



# ILPA Investor Delegation

Investing in Peru

February 7th, 2012

 **ERNST & YOUNG**  
*Quality In Everything We Do*

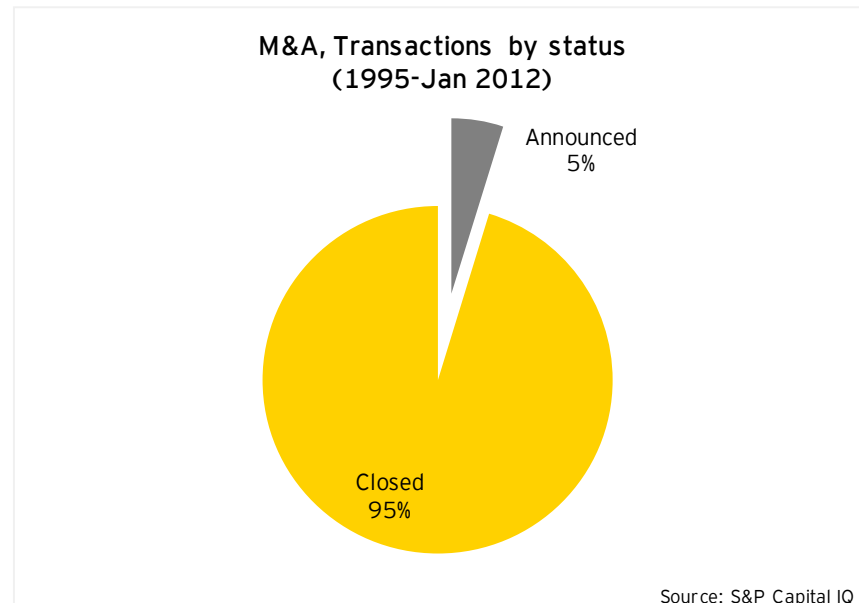
# M&A's - Transactions Summary

(1995 - Jan 2012, including announced and closed deals)

## Transactions Summary

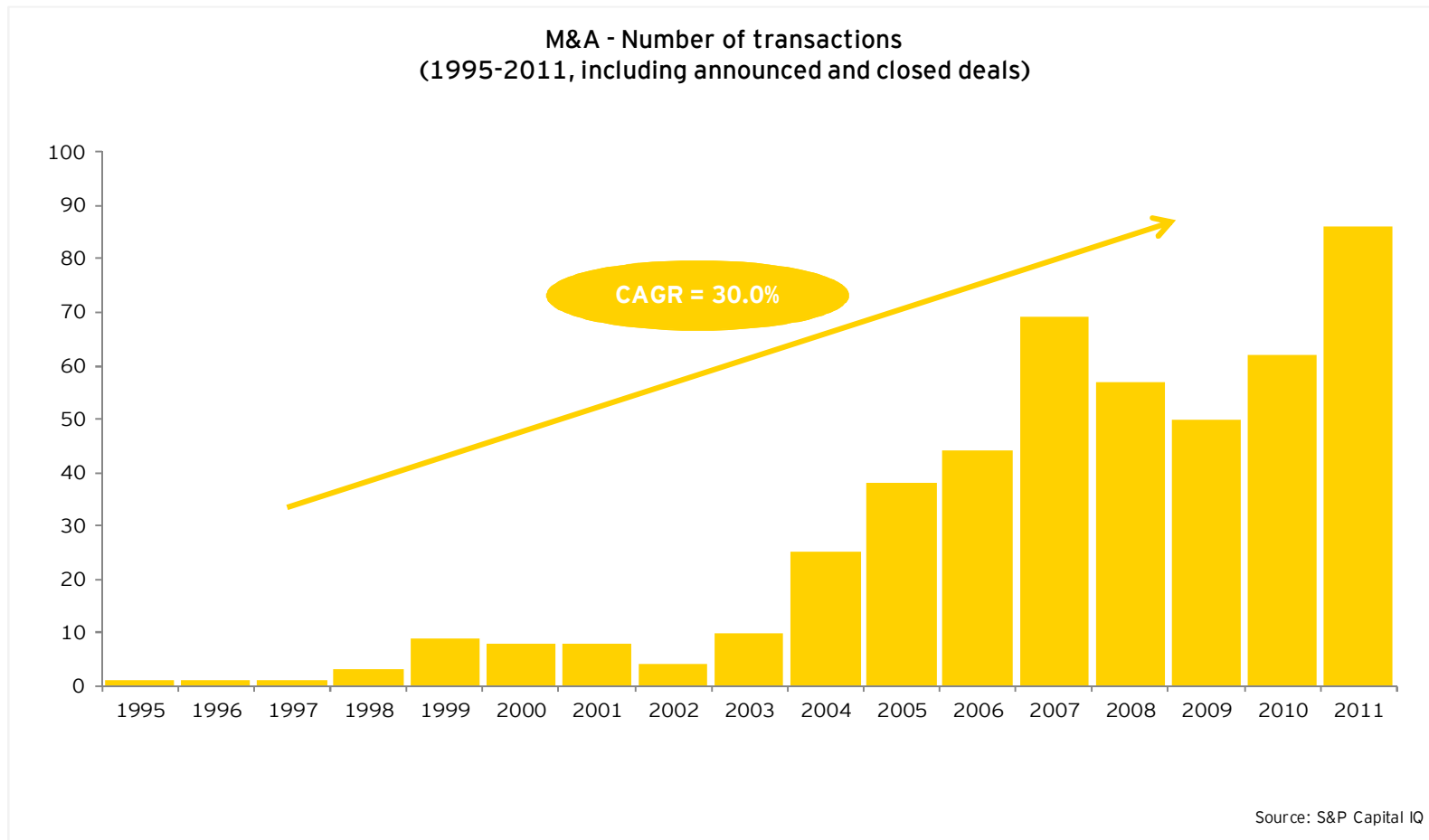
Announced Deals	25
Closed Deals	456
Region	Peru
Total Deal Value (\$mm): 1/	12,724.46
Average Deal Value: 1/	50.29
Period	1995 - Jan 2012

1/ Disclosed deals



# M&A's - Number of transactions

(1995 - 2011, including announced and closed deals)

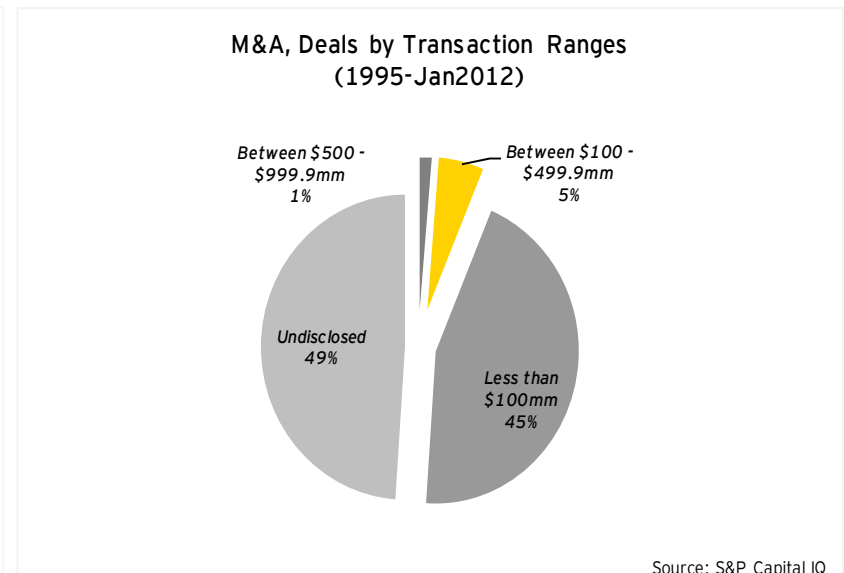
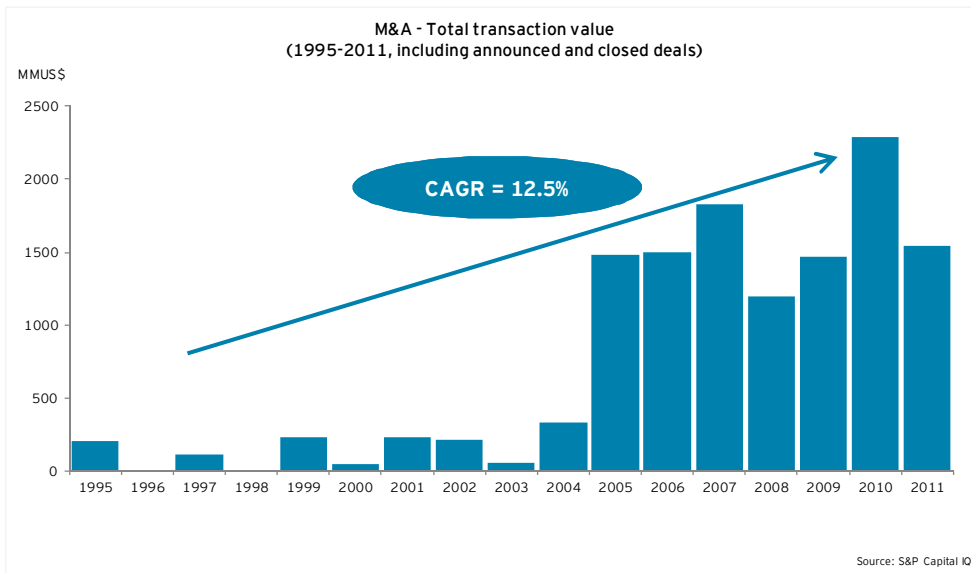


# M&A's - Valuation Summary

(1995 - Jan 2012, including announced and closed deals)

## Valuation Summary

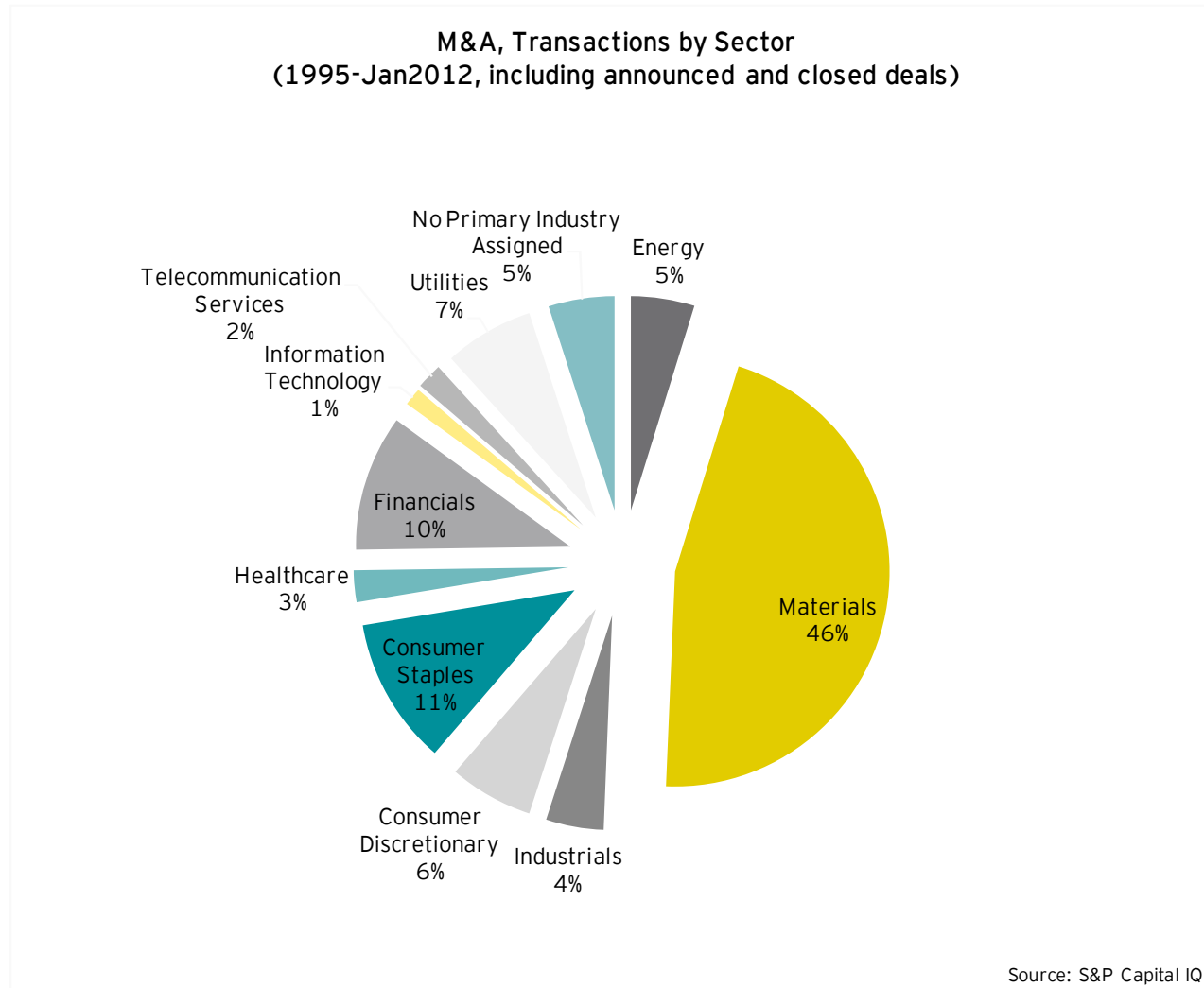
Total Deal Value(\$mm):	12,724.46
Average Deal Value:	50.29
Average TEV/Revenue:	3.07
Average TEV/EBITDA:	8.37



Source: S&P Capital IQ

# M&A's - Transactions by Sector

(1995 - Jan 2012, including announced and closed deals)



# M&A's - Top 20 Deals

## (1995 - Jan 2012, Ranked by Transaction Value)

All Transactions							
Announced Date (Including Bids and					Total Transaction		
Rank	Letters of Intent)	Target/Issuer	Exchange:Ticker	Transaction Status	Historical rate)	Buyers/Investors	Sellers
1	02/05/2009	SAVIA Perú S.A.	-	Closed	900.0	Korea National Oil Corporation; Ecopetrol SA (BVC:ECOPETROL)	Offshore International Group, Inc.
2	05/16/2006	Xstrata Tintaya S.A.	-	Closed	860.0	Xstrata plc (LSE:XTA)	BHP Billiton plc (LSE:BLT)
3	03/31/2010	Bayovar Phosphate Mine Project	-	Closed	660.0	Mitsui & Co. Ltd. (TSE:8031); The Mosaic Company (NYSE:MOS)	Compania Minera Miski Mayo S.A.C.
4	05/27/2007	Inkia Energy Ltd.	-	Closed	542.0	Israel Corporation Ltd. (TASE:ILCO); DSC Limited	Pendekar Ltd.
5	08/10/2005	América Móvil Perú, S.A.C.	-	Closed	502.81	Sercotel, S.A. de C.V.	Tim International N.V.
6	06/30/2010	Compania Minera Milpo SAA (BVL:MILPO1)	BVL:MILPO1	Closed	500.3	Votorantim Metais Ltda.	-
7	10/25/2005	Union de Cervecerías Peruanas Backus y Johnston SAA (BVL:BACKUS1)	BVL:BACKUS1	Closed	468.79	SABMiller plc (LSE:SAB)	Cheswick Comercial SA
8	06/30/2011	Xstrata Tintaya S.A.	-	Closed	418.0	Xstrata plc (LSE:XTA)	-
9	01/04/2005	BankBoston Peru	-	Closed	403.0	Banco de Credito del Peru (BVL:CREDITC1)	Bank of America Corporation (NYSE:BAC)
10	10/22/2010	Volcan Compania Minera S.A.A. (BVL:VOLCAAC1)	BVL:VOLCAAC1	Closed	400.0	-	Trafigura Beheer B.V.

Source: S&P Capital IQ

# M&A's - Top 20 Deals (cont'd)

## (1995 - Jan 2012, Ranked by Transaction Value)

All Transactions							
Announced Date (Including Bids and					Total Transaction		
Rank	Letters of Intent)	Target/Issuer	Exchange:Ticker	Transaction Status	Value (\$USDmm, Historical rate)	Buyers/Investors	Sellers
11	09/17/2007	SN Power Peru SA	-	Closed	389.95	Statkraft Norfund Power Invest AS	PSEG Global L.L.C.
12	03/18/2011	Gold Fields La Cima SA (BVL:LACIMA1)	BVL:LACIMA1	Closed	378.8	Gold Fields Corona (BVI) Limited	-
13	03/03/2011	Sociedad Minera Corona, SA (BVL:MINCORI1)	BVL:MINCORI1	Closed	296.46	Dia Bras Explorations Inc. (TSXV:DIB)	-
14	09/07/2009	Empresa Financiera Edyficar S.A.	-	Closed	273.16	Banco de Credito del Peru (BVL:CREDITC1)	Cooperative for Assistance and Relief Everywhere, Inc.
15	05/13/2008	Scotiabank Perú (BVL:SCOTIAC1)	BVL:SCOTIAC1	Closed	229.98	The Bank Of Nova Scotia (TSX:BNS)	Intesa Sanpaolo S.p.A. (BIT:ISP)
16	07/23/2001	SN Power Peru SA	-	Closed	227.0	PSEG Global L.L.C.	-
17	07/31/1995	La Fabril S.A	-	Closed	209.0	Alicorp SA (BVL:ALICORC1)	Bunge Limited (NYSE:BG)
18	10/24/2008	Pampa de Pongo Iron Property	-	Closed	200.0	Nanjingzhao Group Co., Ltd.	Cardero Peru, S.A.C.
19	10/31/2008	Compania Minera Atacocha SAA (BVL:ATACOAC1)	BVL:ATACOAC1	Closed	144.52	Votorantim Metais Ltda.	-
20	07/24/2006	AFP Union Vida SA	-	Closed	142.11	Prima AFP S.A.	Banco Santander, S.A. (CATS:SAN)

Source: S&P Capital IQ

# M&A's - Most Active Buyers/Investors

## (1995 - Jan 2012, Ranked by Transaction Value)

### Most Active Buyers/Investors by Number of Transactions

Company Name	Number Of Transactions
Vena Resources Inc. (TSX:VEM)	9
Pacifico S.A. Entidad Prestadora de Salud	7
China Fishery Group Limited (SGX:BOZ)	6
Copeinca Asa (OB:COP)	6
Dana Resources (OTCPK:DANR)	6
Duke Energy International, LLC	6
Estrella Gold Corporation (TSXV:EST)	6
Compania de Minas Buenaventura SA (NYSE:BVN)	5
Norsemont Mining, Inc.	5
Telefónica del Perú, S.A.A. (BVL:TELEFBC1)	5

### Most Active Buyers/Investors by Total Transaction Size

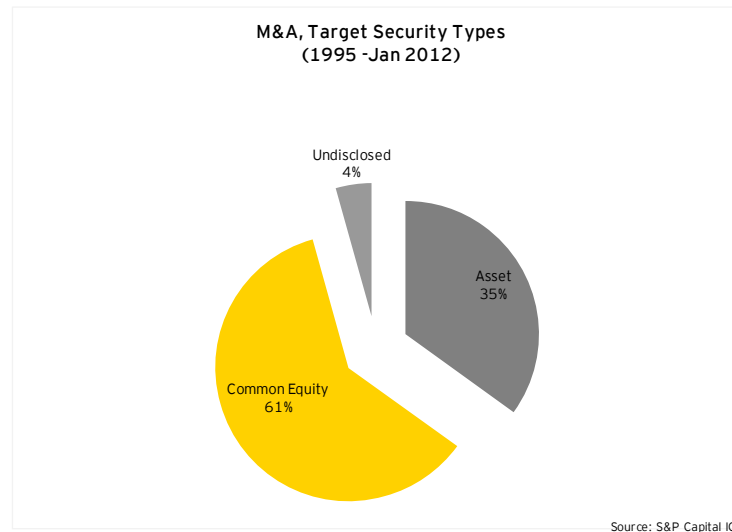
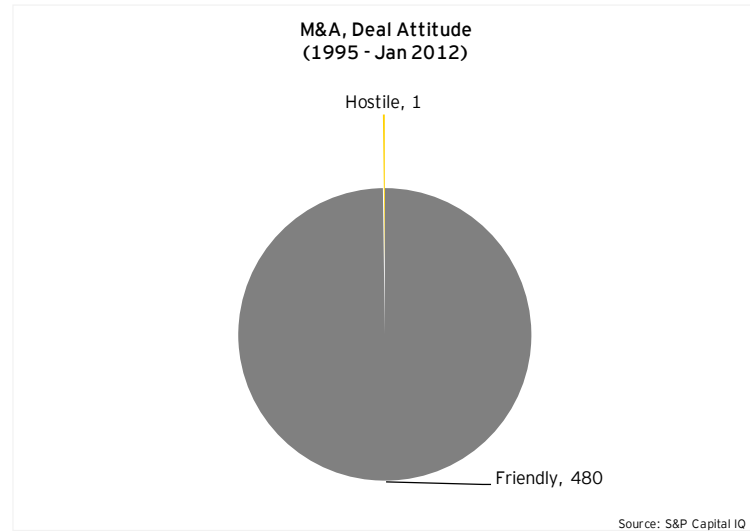
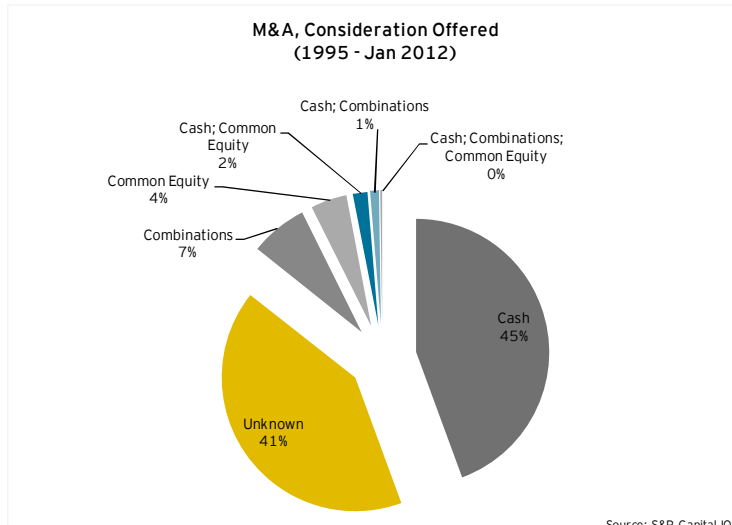
Company Name	Total Transaction Size (\$mm)
Korea National Oil Corporation, Ecopetrol SA (BVC:ECOPETROL)	900.0
Xstrata plc (LSE:XTA)	860.0
Banco de Credito del Peru (BVL:CREDITC1)	726.16
Mitsui & Co. Ltd. (TSE:8031), The Mosaic Company (NYSE:MOS)	660.0
Votorantim Metais Ltda.	644.82
DSC Limited	542.0
Israel Corporation Ltd. (TASE:ILCO)	542.0
Sercotel, S.A. de C.V.	502.81

Source: S&P Capital IQ



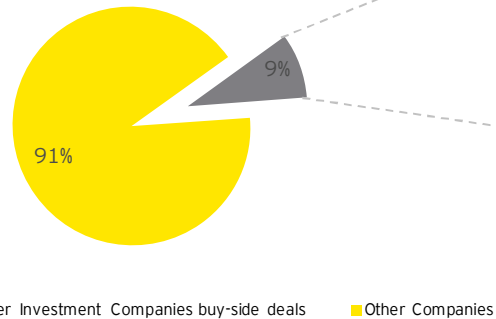
# M&A's - Other Details

(1995 - Jan 2012, including announced and closed deals)



# M&A's - Summary of Investment funds and other investment companies buy-side deals

M&A's: Investment Funds and other investment companies buy-side deals



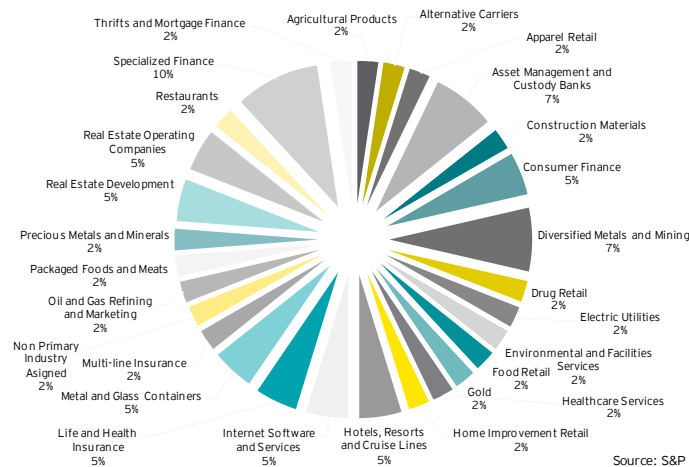
Source: S&P Capital IQ

## Summary

Total Deal Value (\$mm): 1/	552.9
Average Deal Value: 1/	23.04
Period	1995 - Jan 2012
Announced	3
Closed	39

1/ Disclosed deals

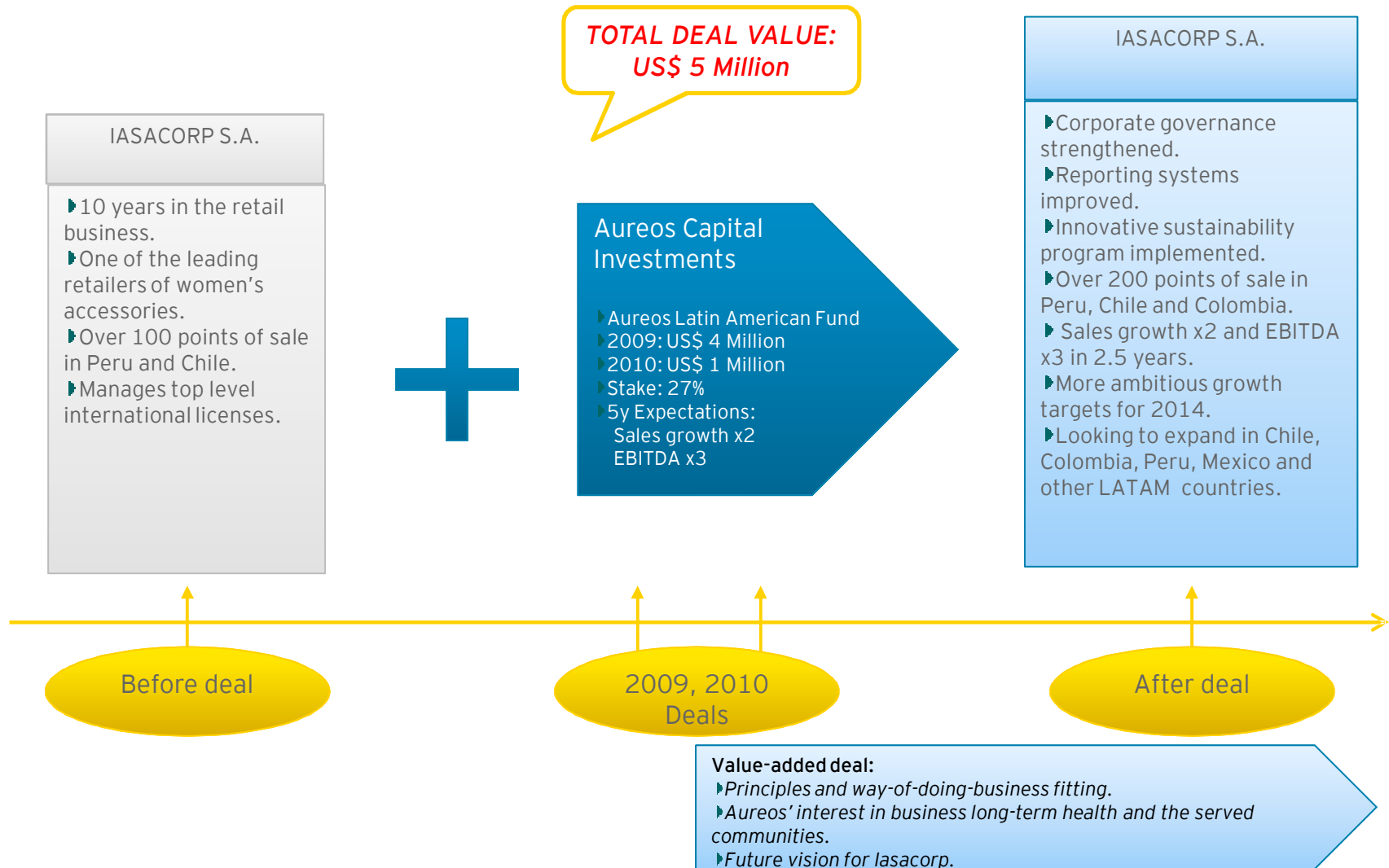
M&A's: Targets' Primary Industry  
Investment funds and other investment firms buy-side deals



Source: S&P Capital IQ

# M&A's - Case Study:

## Aureos Capital minority stake investment on Iasacorp S.A.



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# Insights from previous deals in Peru

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## General Issues

- ▶ Private equity industry is still on a developing phase
  - ▶ About USD 1,000 mm in committed funds
  - ▶ Regional, local and regional-local funds
  - ▶ Local pension funds are the main investors
  - ▶ Not many success stories: few exits
- ▶ Target companies
  - ▶ Family owned, unsophisticated, cultural barriers
  - ▶ Lack of corporate governance
  - ▶ Good management, efficient business models, acquired know-how, high margins
  - ▶ Size can be an issue
- ▶ Sectors to follow
  - ▶ Health care, education, retail, construction and real estate, services, consumer goods and export service companies

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# Insights from previous deals in Peru (cont'd)

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## Financial Due Diligence Observations

- ▶ Timing from initial discussion to transaction close can vary in Peru, but usually requires extended timetables (compared to US or Europe) and face to face meetings to achieve progress towards closing the deal
- ▶ Lack of deal experience by company owners and management (and lack of external advisors assisting the seller) may result in an inefficient sales process
- ▶ Challenges exist as to the quality and adequacy of the accounting/financial information that may result from:
  - ▶ Inappropriate accounting policies and practices
  - ▶ Off book liabilities and contingencies
  - ▶ Separate accounting records for tax and actual operations
  - ▶ Limited use of management reports and other key performance indicators to monitor the existing business
- ▶ In family-owned businesses, lack of detailed financial reports and management analysis, such as revenues by business line or inter-company transactions, make it challenging to perform due diligence
- ▶ Small companies and/or family-owned businesses usually prepare financial information primarily to comply with local tax regulations therefore neither Peruvian nor U.S. GAAP/IFRS are entirely followed

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# Insights from previous deals in Peru (cont'd)

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## Financial Due Diligence Observations

- ▶ Not uncommon to find off-book revenues, expenses, and employees, especially in smaller companies
- ▶ Related party transactions which are typically not at arm's length are prevalent
- ▶ Profit sharing, bank fees and other operating expenses are usually excluded from EBITDA and could present significant adjustments that affect purchase price
- ▶ Realized trading foreign exchange gains / losses excluded from EBITDA
- ▶ Capitalization of expenses, such as start-up costs and pre-operating expenses, may become adjustments to EBITDA due to local accounting treatment
- ▶ Judgmental reserves usually understated
- ▶ Payroll tax, VAT and income tax contingencies are common and significant
- ▶ Unfunded retirement and termination/severance liabilities
- ▶ Unrecorded contingent liabilities are not uncommon and could result in "deal killers"
- ▶ Allocated corporate overhead costs on carve-outs usually not representative of stand-alone costs
- ▶ Limited US GAAP/technical accounting knowledge within management team
- ▶ Due to lack of internal controls and experience of management, the post-close integration may require close monitoring and on-the-ground assistance

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# Insights from previous deals in Peru (cont'd)

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## Tax Due Diligence Observations

- ▶ Inaccurate quantification and assessment of tax exposures and contingencies
- ▶ Transfer pricing is not at “arm’s length” thereby imputing income, disallowing deductions, and imposing penalties
- ▶ Value Added Tax exposures exist that have not been accrued on the Company’s balance sheet
- ▶ Payroll taxes and social security withholdings not properly reported
- ▶ Inappropriate recognition of deferred tax in balance sheet
- ▶ Property taxes may not be remitted to appropriate jurisdictions or not all taxable property may have been included in such renditions
- ▶ The existing structure of the company results in tax inefficiencies after the transaction
- ▶ Tax losses and attributes may be lost / restricted in use following an acquisition
- ▶ On asset deals, company liabilities could follow the assets

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# Contacts

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- ▶ Enrique Oliveros  
Partner  
Tel: + (51 1) 411 4444  
e-mail: [enrique.oliveros@pe.ey.com](mailto:enrique.oliveros@pe.ey.com)
  
- ▶ Marco Antonio Zaldivar  
Partner  
Tel: + (51 1) 411 4444  
e-mail: [marco-antonio.zaldivar@pe.ey.com](mailto:marco-antonio.zaldivar@pe.ey.com)