integration of rural areas to the mobile services network – Centro Norte	América Móvil Perú - Claro	4Q10
Integration of rural areas to the mobile services network – Centro Sur	América Móvil Perú - Claro	4Q10

Source: Proinversión

Manufacturing

Production Performance

Production Performance (% Var)



Source: BCRP

	2007	2008	2009	2010
Primary Manufacturing	-2.7%	7.60%	0%	-2.3%
Non-Primary Manufacturing	14%	8.90%	-8.5%	16.9%
Manufacturing	11.1%	9.10%	-7.2%	13.6%

Source: BCRP

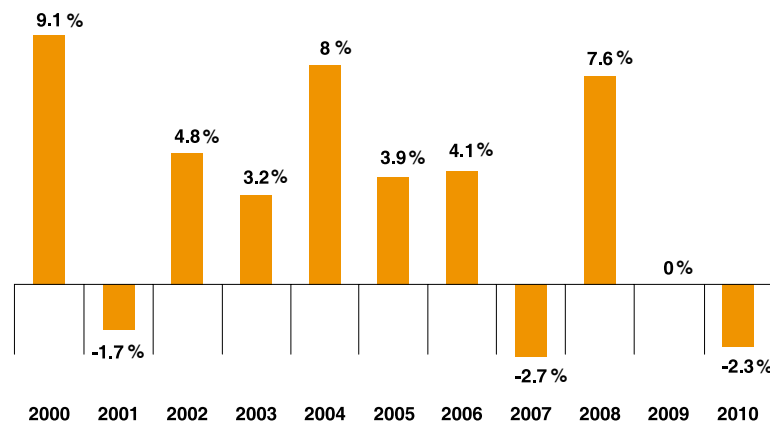
Primary Manufacturing

Primary Manufacturing based on raw materials (% Var)

	2008	2009	2010
Sugar	10.7 %	7.2 %	-4.1 %
Meat Products	9.2 %	4.6 %	4.8 %
Fishmeal	0.5 %	-4.2 %	-42.1 %
Canned and frozen fish	17.6 %	-17.4 %	-17.4 %
Non ferrous metals	9.4 %	-18.0 %	-6.1 %
Refined petroleum	4.1 %	27.7 %	14.2 %
Primary Manufacturing (Total)	7.6 %	0.0 %	-2.3 %

Source: BCRP

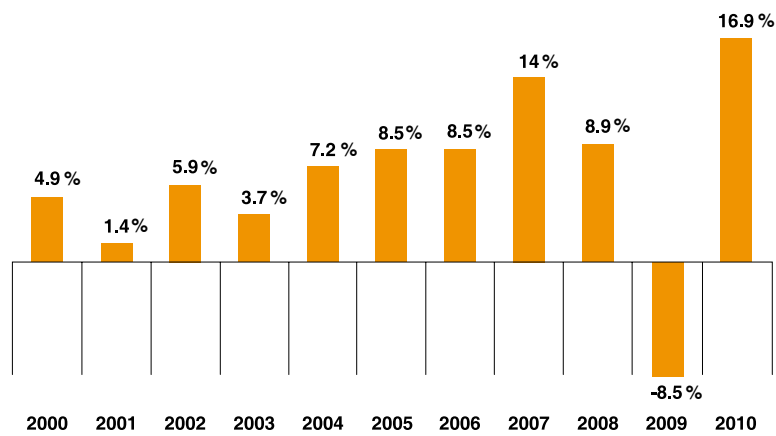
Production Performance (% Var)



Source: BCRP

Non - Primary Manufacturing

Production Performance (% Var)



Source: BCRP

Non-Primary Manufacturing	2010
Consumer Goods	15.1%
Intermediate Goods	18.3%
Capital Goods	56.4%
Total	16.9%

Source: Maximixe

Production Performance Non - Primary Sectors

Consumer Goods (% Var)	2008	2009	2010
Clothing not including fur	-2.4 %	-29.9%	56.8 %
Furniture	26.4%	-0.5 %	17.7 %
Paper and paperboard products	48.7%	-21.7 %	21.6 %
Knit products	-19.0%	-22.6%	14.8 %
Dairy products	11.2%	-3.0 %	13.1%

Source: PRODUCE (Ministerio de la Producción)

Intermediate Goods (% Var)	2008	2009	2010
Metallic products (Structures)	31.6 %	-16.7%	31.5 %
Ceramic and clay products	9.8 %	1.4 %	27.9%
Other products made out of metal	10.9%	-11.3 %	28.6 %
Plastic	7.0 %	-3.9 %	19.1%
Printing activities	18.5 %	-10.5 %	15.7 %

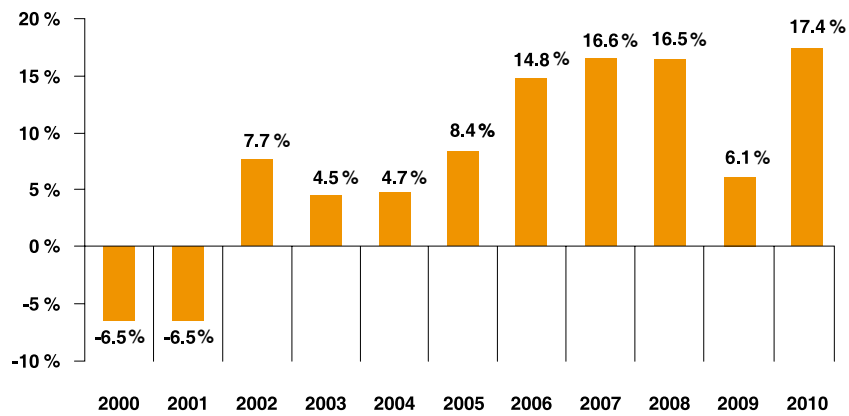
Source: PRODUCE

Capital Goods (% Var)	2008	2009	2010
Vehicles	46.5 %	-1.1%	163.6%
Motorcycles	47.7%	19.7%	67.2 %
Engines, generators and electric generators	4.2 %	-28.5%	53.3 %
Electrical machines for distribution and control	-2.0 %	-34.6%	73.0 %

Source: PRODUCE

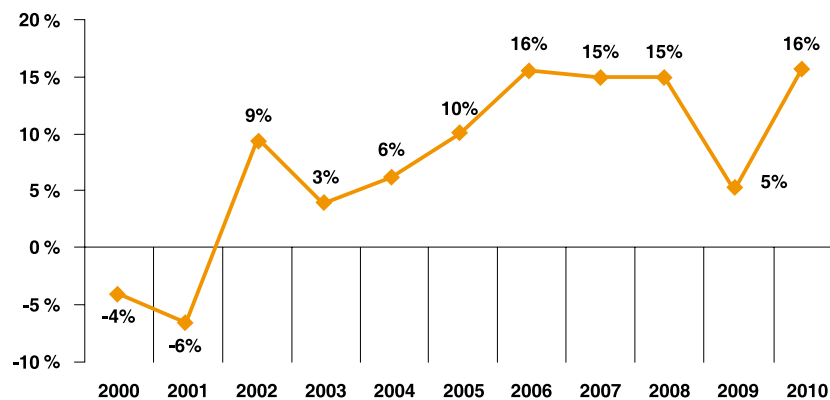
Construction Sector

Production Performance (% Var)



Source: INEI

Cement Sales Evolution (% Var)



Source: INEI

Retail

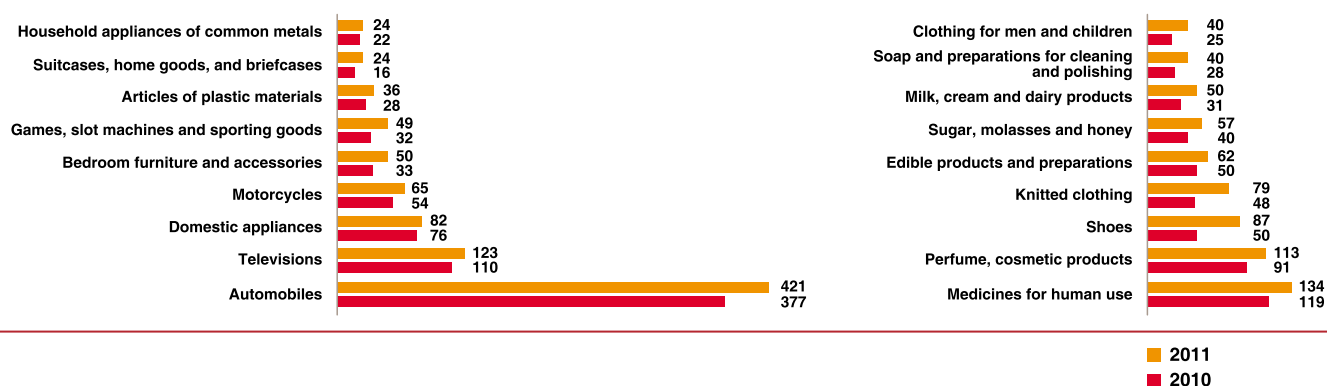
Retail and Mass Consumption

In Peru, certainly the greater income level of the population, in Metropolitan Lima as well as in the provinces, has reconfigured the profile of the Peruvian consumer. In effect, even though the main purchasing decider is still the price, the quality of the product / service has gained a greater relative importance with regard to the purchase decision.

In this sense, the country presents an ideal business scenario for companies belonging to the retail sector, especially in the provinces and the cones of Metropolitan Lima, proof of this is the greater investment in infrastructure, which is reflected in the construction and implementation projects of 100 commercial centers until 2015, related to a consumption level that could reach approximately US\$ 4,200 million.

The commercial strategy of the main companies is still that of reaching a greater number of consumers, offering quality low price imported products, as well as through major advertising campaigns, all of this facing a possible slowdown in the post-election situation ¹.

Main imported durable and non-durable consumer goods January – May. (Millions of USD)

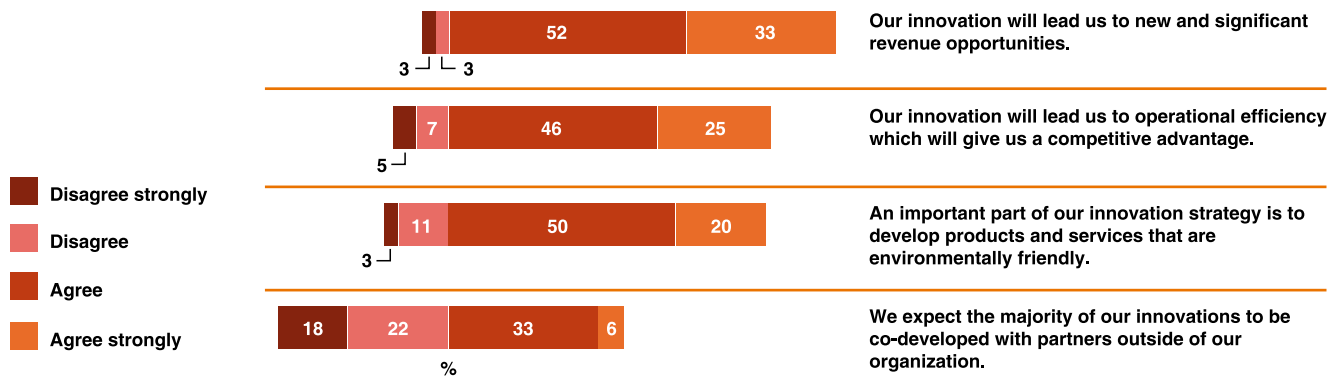


The Peruvian retail sector has the eighth best development prospects within a group of 30 emerging countries, since it has an attractive market and the investment grade granted by prestigious risk rating agencies such as Moody's and Standard and Poor's ².

Under this scenario it is forecast that commerce in the country, at the end of the year, will grow around 6% or 7% ³, supported by the strong momentum that is being registered by private consumption; however, commercial activity would increase at a lower rhythm than in 2010.

However, this boom is associated with global tendencies, which have influenced the profile of the consumer in the country, who has experienced changes in his behavior. In this manner, at the time of making purchase decisions, the consumers are leaving aside the traditional products and focusing their preferences on new products, which not only cover their needs but also offer them greater added value.

In effect, considering the results of the 14th Annual Global Survey carried out among 1,201 Chief Executive Officers (CEO) of the leading companies of the world in 69 countries by PwC in the last quarter of 2010⁴, one of the main conclusions is shown to be the need of companies to make their products accessible to the consumers. Furthermore, companies seek in their products "ambidextrous" innovation, which is represented by products that are not only new and differentiated, but at the same time efficient.

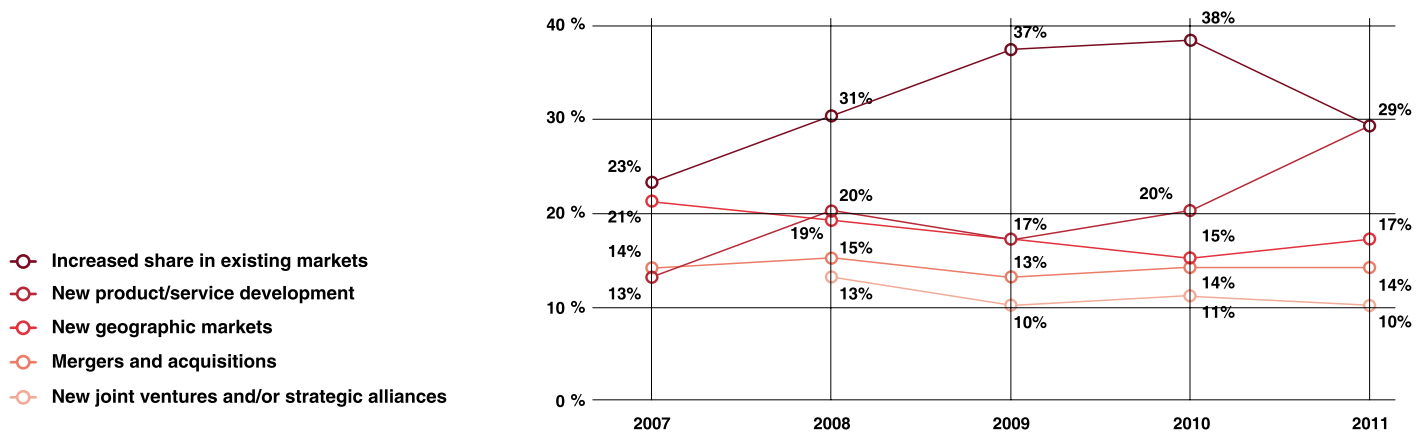


Basis: All of the persons surveyed (Consumption Goods, 153)
 Note: No "agreement" or "disagreement" and "do not know/ no opinion" have been excluded.
 Source: PwC 14th Annual Global CEO Survey 2011

Certainly, in Peru the consumer seeks those products that incorporate more and better functions, for example, Smartphones. For this reason, and in order not to lose their positioning in the market, the local retail companies are changing their commercial strategies with the objective of achieving a continuous improvement in their product offering.

Percentage of CEO's that see the following as the main growth opportunity of their business

Which one of these potential business growth opportunities do you see as the main one for the growth of your business in the next 12 months?



Basis of interviews: 2007 (1,084), 2008 (1,150), 2009 (1,124), 2010 (1,198), 2011 (1,201).
 Source: 14th Annual Global CEO Survey 2011

Additionally, in recent years natural products are preferred, with fewer artificial chemical ingredients and, therefore, less harmful to your health, which has had a significant impact in the market, and has resulted in changes in the consumption of foods and beverages. Proof of this is that the sector of fruit and energizing drinks has recorded a greater relative growth, and it is expected that in the medium term it will replace the market of soda beverages and other carbonated drinks⁵, following the global tendency of consuming healthier products.

Another important change is that consumers are becoming more aware of caring for the environment. This is why currently 70% of the world's companies that produce consumer goods consider, within their commercial strategies, the development of environmentally friendly products⁶. In this sense, local supermarkets have included this trend, not only increasing their sales based on this factor, but also by projecting an image associated with the preservation of the ecosystem and of the biodiversity.

Finally, a sector that deserves a separate mention due to the changes that it is experiencing in the local market is the pharmaceutical retail sector where generic medicine, has been capturing a greater participation, associated with the global tendencies⁷, partially due to the expiry of the patents of the largest laboratories.

In the next few years, we are sure that the retail sector will be the subject of much attention.

1. Maximixe. Sector Risks. July 2011.
 2. Maximixe. Sector Risks. July 2011.
 3. Maximixe. Sector Risks. July 2011.
 4. PwC. 14th Annual Global CEO Survey. February 2011 www.pwc.com/ceosurvey.

5. Maximixe. Market Risks. May 2011.
 6. PwC 14th Annual Global CEO Survey.
 7. IMS Institute for Healthcare Informatics. The Global Use of Medicines: Outlook Throughout 2015. May 2011.

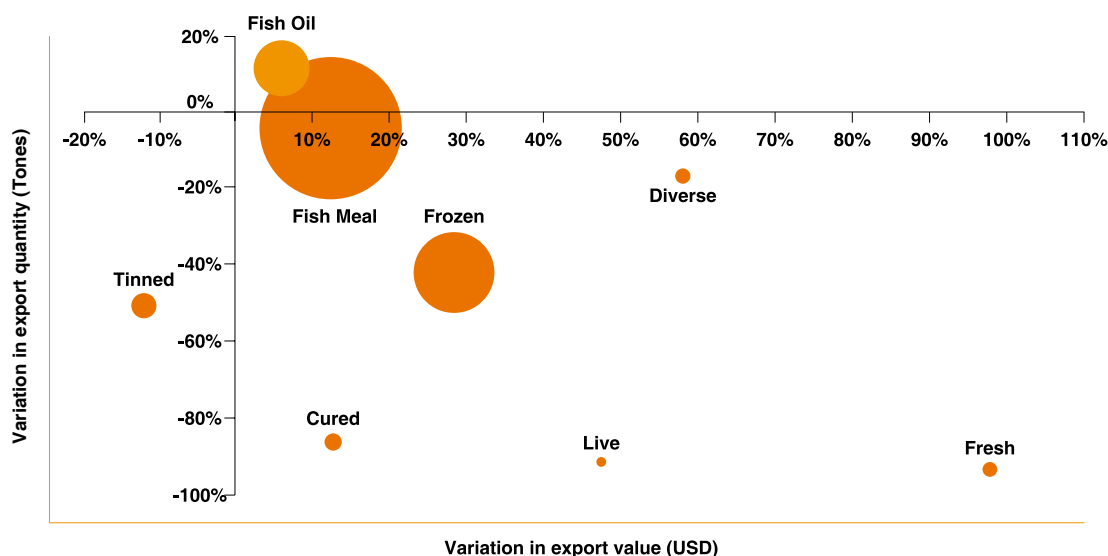
Fishing

Peru is the world's leading exporter of fish meal and fish oil, as a result of its 3,080km of coastline, 200 miles of sea boundary and its 750 known fish species. During the year 2010, according to SUNAT, 495 companies exported fish products to 90 countries.

Peruvian exports managed to achieve positive economic results due to the increase in product prices, despite the decrease in volumes exported, generated by a lower demand from China and Germany, and the decrease in the supply of fish requiring to be processed, as a result of the reduction in average water temperature during the second semester of 2010, which dispersed sea products.

Peruvian fishing exports grew 13.6%, reaching a value of USD 2,501 million in 2010. This was mainly due to the increase in non-traditional exports (20.0% growth), accompanied by the increase in traditional exports (11.7%). The following chart illustrates the results per product line and the dynamism explained:

Peruvian Fishing Exports / Product Line 2010



● Fishing Exports
(Tn + 000)

Source: SNP (Sociedad Nacional de Pesquería)
Elaboration: PwC

The market expectations remain positive despite global economic downturns, since Free Trade Agreements with Asian high consumption countries (such as China, Japan, Thailand) should promote exports and the reduction in the Chilean quota should counteract a global price reduction.

Regarding investment projects, the fishing industry intends to invest approximately USD 400 to USD 500 million in 2011. 60% of the investment will be used for the acquisition of new vessels and the remaining 40% will be used to increase factories' plant capacity and for vessels to comply with legal environmental requirements.

Additional investment opportunities may be found in:

- (1) the adaptation of plants to produce prime meal and fish oil for developed markets
- (2) the development and promotion of products for direct human consumption, such as frozen and tinned products, and
- (3) the production of Omega 3 products for pharmaceutical uses.

In 2010 the total national landings of aquatic resources were reduced by 37% compared to 2009. The most affected were fishing products used for indirect human consumption, which decreased by 41%.

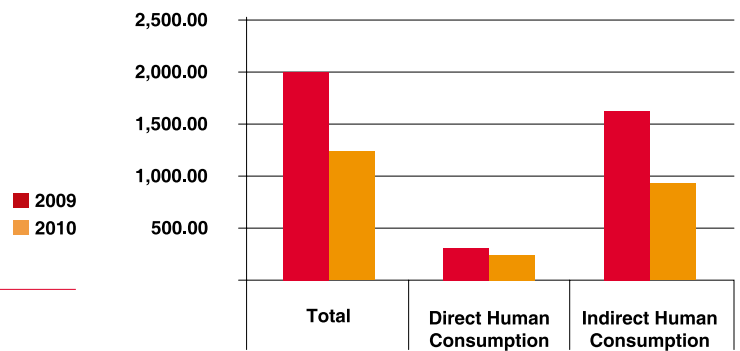
The following tables show relevant data regarding landings and the evolution of seafood production.

Total landings of aquatic resources by use (Thousands MT)

	Total	Direct Human Consumption	Indirect Human Consumption
2009	1,997.91	361.88	1,636.04
2010	1,255.50	296.40	959.10

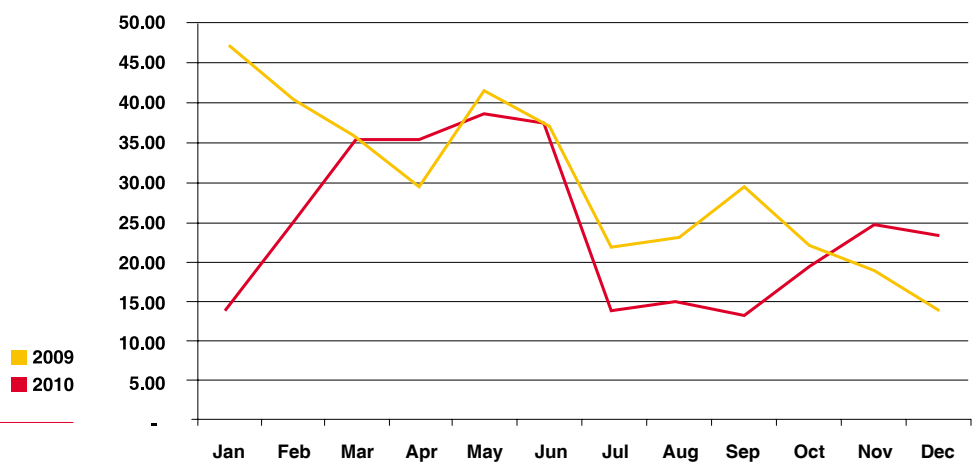
Source: PRODUCE
Elaboration: PwC

Production of seafood products by use (Thousands MT)



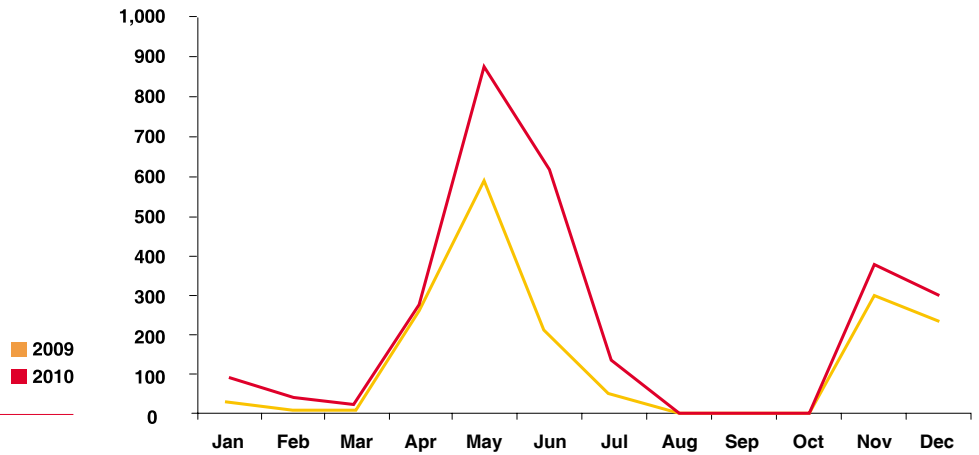
Source: PRODUCE
Elaboration: PwC

Production of seafood products for direct human consumption by month (Thousands MT)



Source: PRODUCE
Elaboration: PwC

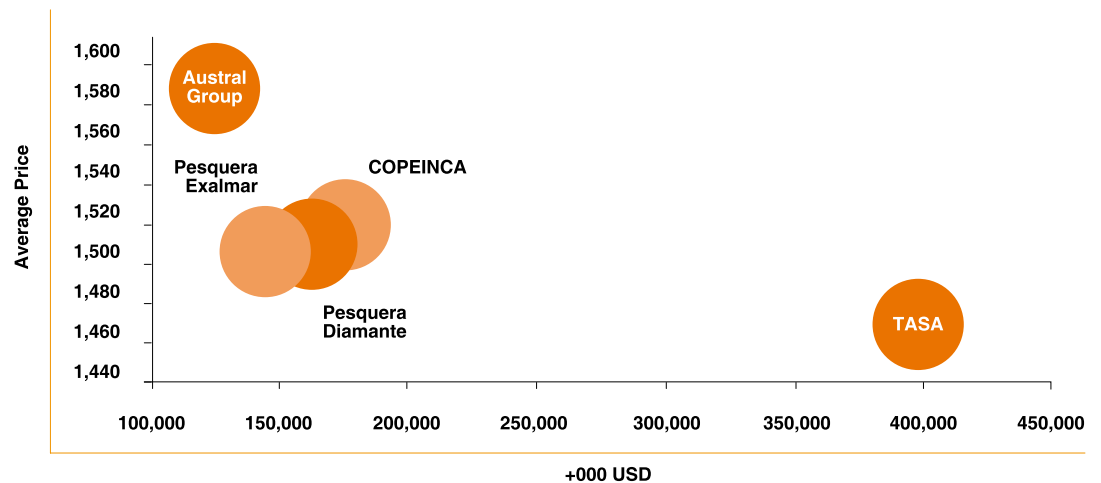
Production of seafood products for indirect human consumption by month (Thousands MT)



Source: PRODUCE
Elaboration: PwC

National fish oil exports are dominated by 8 enterprises, which concentrate more than 80% of national exports. The results from 2010 of the five most relevant local companies regarding value of fish oil exports, and their respective commercial prices are shown in the following table:

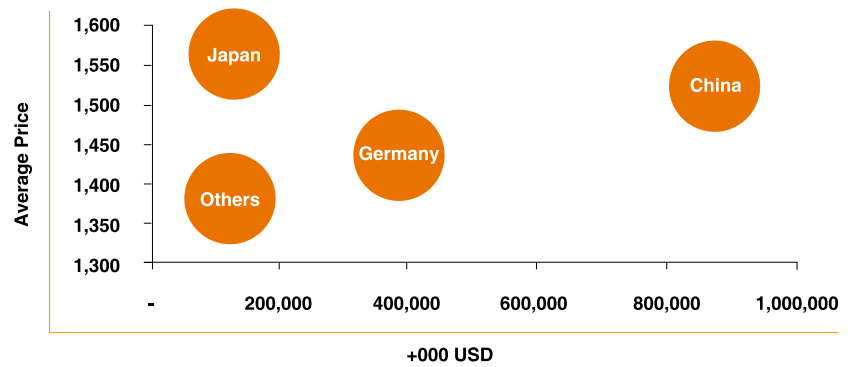
Fish Oil Exports by Local Companies



Source: SNP
Elaboration: PwC

Regarding export destination countries, three countries concentrate 75% of Peruvian fish oil exports. In 2010 China concentrated more than 50% of the value of fish oil exports and showed a considerable increase compared to 2009 imports (an increase of 39% from January to November according to Maximixe). Two additional relevant countries are Germany and Japan, as can be seen in the following table:

Fish Oil Exports per Destination Country



Source: SNP
Elaboration: PwC

Agriculture

Peru is favored by its climatic conditions as it manifests a recognized climate biodiversity. These features are key, as they are a source of comparative advantage. For example:

- Peru is home to approximately 70% of the world's biological species; its 11 natural eco-regions feature 84 of the 117 life zones known in the world.
- Peru has 28 kinds of climates of the 32 known in the world, and has 25,000 species of plants (10% of the world total) 30% of which are endemic (only found in the country).
- Some crops are scheduled to tap into the highest international price windows.
- The country has a strategic location; it faces the Pacific Ocean, which connects it to APEC countries, and through the Amazon River and by the "Interoceanica" highway, it is connected to Brazil and to the Atlantic.

Furthermore, Peru has developed competitive advantages such as the Free Trade Agreements which have been signed or are being negotiated with the United States of America, China, Singapore, Canada, Korea, Japan, Mexico, European Union, amongst others. Taking advantage of these trade agreements, in 2010 agricultural products were exported to 11 more markets than those registered in 2009. Peru is also positioned as a country with one of the best agricultural performance indicators in the world with regard to sugar cane, asparagus, olives, artichoke and grape production.

Regarding the legal framework, there is a 15% Income Tax rate (compared to the general rate of 30%), an anticipated general income tax in the pre operative stage and 20% depreciation on investment made in hydraulic and irrigation infrastructure, amongst others; these conditions promote investments in the sector. With regard to exports, coffee represents the main traditional agricultural export. This product increased its exports by 52% in 2010 compared to 2009 results; on the other hand asparagus is the main non-traditional agricultural export product, its exports increased by 9%. Exports to China had the strongest growth in 2010 (64%) and Japan was the export destination which showed the largest decrease (-7%).

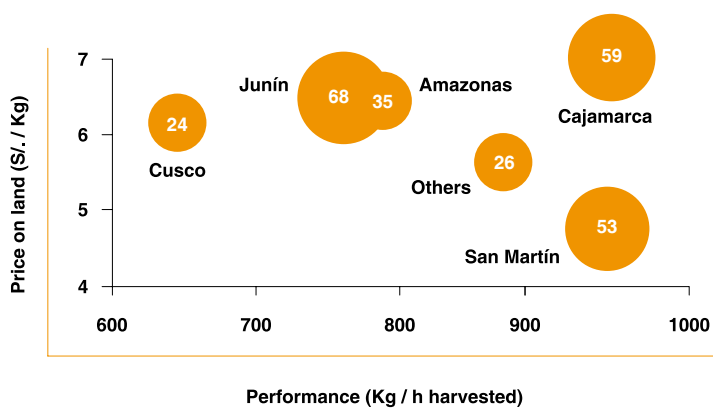
Concerning exports of organic products, they are projected to grow at an annual rate of 32%, compared to the levels of 2010. Peru is the leading producer and exporter of organic coffee in the world and the first provider for the United States of special coffee under the label of Fair Trade. Peruvian coffee covers 25% of the North American market. Additionally, since 2008, Peru has been the world's first organic banana exporter; providing an opportunity for organic products such as cotton, mango and cocoa, amongst others, to assume a prominent role in the worldwide market.

Regarding investment project opportunities, "Majes" represents an opportunity for the development of large agricultural projects using an efficient water control, and being exposed to favorable climatic conditions, population accessibility and with highway access. This project is estimated to be concluded in 4 years, however the 38,500ha of the phase 2 project, are expected to be sold at auction at the end of 2012.

The three most relevant national products, with the best commercial projections, are coffee, asparagus and sugar cane. The data below presents the product information regarding price, performance and production per Department.

● Production (Tn + 000)

Source: MINAG (Ministerio de Agricultura)
Elaboration: PwC



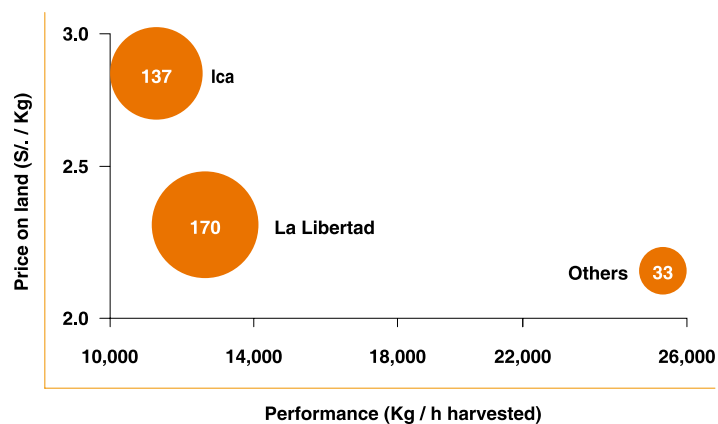
Department	Production (Tn + 000)	Production (%)	Harvested price (S./ Kg)	Performance (Kg / h harvested)
Junín	68	26%	6.47	760
Cajamarca	59	22%	7.01	946
San Martín	53	20%	4.74	942
Amazonas	35	13%	6.43	784
Cusco	24	9%	6.13	646
Others	26	10%	5.63	870
Total	265	100%	5.29	825

Source: MINAG
Elaboration: PwC

Asparagus 2009 - 2010 Campaign

● Production (Tn + 000)

Source: MINAG
Elaboration: PwC



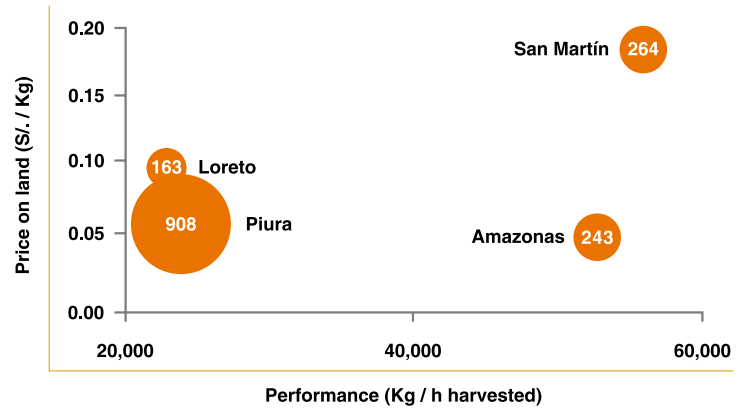
Department	Production (Tn + 000)	Production (%)	Harvested price (S./ Kg)	Performance (Kg / h harvested)
La Libertad	170	50%	2.33	12,627
Ica	137	40%	2.86	11,247
Others	33	10%	2.17	25,371
Total	340	100%	2.85	49,245

Source: MINAG
Elaboration: PwC

Sugar Cane 2009 - 2010 Campaign

● Production (Tn + 000)

Source: MINAG
Elaboration: PwC



Department	Production (Tn + 000)	Production (%)	Harvested price (S./ Kg)	Performance (Kg / h harvested)
Piura	908	49%	0.06	23,274
San Martín	264	14%	0.18	60,243
Amazonas	243	13%	0.05	56,920
Cajamarca	204	11%	0.11	NA
Loreto	163	9%	0.1	23,274
Others	60	3%	0.1	NA
Total	1,842	100%	0.24	43,171

Source: MINAG
Elaboration: PwC

The following data presents the interaction between Peru and foreign countries with respect to the exports and imports of the main traded products:

Principal countries exported to per agricultural product

FOB Value (USD +000)

Products / Country	2009	2010	Var
Coffee	582,142	886,596	52%
Germany	189,694	314,035	66%
USA	127,981	190,314	49%
Others	264,467	382,247	45%
Asparagus*	251,196	291,405	16%
USA	157,173	183,171	17%
Holland	39,928	41,682	4%
Others	54,095	66,552	23%
Asparagus**	113,835	105,648	-7%
Spain	47,220	34,941	-26%
USA	24,511	22,233	-9%
France	21,822	25,726	18%
Others	20,281	22,748	12%
Fresh Grapes	134,247	179,760	34%
USA	36,497	53,737	47%
Netherlands	22,006	24,296	10%
Others	75,745	101,727	34%
Artichoke	74,194	96,109	30%
USA	44,694	58,865	32%
Spain	16,137	18,970	18%
Others	58,057	77,139	33%
Paprika - Whole	67,916	66,352	-2%
Spain	26,411	24,825	-6%
USA	20,855	20,187	-3%
Mexico	17,591	17,399	-1%
Others	3,059	3,941	29%
Avocado, fresh or dried	64,237	84,638	32%
Netherlands	32,231	38,761	20%
Spain	17,857	27,602	55%
Others	46,380	57,036	23%
Mango	70,773	89,334	26%
Netherlands	37,921	39,363	4%
USA	20,149	28,386	41%
Others	50,624	60,948	20%
Piquillo Pepper	40,709	50,073	23%
Spain	33,221	41,895	26%
Others	7,488	8,178	9%

Principal countries imported from per agricultural product

CIF (USD +000)

Products / Country	2009	2010	Var
Wheat, rest	328,435	351,955	7%
Canada	126,110	155,454	23%
Argentina	84,998	23,228	-73%
USA	80,409	164,258	104%
Others	36,917	9,015	-76%
Corn, hard yellow	308,840	434,069	41%
Argentina	142,182	253,220	78%
USA	116,820	127,895	9%
Others	49,838	52,954	6%
Soy Bean Oil***	346,831	376,977	9%
Paraguay	140,818	189,042	34%
USA	76,615	42,725	-44%
Bolivia	69,603	92,889	33%
Others	59,795	52,321	-12%
Soy Bean Oil	211,934	314,557	48%
Argentina	146,214	231,130	58%
USA	51,603	76,753	49%
Others	14,117	6,675	-53%
Wheat, hard****	59,885	77,398	29%
Canada	27,176	33,945	25%
USA	16,135	25,541	58%
Others	16,574	17,912	8%
Rice	55,722	61,872	11%
Uruguay	50,590	59,159	17%
Others	5,132	2,713	-47%
Sugar Cane	59,163	124,705	111%
Colombia	35,223	59,457	69%
Brazil	4,489	18,029	302%
Guatemala	629	36,477	5699%
Others	18,822	10,743	-43%
Soy beans	44,864	44,821	0%
Bolivia	19,595	15,960	-19%
Argentina	12,953	11,919	-8%
Others	31,911	32,902	3%
Cotton*****	43,397	77,350	78%
USA	42,754	77,350	81%
Others	643	0	-100%*
Malt, untoasted	45,270	30,763	-32%
Chile	28,868	22,169	-23%
USA	7,711	7,711	0%
Others	8,691	883	-90%
Cotton*****	21,106	53,340	153%
USA	21,106	53,340	153%

*fresh or frozen

**preserved

***residues from the extraction of

****semi whitened or whitened

*****fiber longer than 2222mm

*****fiber longer than 2857mm

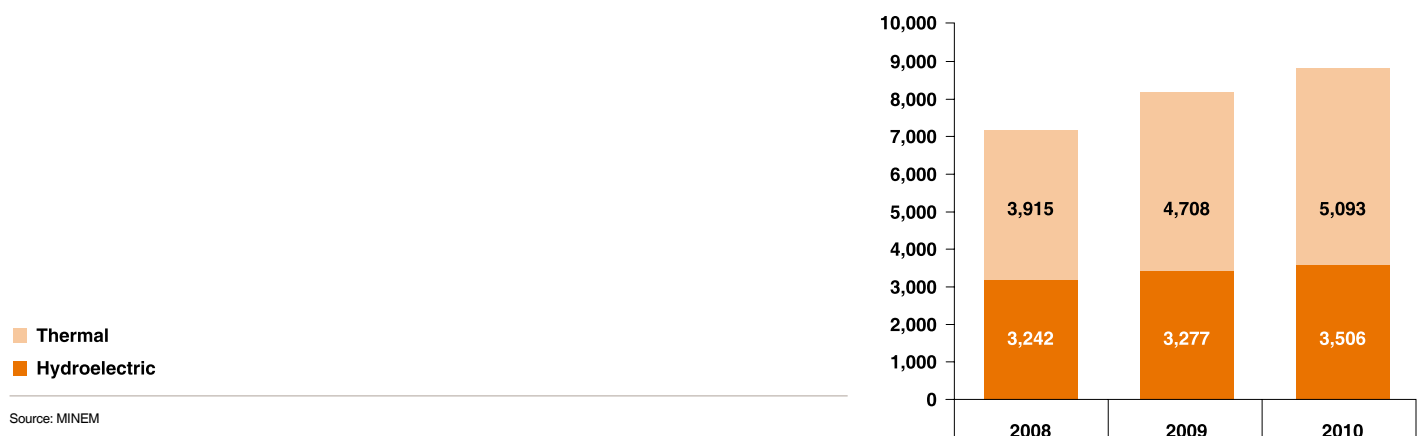
* - 100% = comprising variance of over 100%

Source: MINAG

Energy & Utilities

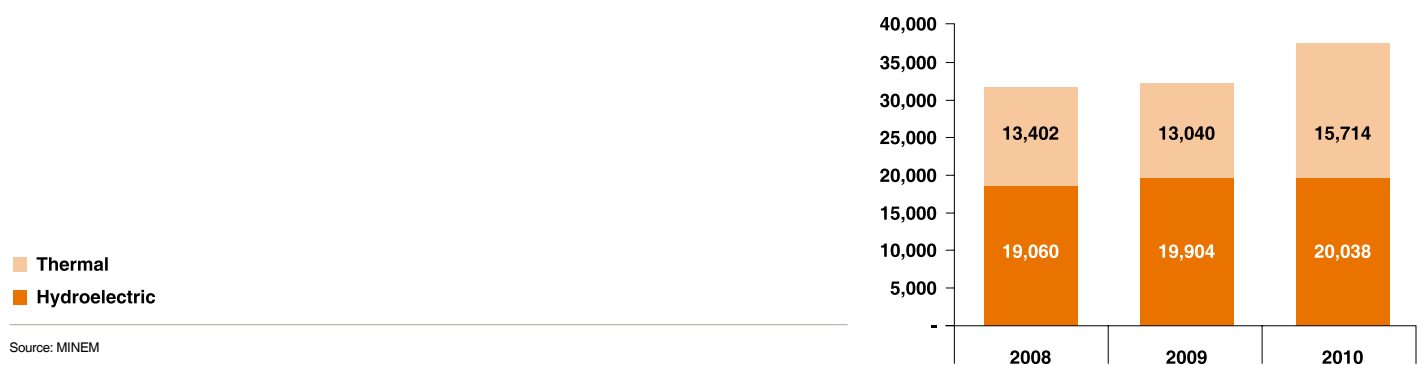
Electricity Power Generation

Generation capacity by source (MW)



Sources for electricity generation can be either thermal or hydroelectric. In 2010, the country had an installed capacity of 8,600 MW, of which 59% came from thermal sources while the remaining 41% from hydroelectric ones. The recent dynamism of the thermal sources has been encouraged by the production of the Camisea gas field in the Amazon jungle.

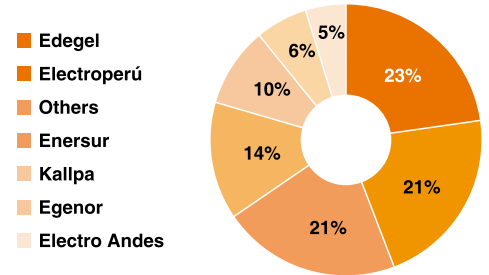
Electricity Production (GWh)



In 2010, electricity production increased 8.5% compared to 2009 production, reaching 35,753 GWh.

Despite the greater generation capacity of thermal sources, higher operational costs of these facilities explain the higher production of hydraulic plants. Thermal plants are used when hydraulic ones operate at full capacity or when river flows are below minimum levels.

Electricity Production by Company 2010

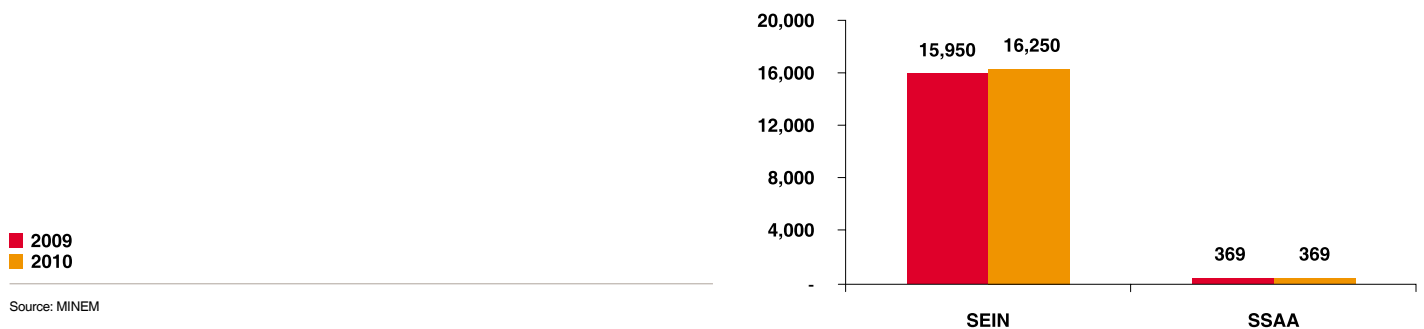


Source: MINEM

The two main players in power generation in Peru are Edegel, owned by Endesa (Spain) and Electroperú, a government-owned company. Whereas Electroperú leads the hydroelectric generating market, Edegel does so in the thermal field.

Electricity Power Transmission

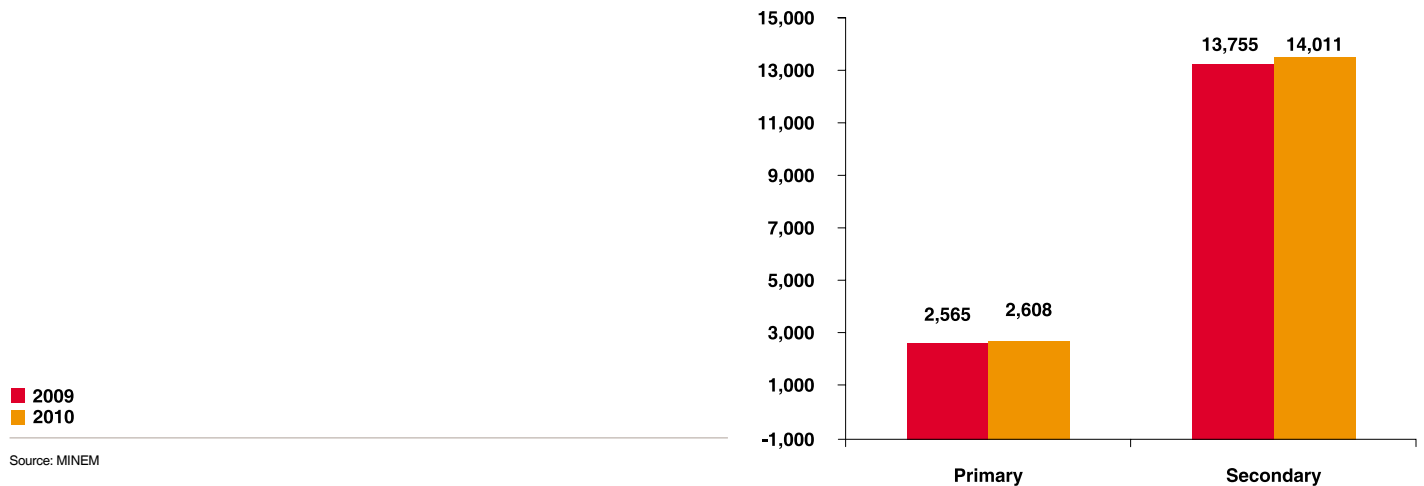
Length of transmission lines per system (km)



Source: MINEM

The transmission of electric power is provided by the National Interconnected Electrical System (SEIN) and the Isolated Electrical Systems (SSAA). The SEIN serves more than 85% of the connected population.

Length of transmission lines per type (km)



As a member of the Andean Community, Peru is also working towards creating a common electricity market with Ecuador, Chile and Bolivia. In fact, Primary lines include a 220 kV interconnection line with Ecuador.

Market share of Electricity Transmission Companies Based on Line Extension (km)

Company Name	Share (%)
Red de Energía del Perú (Repsa)	26.6%
Consorcio Transmantaro	3.7%
Redesur (Redes Eléctricas del Sur)	2.6%
Isa Perú	2.4%
Eteselva (Aguaytía Energy del Perú)	2.4%
Conenhua (Consorcio Energético Huancavelica)	2.3%
Etenorte	2.1%
Others	57.9%

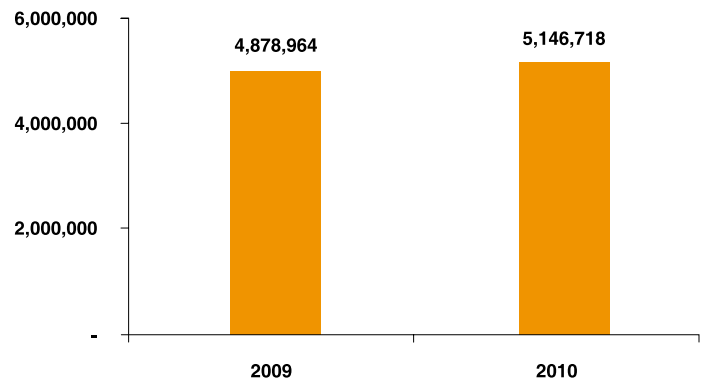
Source: MINEM

In Peru, 100% of transmission activities are performed by private companies. In 2010, there were 7 purely transmission companies that participated in electricity transmission in Peru with 42.1% of total lines.

Generation and distribution utilities and the companies that generate electricity for their own consumption operate the remaining 57% of the transmission lines.

Electricity Distribution

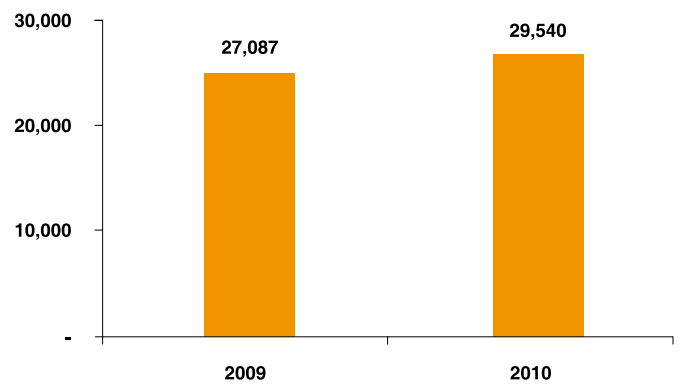
Electricity Sector Coverage (N° clients)



Source: MINEM

Final users in 2010 reached 5.1 million, an increase of 5.5% compared to end users in 2009. The region of Lima alone concentrated 1.8 million users.

Total Electricity Sales (GWh)



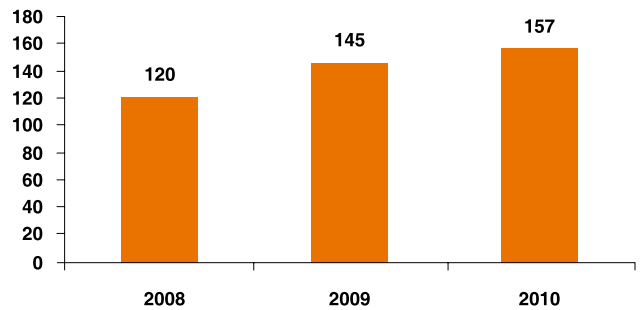
Source: MINEM

Electricity sales in 2010 increased by 9.1%, driven by the economic recovery of the country.

Of total sales, 62% of the electricity was commercialized by distribution companies, whereas the remaining 38% was commercialized directly by generation companies.

Oil Liquid

National Oil Production (thousands of barrels per day)



Source: PERUPETRO

Oil production in 2010 increased by 8.3% compared to 2009 levels. This growth was driven by the increasing production of the Block 1-AB owned by Pluspetrol.

According to MINEM, the domestic consumption in 2010 was around 178 thousands of barrels per day, requiring imports from other Latin American countries such as Ecuador.

Main Oil Producers 2010

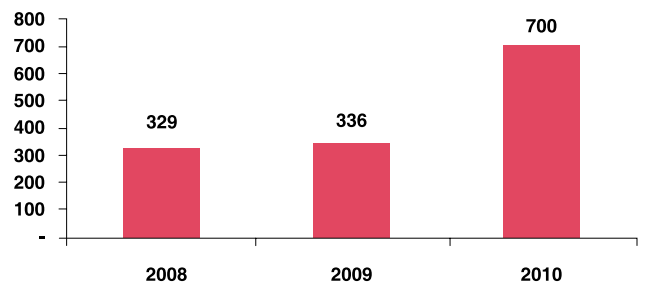
Company Name	Barrels	%
Pluspetrol	11,099,386	41.8%
Petrobras	4,769,056	18.0%
Savia	4,219,453	15.9%
BPZ	1,517,186	5.7%
Olympic Petrol	1,414,606	5.3%
Sapet	1,150,624	4.3%
Others	2,360,950	8.9%
Total	26,531,261	100%

Source: PERUPETRO

As a consequence of the extractive activity of hydrocarbons, the Peruvian State has received S/. 3,936 million for the year 2010. The largest contributor during this period was Pluspetrol with S/. 2,900 million (74%).

Natural Gas

National Natural Gas Production (millions of cubic feet per day)



Source: PERUPETRO

The increase of natural gas production in 2010 corresponds to blocks 88 and 56, both operated by Pluspetrol for the Camisea Project.

The total production in 2010 increased by 108.4% compared to 2009 levels. The increase was driven by the larger requirements of the electricity sector.

Market Share of Main Natural Gas Producers 2010

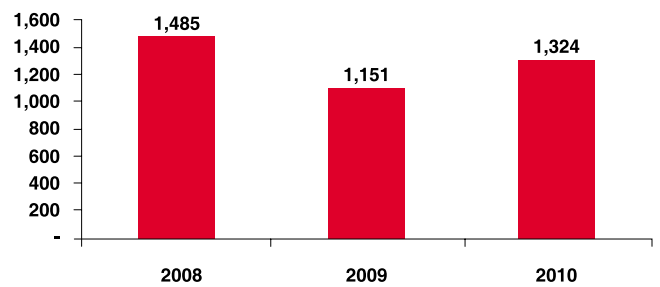
Company Name	%
Pluspetrol	91.7 %
Maple	3.9 %
Petrobras	1.7 %
Savia	1.6 %
Others	1.1 %
Total	100%

Source: PERUPETRO

It is estimated that the country has nearly 12.5 trillion cubic feet of reserves. The reserves of Block 88 have been allocated to local consumption whereas a part of the reserves coming from Block 56 will be for export.

Investments

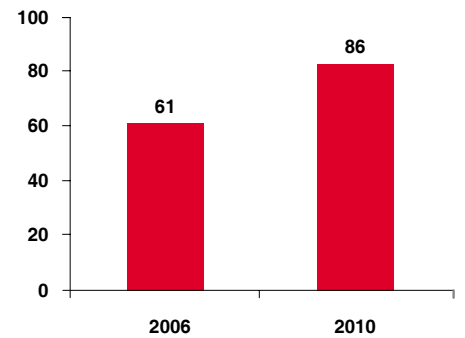
Investments in Hydrocarbons Upstream Sector (Millions of USD)



Source: MINEM

According to the Fraser Institute's Annual Survey, in 2010 Peru ranked 85 out of 133 as Best destinations for hydrocarbon investments. In the last survey released in June 2011, Peru ranked 76. According to the survey, this improvement was mainly due to the introduction of laws that encourage a confident investment climate in the sector.

Number of in force signed contracts in Hydrocarbon Sector

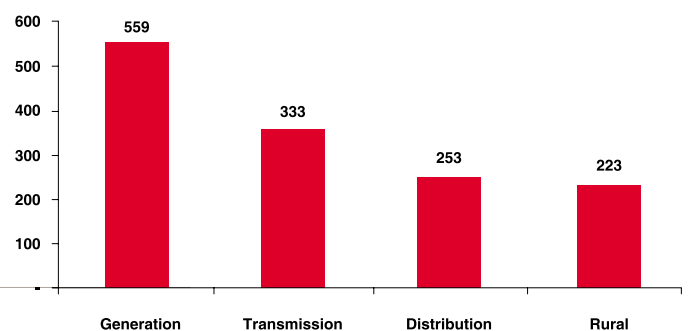


Source: MINEM

In 2010, 14 new oil blocks were awarded. It is estimated that they will require an investment of at least US\$ 700 million in the next years.

Of the total in force contracts, 67 contracts are for exploration and 19 for exploitation.

Investments in Electricity Sector 2010 (Millions of USD)



Source: MINEM

During the period 2006 – 2010, the investments in the electricity sector totaled US\$ 4,516 million, of which 46% went to generation, 16% transmission, 24% distribution and 14% rural.

Perspectives

Electricity

In the next few years, an increase in the power capacity is expected, in line with the demand coming from several mining projects: Quellaveco (110 MW), Antapaccay (90MW), Las Bambas (60 MW), Toromocho (200 MW), Minas Conga (120 MW), among others. To support this new demand, the construction of thermal plants will be executed before 2015.

Renewable energy projects are also being encouraged by the government through tax incentives for the private sector, and investments in this field are also expected.

Hydrocarbons

In the medium term, higher production levels of natural gas are expected as new blocks are being explored in the Amazon region. Moreover, Perenco production and the expansion of the Camisea plant capacity will convert Peru into a net exporter of natural gas by 2013.

Upstream investments in the sector for the period 2011 – 2014 are expected for around US\$7,603 million, with downstream investments programmed for US\$7,461 million in the same period.

Source: MINEM

Real Estate

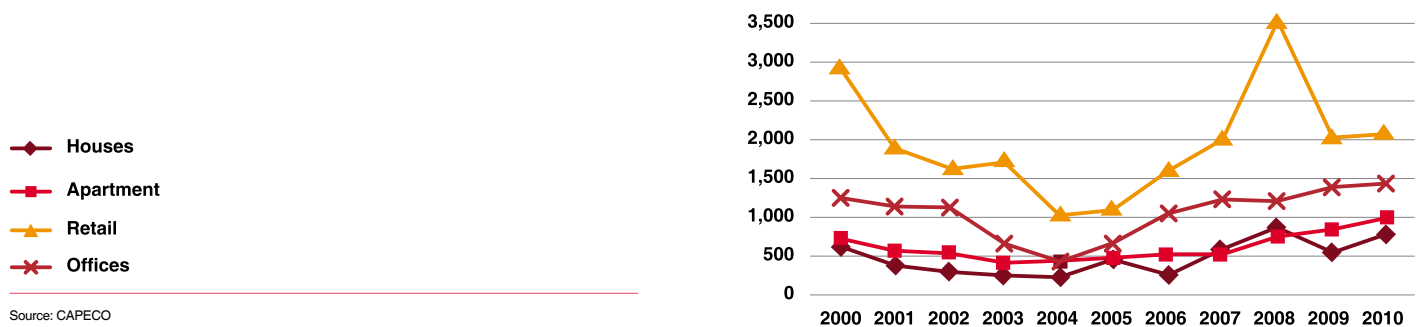
New Construction Activity per type (m2)

Construction Activity	2008	2009	2010
Housing	2,637,608	3,180,358	3,147,935
Retail	99,227	91,658	105,210
Office Buildings	223,822	280,388	146,769
Others	632,653	707,449	819,033
Total	3,593,310	4,259,853	4,218,947

Source: CAPECO (Cámara Peruana de la Construcción)

In 2010, the housing sub-sector (75%) held the largest share in the construction industry followed by others (19%), office buildings (4%) and retail (2%).

Prices per square meter in Lima Metropolitan Area and Callao (USD)



Source: CAPECO

According to the Peruvian Chamber of Construction (CAPECO, the Spanish acronym), the upward trend in prices primarily reflects the ongoing hike in demand, in addition to the increased costs of materials and labor.

Another underlying factor is the shortage of construction land in Lima, which is reflected in the increase of the square meter (m2) of land in the main districts of the city of Lima .

Total Supply per Socio-economic Segment 2010 (Units)

Type	High	Medium - High	Medium	Medium - Low	Low	Total
Houses	96	76	6	994	0	1,172
Apartments	4,281	5,704	2,544	648	16	13,193
Retail	2	14	499	67	0	582
Offices	294	70	114	0	0	478
Others	4,317	3,442	602	25	0	8,361
Total	8,990	9,306	3,765	1,709	16	23,786

Source: CAPECO

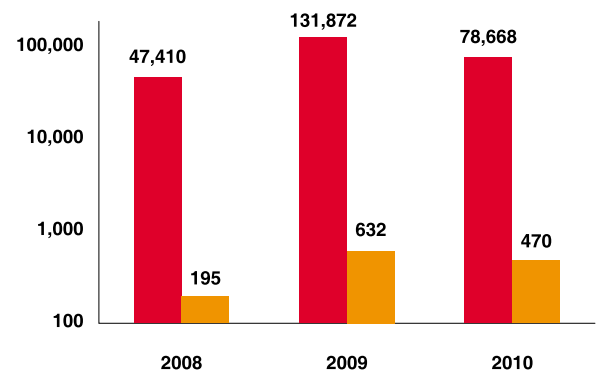
In 2010, most of the new construction supply comprises apartments buildings directed to high and medium-high socio-economic segments (76%), whereas the supply directed to lower socio-economic segments had a 7% share.

Office Buildings

Total Office Buildings Supply

■ m2
■ Units

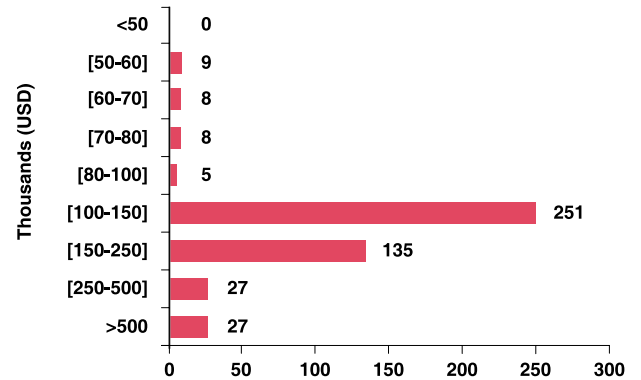
Source: CAPECO



In 2010, the supply of offices declined, with fewer new buildings entering the market. According to Colliers, in 2011, approximately 55,000 m2 will be out in the market, which is less than the rate of supply added in 2010.

On the other hand, the absorption level in 2010 reached its record high of 81,787 m2; exceeding by 62% the accumulated rate of 2009 (50,457 m2.)

Office Supply according to sale price (Units)



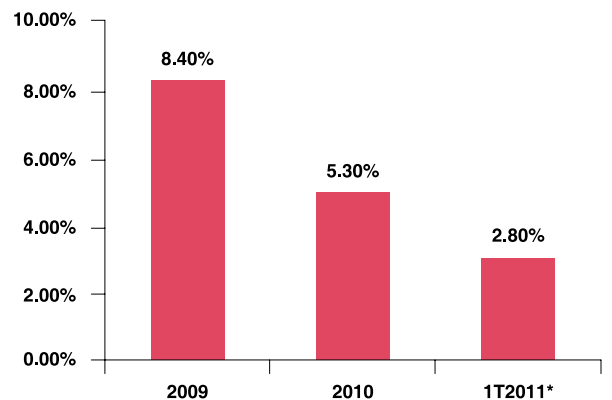
Source: CAPECO

According to Colliers, there is currently no office space for sale, because the trend is to construct buildings and put them up for rent.

In 2010, the prime office rental rates closed at US\$16.5/m², as compared to US\$16/m² in 2009.

A report issued by the BBVA stated that the large demand and delays in entering the market of new office projects caused rental rates of this type of real estate to go up.

Vacancy Rate



*Estimated

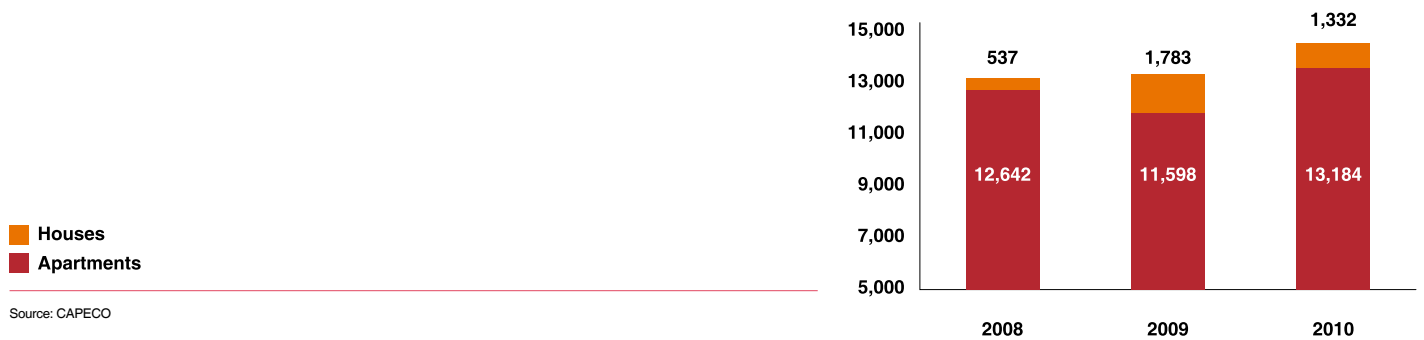
Source: CAPECO

The total inventory of prime office space, at the end of 2010, was 385,064m², distributed in 40 buildings, in 4 sub-markets: Saga San Isidro, San Isidro Golf, Miraflores and the East Zone.

The total vacant space is 20,529m², accounting for 5.3% of the inventory.

Housing

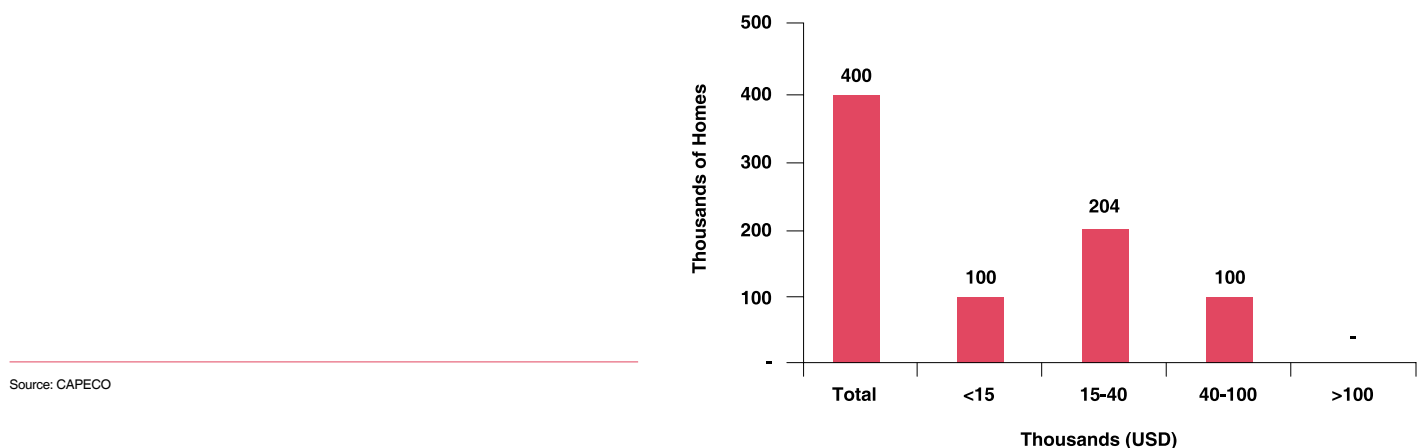
Housing Sales in Lima Metropolitan Area (LMA) and Callao (Units sold)



In 2010 housing sales in the Lima Metropolitan Area and Callao grew by 8.4%, after a slow growth in sales in 2009.

Housing demand is concentrated in the higher socio-economic segments (A, AB and B), accounting for 83% of sales.

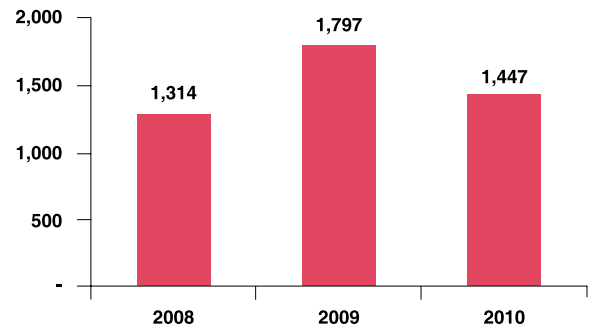
Unmet demand in LMA and Callao by price range (End of 2010)



During the last year, the average price per m2 for houses in Lima increased by 45%, from USD 533/m2 in 2009 to USD 777/m2 in 2010, according to data provided by CAPECO. This increase primarily reflects higher costs and higher unmet demand.

Given the cost structure of construction companies, housing sale prices could increase up to 10% in 2011. Such growth could affect housing prices directed to all socio-economic segments.

Housing Supply (Thousands of m2)



Source: CAPECO

In 2010, the housing inventory available for sale in the LMA and Callao areas remained stable, thus reflecting fewer units entering the market (supply) and initially higher available inventories.

It should be noted that since 2009 supply has been higher than in previous years, partly due to government incentives for the construction sector (such as accelerated property depreciation) and the support provided by state housing programs for low-income families under the government's Economic Stimulus Plan (PEE for its Spanish acronym).

Prime Office Market Summary 2010

Submarket	Stock (m2)	Units	Vacancy Rate	Rental Rate US\$/m2
San Isidro Saga	193,126	15	6.2%	16.49
San Isidro Golf	61,242	10	2.2%	17.35
Miraflores	39,450	4	7.9%	18.17
East	91,247	11	9.9%	14.63
Total	385,064	40	5.3%	16.46

Source: Colliers

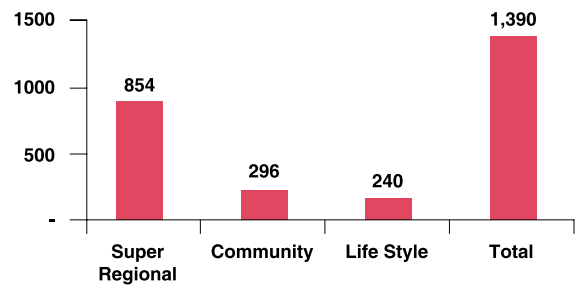
B+ Office Market Summary 2010

Submarket	Stock (m2)	Units	Vacancy Rate	Rental Rate US\$/m2
San Isidro Saga	79,652	11	12%	14.9
San Isidro Golf	68,102	11	1.2%	17.7
Miraflores	10,580	2	0.0%	0.0
East	15,009	2	1.9%	17.0
Total	173,334	26	6.2%	15.2

Source: Colliers

Retail

Shopping Centers in Lima (Stores)

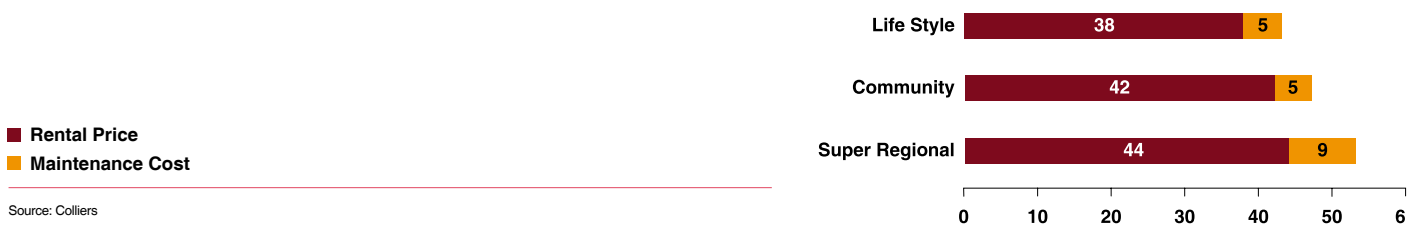


Source: CAPECO

At the end of 2010, a total of 1,390 stores in the commercial centers of Lima were recorded. Said increase is mainly due to the opening of the Jockey Plaza Boulevard.

At the end of Q4-2010, vacancy in the malls totaled 2.9%, an improvement over the rate of 4.8% in Q3-2010.

Rental Price and Maintenance Cost in typical local (USD/m²)



Source: Colliers

By the end of 2010, there was an increase in the average prices of typical rentals of Community shopping centers while there were no changes in the Super Regional and the Lifestyle.

Shopping Centers in Lima 2010

1

2

3

4

5

Super Regional	Power Centers	Regional	Community	Life Style
Jockey Plaza	La Marina Open Plaza	Atocongo Open Plaza	Fashion Mall Caminos del Inca	Larcomar
Plaza San Miguel	Canta Callao Open Plaza	Angamos Open Plaza	Molina Plaza	El Polo
Mega Plaza	Real Plaza Pro		Primavera Park Plaza	
Plaza Lima Sur	Real Plaza Santa Clara		Real Plaza Centro Cívico	
Mall Aventura Plaza				
Plaza Norte				

The Association of Shopping Centers and Entertainment of Peru (ACCEP, the Spanish acronym) estimates that by the end of 2010, shopping malls recorded sales of approximately US\$ 3,500 million, and for 2011, such sales are expected to exceed US\$ 4,000 million.

Terminology

1. Super Regional: Similar in concept to regional malls, but offering extensive variety and assortment.
2. Power Center: Category-dominant anchor stores, including discount department stores, cut - price stores, and wholesale clubs, with only a few small tenants.
3. Regional: General merchandise or fashion oriented offerings. Typically enclosed within inward-facing stores connected by a common walkway. Parking lots surrounding the outer perimeter.
4. Community: General merchandise or convenience - oriented offers. The center is usually configured along a straight line, as a strip, or may be laid out in an L - or U - shape area, depending on the physical site and design.
5. Life Style: Upscale national-chain specialty stores with dining and entertainment in an outdoor setting.

Source: Consejo Internacional de Centros Comerciales

Latest
Events

Latest Events

Investments in construction of new malls by 2011 would amount to US\$ 950 million, which includes ten projects to be built in the Lima area and another 13 in the provinces. Currently, the success obtained in the provinces was of such an extent that out of 39 malls currently operating in Peru, at least 16 (41 %) are located outside the capital area.

The supply of shopping centers in the country has increased in the last quarter of the year with the opening of Plaza Aventura Mall (an investment of approximately US\$ 56 million) and Parque Lambramani (US\$ 6 million) both in the city of Arequipa.

According to Gonzalo Ansola, president of ACCEP, the approach for the following years, in the retail sector, is to make a more aggressive entrance in the provinces.

On the other hand, Peru's Minister of Housing, Construction and Sanitation considers that these areas may attract US\$45bn in investments over the next 10 years. Finally, improved bank lending facilities made available to the private sector have helped the massive surge in construction; particularly in Peru's urban centers, and correcting the country's previous housing deficit.

Source: Colliers, Gestión Newspaper, ACCEP

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