

# 2013

## Doing Deals in Peru



**ProInversión**

Private Investment Promotion Agency - Peru



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(\*) Prepared on the basis of the economic information available until March 2013.



**Esteban Chong**  
Territory Senior Partner - PwC Perú

## Foreword

During 2012, Peru's GDP growth reached 6.3%, primarily driven by private investment and domestic consumption. These steady and favorable economic conditions continue to support our prospects as an economically strong country with sustained development; despite the slowdown of the U.S. economy, the backward trend of the Eurozone and the lower growth forecasts in major Asian countries.

Peru is currently the fifth largest economy in South America, measured by its GDP based on Purchasing-Power-Parity, according to the International Monetary Fund (IMF); and it is in fourth place of the world's 20 best countries and frontier markets to invest in, according to the Bloomberg Markets magazine. The position reached by Peru primarily reflects its economic model adopted in the 1990s, which is based on the market economy, the subsidiary role of the Government, the free initiative of private investment, macroeconomic stability, trade liberalization, the promotion of local and foreign investment, the encouragement of free competition, legal stability and social inclusion.

The IMF also has very auspicious projections for Peru in the next two years. It estimates that the country will be the second fastest growing economy in South America in 2013 with a rate of 6.3% and the first in 2014 with a rate of 6.1%. In the meantime, Peru's Central Reserve Bank (BCRP) forecasts for the same period that the economy will grow at levels close to its potential, with a growth rate of 5.4 for 2013 and 6.2 for 2014.

Added to these favorable conditions for investment, are the free trade agreements signed by Peru in recent years to open up new markets as well as the efforts of the public- and private - sector to promote foreign investment in Peru. It should also be noted that the results of the latest PwC CEO Survey, according to major executives in Latin America, Peru together with Colombia are the preferred destinations for foreign investors, before any other country of the region.

Undoubtedly, the current good economic performance should be used to lay the foundations for long-term development and growth. For this purpose, significant investments in education are essential as well as investments in technological innovation and development; implementation of major infrastructure construction projects; improvements in energy supply as a way to generate the conditions required for social development as well.

This is the sixth consecutive year in which PwC has published Doing Deals in Peru with the latest and most reliable information on the major macroeconomic, tax, corporate, labor, financial, social, and industrial matters. We are confident that the contents of this publication will be a very useful tool to help you in your decision-making process to begin doing business in our country.

Our 89 years of experience providing business advisory services in Peru is always at your service to assist your organization to accomplish its business objectives.



**Javier Illescas**

Executive Director - ProInversión

In the last two decades, Peru has implemented a responsible and solid economic policy becoming a rapidly expanding economy that offers a wide variety of investment opportunities.

The country has emerged as the best performing economy in Latin America, showing the highest growth rate (6.4%) and the lowest inflation (2.8%) in the last decade. Economic growth allowed for sustained poverty reduction which decreased from 57.8% in 2004 to 25.8% in 2012, employment generation and growth of the middle class. Per capita income grew more than 50% over the last decade, reaching a level higher than US\$ 10,700 (IMF). This is compounded by the reduction of debt, which was 19.8% of GDP in 2012, and the accumulation of international reserves to a level of 32.1% of GDP. For these reasons, the major credit-rating agencies (Standard & Poor's, Fitch and Moody's) have awarded investment grade ratings to Peru's sovereign debt.

The country has reduced its vulnerability to external crisis and has demonstrated it can maintain stable growth despite the decline in international prices of raw materials, its main export product. Projections indicate that in the following years output will grow by around 6.0%, above the pace of expansion of Latin American countries.

Thus, Peru has established itself as an attractive investment destination, with the prospect of becoming an efficient business platform thanks to its central location on the west coast of South America and its booming investment in infrastructure, in progress and to be developed, which will consolidate the country as an efficient link between the markets of South America (particularly Brazil), Asia and the United States.

We are a country with large investment opportunities based on the diversity of natural resources, offering preferential access to a market of more than 4,000 million people through its network of trade agreements and welcoming foreign investment through a friendly, stable and predictable legal framework, which does not discriminate between domestic and foreign investors.

PROINVERSIÓN, Private Investment Promotion Agency in Peru, looks forward to providing the information and guidance you need to develop your investment plans in Peru.

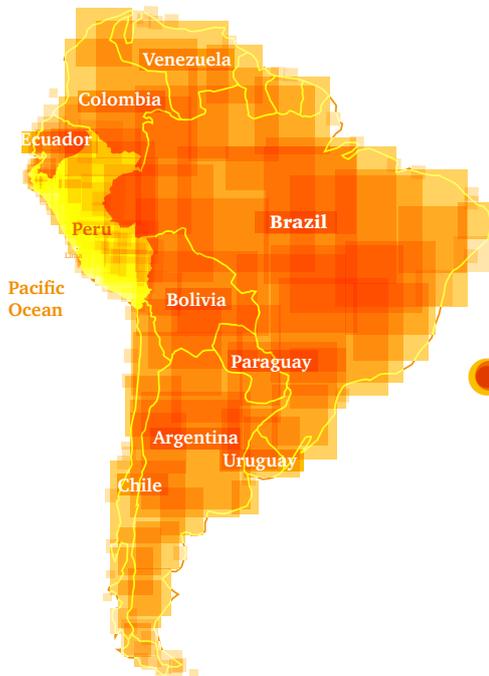


# General Information



# 1.1

# Geographical location



## ● Geography

Influenced by the Andes Mountains and two marine currents, the Peruvian or Humboldt and “El Niño”, Peru is one of the planet’s richest geographical environments. It is one of the 17 most bio diverse countries in the world, as a result of its varied ecosystems, climates, wildlife, genetic resources and living ancient cultures.

Peru is located in the central and western part of South America, its territory includes the 200 miles of territorial waters in the Pacific Ocean and it is the third largest country in South America after Brazil and Argentina.

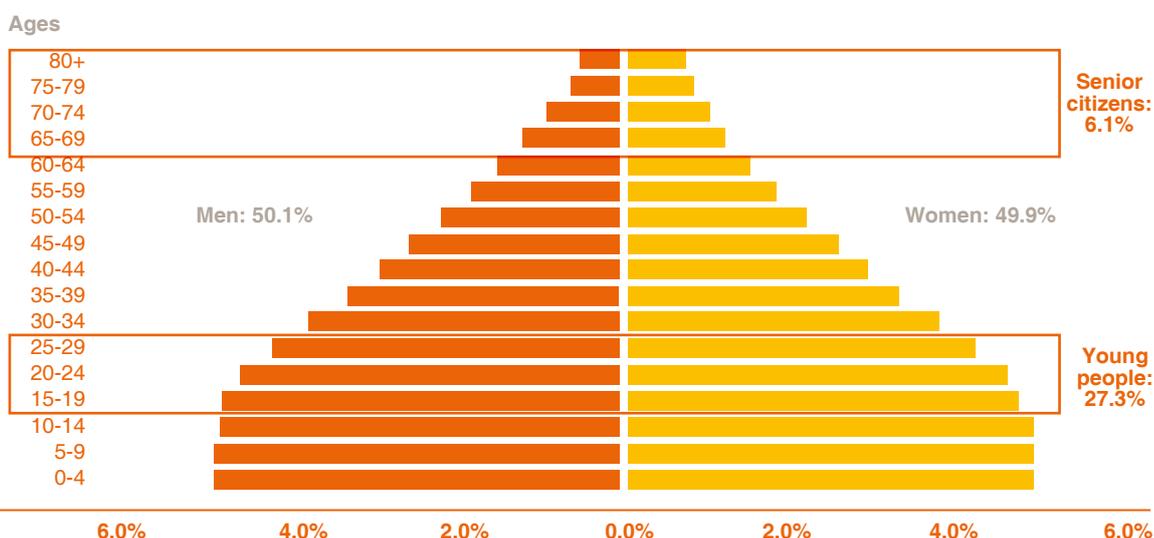
Area	Continental: 1’285,215.6 km <sup>2</sup> . Sea of Grau: 1’140,646.8 km <sup>2</sup> .
Borders	North: Pacific Ocean (Sea of Ecuador), Republic of Ecuador and Republic of Colombia. East: Federative Republic of Brazil and Republic of Bolivia. South: Republic of Chile and Pacific Ocean (Sea of Chile). West: Pacific Ocean.
Political-administrative division	24 departments. 195 provinces, including the Constitutional Province of Callao. 1,848 districts.
Capital	Lima. The historical capital is the city of Cusco.
Natural regions	<b>Coast:</b> Comprises 11.7% of the total area. Consists of a variety of landscapes such as valleys, river deserts, the dry forest of the Northern coastal desert, the mangrove and hillside ecosystems. <b>Highlands:</b> This consists of the Andes Mountain Range. It covers 28.4% of the national territory. The Andean landscape has a heterogeneous configuration with prominent peaks, deep gorges, narrow interandean vallies and ample plateaus. <b>Jungle:</b> Covers 59.9% of the national territory and is divided into two areas, the High Forest or Mountain Fringe and the Lowland Forest or Amazonian Plain. The first is characterized by the presence of steep and wooded hills, and deep ravines; the second is covered with exuberant tropical vegetation and large river systems which form part of the Amazon River Basin. <b>Territorial waters:</b> Correspond to the sea adjacent to the Coast, as well as the sea bed and soil up to a distance of 200 nautical miles.
Biodiversity	Peru is the fourth country in area of tropical forests, the first in the number of plant species of recognized properties and first in domesticated native species. It is also first in varieties of fish, third in amphibians and third in mammals. It has 84 of the planet’s 104 life zones, 18.5% of the world’s bird species, 9.0% of the animal species, 7.8% of the cultivable plants and 10% of the planet’s flora species. The following have been identified: 515 species of mammals, 1,816 species of birds, 418 species of reptiles, 449 species of amphibians, 1,300 species of continental fish and 1,070 species of marine fish; as well as 25,000 species of plants.
Climate	Peru has 28 of the 32 types of the world’s climates.

Source: INEI, MINAM, CPP. Website of the Peruvian Government.

# 1.2 Population

Peru has the fifth largest population in Latin America, after Brazil, Mexico, Colombia and Argentina. The population at June 30th, 2012, is estimated at 30,135,875 people, which signifies an average annual growth of 1.13%. Three quarters of the population lives in urban areas and one quarter in rural areas. By 2021, the Bicentennial Year of Independence, the population is projected to exceed 33 million and by 2050 it will reach 40,111,000 people.

## Peru: Population pyramid 2012 (30 '135,875 inhabitants)



Density	23.4 inhabitants/km <sup>2</sup> 265 inhabitants/km <sup>2</sup> in Lima.
Places with largest population	<b>Departments:</b> Lima (31.2%), Piura (6.0%), La Libertad (5.9%), Cajamarca (5.0%) and Puno (4.6%). <b>Provinces:</b> Lima (Lima), Constitutional Province of Callao, Arequipa (Arequipa), Trujillo (La Libertad) and Chiclayo (Lambayeque). <b>Districts:</b> 42.2% of the population lives in districts with more than 100,000 inhabitants and there are districts which exceed the threshold of 400 thousand, most of them in Lima.
Age	The average age of the population is 25.2 years.
Life expectancy	74 years.
Birth rate	19.4 births per 1,000 inhabitants.
Death rate	6 deaths per 1,000 inhabitants.
Official language	The official languages are Spanish and, in the areas where they are predominant, also Quechua, Aymara and other native languages, as established by law.
Poverty level	25.8% of the population.
Middle class	28.9% of the population. Furthermore, local studies of lifestyles estimate that the middle class is 60% of the Peruvian population.

Source: INEI, BM, PRF. Arellano, R., There Is Room in the Middle: Social Growth According to Lifestyles, First Edition, Planeta, Lima, 2010.

# 1.3 Government Organization

Peru is a Presidential Republic with democratic representation and a multi-party system. Its government is based on the separation of powers and it is organized on three levels. In this way, the structure of the State is composed of the Executive Power, the Legislative Power and the Judiciary, as well as seventeen constitutionally autonomous organisms, regional governments and local governments. Furthermore, the fundamental basis of the State legal order is the Political Constitution, which prevails over all legal norms.

EXECUTIVE POWER	
President of the Republic	The President is the Head of State and of the government, his mandate is for 5 years and immediate reelection is not permitted. Ollanta Humala Tasso is the Constitutional President of the Republic until July 28th, 2016.
Council of Ministers	This is composed of the President of the Council of Ministers and the ministers, appointed and removed by the President of the Republic. Currently Peru has 18 ministers.
Laws issued	Legislative Decrees, Emergency Decrees, Supreme Decrees, Supreme Resolutions, Ministerial Resolutions, Viceministerial Resolutions, Directorial Resolutions and Resolutions of Public Organisms.
LEGISLATIVE POWER	
Congress	Represents the Legislative Power, is unicameral and has 130 congressmen, elected for a 5 year period. The mandate of the current Parliament expires in July 2016.
Laws issued	Laws and resolutions.
JUDICIARY	
Jurisdictional organs	They constitute the Judiciary and have the exclusive power to administer justice. These organs are the Supreme Court, the Superior Courts, Justices of the Peace and the Specialized Mixed Courts.
Organs of government and administration	These consist of the President of the Supreme Court, who is also President and most senior representative of the Judiciary, the Plenary Chamber of the Supreme Court, the Executive Council, General Management and the District Executive Council.
CONSTITUTIONALLY AUTONOMOUS ORGANISMS	
They are public law entities with economic, functional, technical and financial autonomy; governed by their organic laws and carry out specialized functions of the State. They include, among others, the Superintendence of Banking, Insurance and Pension Fund Administrators (SBS); the Central Reserve Bank of Peru (BCRP); the Constitutional Tribunal (TC); National Election Administrative Body (JNE) and the National Comptroller's Office.	
REGIONAL GOVERNMENTS	
Currently there are 26 Regional Governments, made up of the 24 departments, the Constitutional Province of Callao and the Metropolitan Municipality of Lima. Their representatives are elected by popular vote for four years. The mandate of the current presidents expires in 2014. Immediate reelection is permitted.	
LOCAL GOVERNMENTS	
They conduct the public administration in each of the provinces, districts and villages of Peru, through the municipalities. Their representatives are elected by popular vote for four years. The mandate of the current mayors expires in 2014. Immediate reelection is permitted.	

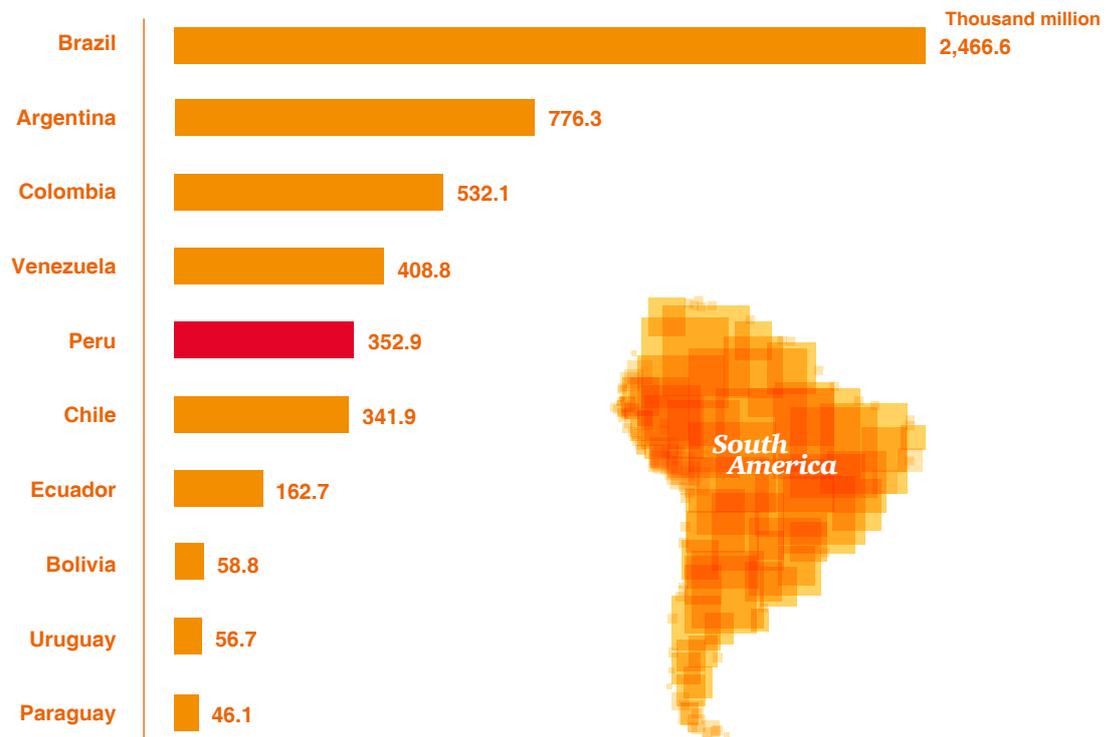
Source: CPP.

# 1.4 Economy

The economy of Peru is a success story, recognized by international organizations such as the International Monetary Fund (IMF) and in the various economic forums. Peru is currently the fifth largest economy in South America, measured by its Gross Domestic Product (GDP) based on Purchasing-Power-Parity (PPP), according to the IMF; and it is in fourth place of the 20 best countries and frontier markets of the world to invest in, according to Bloomberg Market 's Magazine. The data comes from Bloomberg's own financial-market statistics, IMF forecasts and the World Bank. The countries were also rated on areas of particular interest to foreign investors: the ease of doing business, the perceived level of corruption and economic freedom.

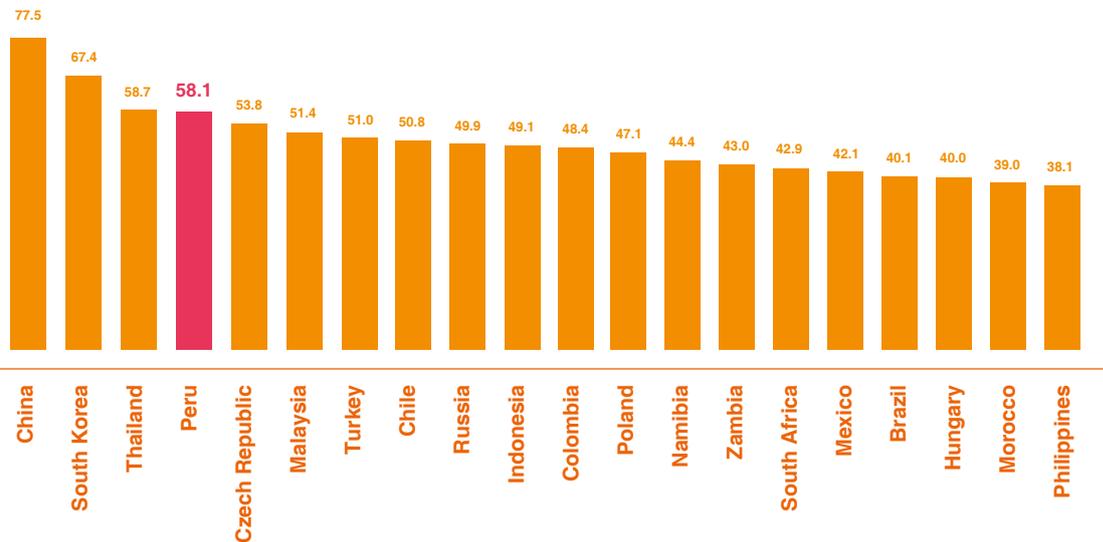
The position reached by Peru responds to its solid macroeconomic performance in the last decade and to its economic model adopted in the 1990s. This model is based on the market economy, the subsidiary role of the State, the free initiative of private investments, macroeconomic stability, trade liberalization, the promotion of local and foreign investment, the encouragement of free competition, legal stability and social inclusion. Foreign investment promotion policy is based on the principle of national treatment.

## South America: GDP 2013\* based on Purchasing-Power-Parity (PPP) Current international dollar



Source: IMF.  
(\* Estimate IMF . World Economic Outlook Database, April 2013.

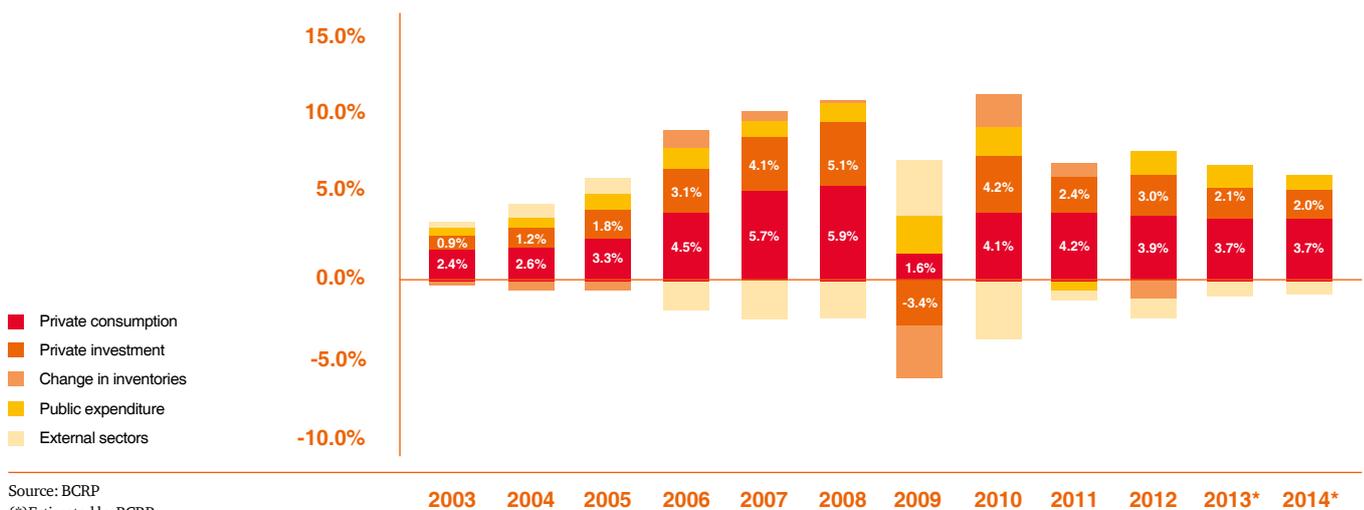
## Bloomberg Markets: The Top 20 Emerging Markets, 2013 (Score)



Source: Bloomberg Markets, Emerging Markets, Special Report 2013

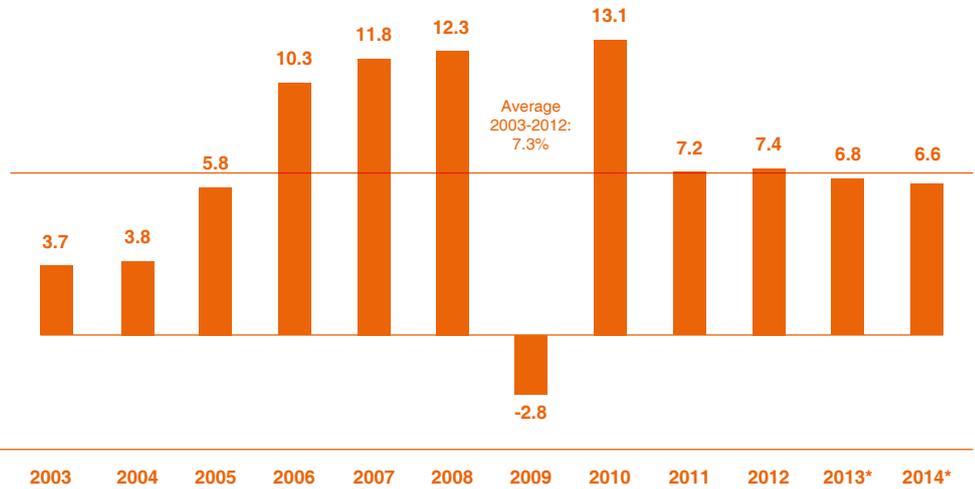
The GDP growth of Peru has been supported by the dynamism of domestic demand, the result of the good performance of private consumption –explained by the increased spending by families on goods and services-, as well as by the consumption spending of the government and the sustained growth in investment; and the increase in exports. These factors have enabled the current growth of the Peruvian economy to stabilize at its long term sustainable level.

## Peru: Contributions to annual growth rate in GDP 2003 - 2012



Source: BCRP  
(\*) Estimated by BCRP.

### Peru: Gross domestic demand 2003 - 2012 (Annual growth rates)



Source: BCRP  
(\*) Inflation report March 2013

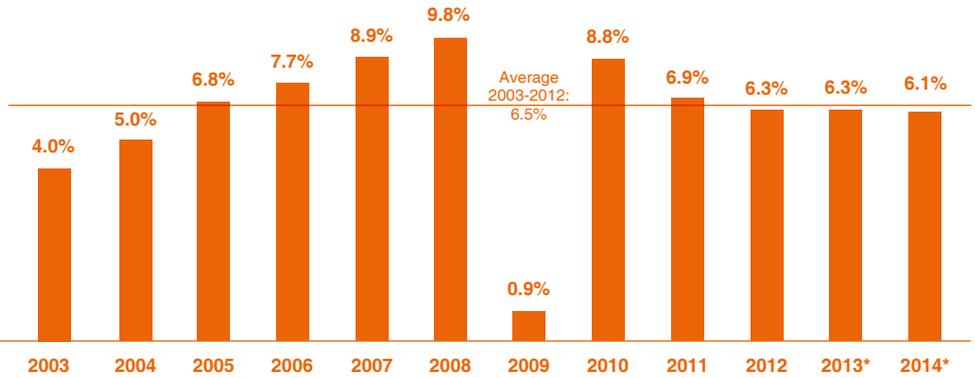
The IMF has very auspicious projections for Peru in the next two years. It estimates that the country will be the second fastest growing economy in South America in 2013 with a rate of 6.3% and the first in 2014 with a rate of 6.1%, according to its report: Perspectives of the Global Economy, April 2013. In the meantime, the BCRP forecasts for the same period, that the economy will grow at levels close to its potential, with a growth rate of 6.3% both for 2013 as well as for 2014.

### South America: Real GDP (Annual percentage change)

	2013	2014
<b>South America</b>	<b>3.4</b>	<b>4.1</b>
Paraguay	11.0	4.6
<b>Peru</b>	<b>6.3</b>	<b>6.1</b>
Chile	4.9	4.6
Bolivia	4.8	5.0
Ecuador	4.4	3.9
Colombia	4.1	4.5
Uruguay	3.8	4.0
Brazil	3.0	4.0
Argentina*	2.8	3.5
Venezuela	0.1	2.3

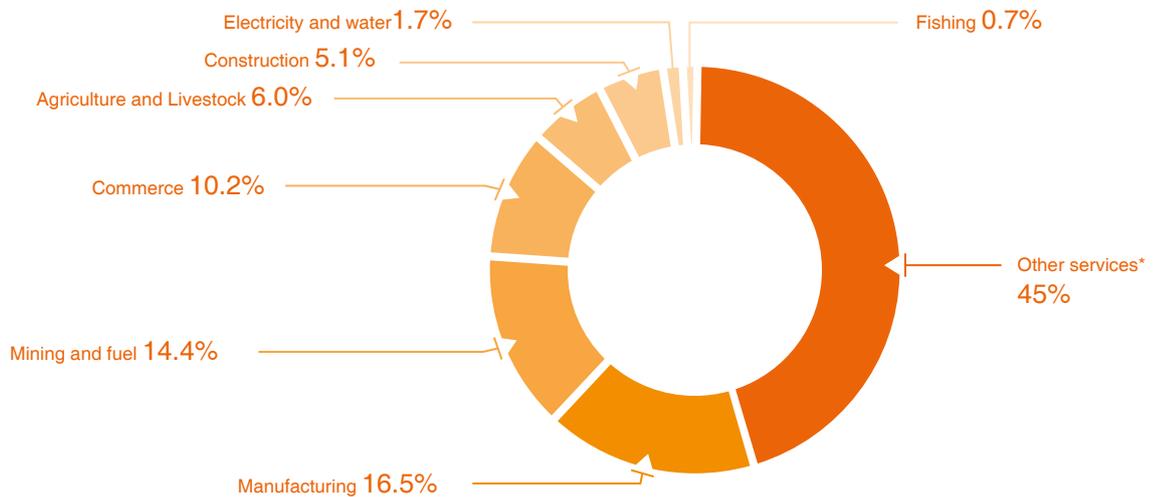
Source: IMF, World Economic Outlook, April 2013  
(\*) The data for Argentina are officially reported data. The IMF has, however, issued a declaration of censure and called on Argentina to adopt remedial measures to address the quality of the official GDP and CPI-GBA data.

### Peru: GDP annual growth 2003 - 2012



Source: BCRP and IMF  
 (\*) IMF, World Economic Outlook, April 2013.

### Peru: GDP structure by economic sectors (Base year 2007)



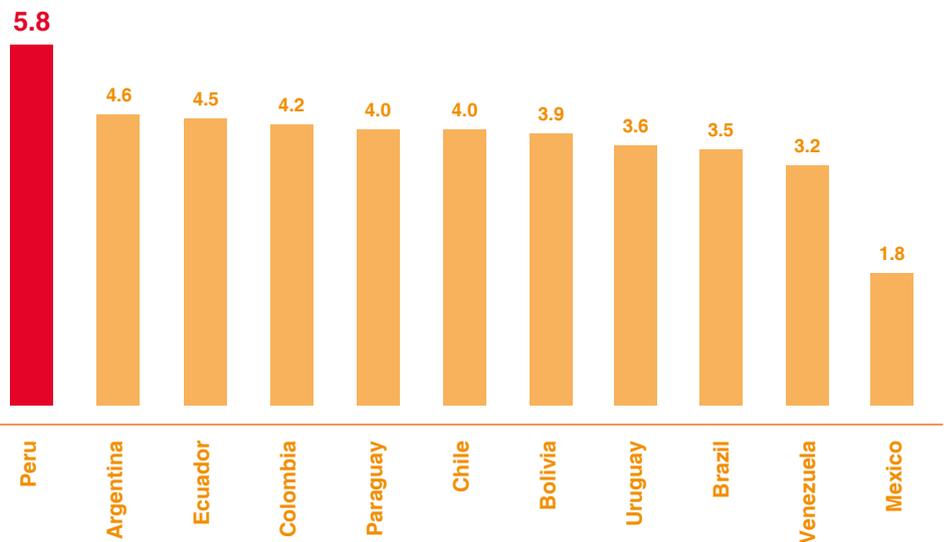
Source: INEI and IEDEP-CCL  
 (\*) Including import duties and other taxes on products.

The IMF also projects that Peru will be the fourth largest economy of South America in 2018, with a GDP based on PPP estimated at 524.1 billion dollars, greater than Venezuela's estimated at 510.2 billion dollars.

## 1.4.1 Economy with the highest growth and lowest inflation

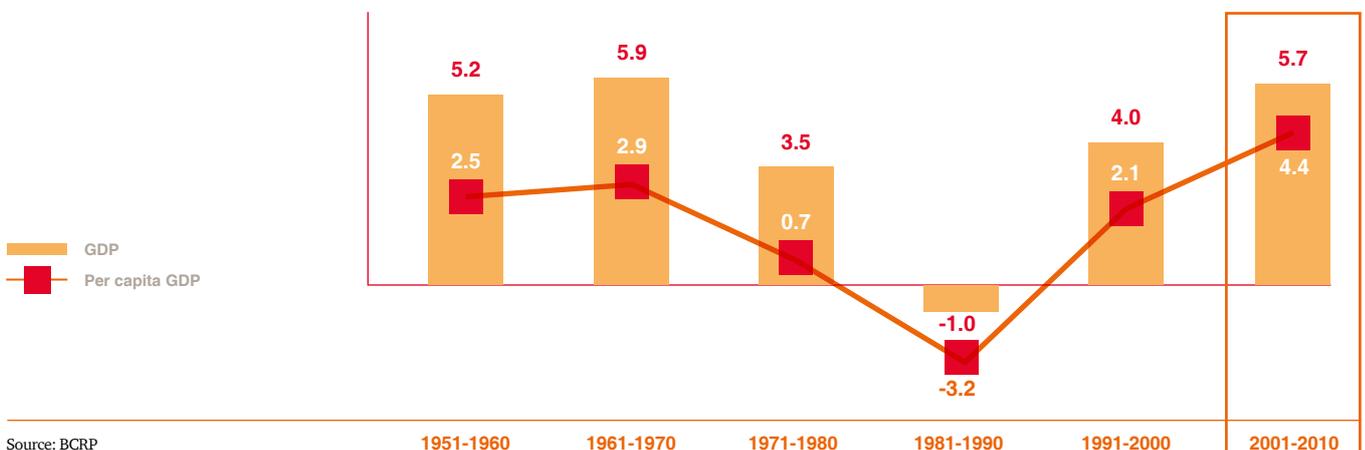
Peru is the economy with the highest growth and lowest inflation of the region in the last decade. During this period, Peru has had the highest GDP per capita of the last 60 years and the lowest average inflation of the last 70 years.

### Latin America: GDP Average Growth 2001-2011 (Percentage change)



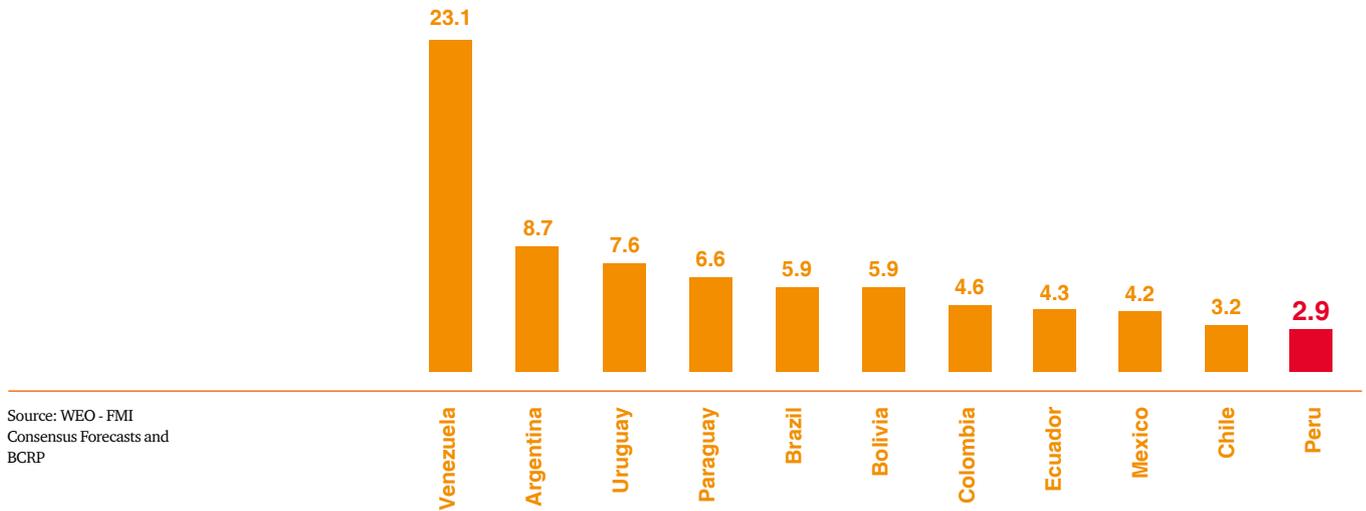
Source: WEO-FMI  
Consensus Forecasts and  
BCRP

### Peru: GDP vs. Per capita GDP 1951-2010 (Average Percentage change)

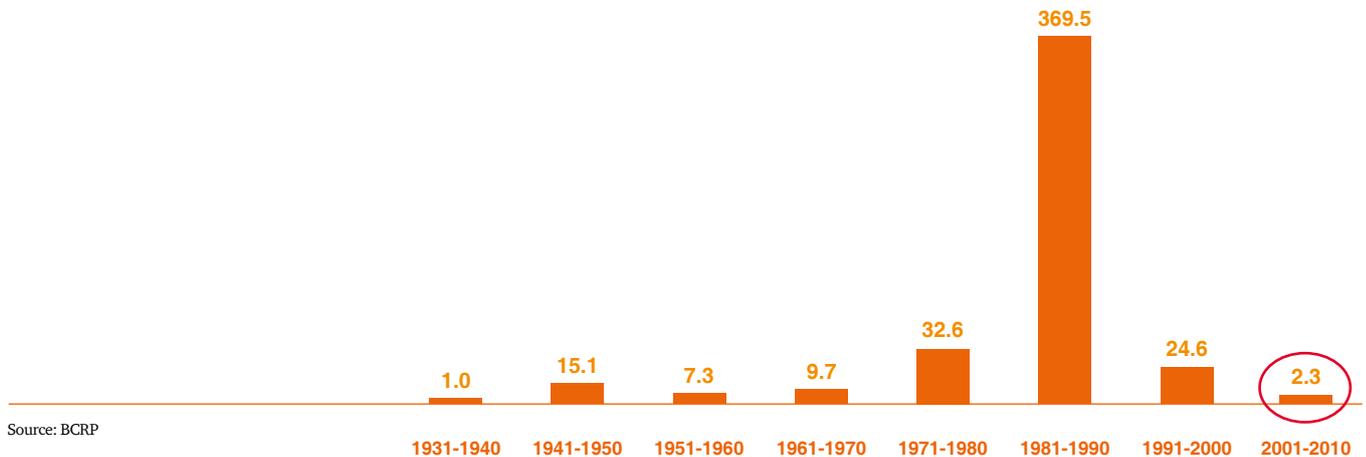


Source: BCRP

### Latin America: Inflation Average 2001 - 2012 (Percentage change)



### Peru: Inflation 1931-2010 (Percentage change)



The low inflation level achieved by Peru has enabled it to generate the conditions to promote investment, economic growth, the development of important sectors such as the financial sector and maintain the inflation expectations of the economic agents anchored. This achievement has also had implications for the improvement in the living standards of the population, given that the continuous increase in prices is a prejudicial factor for the poorest sector.

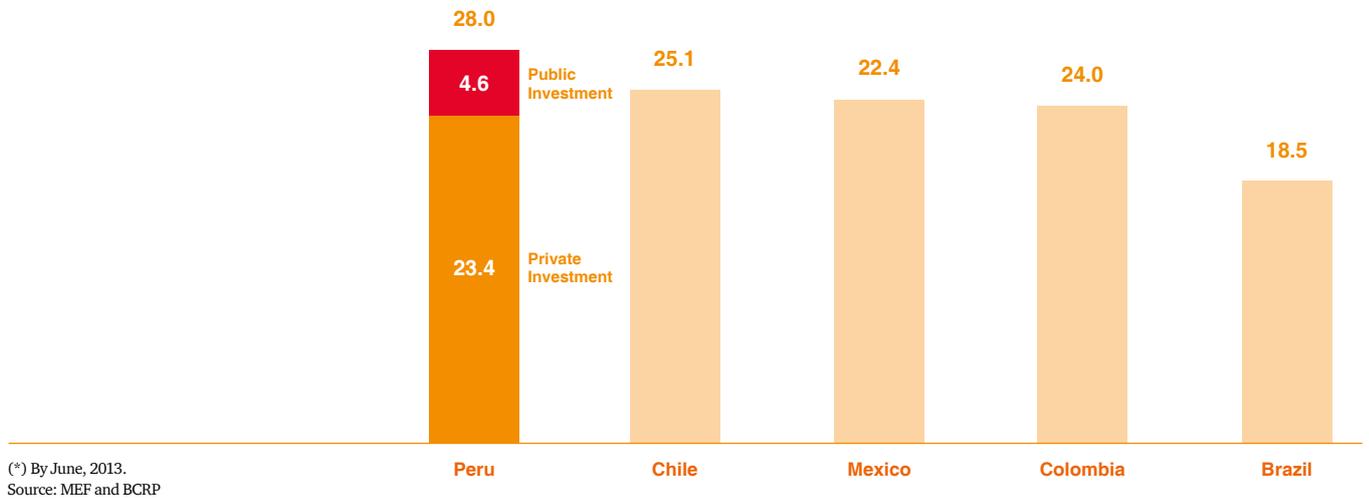
The BCRP expects that for 2013 and 2014, inflation will remain within the target range (1% to 3%) and it will converge on the average point of 2% in a range between 1.5% to 2.5%, according to its Inflation Report of March 2013.

## 1.4.2 Record investment

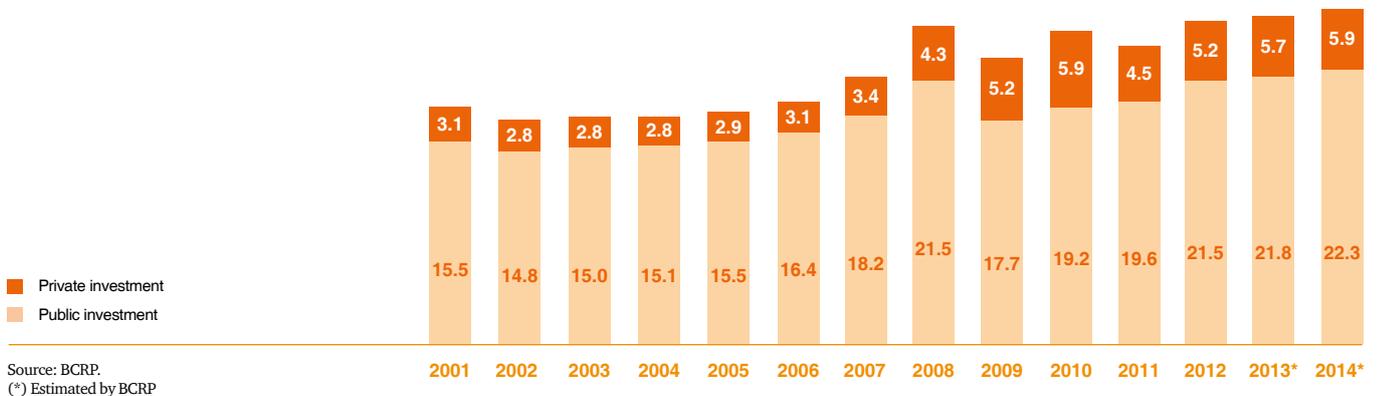
The growth of the Peruvian economy in the last decade has been possible due to the high and growing flow of investment and gain in productivity. Mining and hydrocarbon projects were the key to exploiting the favorable scenario of metal prices, reducing the cost of energy and the investment in infrastructure permitted the improved electrical connectivity and coverage in the entire country. These large investments were accompanied by many others in agroindustry, services, etc.

Added to this was the contribution of the total productivity of the factors of production, in the last decade the highest of the last 60 years.

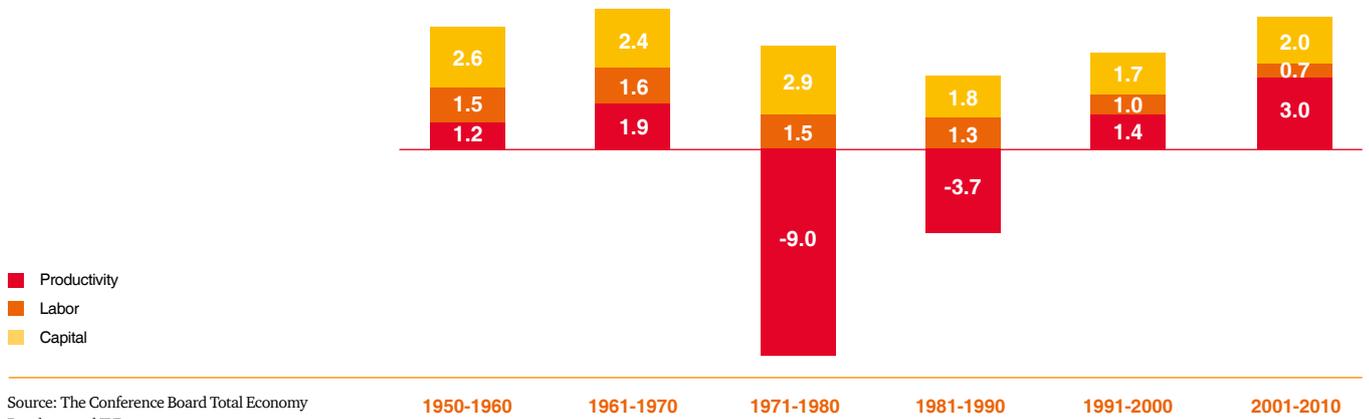
### Gross Domestic Investment: 2013\* (% of GDP)



### Peru: Gross Domestic Investment 2001 - 2012 (% of GDP)

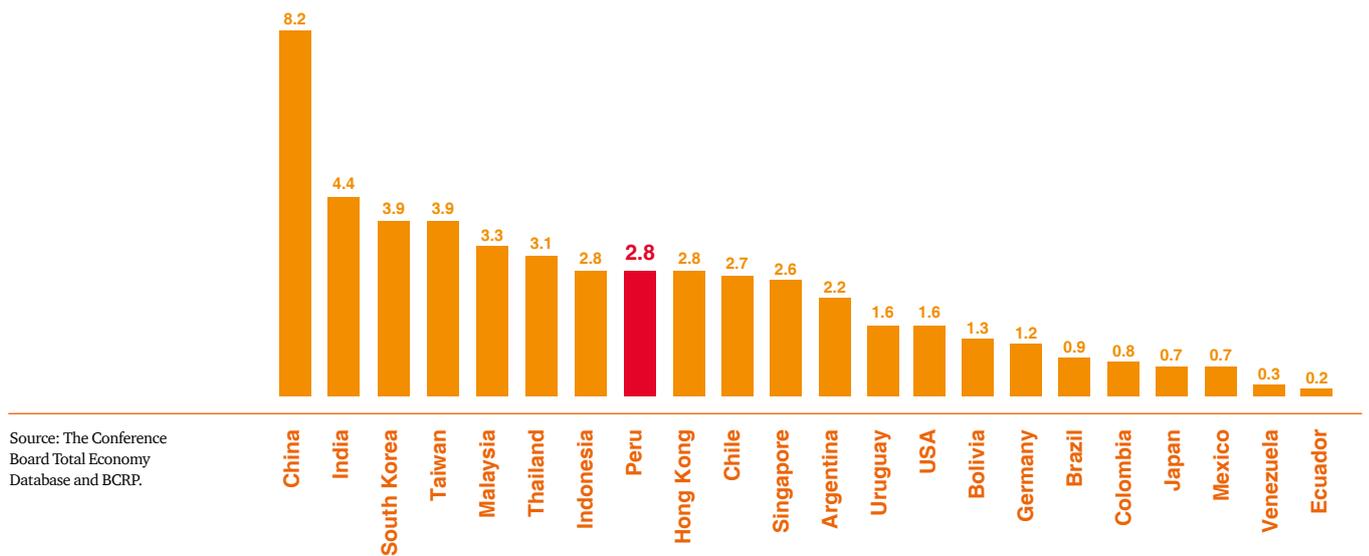


### Peru: Accounting of growth by decades 1950 - 2010 (contribution of productivity to GDP growth in percentage points)



Source: The Conference Board Total Economy Database and IPE

### Labor Productivity Growth (Average 1990 - 2011)



Source: The Conference Board Total Economy Database and BCRP.

At present private investment in Peru registers a more dynamic evolution than was foreseen. Therefore, the BCRP projects a growth rate of 8.8% in private investment for 2013 and 8.2% for 2014. The private investment project portfolio for this and the next year is estimated at 32 billion dollars. Additionally, Proinversión has important projects to offer in concession in its portfolio, such as the energy node of the south, the third stage of the irrigation project Chavimochic in La Libertad and works for the supply of potable water in Lima.

For its part, Apoyo Consultoría forecasts that investment in mining and transport infrastructure will reach record levels in 2013 and 2014; and in the next 5 years, the investment in mining, hydrocarbons, transport and electricity infrastructure will exceed 50 billion dollars, 20% more than in the period 2008-2012.

### ***Peru: Private investment announcements (US\$ Millions)***

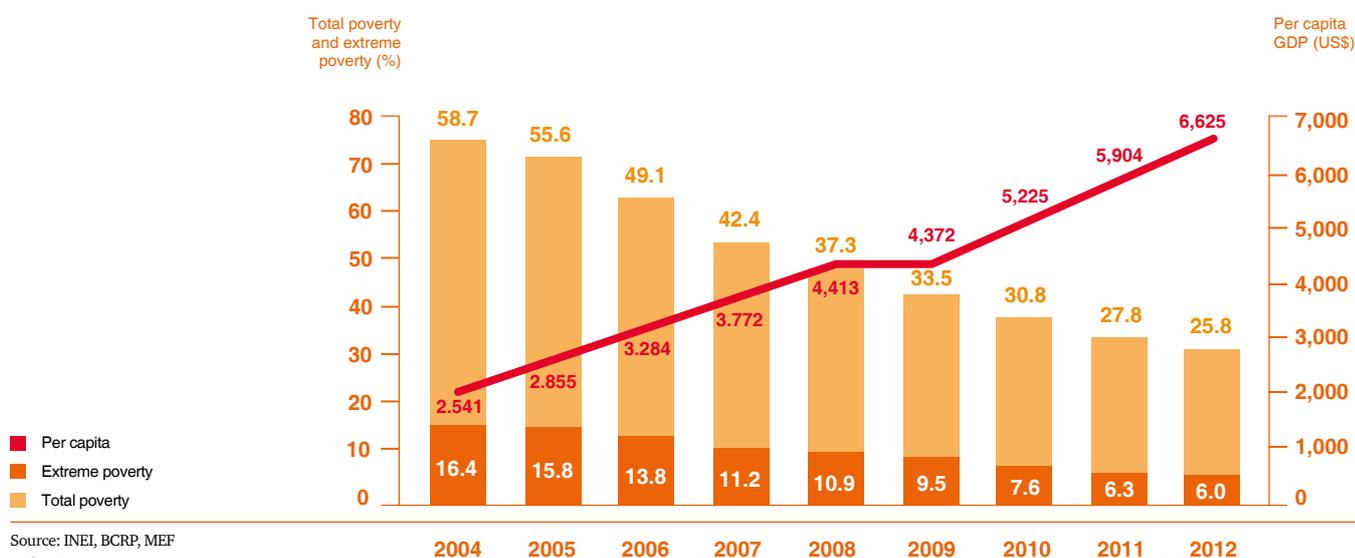
	<b>2013</b>	<b>2014</b>
Minerals	7,756	7,037
Fuel	3,020	1,972
Electricity	2,379	1,447
Industry	971	838
Infrastructure	1,112	585
Other sectors	3,315	1,604
<b>Total</b>	<b>18,553</b>	<b>13,483</b>

Source: Company announcements and BCRP

## 1.4.3 Impulse of social progress

Economic growth and macroeconomic stability have driven social progress in Peru. The reduction of poverty in Peru has been the most significant in Latin America, according to CEPAL. During the last decade, the country has experienced a sustained growth in real expenditure per-capita which has been consistent with the growing tendency of the GDP per-capita during the same period and with the reduction in the poverty rate. Economic growth has favored the lowest sectors of the population, increasing their ownership of goods.

### Peru: Poverty and economic growth 2004 - 2012



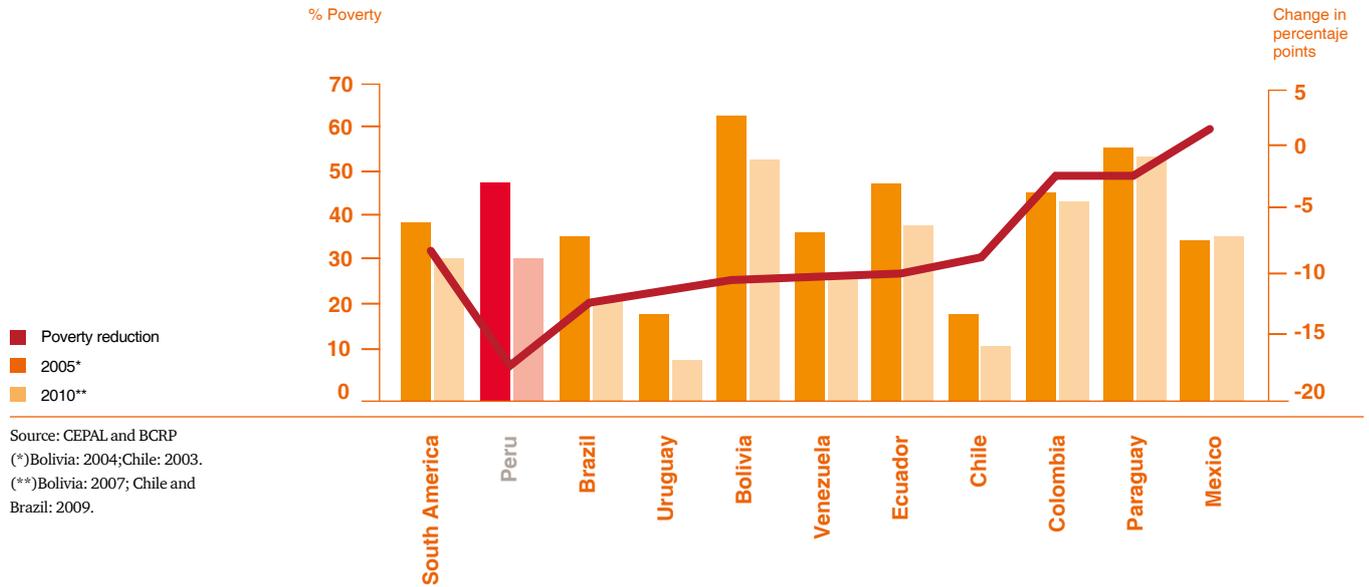
Source: INEI, BCRP, MEF and BCP

### Peru: Homes owning consumer durables (Percentages)

	2005	2012
Residential telephone	28.5	29.4
Mobile phone	20.7	79.8
Cable television	10.3	33.4
Computer	8.8	30.5
Internet connection	3.7	22.4
Radio	88.6	83.9
Television	69.0	80.3
Refrigerator	37.3	44.2
Bicycle	21.1	17.6
Motorcycle	2.6	12.8
Car/Van	7.8	10.4

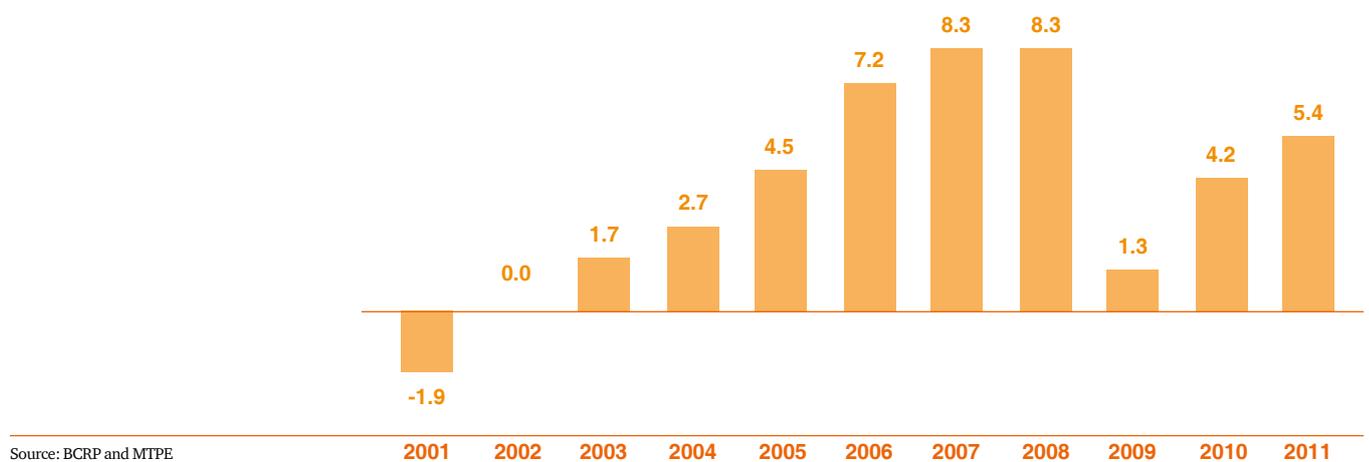
Source: INEI

## Latin America: People living in poverty (Percentages)

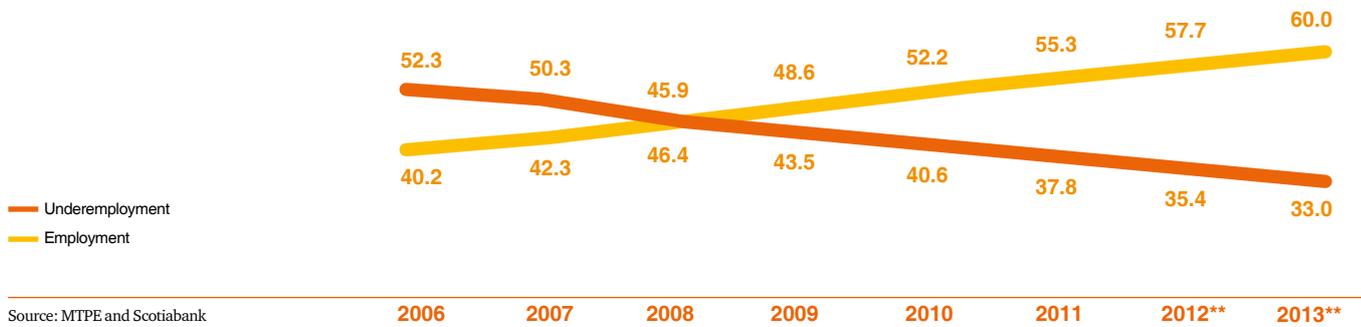


Likewise, economic growth has had notable effects on employment in Lima as well as in the other regions of the country. The generation of quality employment has become one of the reasons for the progress of the middle class in Peru. There is a consensus in Peru that the middle class is responsible for 60% of the consumption of staple products, has driven the modernization of the private spending and distribution channels and also has promoted the development of education and private health.

## Peru: Urban Employment 2001 - 2011 (Percentage change)



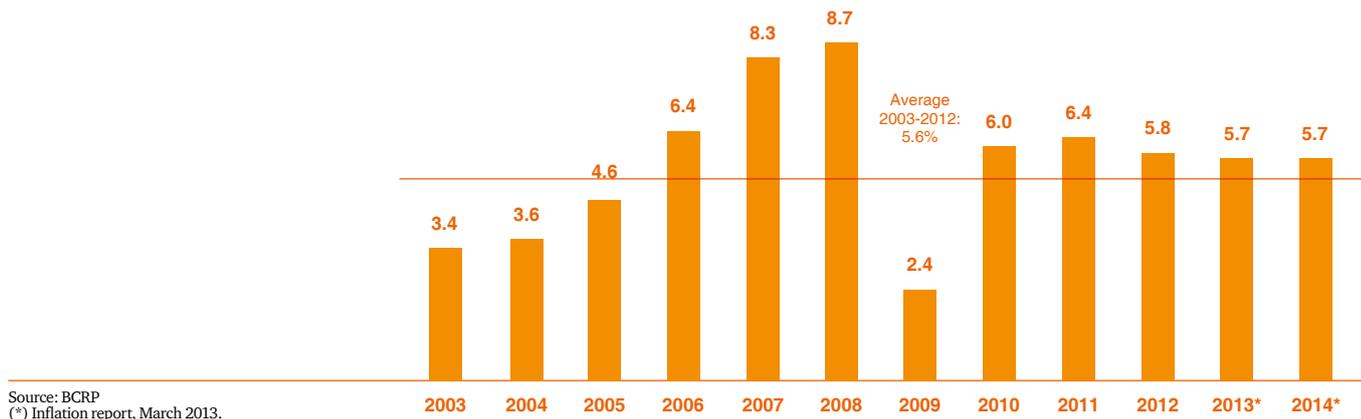
### Peru: Employment Market 2006 - 2012 percentage of EAP\*



Source: MITPE and Scotiabank  
 (\*) Economically active population  
 (\*\*) Estimate Scotiabank.

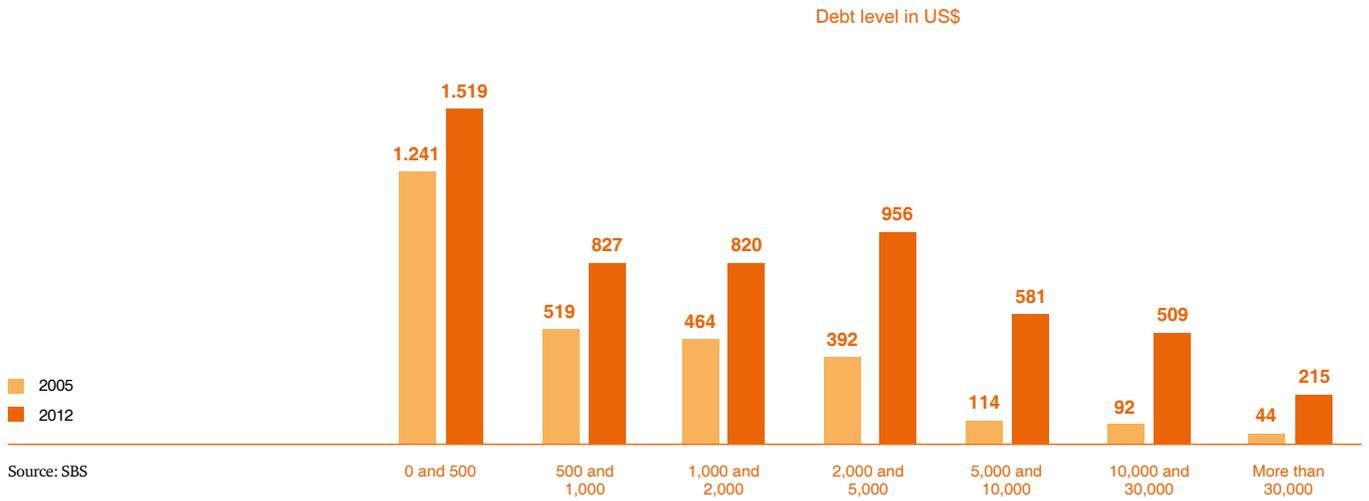
Another important indicator of social progress is private consumption. In the last decade, private consumption has shown a robust growth in the entire country, as a result of the dynamism of employment, credit and high consumer confidence. Dynamism that is reflected in the increased sales of new family vehicles, in the imports of consumer durables and in the demand for credit. The BCRP projects that private consumption will increase by 5.7% during 2013, showing similar growth in 2014.

### Peru: Private Consumption 2003 - 2012 (Annual growth rates)

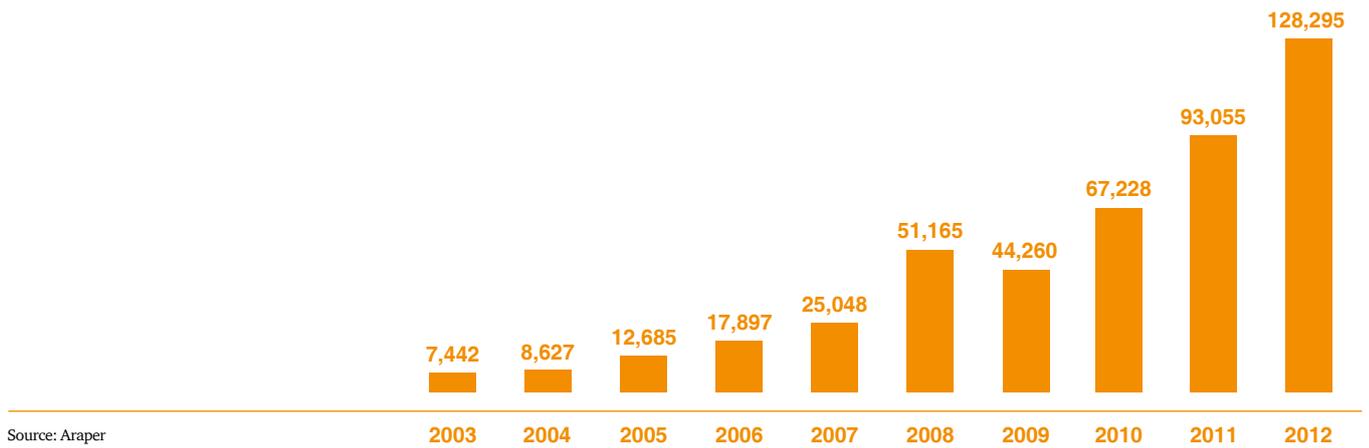


Source: BCRP  
 (\*) Inflation report, March 2013.

## Peru: Number of debtors and debt by level 2005 - 2012 (Debtors in thousands)



## Peru: Sales of family cars (Units)



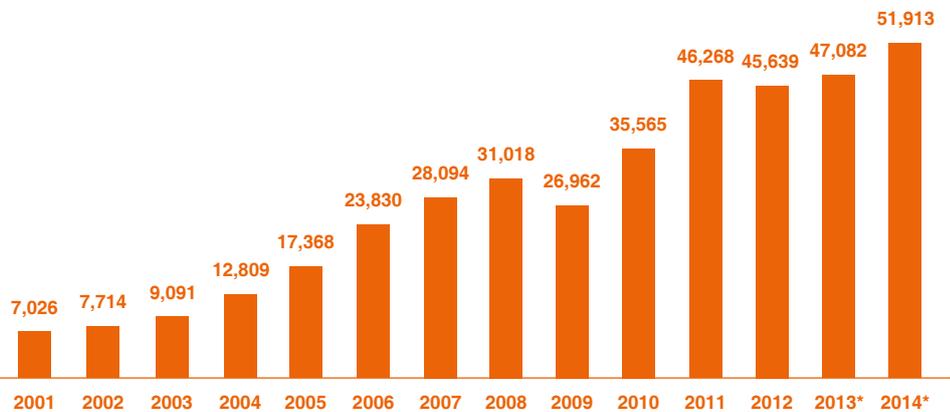
**Peru: Imports of durable consumer goods 2003 - 2012 (FOB values in US\$ Millions)**



## 1.4.4 Records exports

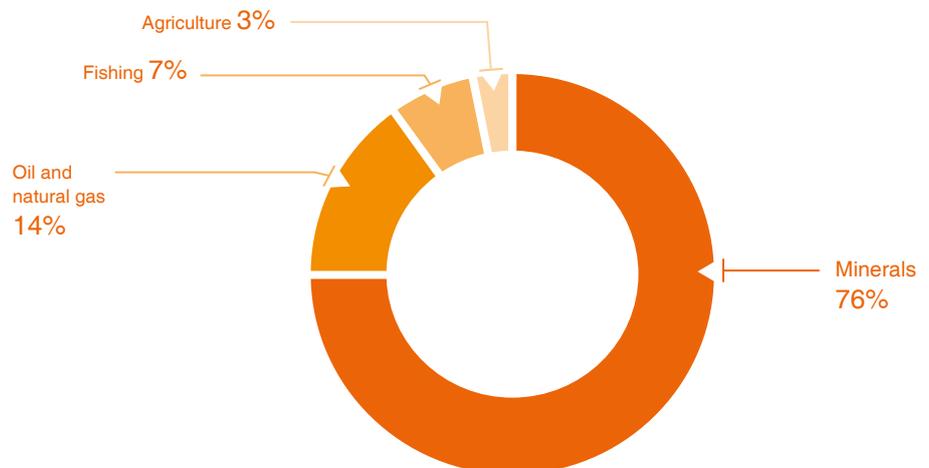
Exports are another source of strength for Peru. In the last decade they reached record levels every year. The maximum level recorded in 2011 of US\$ 46,268 million exceeded by 7 times the amount of exports in 2000. The growth of the traditional exports was mainly driven by higher export prices and to a lesser extent by the increase in the exported volume; while non-traditional products were mostly driven by the volume of exports rather than by prices. Although in 2012 exports fell by 1.4% in a context of deceleration of the growth in global trade, the BCRP expects a trajectory of recovery towards 2014, mainly as a result of the entry into operation of copper mining projects.

### Peru: Exports 2001 - 2012 (FOB Values in US\$ Millions)



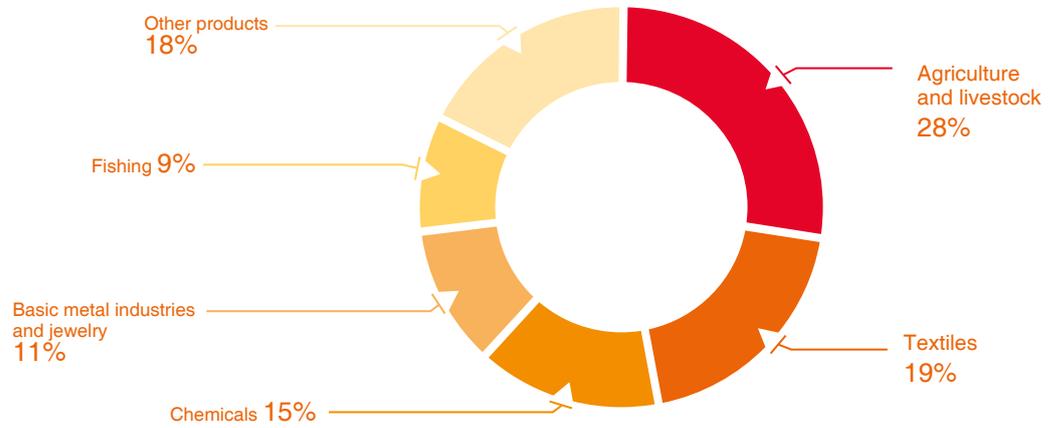
Source: BCRP  
(\* Estimated by BCRP.

### Peru: Exports Traditional products 2012 (US\$ 34,247 Million)



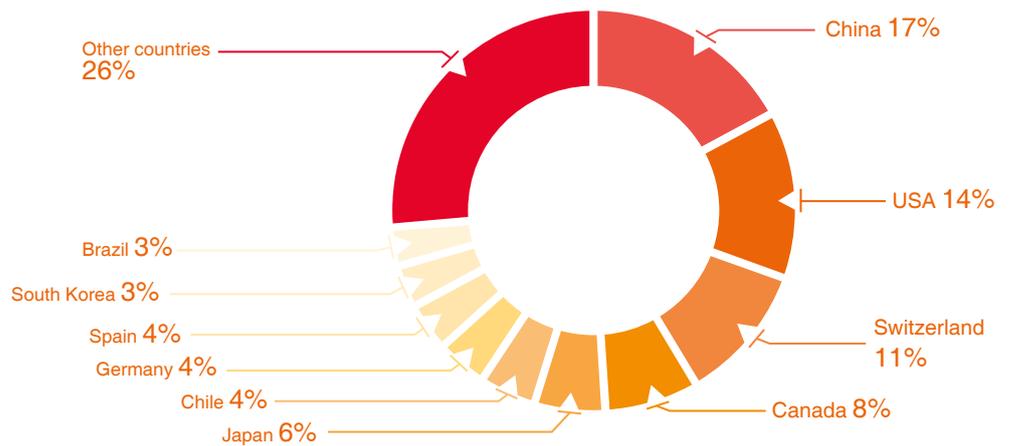
Source: BCRP and Sunat

### Peru: Exports Non-Traditional products 2012 (US\$ 11,047 Million)



Source: BCRP and Sunat

### Peru: Exports by commercial partners 2012



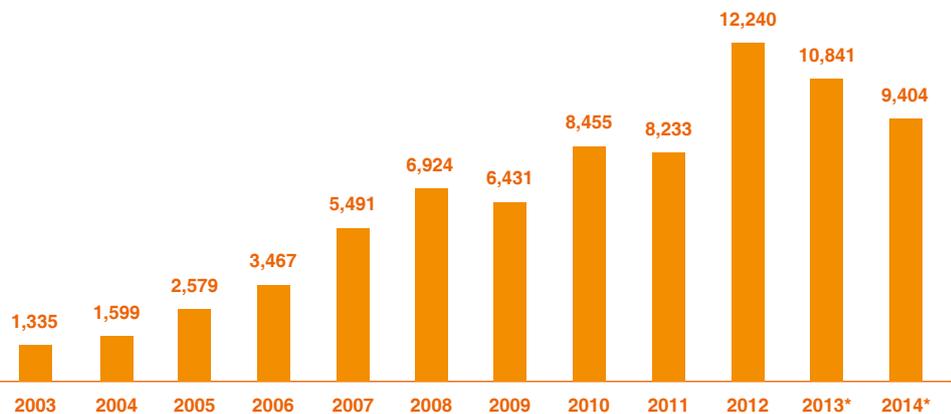
Source: BCRP and Sunat

## 1.4.5 Foreign Direct Investment (FDI)

Peru has become one of the main investment options for long term foreign capital, thus in 2013 and for the second consecutive year the BCRP expects it to exceed 20 billion dollars, of which 10.8 billion will come from FDI, 6.1 billion from long term loans and 4.3 billion from foreign portfolio investments. In the case of FDI confidence in Peru translates into the greater reinvestment of profits. Thus mining, the financial sector and communications have been the main points of attraction. With regard to the origin of capital, Spain, the United Kingdom and the United States concentrate 40% of the investment.

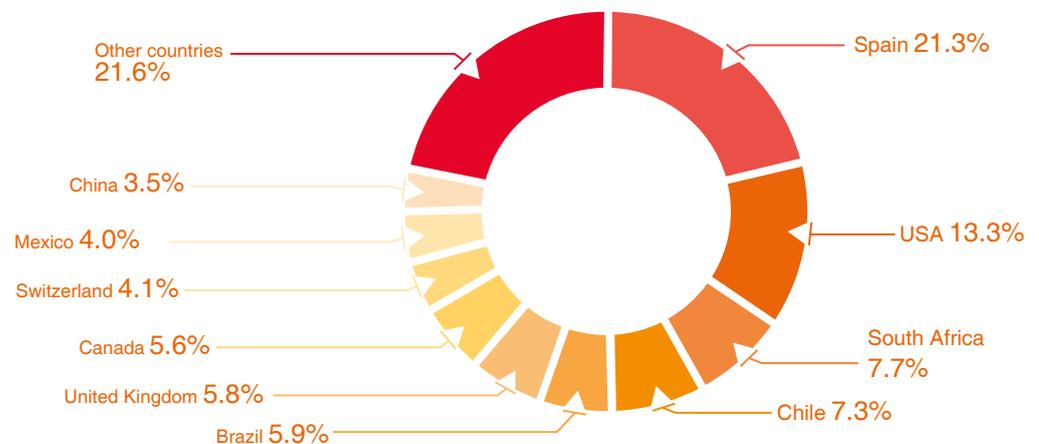
Peru, consistent with its trade liberalization and investment promotion model, in the last decade has signed International Investment Agreements, such as those with the United States of America, Chile, Canada, Singapore, Japan, People's Republic of China, Colombia, Liechtenstein, the Republic of Korea, Mexico, Norway and Panama. The BCRP estimates that for this year the flow of FDI will reach 10,846 million dollars.

### Peru: Foreign Direct Investment 2003 - 2012 (US\$ Millions)



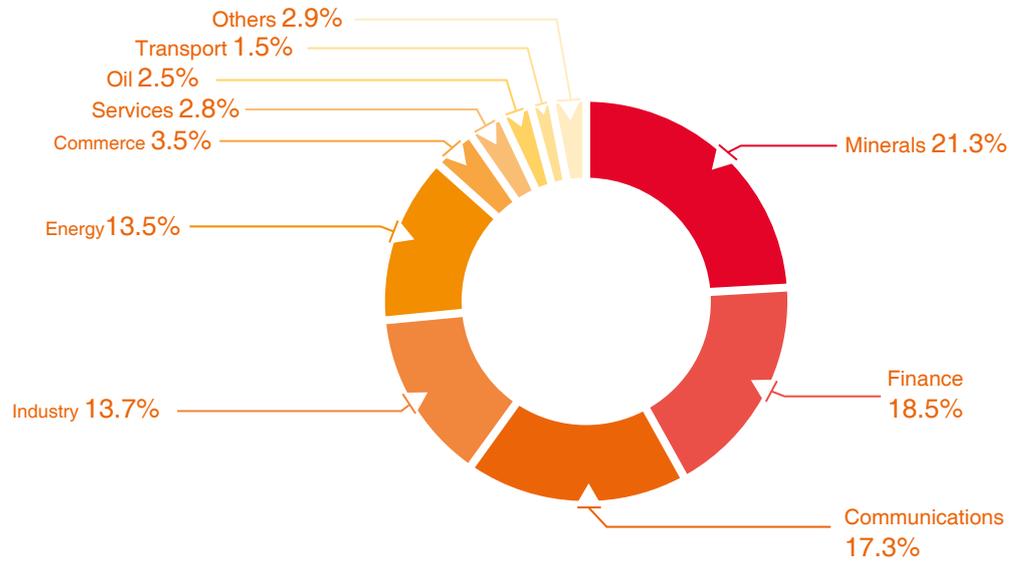
Source: BCRP  
(\* Inflation report, March 2013.

### Peru: FDI as stock of capital contribution by country of origin (2012)



Source: Proinversion.

### Peru: FDI as stock of capital contribution by destination sector (2012)



Source: Proinversion.

## 1.4.6 Financial strength

The sustainability of the current account deficit of the Balance of payments is another one of Peru's strengths. This sustainability is possible due to the external financing originating from long term capital from the private sector, through direct investment in important investment projects and the additional financing of local companies in the international debt markets. The BCRP estimates that by 2013, the long term financial account will total 7.7% of GDP and 4.6% by 2014, and forecasts a current account deficit of 4% of GDP, in line with the growth in domestic demand; and, for 2014 it projects a current account deficit of 3.9%.

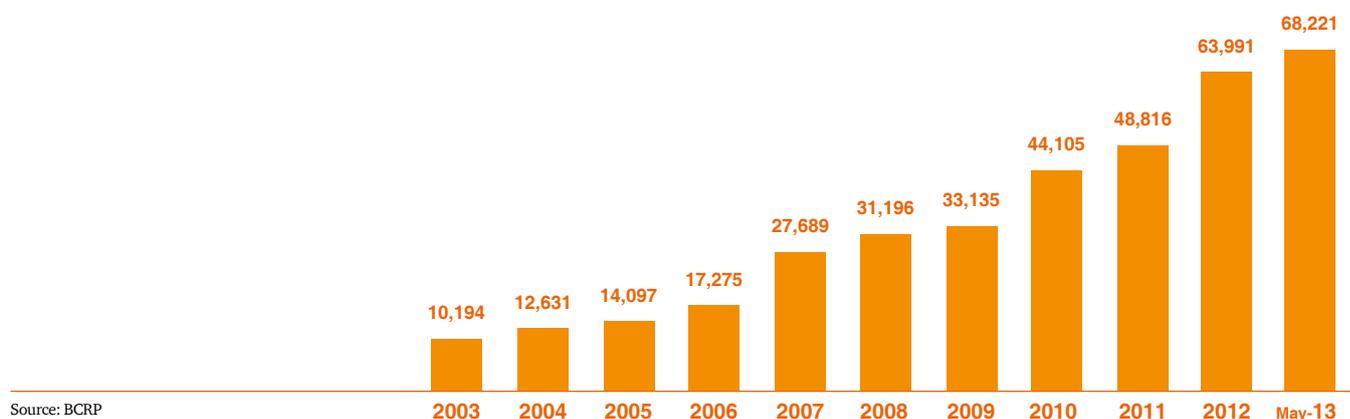
### Peru: Current account and private long-term capital flows 2005 - 2012 (Percentage of GDP)



Source: BCRP  
 (\*) Inflation report, March 2013.

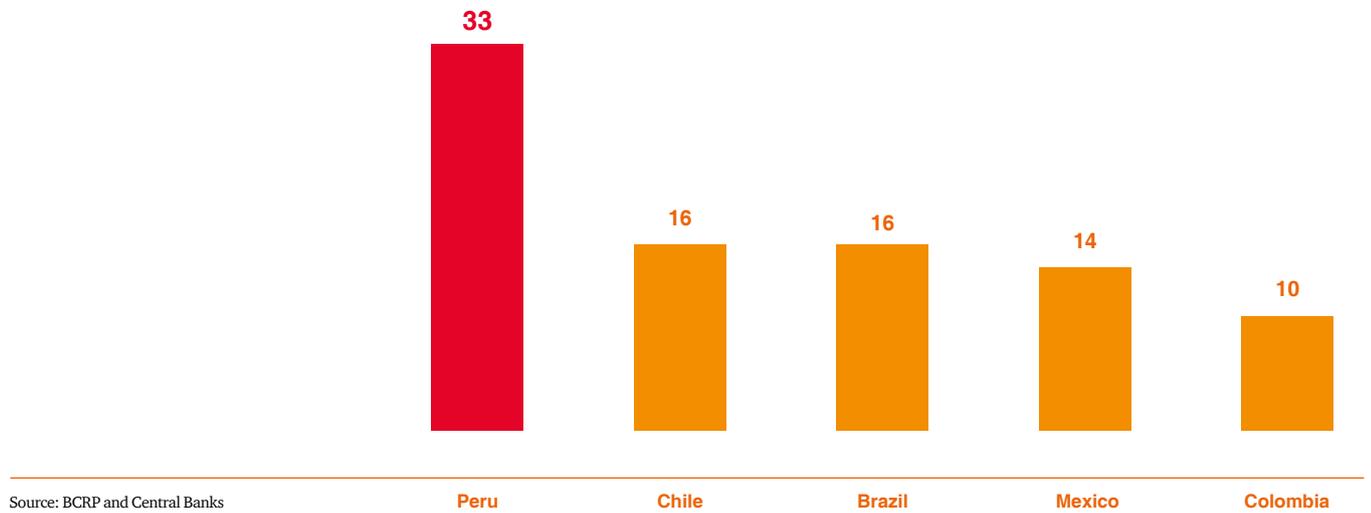
To Peru's financial strength are added the high international reserves that reduce its external vulnerability in the event of the abrupt reduction in external financing. According to the BCRP, the reserves represent 34% of GDP, and cover short term external debt more than 5 times and 95% of the total obligations of the financial system with the private sector (total liquidity). In other words, Peru can comply with its current and future debt service obligations without resorting to reprogramming or compromising its economic growth.

### Peru: Net International Reserves 2003-2012 (US\$ Millions)

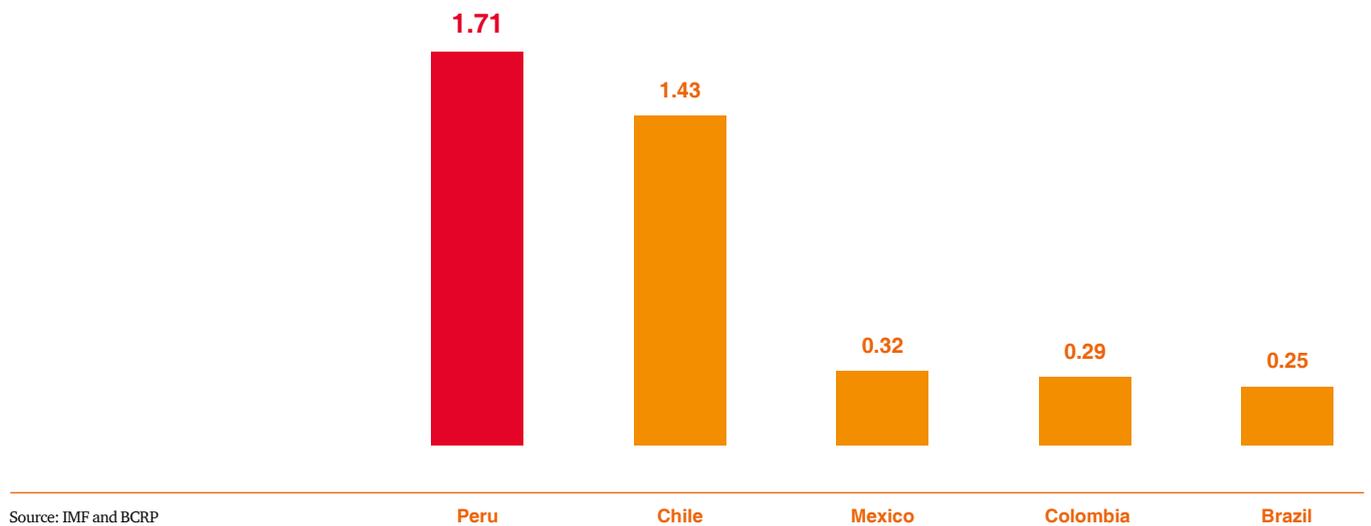


Source: BCRP

### *NIR/GDP: 2012 (as a percentage of GDP)*



### *NIR/Gross debt: 2012 (Number of times)*



## 1.4.7 Solid fiscal position

Additionally, Peru has a solid fiscal position that permits it to adopt a countercyclical position in the event of an eventual world downturn. The average fiscal surplus between 2005 and 2012 was more than 1% of GDP, the result of its demanding fiscal policy guidelines. Peru has the objective of strengthening its fiscal space by recording an average fiscal surplus of 1.2% of GDP between 2012-2015; achieving a countercyclical fiscal position; having public debt below 40 billion dollars by 2015; and, increasing the permanent fiscal income. The BCRP consistently projects fiscal surpluses for 2013 and 2014 of 1% of GDP. Likewise, it estimates that the treasury will pass from a contractive position in 2012 to an expansive position in 2013.

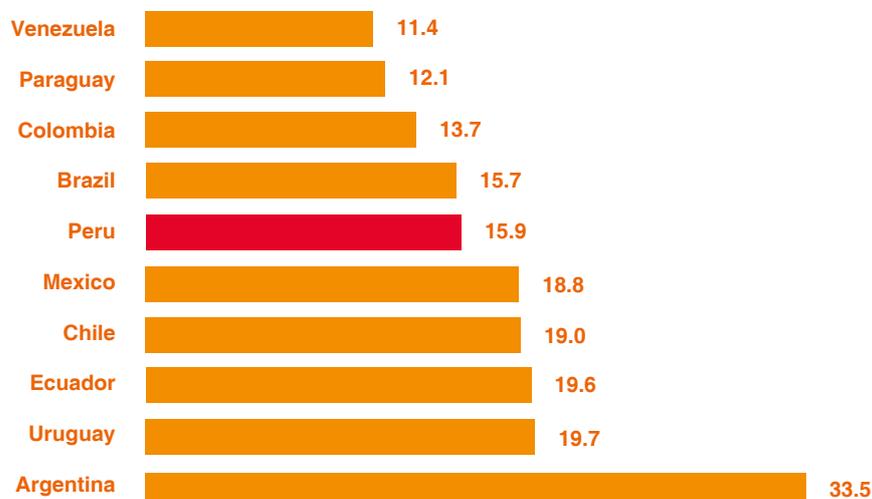
### Peru: Overall Balance of public sector non-financial 2005 - 2012 (Percentage of GDP)



Source: BCRP  
(\* Inflation report, March 2013.

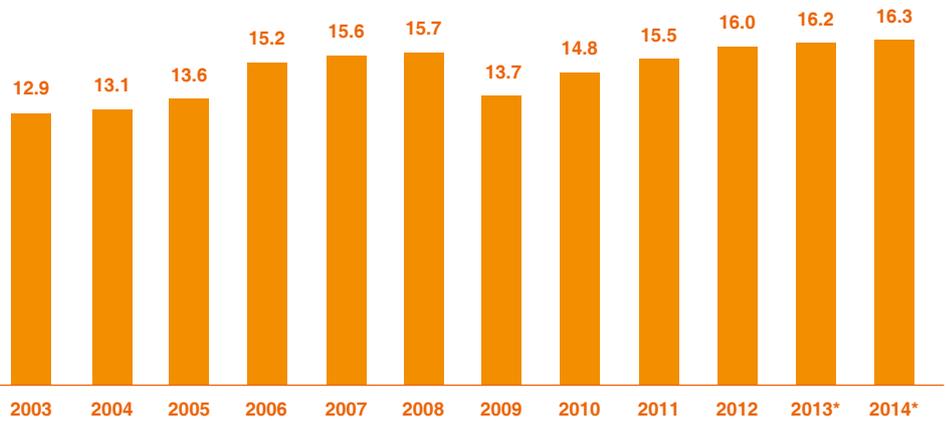
Despite the ambitious objectives of the fiscal policy, Peru is characterized for having a low tax load on a regional level. The guidelines of the economic policy are to expand the tax base, but through the frontal attack against fiscal evasion, the reduction of smuggling, the recovery of debt collections and greater formalization and supervision, especially of independent workers. Evidence of its low tax load is that Peru is the third economy with the lowest load in South America, according to the measurements of the Organization for Economic Co-operation and Development (OECD).

### Latin America: Total tax revenue as percentage of GDP (2011)



Source: Revenue Statistics in Latin America 2012-© OECD 2012 and World Bank Argentina, Ecuador, México and Venezuela data by 2010

### Peru: Tax burden 2003 - 2012 (Tax revenue as percentage of GDP)

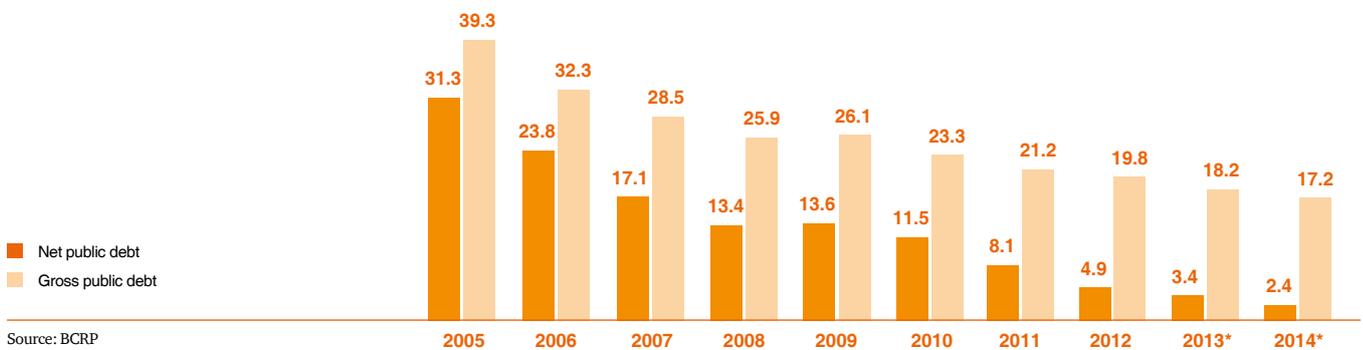


Source: BCRP  
(\* Inflation report, March 2013.

Finally, the performance of the public debt of Peru is another characteristic of its solid fiscal position. The debt management operations of Peru in recent years have resulted in the present balance of the public debt in local currency being similar to the balance of the debt in foreign currency, which permits the reduction in the vulnerability to eventual exchange rate shocks. In the last decade the percentage of debt in Nuevos Soles has increased from 15% in 2003 to 50% in 2012. Furthermore, the average life of public debt reached 12.6 years, while the fixed rate debt was 87%, in December of 2012, giving the country the ability to refinance its public debt.

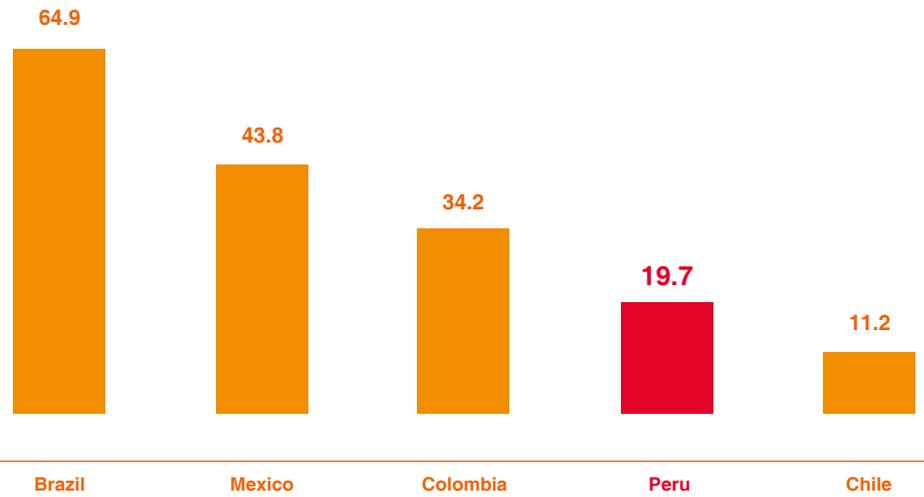
The BCRP expects that for 2013 and 2014 these indicators will improve with the execution of the prepayment to the international entities announced for this year. It estimates that the expected increase in economic activity and the increase in the deposits of the public sector will result in gross debt continuing its decline, constituting 17.2% of the GDP in 2014 and net debt will reach 2.4% of the GDP at the same time.

### Peru: Public debt 2005 - 2012 (Percentage of GDP)



Source: BCRP  
(\* Inflation report, March 2013.

### Public debt 2012 (Percentage of GDP)

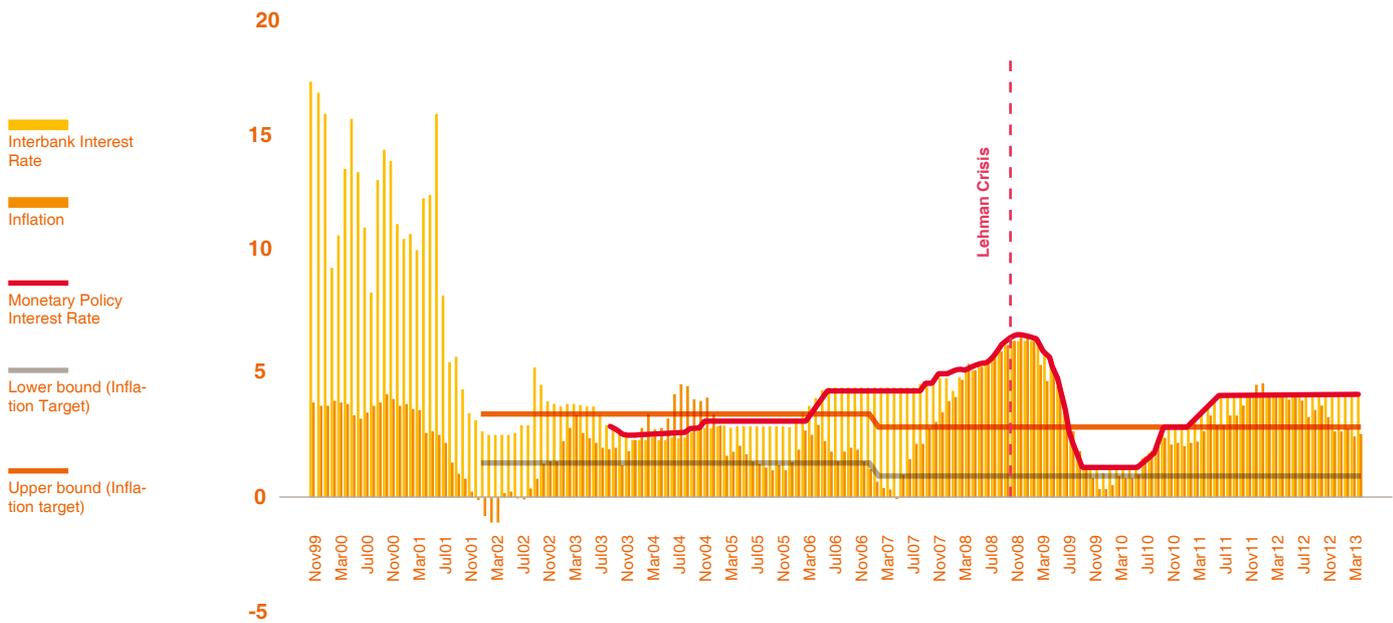


Source: FMI and BCRP

# 1.5 Monetary Policy

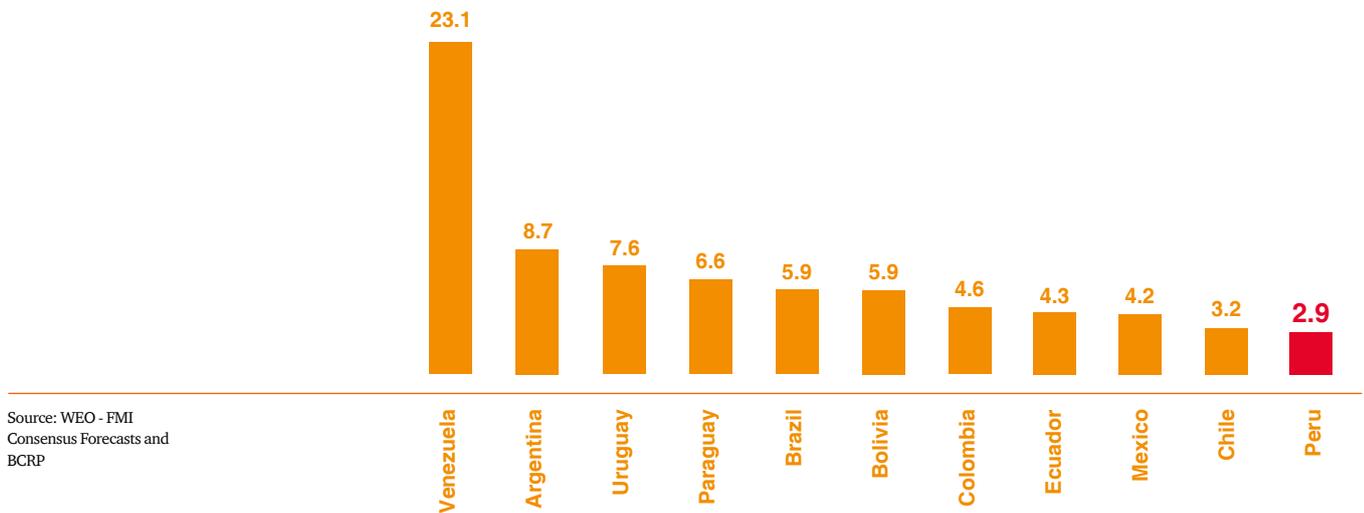
Price and exchange stability are another of the achievements that have contributed to Peru's solid macroeconomic position during the last decade. The autonomy and performance of Peru's Central Reserve Bank (BCRP) have been key factors in preserving the country's monetary stability. The BCRP's monetary policy is based on a scheme of explicit inflation targets, the aim of which is to anchor inflation expectations to a rate which permits the economy to develop without inflationary or deflationary pressures, consistently with monetary stability. The bank uses the interbank interest rate as an operating target of its monetary policy in order to impact the inflation rate, with lags and through different channels. This scheme has enabled the BCRP to recover the ability to implement a countercyclical monetary policy and has converted the interbank money market into a reliable source of funds. Currently, the BCRP's target is to achieve an accumulated inflation rate for the last 12 months of 2%, with a tolerance margin of +/- 1 percentage point.

## Peru: Interest rate and Inflation Targeting



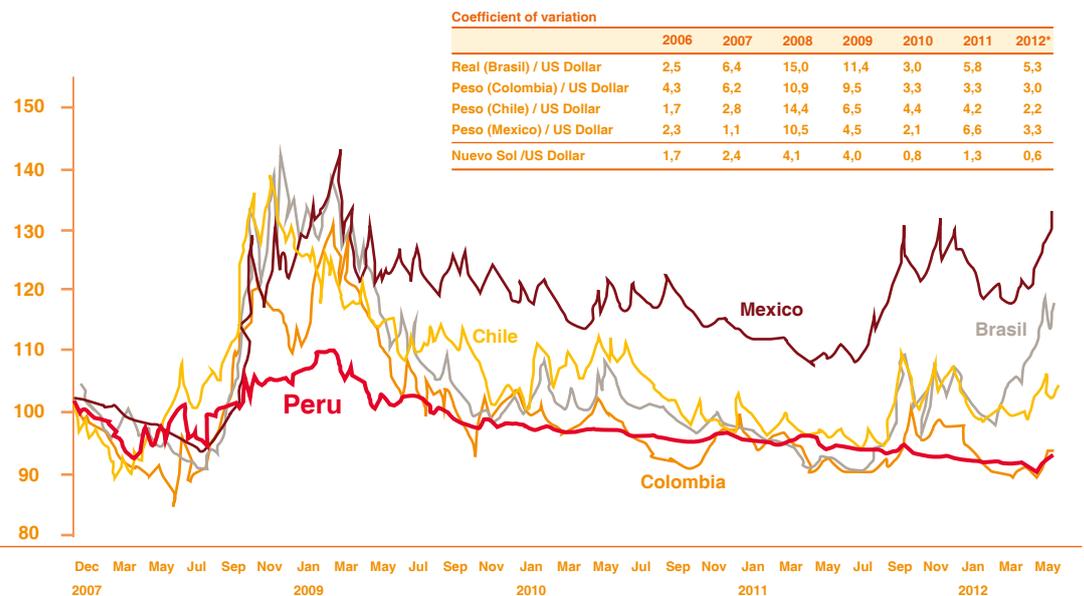
Source: BCRP

## Latin America: Inflation Average 2001 - 2012 (Percentage change)



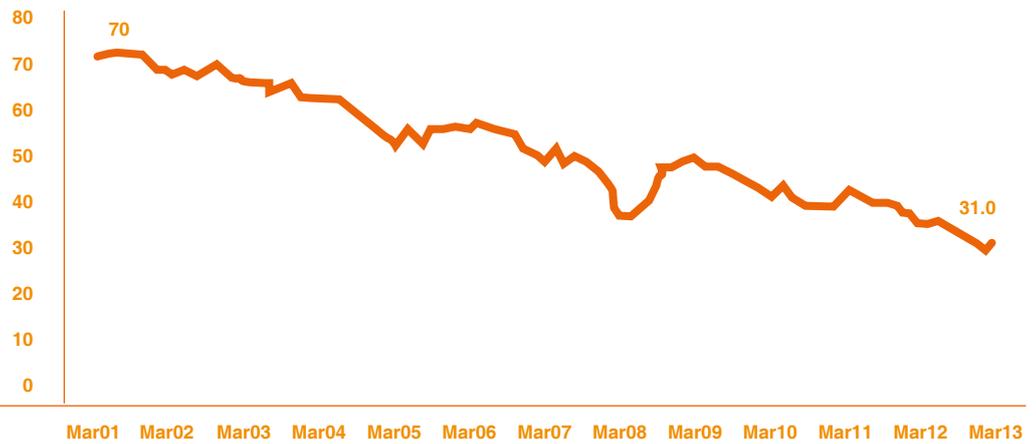
Also, as part of monetary policy, the BCRP executes preventive measures to safeguard financial stability and control the risks of dollarization. The bank intervenes in the exchange market to reduce excessive volatility in the exchange rate and the negative effects on economic activity of currency mismatching associated with financial dollarization; in addition, it accumulates international reserves, which enables adverse macroeconomic shocks to be faced. Nonetheless, BCRP's intervention in the exchange market does not signify a commitment to a specific exchange rate, since it might not be consistent with the inflation target, reducing the credibility of monetary policy. This has enabled the Peruvian currency to record less volatility compared to other currencies in the region.

## EXCHANGE RATE INDEX (December 2007=100)



Furthermore, the BCRP manages other instruments of monetary policy, with which it can influence more directly the volumes of liquidity, as in the cases of legal cash reserve requirements in local and foreign currencies, avoiding excesses in the evolution of credit.

### Peru: Dollarization coefficients 2001-2013 (Percentages)



Source: SBS

# 1.6 Investment Grade

Peru's fiscal responsibility has reduced the country's vulnerability and has improved confidence in the Government's solvency during the last decade. This confidence has been supported by the rating agencies which, during the last 5 years, have granted investment grade to Peru's sovereign debt in foreign currency and during the last 7 years to local currency debt. These agencies quote as the main arguments for their evaluations the reduced political risk, the solid fiscal performance, the favorable perspectives for long-term growth and the government's ability to resist the external crisis.

## Peru: Credit Rating

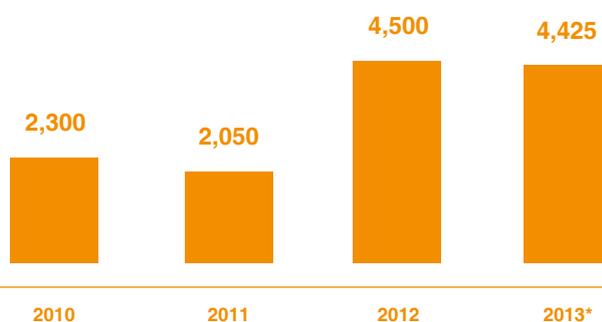
Long Term Rating	Moody's	S&P	Fitch	DBRS	NICE
Foreign Currency	Baa2	BBB+	BBB	BBB	BBB
Local Currency	Baa2	BBB+	BBB+	BBB	BBB+
Outlook	Positive	Positive	Stable	Positive	Stable

Source: Agencies

Last year, Moody's agency raised the rating of Peru's foreign debt, both in foreign as well as local currency, from Baa3 to Baa2 and with the possibility of upward revision. Moody's emphasized that the improved rating responds to the reduction in the vulnerabilities associated with political risk factors, continued economic growth and the solid fiscal performance, to the improvements in the government debt indicators and the reduction in exposure to foreign currency debt.

For its part, this year the agency Standard & Poor's has announced that it is examining a possible upgrade of Peruvian sovereign debt, which is conditional upon the perspectives for long-term growth and its ability to resist a possible fall in mineral prices. All of these improvements in the Government's credit ratings have permitted a reduction in the cost of funding, both for companies as well as households in recent years.

## Private sector bonds on international markets (US\$ Millions)



Source: Citibank  
(\* April)

### *Private sector bonds on international markets*

	US\$ Millions	Years	Rate
<b>2011</b>			
Corporación Lindley	320	10	6.75%
<b>2012</b>			
Volcan	600	10	5.38%
Coazúcar (Grupo Gloria)	325	10	6.38%
Ajecorp	450	10	6.50%
Maestro	200	7	6.75%
Terminales Portuarios Euroandinos	110	25	8.13%
Camposol	125	5	9.88%
<b>2013</b>			
Alicorp	450	10	3.88%
Gas Natural de Lima y Callao	320	10	4.38%
Cementos Pacasmayo	300	10	4.63%
Compañía Minera Milpo	350	10	4.63%
Pesquera Exalmar	199	7	7.38%
Copeinca	75	5	9.00%

Source: BCRP

## 1.7

# Commercial Agreements

The integration of Peru into the global economy has been one of the pillars of its economic development and social progress. The multilateral trade system as part of the foreign policy has been the answer to this challenge, to diversify and expand access of the country's goods and services to the main markets, have clear and permanent rules for trade and attract foreign investment. As a result of this, Peru currently has 19 valid agreements, which involve reciprocal trade with 23 countries for an annual total of 80.5 billion dollars and represent 90% of total trade. These agreements have allowed the country to take advantage of the situation of high raw material prices and diversify the exports of its non-traditional products from the agricultural industry and other new industries. At the end of 2012, non-traditional exports already exceeded 11 billion dollars.

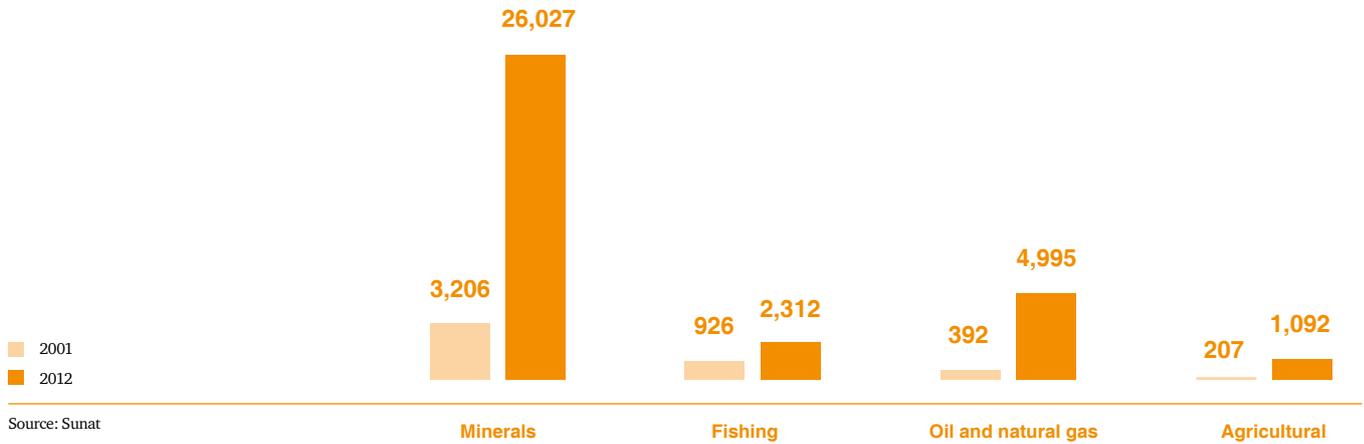
## *Peru: Trade agreements (US\$ Millions)*

Country	2001	2012	Change%
Andean Community of Nations (CAN): Bolivia, Colombia y Ecuador	1,159	6,484	459
Canada	291	4,031	1,285
Chile	714	3,272	358
China	777	15,652	1,914
Cuba	3	19	459
EFTA: Iceland, Norway and Switzerland	389	5,308	1,265
European Union	2,837	12,867	354
Japan	794	4,075	413
Mexico	375	2,090	457
Panama	84	551	556
Singapore	26	81	212
South Korea	366	3,193	772
Southern Common Market (MERCOSUR) Argentina, Brazil, Paraguay and Uruguay	1,097	6,553	497
Thailand	91	686	654
USA	3,379	14,092	317
Costa Rica	12	94	679
Venezuela	519	1,420	173
<b>Total</b>	<b>12,913</b>	<b>80,468</b>	<b>523</b>

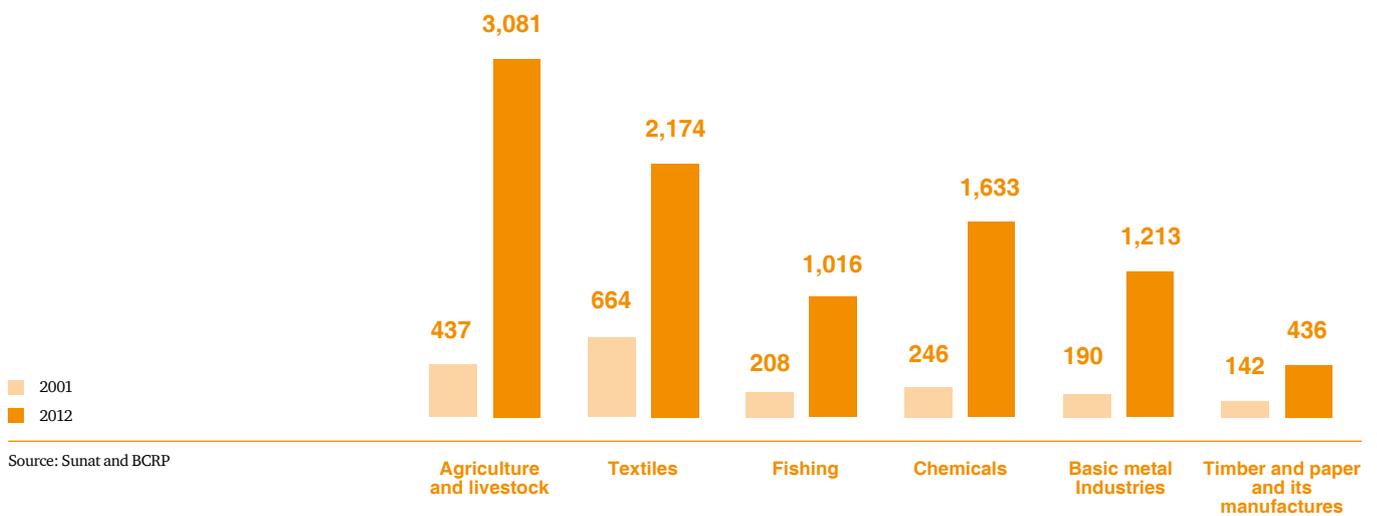
Source: Sunat and Mincetur

Peru is also a member of the World Trade Organization (WTO) and the Asia Pacific Economic Cooperation (APEC). As a founding member of the WTO since 1995, it has incorporated into its legislation the WTO agreements, so that all of its regional and bilateral trade negotiations are based on the WTO norms and are consistent with them.

### Peru: Exports of traditional products (US\$ Millions)



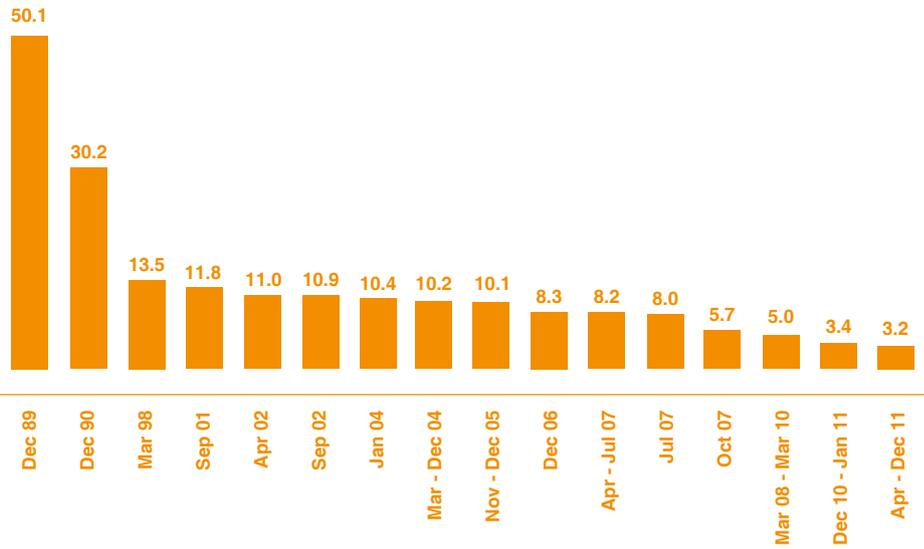
### Peru: Exports of the most important non-traditional products (US\$ Millions)



Likewise, Peru has trade agreements signed with Guatemala and the Pacific Alliance that will shortly come into effect and is negotiating the Transpacific Association Agreement, the Doha Development Program, and free trade agreements with El Salvador and Honduras. The expected result is to conclude these negotiations within this year. Additionally, the country has plans for negotiations with India, Morocco, Russia and South Africa.

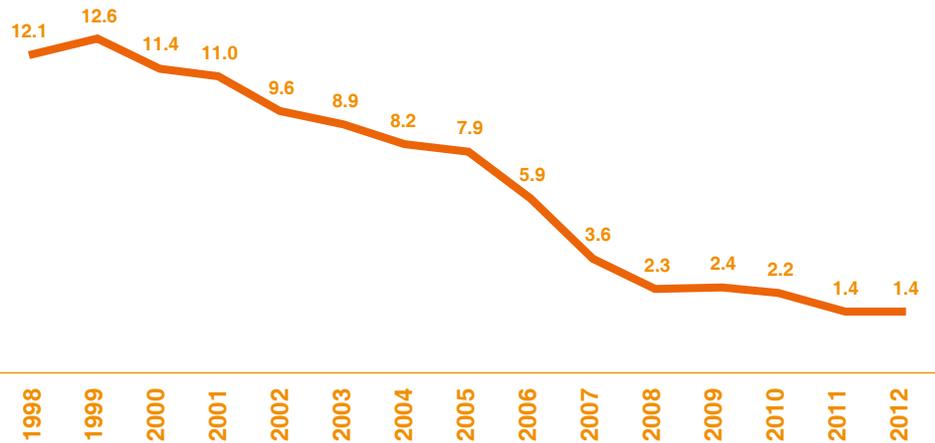
On the other hand, the trade policy of Peru has gone hand in hand with the tariff policy that revoked an extensive system of trade barriers. In the last 20 years, the average nominal tariff was reduced from 50.1% to 3.2%, the effective tariff fell to 1.1% and imports multiplied 5 times. Despite this, exports multiplied 8 times and in the last decade they exceeded the amount of imports.

### Peru: Average Tariff Structure 1989 - 2012 (Percentages)



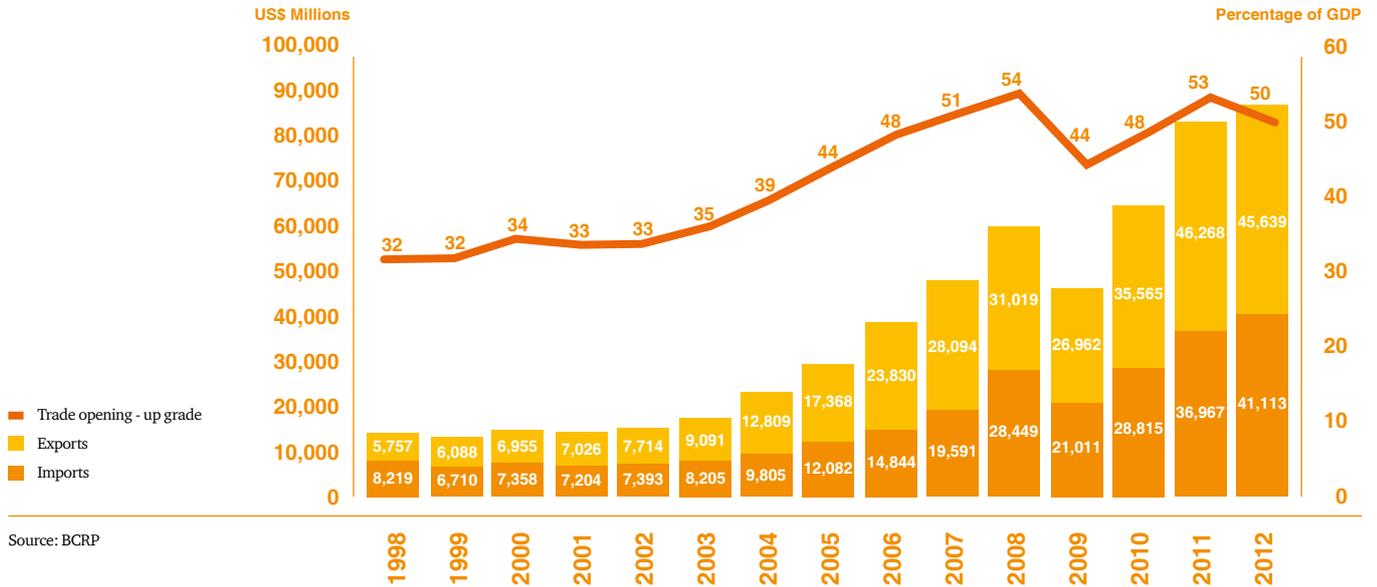
Source: BCRP and Sunat

### Peru: Effective Tariff 1998 - 2012 (Percentages)



Source: BCRP and Sunat  
Effective tariff: Import tax/import.

## Peru: Foreign trade 1998 - 2012



Additionally, the tariff levels of Peru for 100% of the tariff universe, applied to its trade partners, are rates of 0%, 6% and 11%.

56% of the tariff universe is subject to a tariff of 0% and represents 74% of last year's imports. Likewise, the average nominal tariff is 3.2% and the tariff dispersion is 3.8 percentage points.

## Peru: Tariff Structure 2012

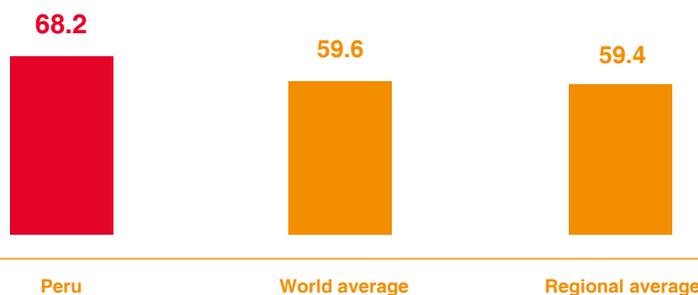
Ad-Valorem tariff levels (%)	National tariff subheadings N°	Import 2012 CIF Value (%)	US\$ Millions	(%)
0	4,224	55.9	31,354.7	74.3
6	2,538	33.6	9,235.0	21.9
11	792	10.5	1,594.2	3.8
Total	7,554	100.0	42,184.0	100.0

Source: MEF and Sunat

# 1.8 Economic Freedom

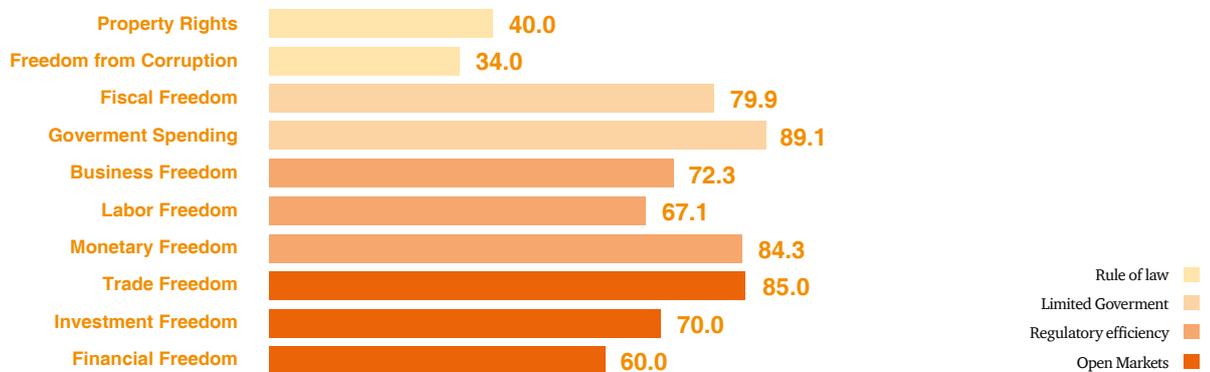
Peru is the third country with greatest economic freedom among the six largest economies in South America (GDP based on PPP), according to the Index of Economic Freedom 2013 prepared by The Heritage Foundation and The Wall Street Journal, and occupies the 44th position among 177 countries. Its Economic Freedom ranking, with a score of 68.2 points, is above the regional and world average, as a result of its open market economic policies, free private initiative, trade liberalization and investment promotion policies adopted in the 90s and maintained by successive governments. Peru has six main outstanding strengths in the index, all of them related to its solid fiscal position, monetary stability and capacity to attract investment. According to the index, Peru is the leader in Fiscal Freedom, Public Spending and Trade Freedom among the six largest economies in the region. Likewise, it is second in Business Freedom and Monetary Freedom, and shares second place in Investment Freedom with Colombia and Financial Freedom with Brazil.

## Peru: Comparisons Index of Economic Freedom 2013



Source: The Heritage Foundation and The Wall Street Journal

## Peru: The Ten Economic Freedoms 2013



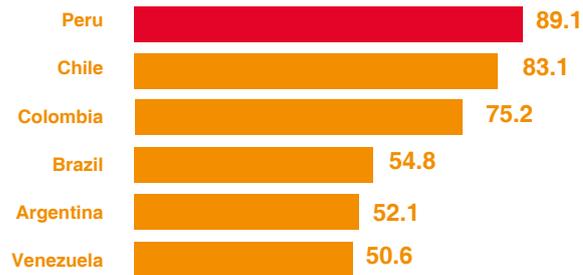
Source: The Heritage Foundation and The Wall Street Journal

### South America: Index of Economic Freedom 2013 (Fiscal Freedom)



Source: The Heritage Foundation and The Wall Street Journal

### South America: Index of Economic Freedom 2013 (Government Spending)



Source: The Heritage Foundation and The Wall Street Journal

### South America: Index of Economic Freedom 2013 (Trade Freedom)



Source: The Heritage Foundation and The Wall Street Journal



While Peru is the second economy of South America with greatest Financial Freedom, for the last 5 years it has been the leading country in providing the best environment for microfinance, according to the Global Microscope Index prepared by The Economist Intelligence Unit. This award has been received for its sophisticated legal framework and competitiveness in the financial sector. Furthermore, in terms of Labor Freedom, the country occupies third place, but the report recognizes that Peru is working on making its employment regulations more flexible.

Finally, with regard to freedom under the Rule of Law, although the score has increased compared to 7 years ago, the government is aware of the need to improve this aspect. For that reason, the country is implementing the National Anti-Corruption Plan 2012-2016, the aim of which is to fight corruption internally and position the country internationally against this scourge. The plan is directed by the High Level Anti-corruption Commission (CAN) headed by the President of the Council of Ministers and, as members, the Presidents of the following institutions: the Judiciary, Constitutional Tribunal, National Judicial Council, National Confederation of the Private Business Sector (Confiap), the National Assembly of Regional Governments and other entities. The plan contains 5 objectives, 15 strategies and 55 general actions that are being implemented throughout Peru.

# 1.9 Doing Business

In the last 10 years, Peru has achieved notable success in improving its business legislation so as to generate an adequate business environment for investment. This effort has been recognized by the report Doing Business 2013, published by the World Bank, which indicates that Peru is one of the 50th economies among 185 countries on a global level that has made the greatest reduction in the regulatory burden in order to achieve an efficient business regulation system. Peru occupies the 43rd place in the ranking of Doing Business, thus recording an advance of 19 points in the last five-year period. As a result, the country is in the upper third on a world level in terms of ease of doing business.

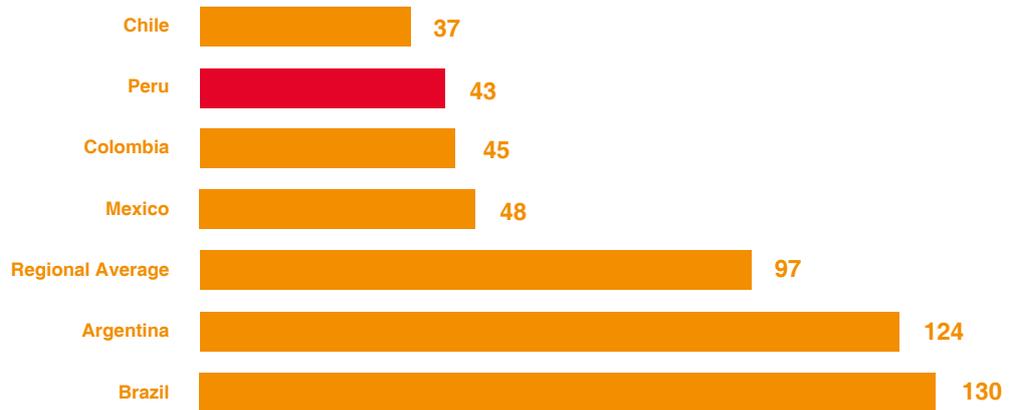
Doing Business 2013 is the tenth annual report to investigate regulations favoring business activities and those which restrict it. By means of comparative indicators of 185 economies, the report monitors the changes in regulations affecting 11 areas of the lifecycle of small and medium national companies. According to the 2013 report, Peru is one of the world's most outstanding countries in the categories of Investor Protection, Property Registration and Access to Credit. Furthermore, as a result of recent reforms, the country is placed in the upper third on a world level in the areas of Business Formation and Ease of Doing Business; and it has improved its position in the area of Construction Permits, advancing 18 points in the ranking.

## *The 50 economies narrowing the distance to frontier the most since 2005*

Rank	Economy	Region	Improvement percentage points
1	Georgia	ECA	31.6
2	Rwanda	SSA	26.5
3	Belarus	ECA	23.5
4	Burkina Faso	SSA	18.5
5	Macedonia, FYR	ECA	17.4
6	Egypt, Arab Rep.	MENA	16.3
7	Mali	SSA	15.8
8	Colombia	LAC	15.3
9	Tajikistan	ECA	15.2
10	Kyrgyz Republic	ECA	14.8
32	Peru	LAC	10.1

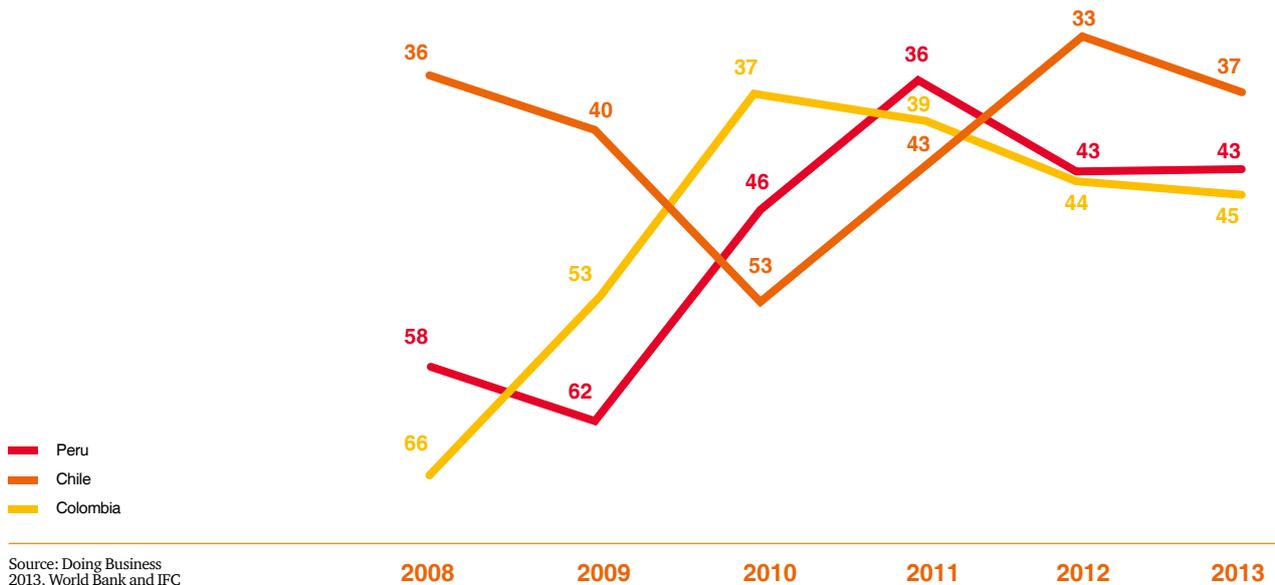
Source: Doing Business 2013, World Bank and IFC

## How Peru and comparable economies in Latin America rank for ease of doing business



Source: Doing Business 2013, World Bank and IFC

## Peru: Ranking for ease of doing business 2008 - 2013



Source: Doing Business 2013, World Bank and IFC

### **Starting a business (rank)**

Indicator	Peru	Latin America & Caribbean	OECD
Procedures (number)	5	9	5
Time (days)	26	53	12
Cost (% of income per capita)	10.6	33.7	4.5
Paid-in Min. Capital (% of income per capita)	0.0	3.7	13.3

Source: Doing Business 2013, World Bank and IFC

### **Dealing with Construction Permits (rank)**

Indicator	Peru	Latin America & Caribbean	OECD
Procedures (number)	14	13	14
Time (days)	173	225	143
Cost (% of income per capita)	62.8	143.7	78.7

Source: Doing Business 2013, World Bank and IFC

### **Getting Electricity (rank)**

Indicator	Peru	Latin America & Caribbean	OECD
Procedures (number)	5	5	5
Time (days)	100	66	98
Cost (% of income per capita)	378.2	559.0	93

Source: Doing Business 2013, World Bank and IFC

### **Registering Property (rank)**

Indicator	Peru	Latin America & Caribbean	OECD
Procedures (number)	4	7	5
Time (days)	7	67	26
Cost (% of income per capita)	3.3	6.0	4.5

Source: Doing Business 2013, World Bank and IFC

### ***Getting Credit (rank)***

Indicator	Peru	Latin America & Caribbean	OECD
Strength of legal rights index (0-10)	7	6	7
Depth of credit information index (0-6)	6	3	5
Public registry coverage (% of adults)	31.2	11.1	10.2
Private bureau coverage (% of adults)	42.5	33.8	67.4

Source: Doing Business 2013, World Bank and IFC

### ***Protecting Investors (rank)***

Indicator	Peru	Latin America & Caribbean	OECD
Extent of disclosure index (0-10)	9	4	6
Extend of director liability index (0-10)	6	5	5
Ease of shareholder suits index (0-10)	8	6	7
Strength of investor protection index (0-10)	7.7	5.0	6.1

Source: Doing Business 2013, World Bank and IFC

### ***Paying Taxes (rank)***

Indicator	Peru	Latin America & Caribbean	OECD
Payments (number per year)	9	30	12
Time (hours per year)	293	367	176

Source: Doing Business 2013, World Bank and IFC

### **Trading Across Borders (rank)**

Indicator	Peru	Latin America & Caribbean	OECD
Documents to export (number)	6	6	4
Time to export (days)	12	17	10
Cost to export (US\$ per container)	890	1,268	1,028
Documents to import (number)	8	7	5
Time to import (days)	17	19	10
Cost to import (US\$ per container)	880	1,612	1,080

Source: Doing Business 2013, World Bank and IFC

### **Enforcing Contracts (rank)**

Indicator	Peru	Latin America & Caribbean	OECD
Time (days)	428	727	510
Cost (% of Claim)	35.7	30.8	20.1
Procedures (number)	41	40	31

Source: Doing Business 2013, World Bank and IFC

### **Resolving Insolvency (rank)**

Indicator	Peru	Latin America & Caribbean	OECD
Time (years)	3.1	3.1	1.7
Cost (% of estate)	7	16	9
Recovery rate (cents on the dollar)	28.1	34.1	70.6

Source: Doing Business 2013, World Bank and IFC

# Investment Promotion

Peru offers an attractive and favorable business environment for foreign investment. That is corroborated by the various business climate indicators in which Peru stands out in leading positions and in its auspicious legal framework for investments.

The standards of treatment of foreign investment in Peru are based on the principle of “national treatment”, that is, in Peru foreign investors have the same rights over their investments as a local investor. No authority, regardless of government level, has the power to apply a differentiated treatment on the basis of nationality, sectors or types of economic activity or geographic location where the investment is made, nor with regard to exchange aspects, prices, tariffs or non-customs duties, kind of business formation, legal status as an individual or corporate entity; and, no other cause with equivalent effects.

There is no prior authorization requirement for foreign investments. Foreign investments are permitted without restrictions in the vast majority of economic activities and the acquisition of shares belonging to local investors is completely permitted, both through the stock market as well as over-the-counter operations. Investors have the right to organize and carry out their activities in any of the business forms envisaged by law.

Respect for foreign investment is guaranteed in the Political Constitution and in other complementary legislation. Thus, the laws of Peru establish:

- Non-discriminatory treatment of the foreign investor.
- Unrestricted access to most economic sectors.\*
- Free transfer of capital.
- Free competition.
- Protection of private property.
- Freedom to buy shares from Peruvian nationals.
- Free access to local and overseas credit.
- Free remittance of royalties.
- Free access to foreign exchange and complete freedom to maintain deposits overseas.
- Access to international mechanisms for the resolution of disputes.
- Additionally, Peru participates in the Investment Committee of the Organization for Economic Cooperation and Development (OECD) – Promotes the implementation of OECD Guidelines for Multinational Companies.

Furthermore, the legal framework for investment promotion provides special regimes, among which the following figures prevail:

## **A. The Legal Stability Agreement by which the State guarantees to the investor:**

- Stability in the regulations related to non-discriminatory treatment.
- Stability in the Income Tax regime (dividends).
- Stability in the right to use the most favorable market exchange rate.
- Stability in the regime of freely available foreign exchange and right of free remittance of profits, dividends and royalties.

## **B. The agreement for Early Recovery of V.A.T. in which the State authorizes the benefit of:**

- Reimbursement of Value Added Tax during the entire pre-operation stage (minimum duration of 2 years).
- Applicable to all sectors of economic activity.
- The minimum investment is US\$ 5 million, except in agricultural activity where there is no such requirement.
- The Project can be divided into stages, segments or similar.

(\*Investments which require authorization: Those located within 50 Km of Peru’s frontier line and those involving arms, ammunition and explosives. Furthermore, a local majority shareholder is required for investments in coastal shipping transport, as well as air transport companies

In Peru, the authority responsible for promoting private investment is the Private Investment Promotion Agency (ProInversión). Among the Agency's principal activities are the proposal and execution of the national policy to promote private investment; the promotion of private investment in infrastructure and public services, investor's guidance in the stages of pre-establishment, establishment and post-establishment; subscription of Legal Stability Agreements and Investment Agreements (for the VAT anticipated recovery), and foreign investment registration.

For their part, regional governments also promote private investment projects in their territorial jurisdictions and within the framework of their functions and competencies.

ProInversión promotes a portfolio of projects to be implemented under the PPP modality, which exceeds US\$ 11 billion.\*

### ***Peru: Process of private investment promotion***

Sector	Project	Estimated investment
Land Transport (Road & Rail)	4	6,437
Energy (Electricity and fuel)	5	4,175
Sanitation	3	545
Agriculture	1	603
Telecommunications	1	267
Airport	1	556
Ports and navigability	2	177
Tourism	1	16
Mining	3	n.a.
Capital markets	1	n.a.
Culture	1	n.a.
Health	1	n.a.

Source: ProInversión

\* For update information on ProInversión's project portfolio, visit: [www.proinversion.gob.pe](http://www.proinversion.gob.pe)

# 1.11

## Economic Indicators

Currency	Nuevo Sol (S/.)
Gross Domestic Product (GDP) 2012	US\$ 200 billion
GDP per capita 2012	US\$ 6,625
GDP based PPP 2013	US\$ 353 billion
GDP per capita based PPP 2013	US\$ 11,403
GDP Annual Growth Rate 2012	6.3%
Minimum Wage	S/. 750 (US\$ 280 at exchange rate of S/. 2.68)
Private Consumption (as a percentage of GDP)	61.7%
Public Consumption (as a percentage of GDP)	10.5%
Gross Fixed Investment (as a percentage of GDP)	26.8%
Foreign Public Debt	US\$ 19.1 billion
Domestic Public Debt	US\$ 20.7 billion
Unemployment Rate 2012	6.8%
Population below poverty line 2012	25.8%
Fiscal Burden (as a percentage of GDP)	16.0%
Lima Price Index April 2013	2.31%
Net International Reserves (NIR)	US\$ 68,221 million
Foreign Direct Investment (FDI) 2012	US\$ 12,240 million
Exports FOB 2012	US\$ 45,639 million
Imports FOB 2012	US\$ 41,113 million
NIR/M3 2012	0.9
NIR/debt short-term 2012	5.2
NIR/GDP 2012	32.0
Gross Public Debt/GDP 2012	19.8
Net Public Debt/GDP 2012	4.9



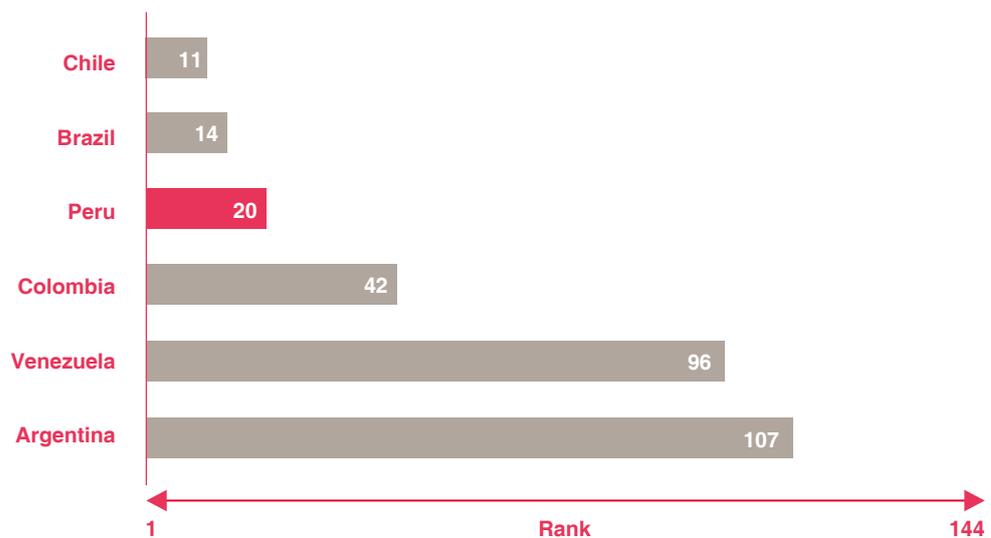
# Macroeconomic situation by sector

# 2.

## 2.1 Financial System

Peru has a solid financial system that is one of the most competitive in Latin America, in which international firms, local banks and non-banking micro-finance institutions recognized worldwide operate. The country is among the 20 economies of 144 that have a solid banking system, according to the Global Competitiveness report 2012-2013 of the World Economic Forum; and occupies first place among 55 economies with the best business environment for microfinance, since it has a competitive microfinance sector and a sophisticated regulatory environment, according to the Global Microscope report prepared by The Economist Intelligence Unit. The system is conformed by 67 financial institutions, 60 for multiple operations, 5 for specialized operations and two state institutions.

### *The Global Competitiveness Index 2012-2013 Soundness of banks*



Source: The Global Competitiveness Report 2012-2013  
World Economic Forum

## Overall microfinance business environment rankings 2012

Rank	Country	Score
1	Peru	79.8
2	Bolivia	71.8
3	Pakistan	67.4
4	Philippines	63.3
5	Kenya	62.8
6	El Salvador	56.3
7	Colombia	56.0
8	Cambodia	55.7
9	Mexico	53.6
10	Panama	53.6

Source: Global Microscope on the microfinance business environment 2012.  
The Economist Intelligence Unit

## Peru: Financial system

Multiple Operations	Number of companies
Banking institutions	16
Financial enterprises	11
Non-Banking Microfinance Institutions	33
Municipal Saving and Loans	13
Rural Savings and Loans	10
Small and Micro Enterprise Development Companies (Edpyme)	10
Non-Multiple Operations	
Leasing Companies	2
Mortgage Administration	2
State Banking	2
Factoring	1
<b>Total</b>	<b>67</b>

Source: SBS

### Peru: Main operations of multiple operating companies

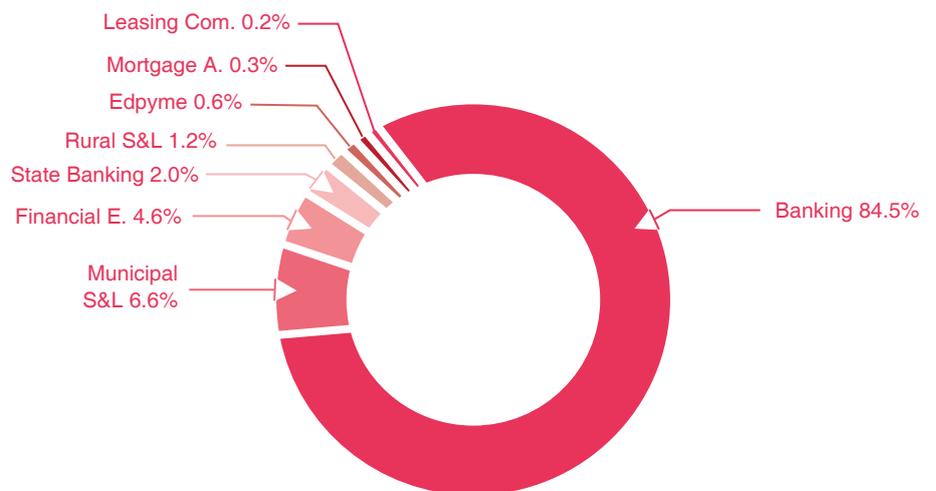
	Banking	Financial enterprises	Municipal Savings & Loans	Rural Savings & Loans	Edpyme
Direct Loans	■	■	■	■	■
Pledge loans	■	■	■	■	■
Discounts and factoring	■	■	■	■	■
Leasing	■	■	■	■	■
Trust	■	■	■	■	■
Investment in securities	■	■	■	■	■
Foreign currency operations	■	■	■	■	■
Time deposits and savings	■	■	■	■	■
Sight deposits	■	■	■	■	■
Issue and placing of bonds	■	■	■	■	■
Credit card and debit card	■	■	■	■	■
Foreign trade	■	■	■	■	■
Overdrafts	■	■	■	■	■
Commodities and Derivatives	■	■	■	■	■

- Operations can be performed
- Operations that require authorization
- After two years of operations
- After one year of operation

Source: SBS and Banking Law

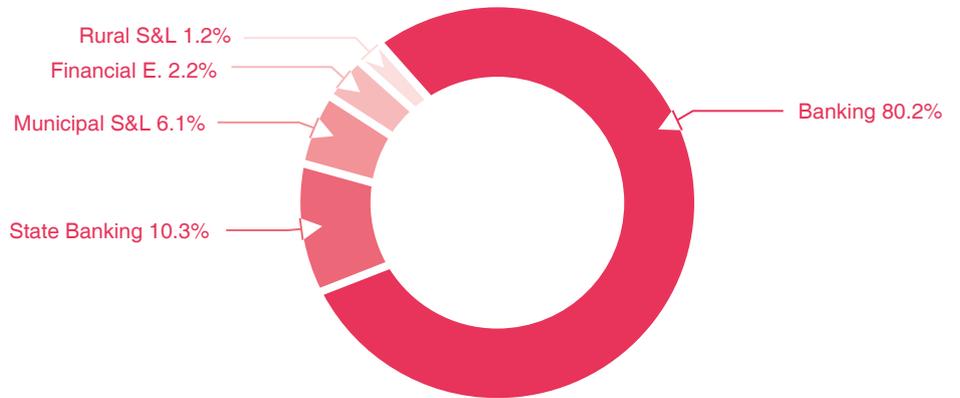
Likewise, banking exercises leadership in the Peruvian financial system since it concentrates close to 85% of the direct credits of the entire system and 80.2% of the deposits.

### Peru: Loans of financial system March 2013 (US\$ 66,324 Million)



Source: SBS

**Peru: Deposits of financial system 2013 (US\$ 71,664 Million)**



Source: SBS

**Strengths of the financial system**

**1. Solvency**

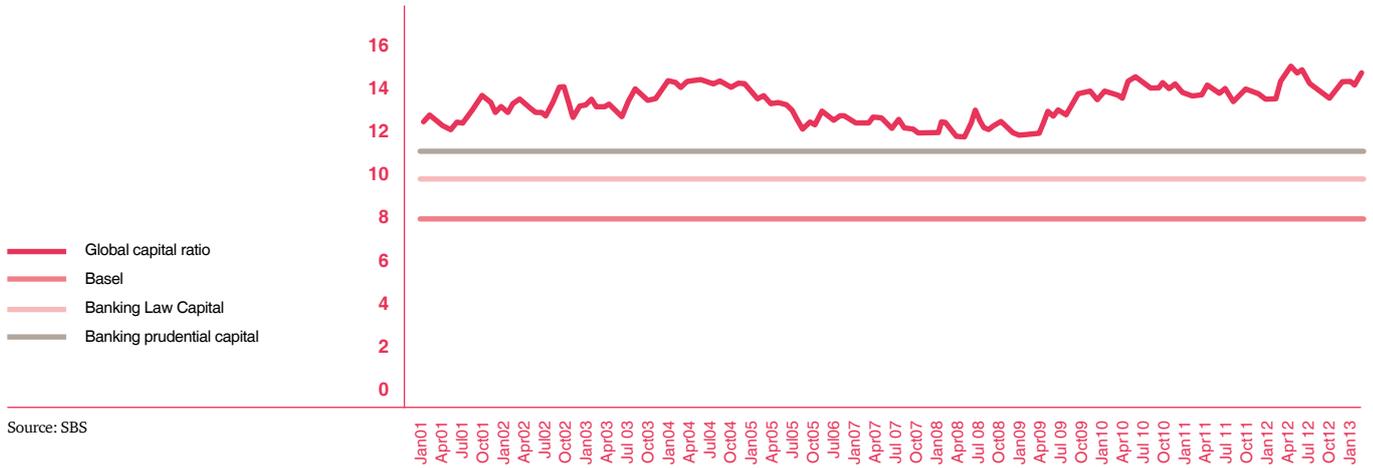
The Peruvian financial system has an adequate quality and quantity of capital that enables its institutions to finance possible losses and other impairment of the assets associated with the development of its activities. This soundness is a result of the regulatory standards, which include the recommendations of the Supervisory Committee of Basel II, and of the prudential capital requirements required by the Banking, Insurance and Pension Fund Regulator (SBS). The SBS requires higher capital ratios than Basel (capital buffers), based on the risk assumed by each subsystem, and the institutions strictly comply with these requirements, exceeding the standards.

**Peru: Minimum and prudential capital ratio required by SBS**

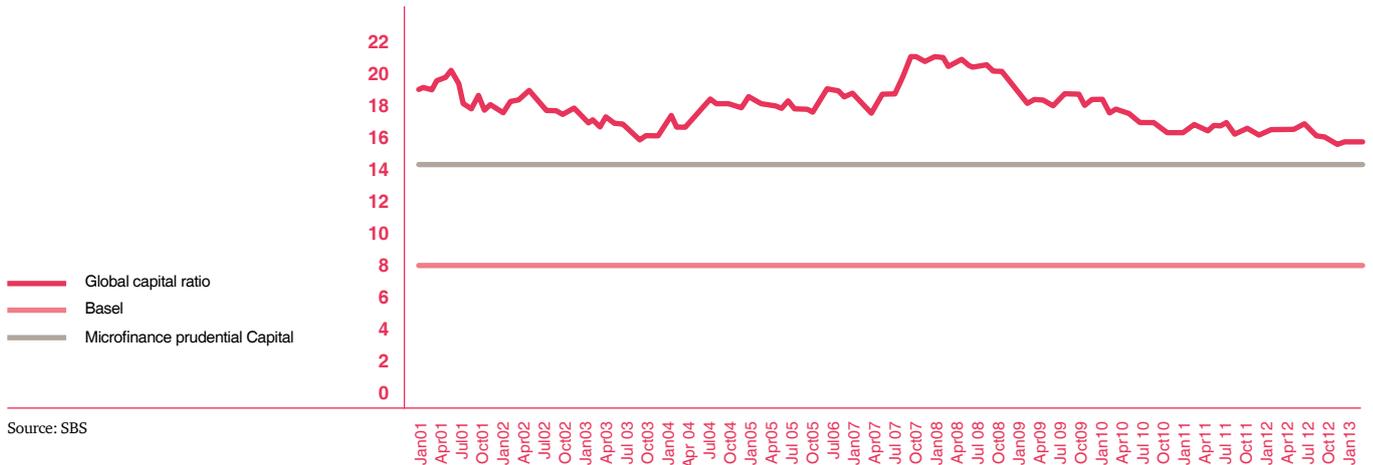


Source: SBS

### Peru: Banking Global capital ratio (January 2001 - January 2013)



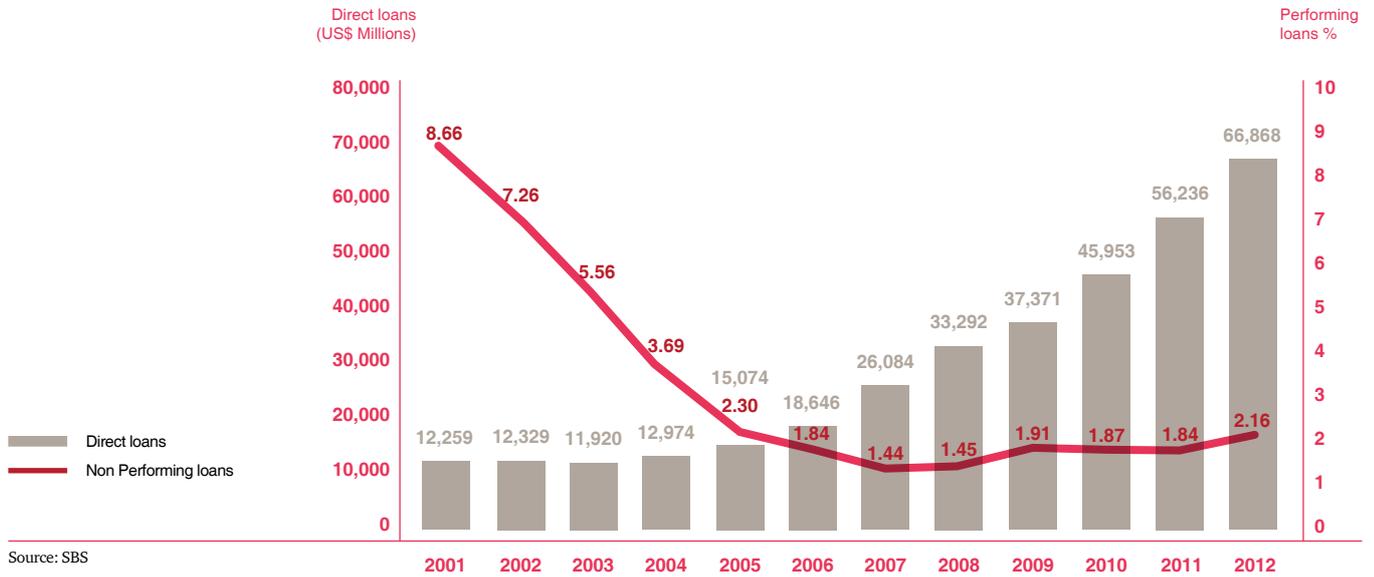
### Peru: Municipal S&L Global capital ratio (January 2001 - January 2013)



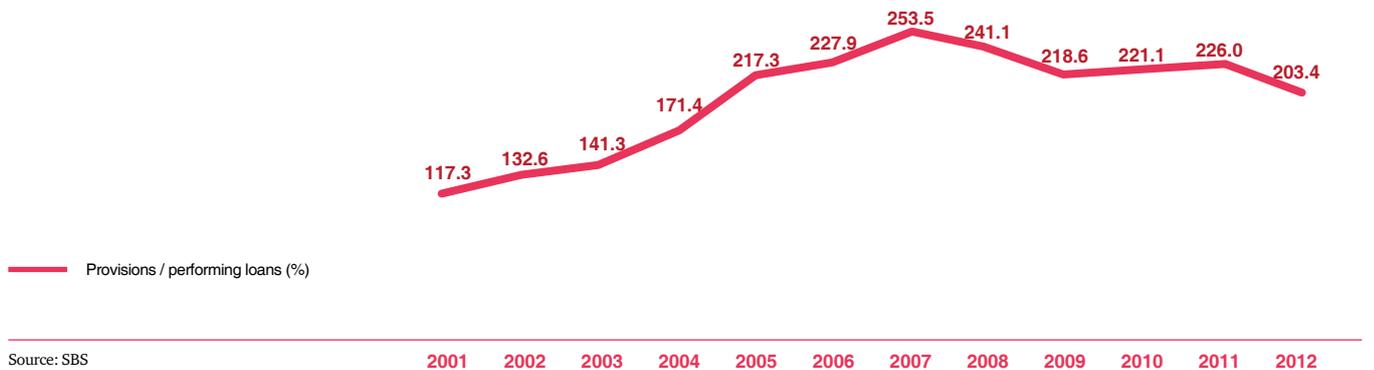
## 2. Quality of assets

The soundness of the financial system is also supported by the healthy expansion of loans. In the last 12 years, direct loans have quadrupled, as a result of the solid macroeconomic fundamentals of the country and the prudent policies of the SBS and BCRP; meanwhile, loan delinquency has been reduced to 75% in this period. At the same time, the past due loan portfolio has been kept fully provided for.

### Peru: Direct Loans of financial system 2001 - 2012 (US\$ Millions)



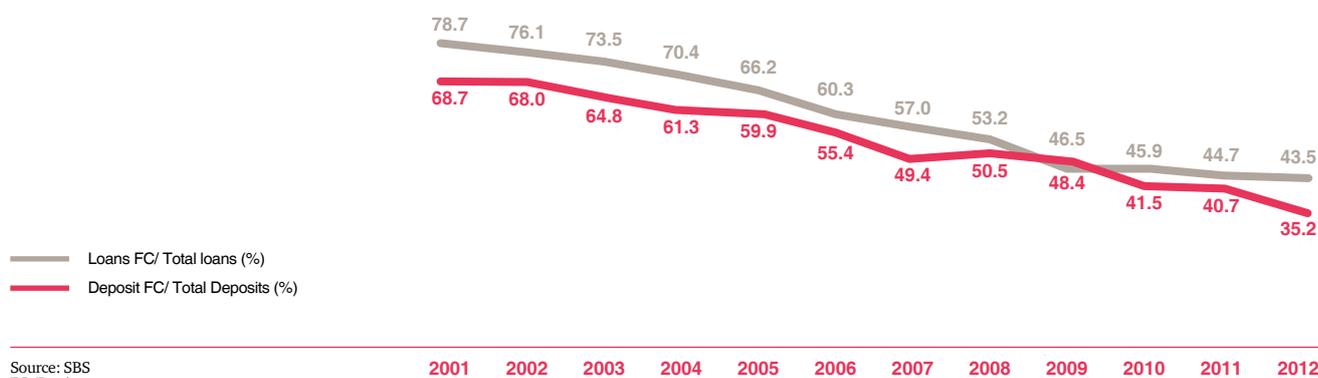
### Peru: Non performing loans coverage 2001 - 2012 (Percentages)



### 3. Dollarization

The participation of loans and deposits in foreign currency of the system has maintained a declining trend in the last 12 years. During this period, loan dollarization fell 35 percentage points and that of deposits fell 33 percentage points. This trend has been associated, in the case of loans, with the monetary policy and prudent regulatory measures adopted by the BCRP and SBS, so that the agents that do not generate income in foreign currency assume the risks involved due to currency mismatching, and, in the case of deposits, with the strength of the Nuevo Sol.

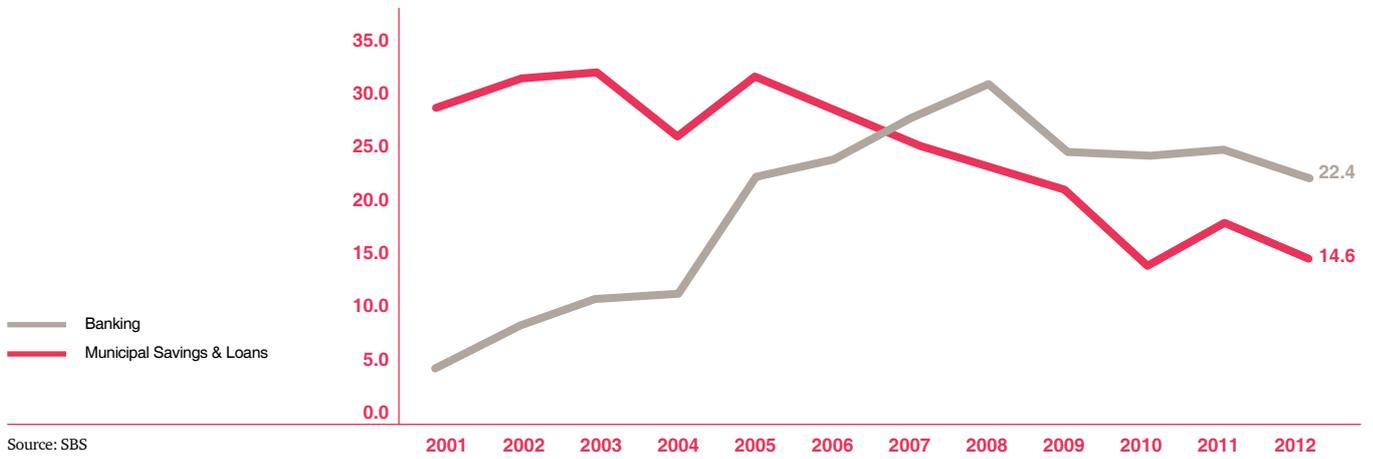
#### Peru: Non performing loans coverage 2001 - 2012 (Percentages)



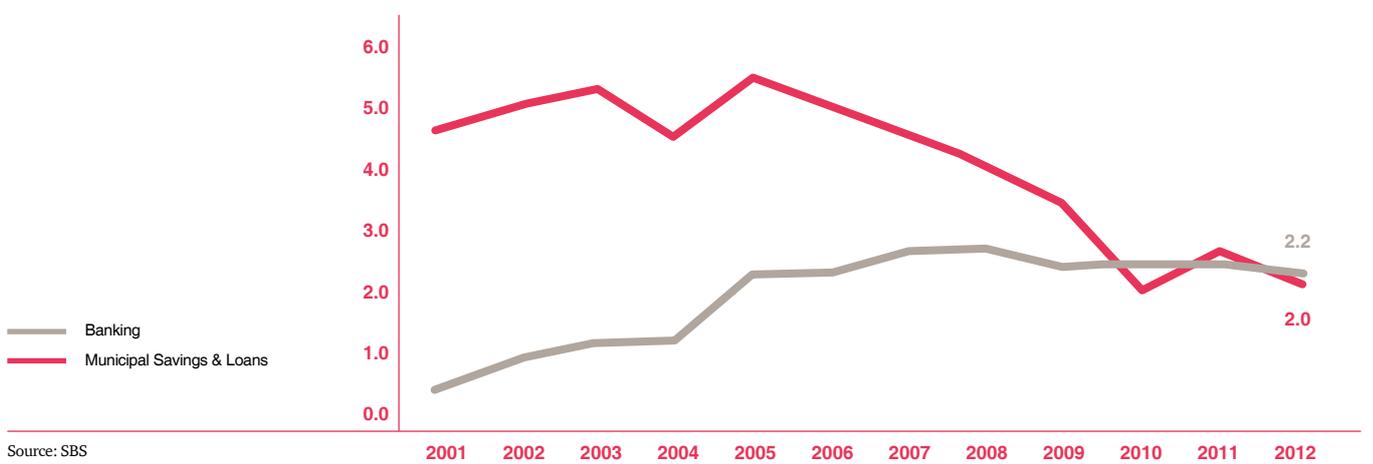
### 4. Profitability

The profitability of the companies of the financial system, in terms of equity and assets, has remained high in the last 12 years. In this manner, the return on equity of the banking sector has quadrupled during this time, as a result of the increased supply of financial products and services. Likewise, the municipal savings and loans as well as the other microfinance institutions present important returns on equity, in excess of 14%, which have decreased during recent years, as a result of the strong competition that exists in this system. The current participants in the microcredit business are the following: 33 microfinance institutions, one specialized bank, in addition to 167 savings and loan cooperatives and 16 Non-Governmental Organisms specialized in microloans, not regulated by the SBS. The Herfindahl – Hirschman index that measures the degree of concentration of loans to micro-companies totals 605 points, thus indicating that it is not a concentrated market, according to the BCRP.

**Peru: Return on equity of main subsystems 2001 - 2012 (Percentages)**



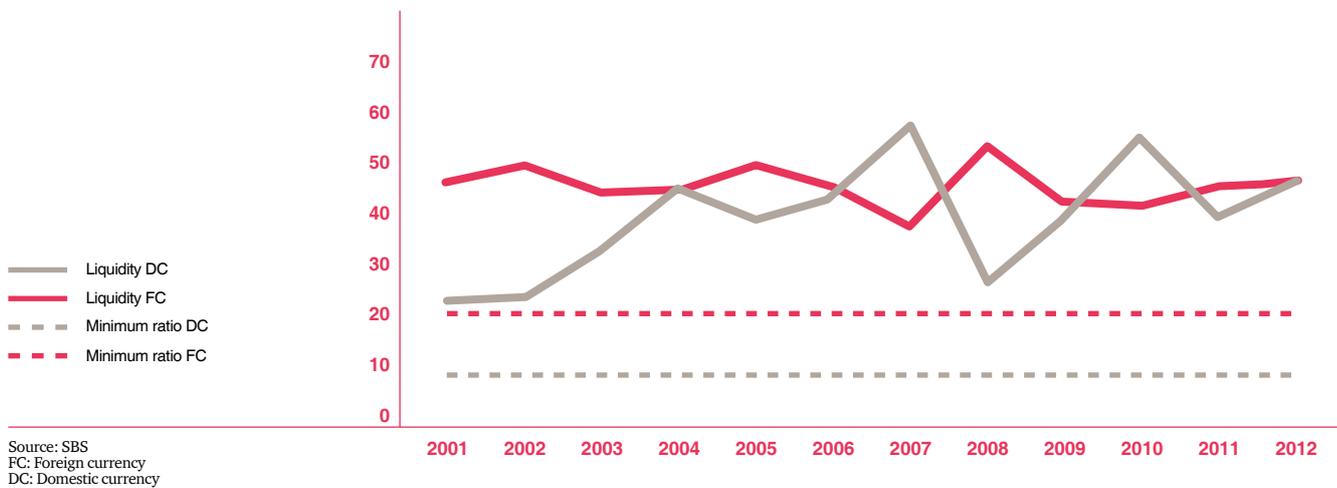
**Peru: Return of assets of main subsystem 2001 - 2012 (Percentages)**



## 5. Liquidity

The companies of the financial system have maintained comfortable coverage levels for short term obligations, in the last 12 years. Thus, the liquidity indicators of the banks and of the microfinance institutions in local and foreign currency are above the minimum standards required by the SBS.

### Peru: Banking liquidity ratio 2001 - 2012 (Percentages)



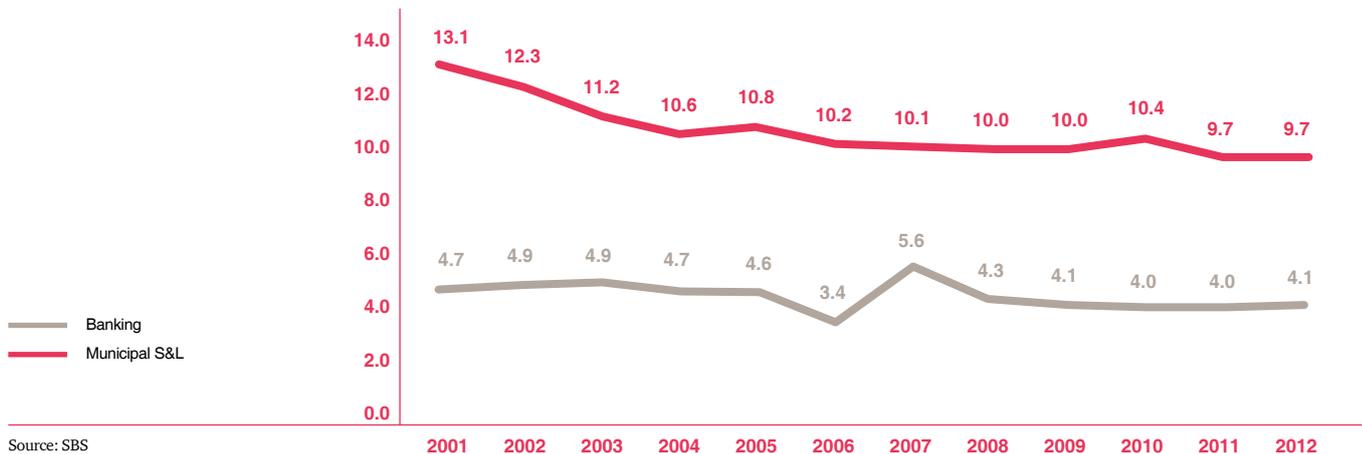
### Peru: Municipal Savings & Loans liquidity ratio 2001 - 2012 (Percentages)



## 6. Efficiency of management

The Peruvian financial system presents a decreasing trend in the management of its operating expenses. In the last 12 years, the ratio of operating expenses to bank assets has fallen 0.6 percentage points despite the expansion of the supply of financial products and services, both on the side of liabilities, as well as assets. For their part, the municipal savings and loans have also reduced their indicator of operating expenses by 3.4 percentage points, as have the rest of the microfinance institutions, during this period. The higher level of the efficiency indicator of the microfinance institutions compared to the banks is due to the characteristics of the segments in which they operate, that have a large number of debtors, most of whom lack a credit record and generate higher operating expenses.

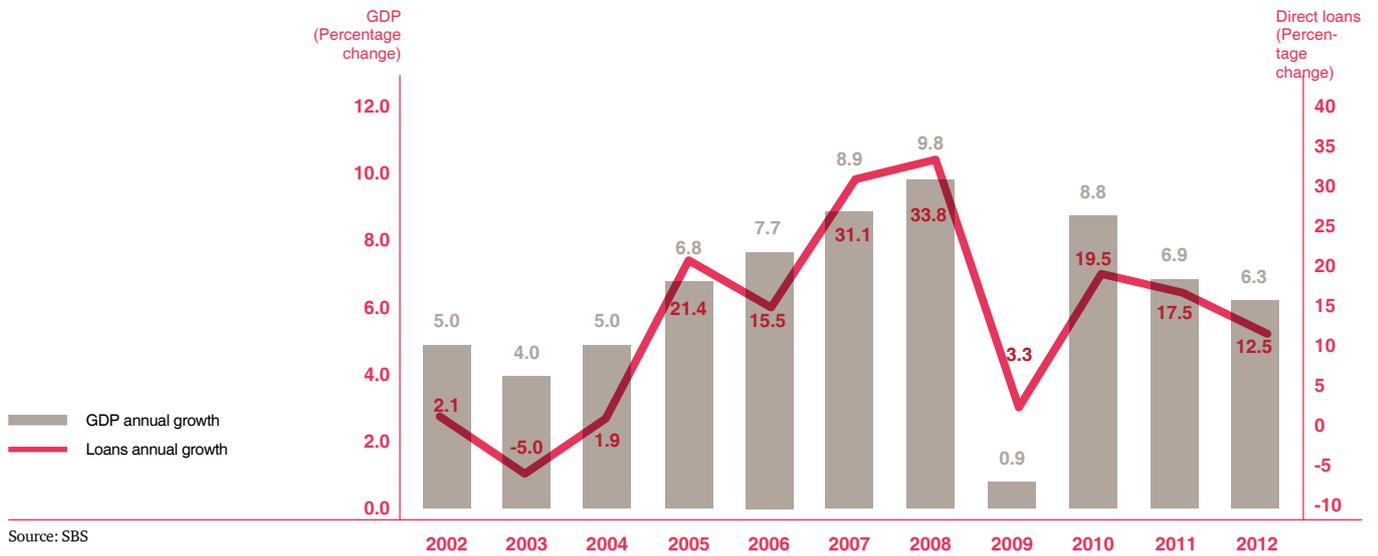
### Peru: Return on assets of main subsystems 2001 - 2012 (Percentages)



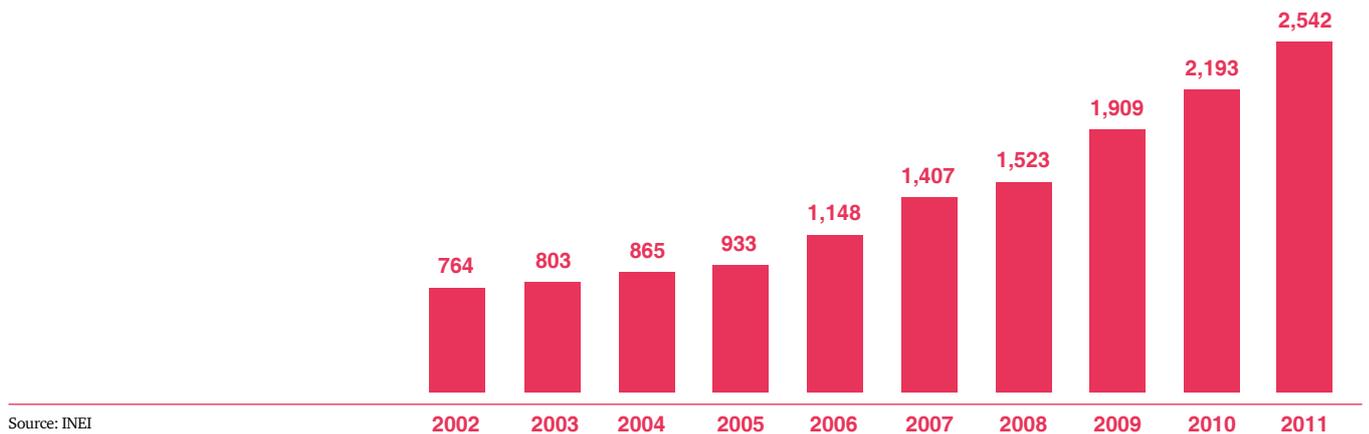
## 7. Growth engine

The Peruvian financial system has contributed to the country's vigorous economic growth of the last decade. Although it has a 3% share of GDP, its impact on the economy has been greater as a result of its relationship with other sectors. The GDP of financial activity in constant terms has tripled in the last 10 years, expanding at an average annual rate in excess of 10%, according to the INEI.

### Peru: GDP and direct loans 2002 - 2012 (Annual growth rates)

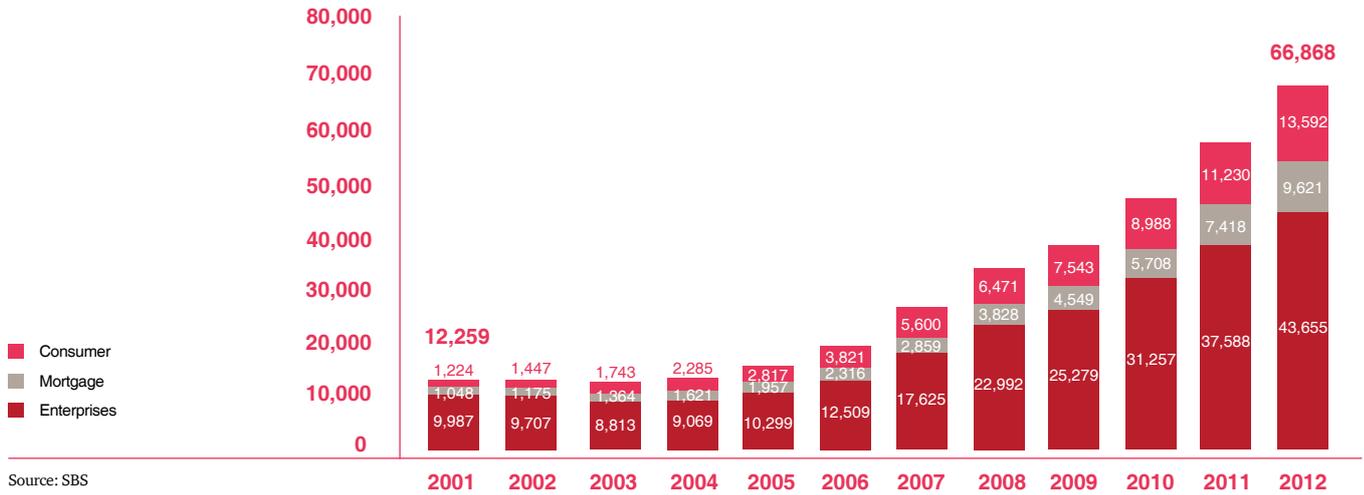


### Peru: Financial GDP 2002-2011 (US\$ Millions)

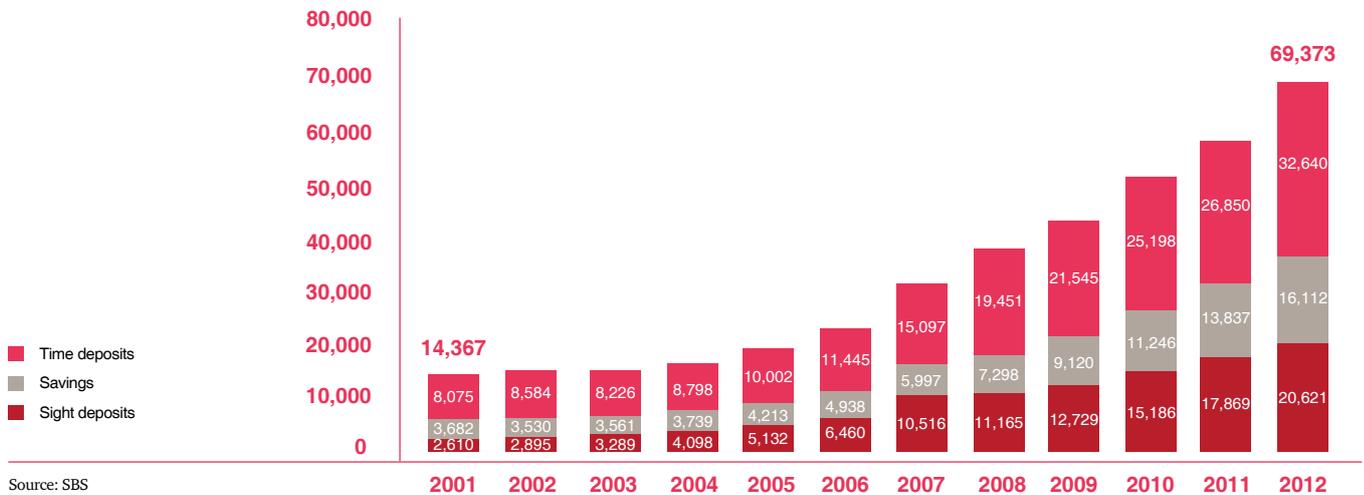


The loans of the financial system have grown at an annual average of 14% and deposits at 13%, since 2002. This has permitted the financial intermediation indicators to increase significantly in the last 12 years. The average annual balance of direct loans as a percentage of GDP has increased by 10 percentage points, at the same time the average annual balance of deposits in relation to GDP has grown by 7 percentage points. In this manner, the upward trend of the importance of the intermediation of resources by the financial system in economic activity continues, reflecting the high potential for future growth.

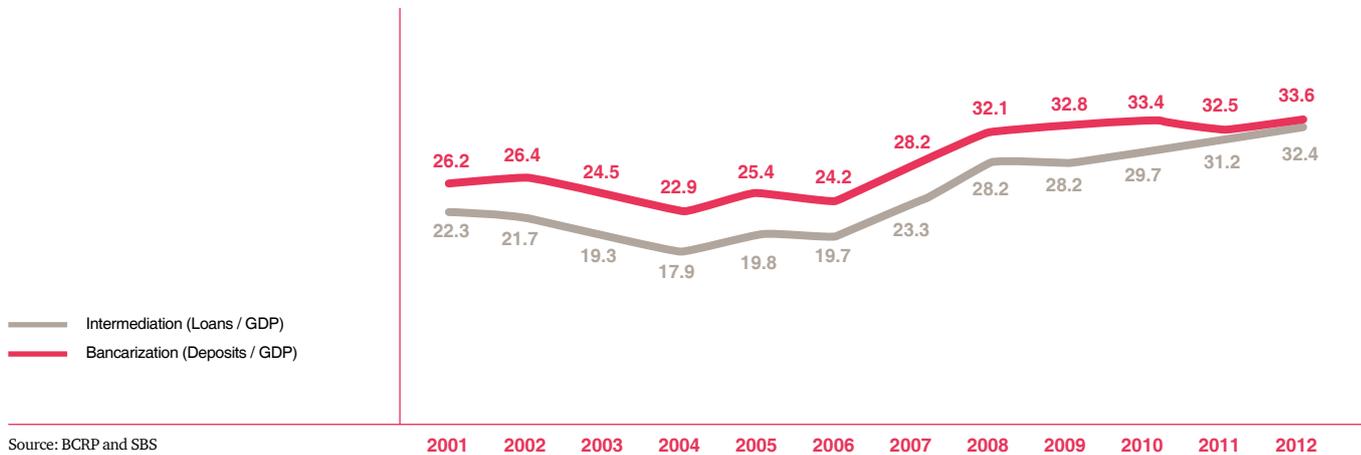
### Peru: Direct loans of financial system 2001-2012 (US\$ Millions)



### Peru: Deposits of financial system 2001-2012 (US\$ Millions)



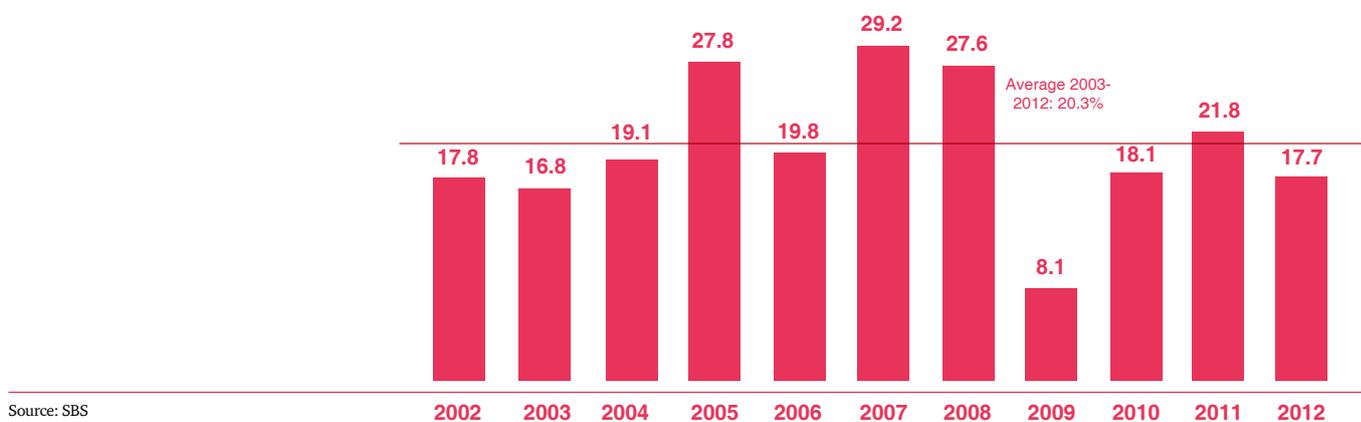
## Peru: Intermediation and bancarization 2001-2012 (Percentage of GDP)



The financial system has granted loans to multiple sectors of the economy satisfying the needs of companies and families. In the first quarter of 2013, 30% of the loan portfolio consists of personal loans and 70% of loans to companies. In the last 12 years, personal loans have grown at an average annual rate of 20% and the loans to companies have expanded at an average annual rate of 12%.

The growth of personal loans is associated with the increased access of the population to the financial system, explained by the social progress of the last decade. Nevertheless, the SBS and the BCRP have been applying prudent policies to avoid the risk of over-indebtedness. Meanwhile, the increase in loans to companies is due to the dynamism of the economic activity of the last decade, the various options that they have to raise finance in the capital market and to their liquidity.

## Peru: Personal loans 2002-2012 (Annual growth rates)



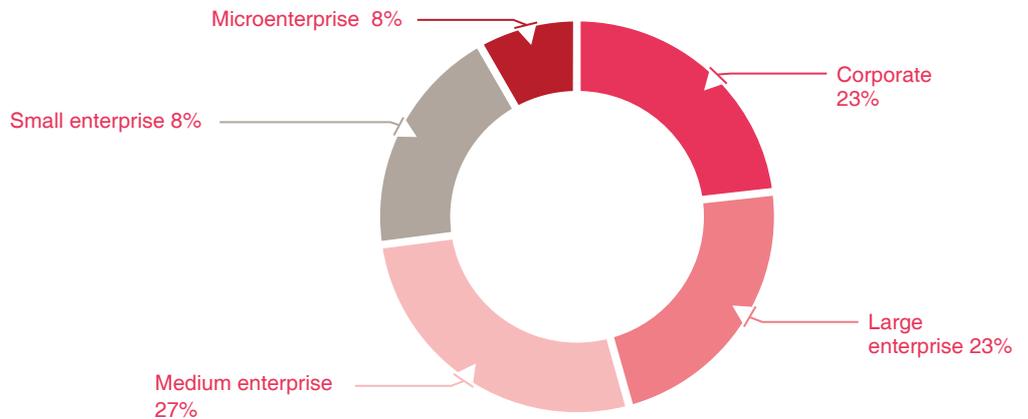
**Peru: Loans to companies 2002-2012 (Annual growth rates)**



Source: SBS

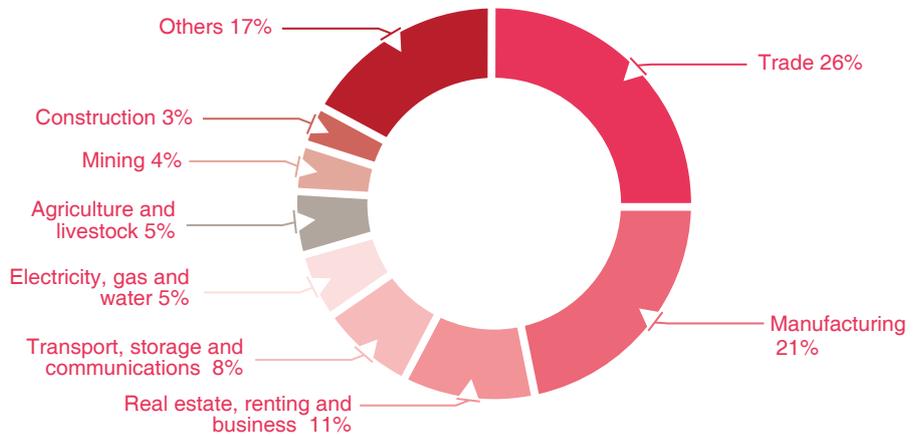
Loans to companies are distributed in an equal manner between corporate firms, large, medium and Mypes (Spanish acronym for micro companies and small companies). Trade and manufacturing are the most important sectors for the loans of the financial system. In the last 5 years, the loans to the trade sector doubled, after increasing by 140% and loans to industry increased by 46%. Likewise, another sector that has been gaining ground as a recipient of business loans is the real estate sector, where loans have tripled in the last 5 years, increasing by 202%.

**Peru: Loans to companies March 2013 (US\$ 42,709 Million)**



Source: SBS

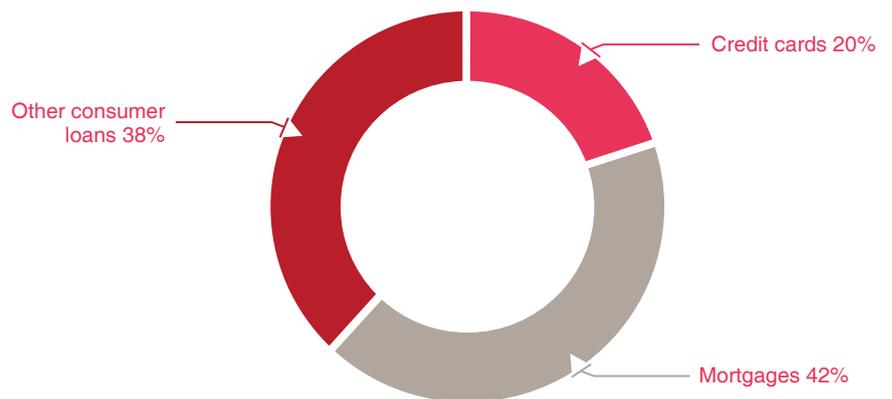
### Peru: Company loans by economic sectors (March 2013)



Source: SBS

On the side of personal loans, mortgages and credit cards have shown great dynamism in the last 5 years. Mortgage loans for housing have grown by 186% and the loans through credit cards by 114%.

### Peru: Personal loans March 2013 (US\$ 23,615 Million) - Percentages



Source: SBS

Finally, with regard to the formation of companies in the Peruvian financial system, to commence operations, the entities must previously obtain from the SBS, the organization and operating authorizations, adhering to the general procedure established by said regulator. Thus, the average time taken to open an entity is approximately 53 weeks, depending on the kind of operations it intends to carry out.

## Incorporation of banks and financial entities

Authorization of Incorporation Process (Time Estimated: 33 weeks)							Authorization of Operation Process (Time Estimated: 20 weeks)			
Week: 1	Week: 2 - 3	Week: 4 - 11	Week: 12 - 15	Week: 16 - 25	Week: 26 - 29	Week: 30 - 33	Week: 34 - 41	Week: 42	Week: 43 - 50	Week: 51 - 53
Notice of standard publication form template	Opposition period related to the Authorization of Incorporation Application	SBS Evaluation of the Authorization of Incorporation Application	BCRP Evaluation of the Authorization of Incorporation Application	SBS Final Evaluation	Authorization of Incorporation Certificate Publication Period	Registration with Sunarp (Public Registry)	Evaluation of the Authorization to Operate Application	Publication of the Authorization to Operate Certificate	Registration of capital stock with Lima Stock Exchange and SMV	Maximum period to start operating



**Total time estimated: 53 weeks**

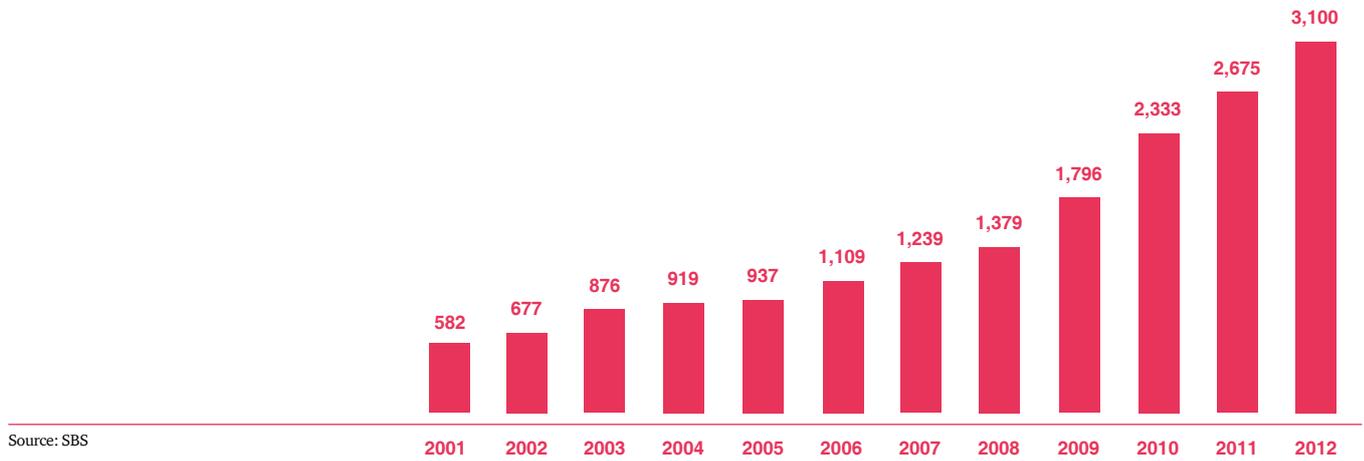
Source: SBS

### 2.1.1 Insurance system

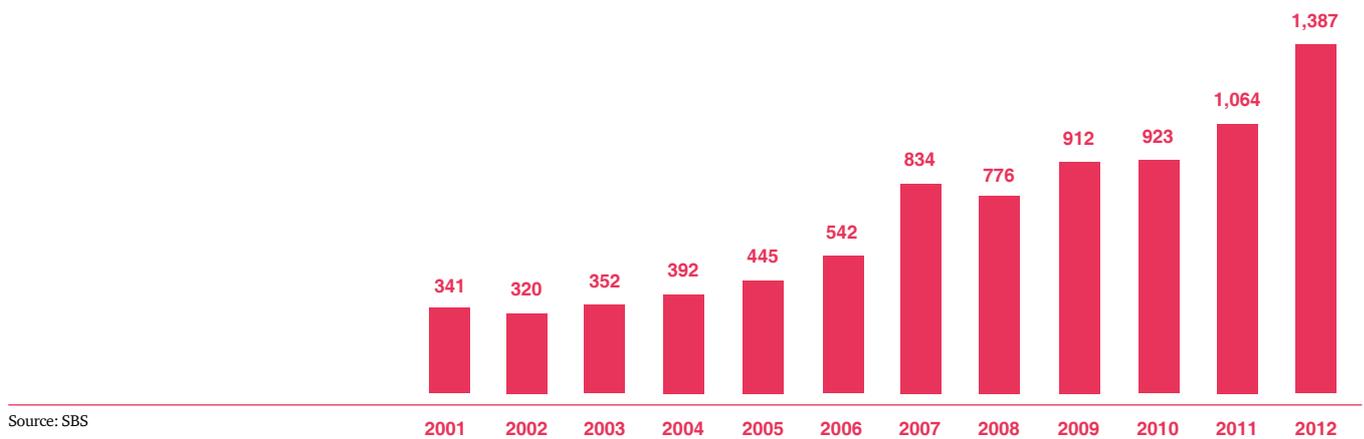
The insurance system of Peru is one of the cornerstones of its solid financial system. It has accompanied the economic development of the past decade, with a portfolio of equity and personal products in accordance with the risks associated with growth. In the last 12 years, the revenues from premiums of insurance companies have exceeded the dynamism of GDP with an average annual rate of 17%, according to the SBS. At the same time the payment of claims has increased at an average annual rate of 15% during this period, evidencing the commitment assumed by the insurance companies.

The insurance product portfolio is composed of property, accident and health, and life insurance. According to this classification, of the 14 companies which make up the system, 4 are dedicated to all three businesses, 3 to providing property insurance and accident and health insurance, 5 exclusively to providing life insurance and 2 exclusively to providing property insurance. In recent years, the development of the insurance industry has been driven mainly by internal demand and economic activity. At the end of 2012, life, automobile and accident and health insurance – demanded principally by families – concentrated 40% of the policies, while fire and all risk, technical segments (insurance associated with construction) and other property policies –demanded mainly by companies- concentrated 24% of the product offering.

### ***Peru: Insurance System net premiums 2001-2012 (US\$ Millions)***



### ***Peru: Casualty net premiums of the Insurance system 2001-2012 (US\$ Millions)***

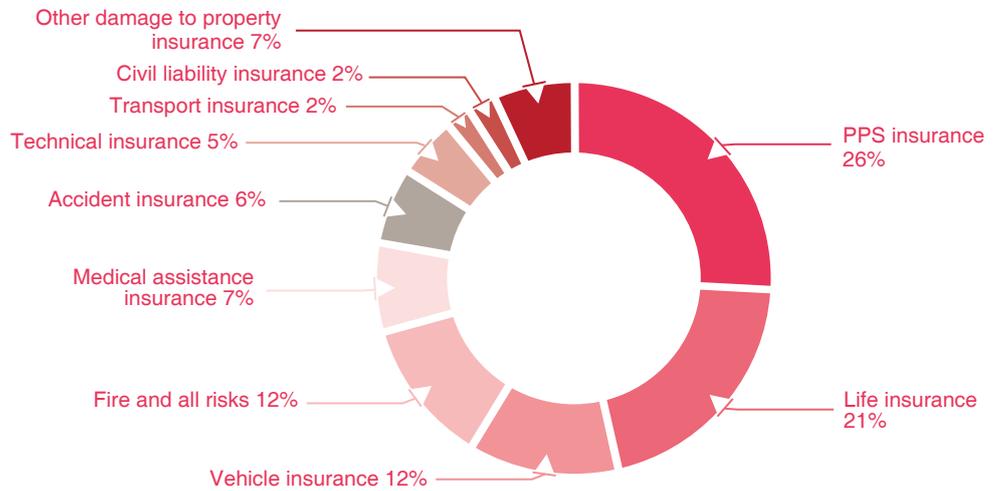


### **Peru: Insurance system 2012 (US\$ Millions)**

<b>Rank</b>	<b>Enterprises</b>	<b>Operations</b>	<b>Net premiums</b>	<b>Market share %</b>
1	Rimac	Property, accident and health, and life insurance	1,034	33.4
2	Pacifico Peruano Suiza	Property and accident and health insurance	428	13.8
3	El Pacifico Vida	Life insurance	406	13.1
4	Mapfre Peru	Property and accident and health insurance	244	7.9
5	La Positiva	Property and accident and health insurance	231	7.4
6	Seguros Sura	Life insurance	178	5.7
7	Interseguro	Property, accident and health, and life insurance	175	5.6
8	La Positiva Vida	Life insurance	169	5.5
9	Mapfre Peru Vida	Life insurance	94	3.0
10	Protecta	Life insurance	49	1.6
11	Ace	Property, accident and health, and life insurance	40	1.3
12	Cardif	Property, accident and health, and life insurance	37	1.2
13	Secrex	Property insurance	9	0.3
14	Insur	Property insurance	5	0.2
	<b>Total</b>		3,100	100.0

Source:SBS

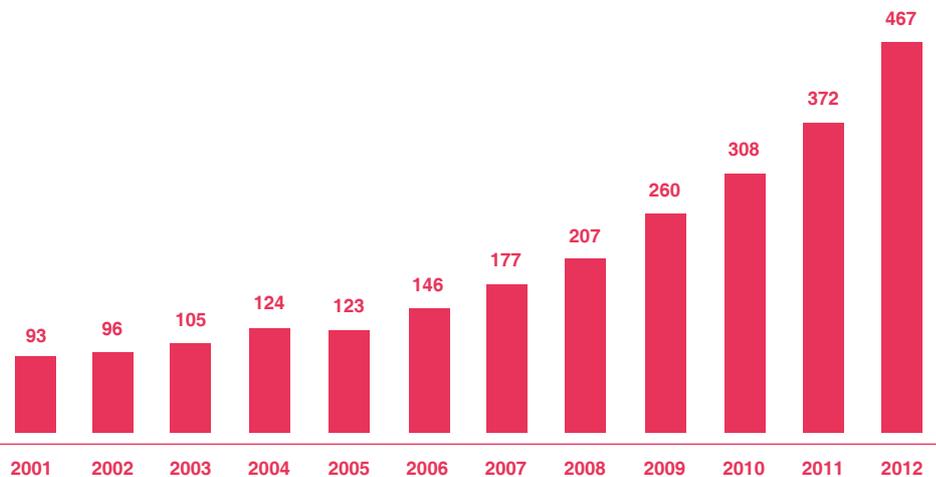
**Peru: Net premiums per risk covered 2012 (US\$ 3,100 Million)**



Source: SBS  
PPS: Private Pension System

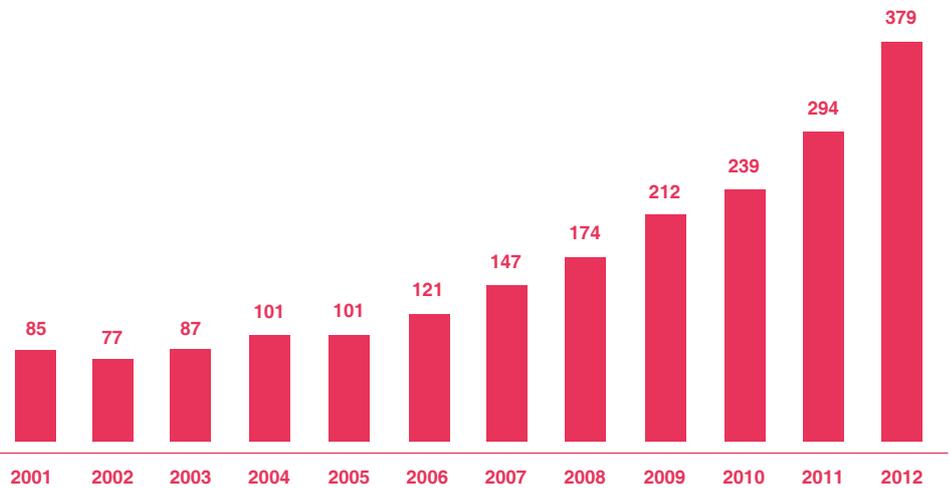
In addition to accidents and health, the insurers provide group health plans to companies and insurance against high risk work accidents, through their subsidiaries the Empresas Prestadoras de Salud (EPS). Thus, in the last 12 years, the contributions to the EPS have grown at an average annual rate of 16%, according to the National Superintendence of Health Insurance (Sunasa, from the Spanish acronym). As in the case of business insurance, the dynamism of the EPS products was associated with the dynamism of Peru's economic activity.

**Peru: Net contributions to the EPS System 2001-2012 (US\$ Millions)**



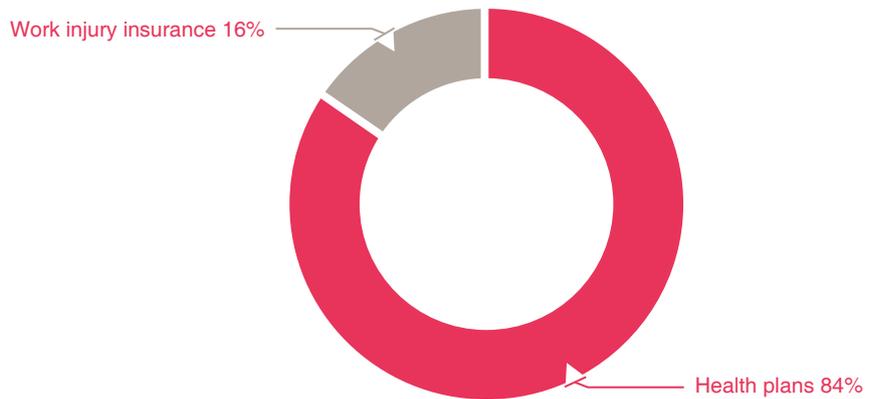
Source: Sunasa

### Peru: Net benefits to the EPS system 2001-2012 (US\$ Millions)



Source: Sunasa

### Peru: Products of EPS System 2012 (US\$ 467 Million)



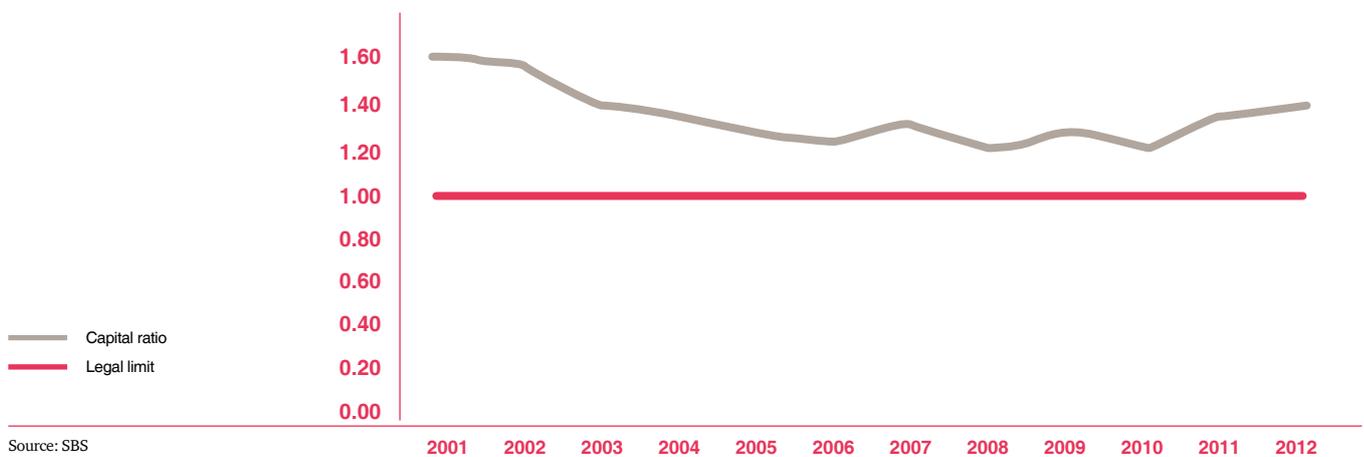
Source: Sunasa

Furthermore, the Peruvian insurance system is strengthened by having a reduced regulatory burden. Although only insurance companies duly authorized by the SBS can underwrite insurance policies, residents are free to take out coverage with foreign insurers. In addition, the SBS has opened the way for more foreign insurance companies to enter the local market. Another no less important strength is the financial health of the Peruvian insurance companies, which have indicators above the levels of the standards required by the SBS.

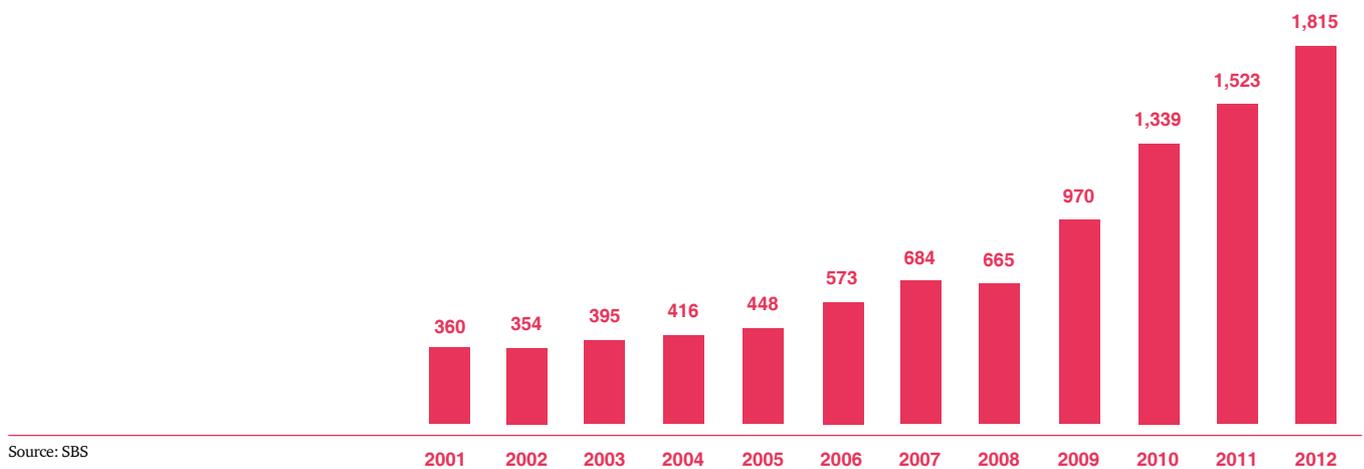
## 1. Solvency

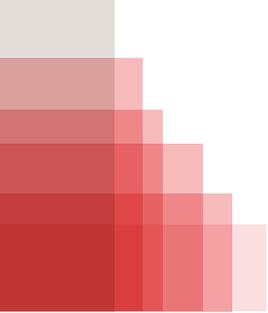
In the last 12 years, the capital ratio of the insurance companies has remained above the level required by the SBS. The insurers' equity has increased fivefold, growing at an annual average rate of 17% during said period. At the end of 2012, the effective equity covers 1.32 times the equity requirements of the companies, above the legal limit of 1.00.

### Peru: Insurance System capital ratio 2001-2012 (Number of times)



### Peru: Equity of Insurance System 2001-2012 (US\$ Millions)

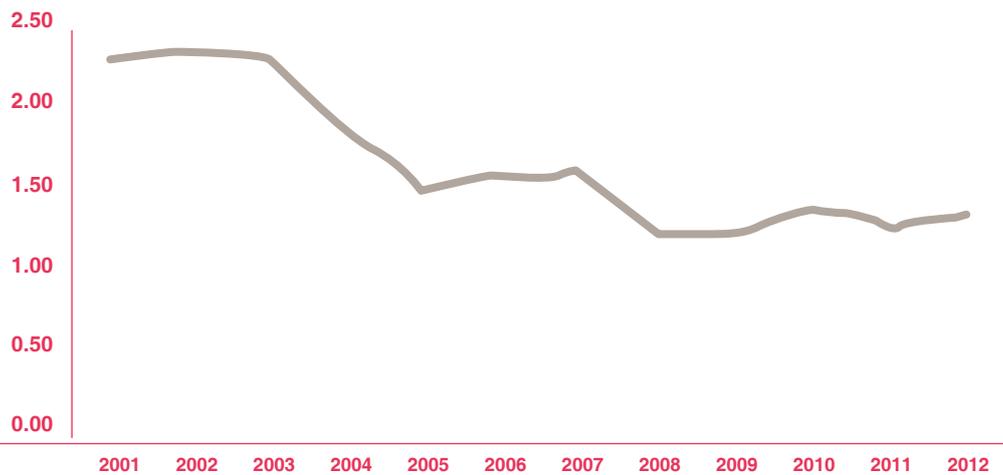




## 2. Liquidity

The insurance companies have available property, securities and short-term deposits with which to pay their short-term obligations. At the close of 2012, the current liquidity ratio of the system – measured as the participation of current assets in relation to current liabilities – was 1.31 times.

### Peru: Insurance System liquidity ratio 2001-2012 (Number of times)

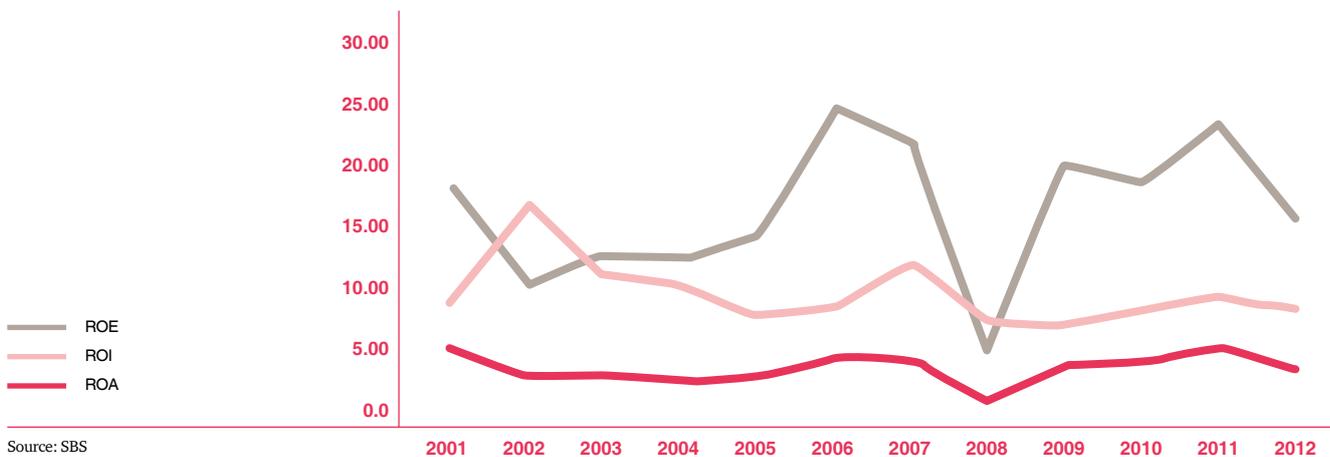


Source: SBS  
Current Assets / Current  
Liabilities

## 3. Profitability

The Peruvian insurance system has adequate levels of profitability. In the last 12 years, the average return on equity has increased to 16.4%.

### Peru: Insurance System return ratio 2001-2012 (Percentages)



Source: SBS



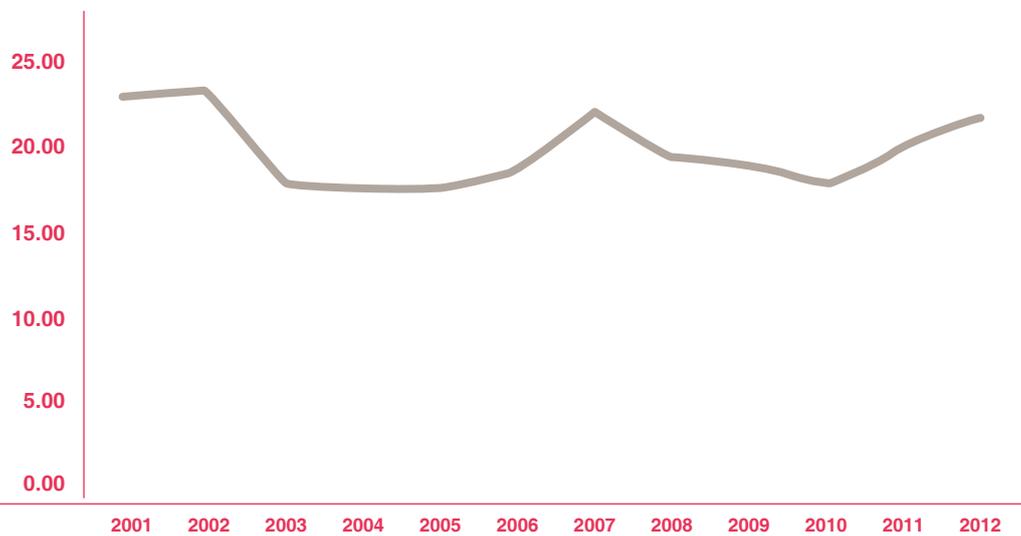
## 4. Management

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The insurers also have adequate management ratios. In 2012, the expense for payment of claims, commissions and internal management totaled 20% of the net premiums withheld.

### *Peru: Insurance System administrative management index 2001-2012 (Number of times)*

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Source: SBS

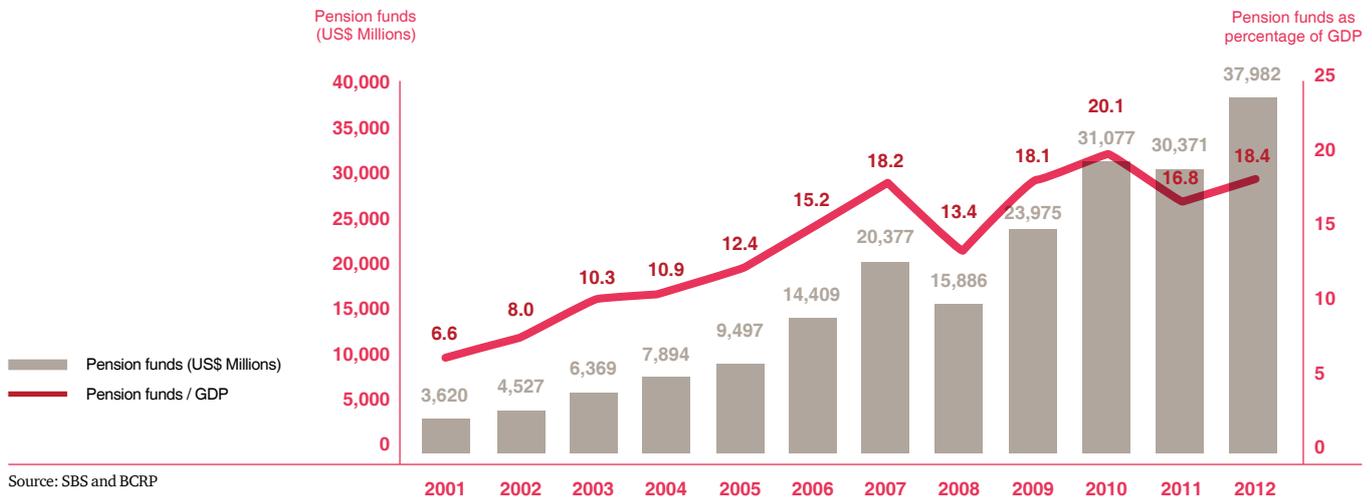
## 2.1.2 The private pension System (SPP)

The Private Pension System (SPP) has driven Peru's economic development during the last decade. It is estimated that on average 10% of the annual growth in Peru's GDP is due to the local investments of the pension funds, according to Apoyo Consultoría. In the last 12 years, the pension assets managed by the Pension Fund Managers (AFP) has increased tenfold, at an average annual rate of 26%, reaching a total of US\$ 37,982 million by 2012. This amount represents 18.4% of GDP, 80% of national savings and 59% of the net international reserves.

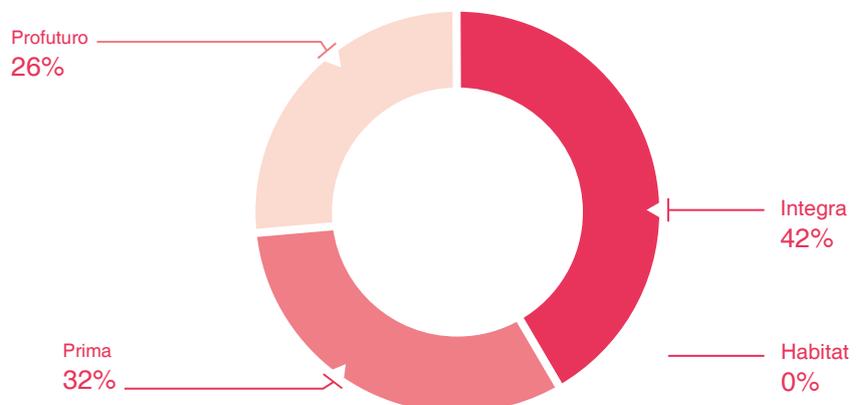
During this time, on average 85% of the pension funds have been invested in Peru in financing instruments for companies and government, and in infrastructure projects. According to the SBS, in the last 6 years, the AFP have invested in the latter segment 13% of the total pension funds. The regulator has played an important part in the access of infrastructure projects to the AFP investment portfolio. In recent years, the SBS has reduced the minimum amount of investment in this kind of project from US\$ 50 million to US\$ 10 million, in order to increase the participation of small and medium projects.

As at the first quarter of 2013, the portfolio managed by the AFP totals US\$ 38,759 million, of which 68.5% is invested in Peru and 31.5% overseas. The balance of investments in local infrastructure projects totals US\$ 4,157 million, representing 10.7% of pension assets. By economic activity, 30% of local investments (US\$ 8,202 million) are directed to financial intermediation activities, 23% (US\$ 6,125 million) in government instruments and 36% (US\$ 9,527 million) in key sectors of the economy.

### Peru: Portfolio Management of AFP 2001-2012

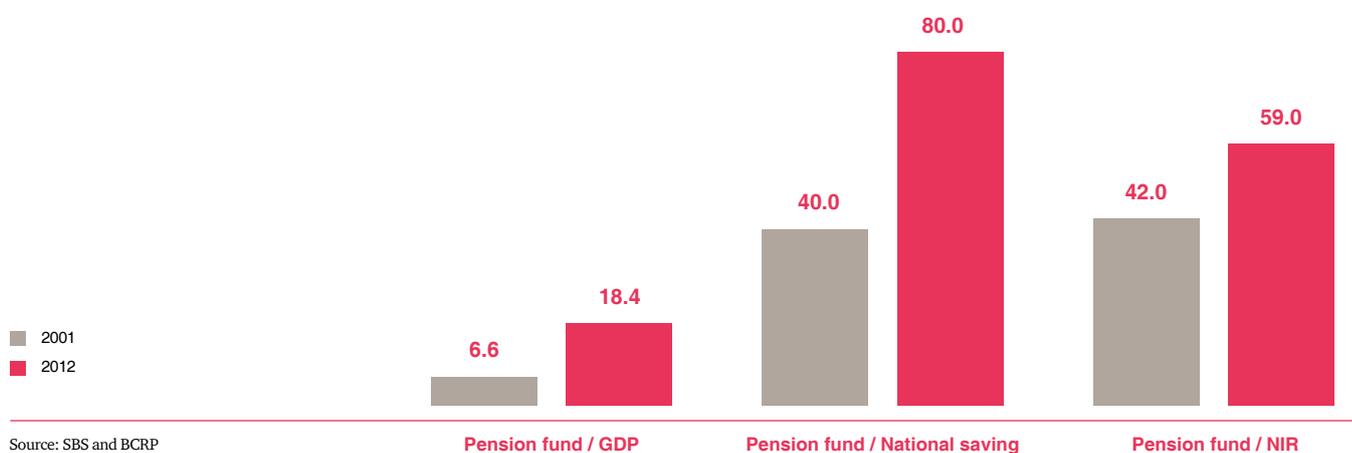


### Peru: AFP Market Share by fund size (US\$ 35,185 Million)



Source: SBS  
October 2013

## Peru: Magnitude of pension funds (Percentages)



Source: SBS and BCRP

## Impact of SPP in national development (US\$ Millions)

Economic activity	Investment
Central Government	4,900
Mining	4,269
Utilities (water, energy, telecommunications)	1,794
Industry (food and beverages, cement, and machinery)	1,350
Fuel	484
Concessions, real estate and construction	330
<b>Total</b>	<b>13,128</b>

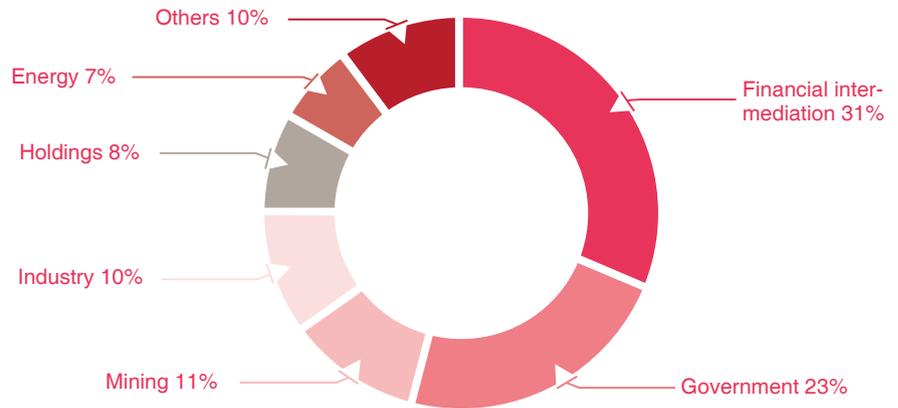
Source: AAFP  
June 2010.

## Peru: Investment of pension funds in domestic infrastructure (March 2013)

	US\$ Millions	% Pension fund
Telecommunications	563	1.5
Energy	2,447	6.1
Transport infrastructure	836	2.2
Sanitation	238	0.7
Health Infrastructure	73	0.2
<b>Total</b>	<b>4,157</b>	<b>10.7</b>

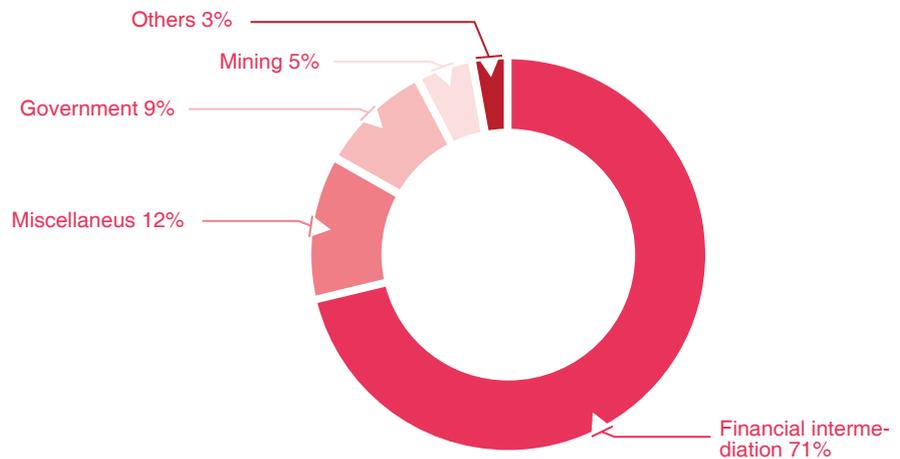
Source: SBS

**Peru: Domestic investment of pension funds March 2013 (US\$ 26,502 Million)**



Source: SBS

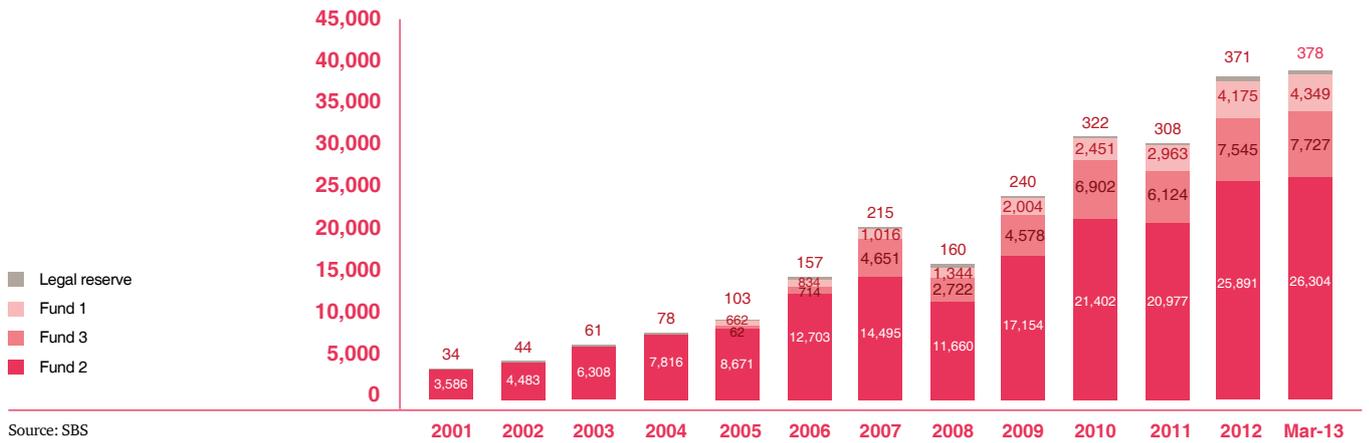
**Peru: Peruvian funds invested abroad March 2013 (US\$ 12,230 Million)**



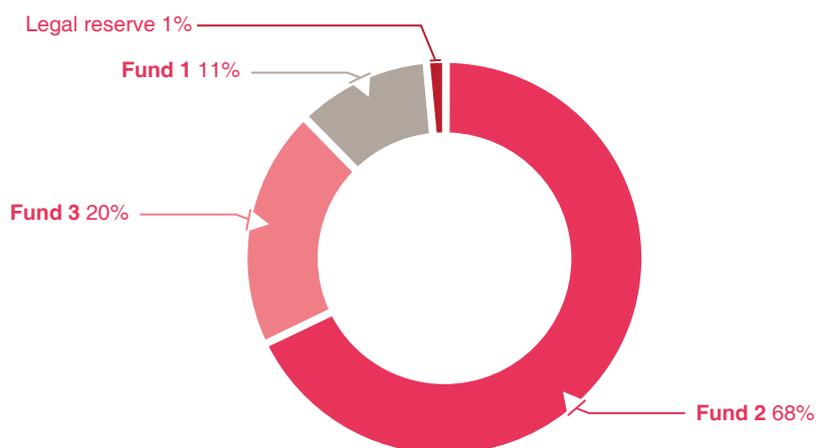
Source: SBS

The SPP was established for the purpose of contributing to the development and strengthening of the social security system, in order to provide protection against the risks of old age, disability and death. It is based on the model of individual capitalization accounts and since 2005 its investments are made under a multiple funds scheme, so as to permit adequate risk diversification. The pension portfolio is classified into three types of funds, in which Fund 1 or lowest risk fund has investment limits of up to 10% in variable income and 100% in fixed income. Fund 2 has investment limits of up to 45% in variable income and 75% in fixed income; and Fund 3 has investment limits of up to 70% in variable income and 80% in fixed income. Currently, Fund 2 or balanced fund, with which the SPP commenced, has the largest share in the managed portfolio. In the last 12 years, the average profitability of these assets is 10.3%.

**Peru: Portfolio Management by fund type 2001- March 2013  
(US\$ Millions)**



**Peru: Portfolio Management by fund type March 2013 (US\$ 38,759 Million)**



Source: SBS

## 2.2 Capital Market

The Peruvian capital market has played an important role in the economic performance of the last decade. 10% of the growth of the GDP of the last decade is due to the private Pension Fund Managers (AFP), which have financed large business ventures and infrastructure projects, and have contributed to the solid foundations of the country.

The main investment suppliers that stand out in the local capital market are the AFP, the insurance companies, the mutual funds and state institutions. These together manage US\$ 53,366 million, of which 90% is concentrated in private institutions. Additionally, individuals, companies and non-domiciled investors also participate directly as suppliers of capital. At the close of 2012, the balance of private sector bond debt totals US\$ 8,415 million, that of the public sector US\$ 13,319 million and the market capitalization of the Stock Market of Lima (BVL) totaled US\$ 153,404 million.

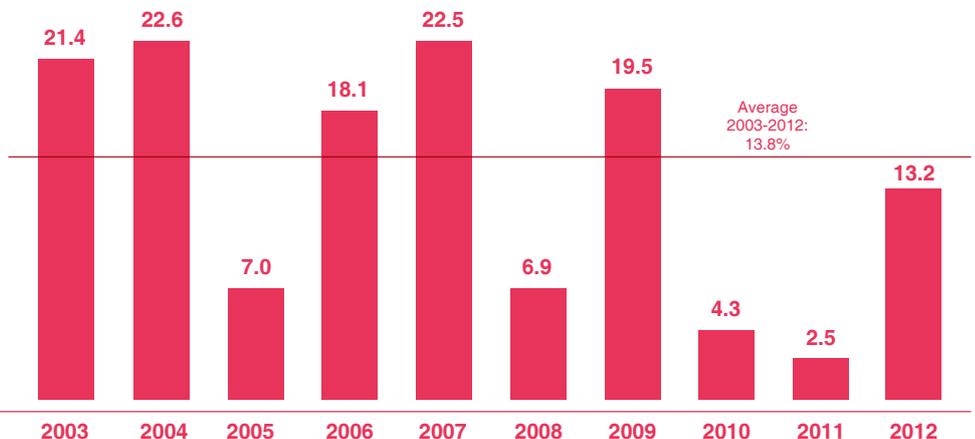
### Bonds

In the last 10 years, the balance of private sector bond issues through public offerings has grown at an average annual rate of 14%, from US\$ 2,868 million to US\$ 8,415 million. Non-financial companies have dominated the issues with an average participation of 72% and financial companies with 28%. The main instruments issued by both types of firms are corporate bonds, with a participation of 88.6% in the case of non-financial companies and 65% in the case of financial companies. Additionally, the private sector issues in local currency have gained ground in recent years, with a participation of 60.6% compared to 39.4% of issues in foreign currency.

This dynamism has been accompanied by increased sales of the companies, which in the last 5 years, in the case of industrial companies have grown at an average rate greater than 12%.

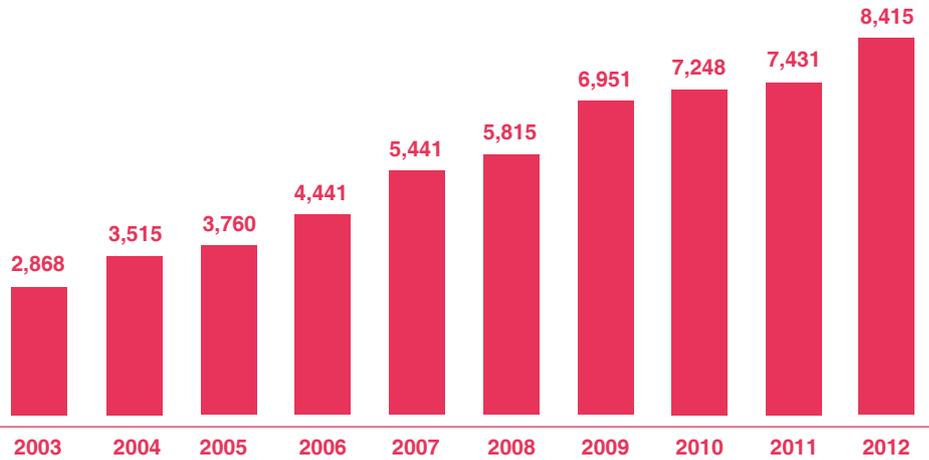
Likewise, Peruvian companies that seek to exploit the best financing offers and the credit conditions of the country, have gone abroad to make private issues in the international market, with higher debt amounts and longer terms.

### Peru: Growth rate of private sector bonds 2003-2012 (Percentages)



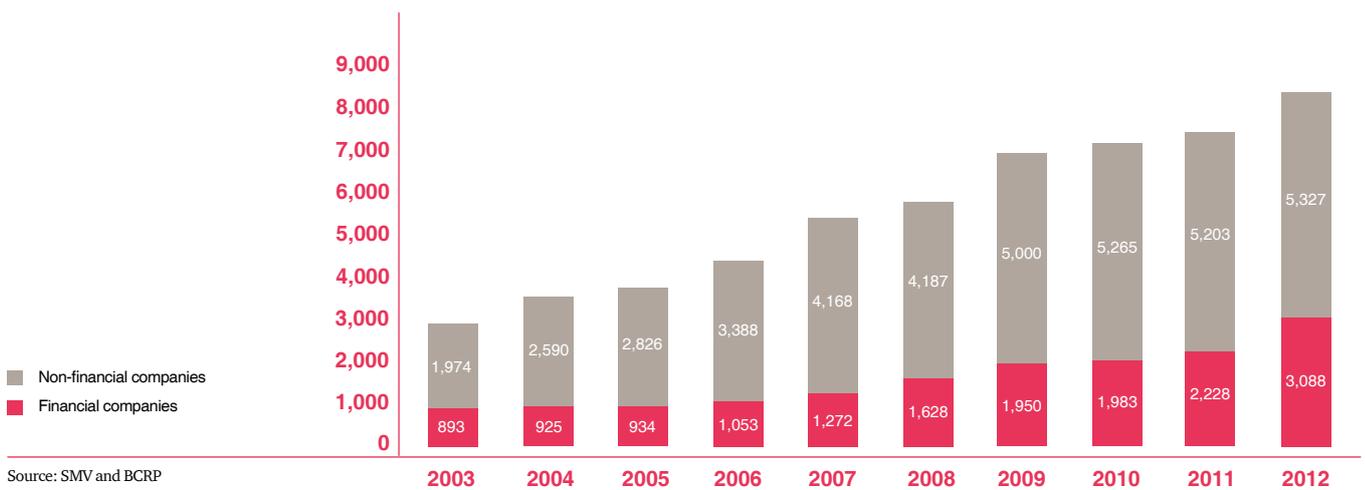
Source: SMV and BCRP

**Peru: Private sector bonds 2003-2012 (Balance in US\$ Millions)**



Source: SMV and BCRP

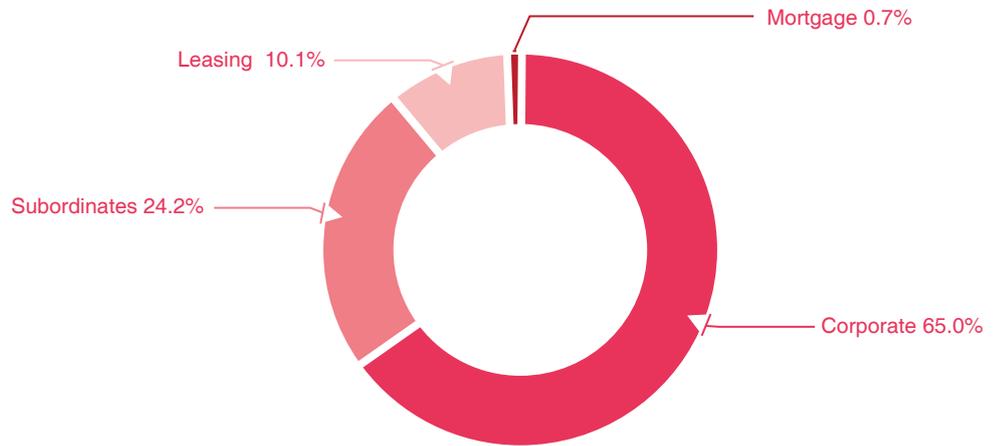
**Peru: Private sector bonds by type of companies 2003-2012 (Balance in US\$ Millions)**



Source: SMV and BCRP

**Peru: Bonds of financial companies by type 2012 (Percentages)**

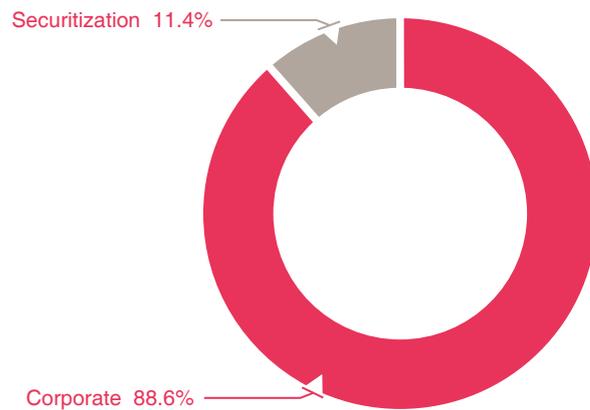
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Source: SMV and BCRP

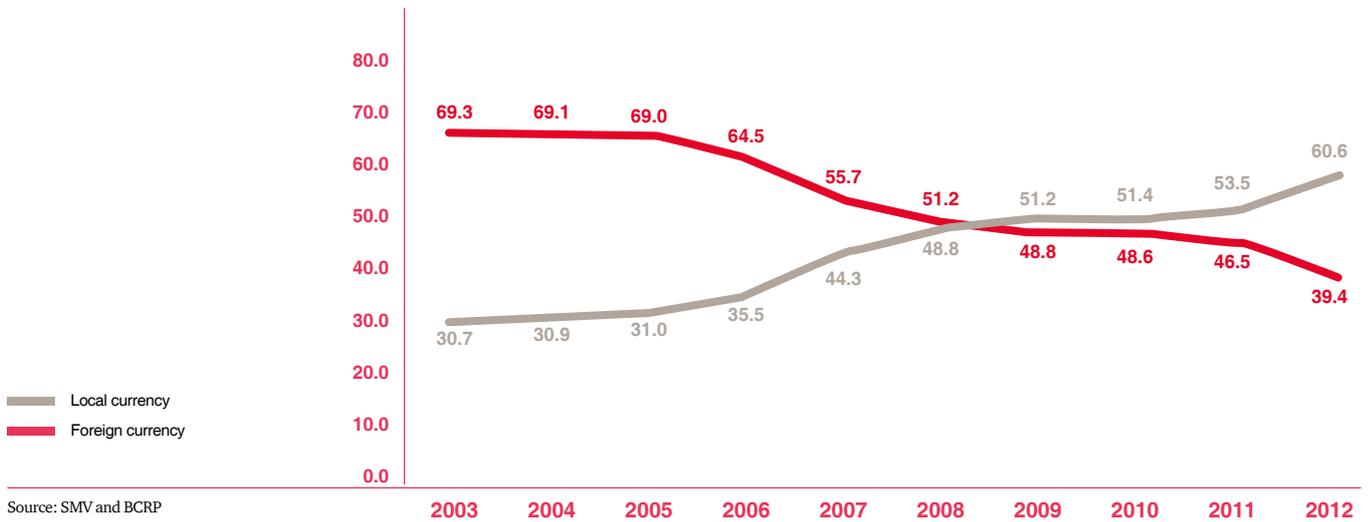
**Peru: Bonds of non-financial companies by type 2012 (Percentages)**

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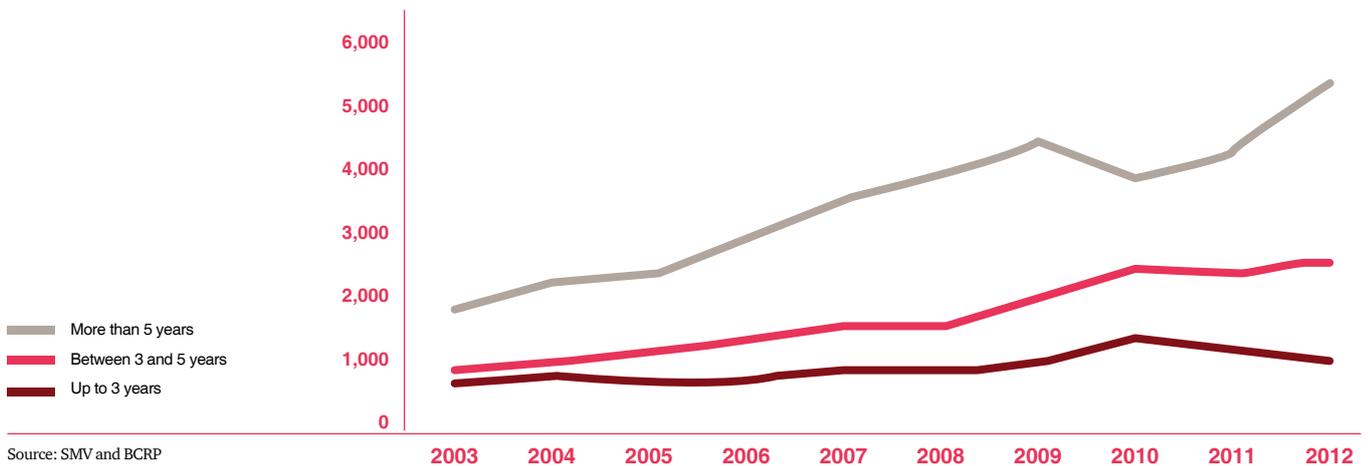


Source: SMV and BCRP

**Peru: Participation by currency of private sector bonds 2003-2012 (Percentages)**



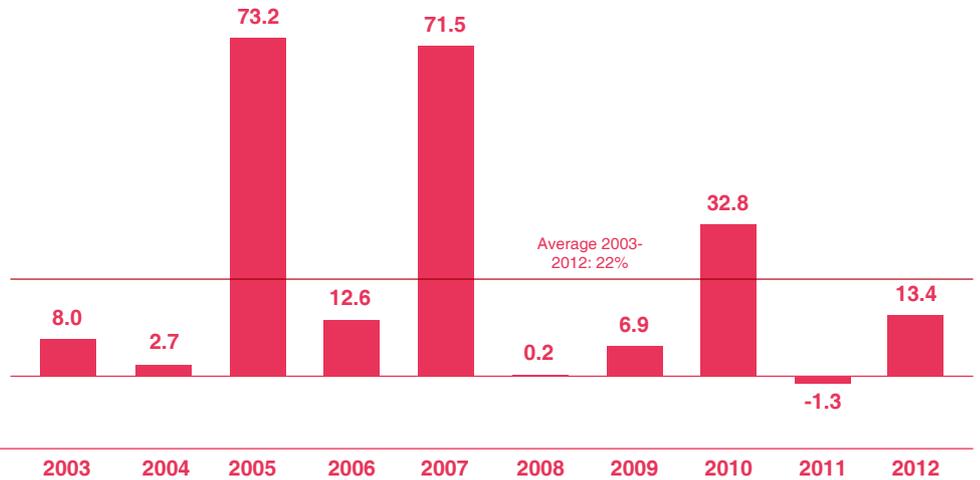
**Peru: Private sector bonds by term 2003-2012 (Balance in US\$ Millions)**



For its part, the government indebtedness in the internal market, comprising Public Treasury Bonds and the debt of the Corporación Financiera de Desarrollo (Cofide), grew at an average annual rate of 22%, from 1,876 million dollars to 13,319 million.

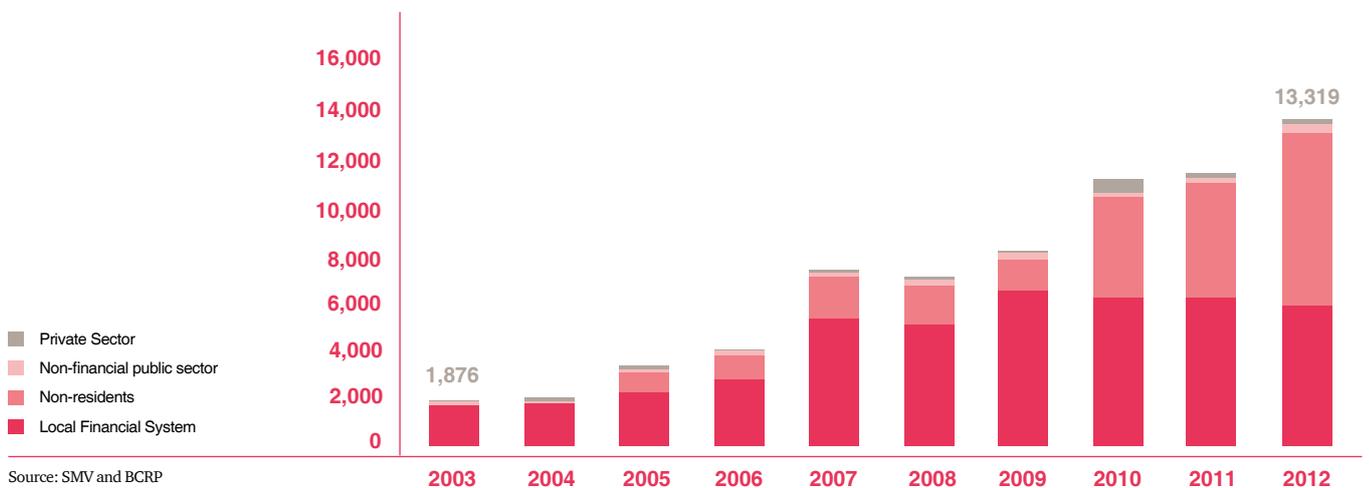
The reduced credit risk of Peru has resulted in the main holders of state paper being non-resident investors who possess 53.5% of the securities, at 2012.

**Peru: Growth rate of public sector bonds\* 2003-2012 (Percentages)**

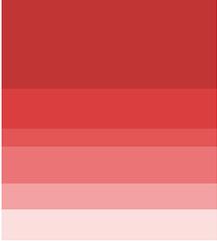


Source: SMV and BCRP  
 (\*) Growth in terms of local currency.

**Peru: Public sector bonds\* by holder 2003-2012 (Balance in US\$ Millions)**

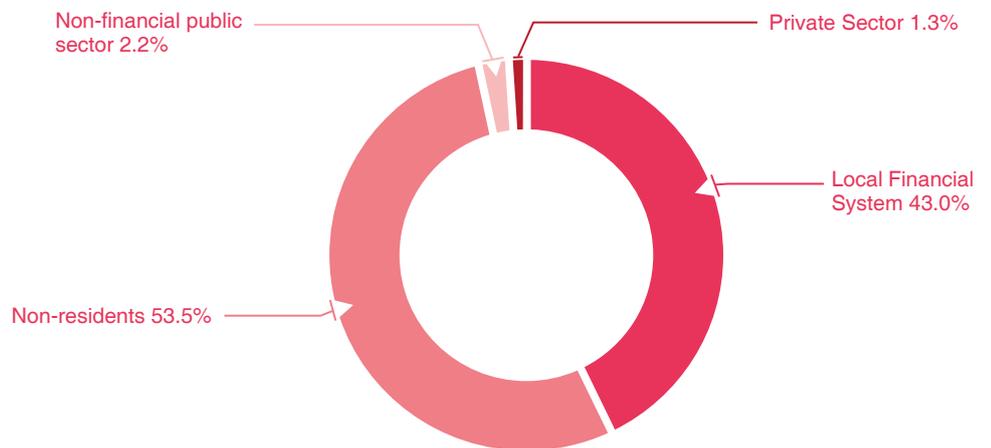


Source: SMV and BCRP  
 (\*) Includes Public Treasury Bonds issued in the internal market and Bonds of COFIDE.



### **Peru: Public sector bonds by holder 2012 (Percentages)**

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Source: SMV and BCRP

## **Institutional Investors**

### **Pension Fund Managers (AFP)**

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AFPs are private companies in charge of managing the pension funds of their clients. They invest these funds to generate profitability for their pensioners.

### **Insurance companies**

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Insurance companies are companies that accumulate capital through contributions of persons who wish to be covered against different risks. They invest these funds to generate profitability. Life insurance companies also manage retiree annuities.

### **Mutual Fund Management Companies**

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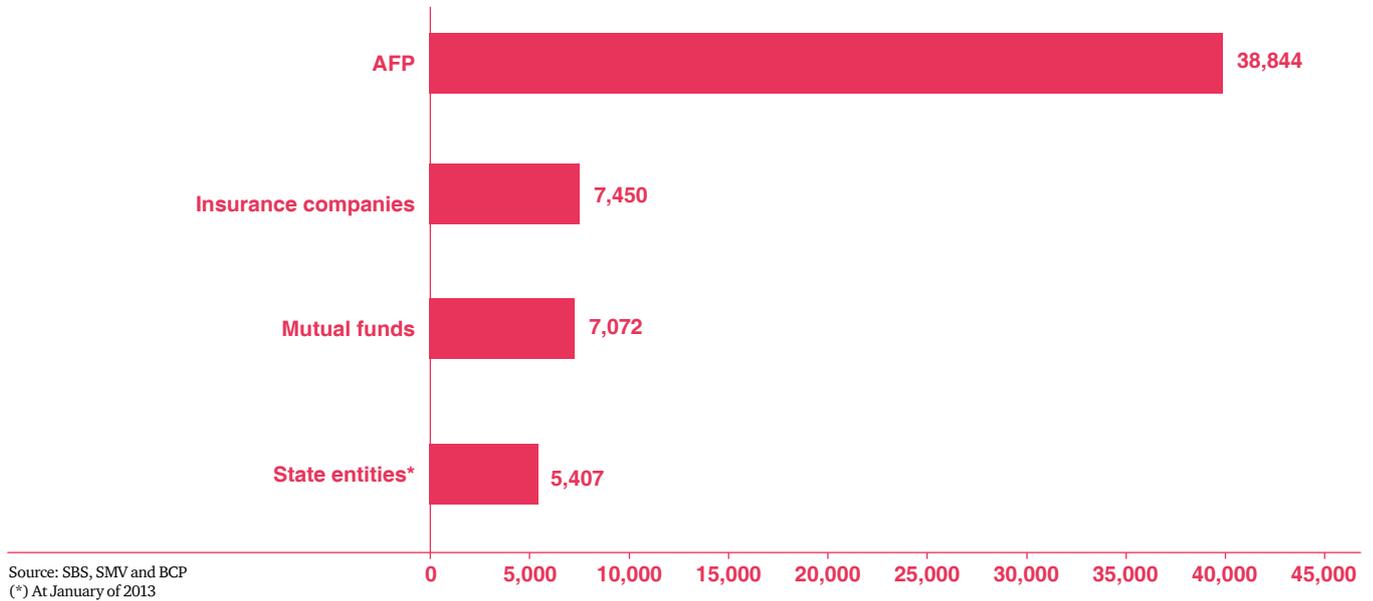
Institutions that collect funds from different participants, to invest them in different financial instruments. The management company can be a bank or financial institution.

### **State entities**

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Are government entities authorized to invest in the capital market. In Peru the main state entities which manage independent funds are: the Oficina de Normalización Previsional (ONP), which manages the funds of the Public Pension System; Essalud, which is the social security system; the Corporación Financiera de Desarrollo (COFIDE), which operates as a second floor bank and, the Deposit Insurance Fund, which provides coverage to the deposits of the public with the national financial system.

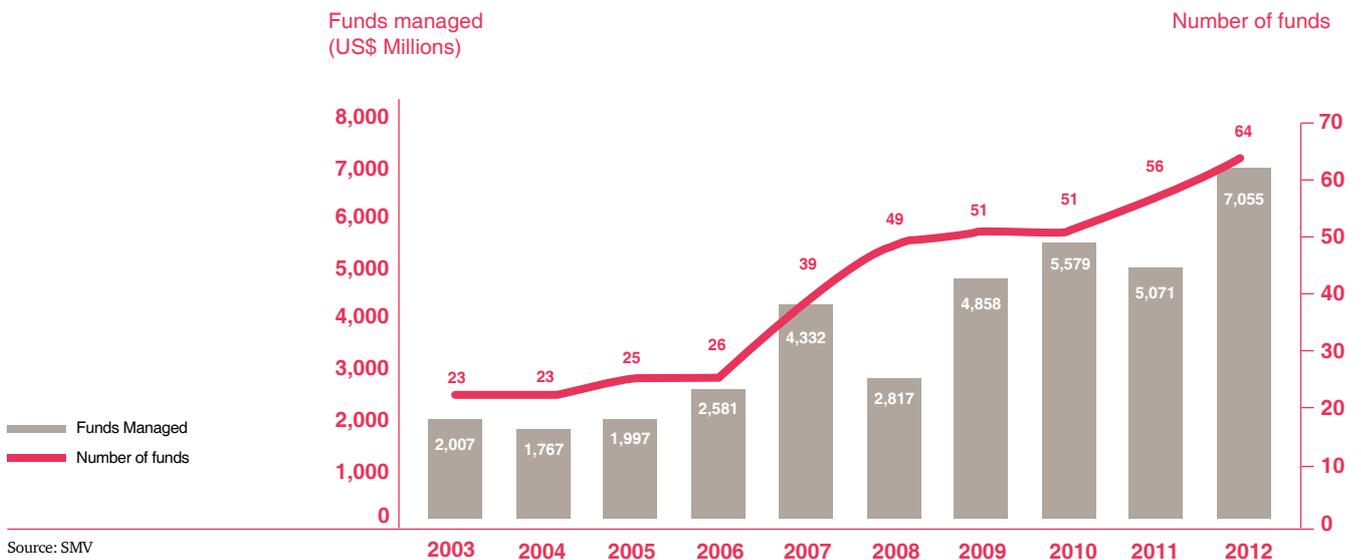
### Peru: Portfolio of institutional investors (US\$ Millions)



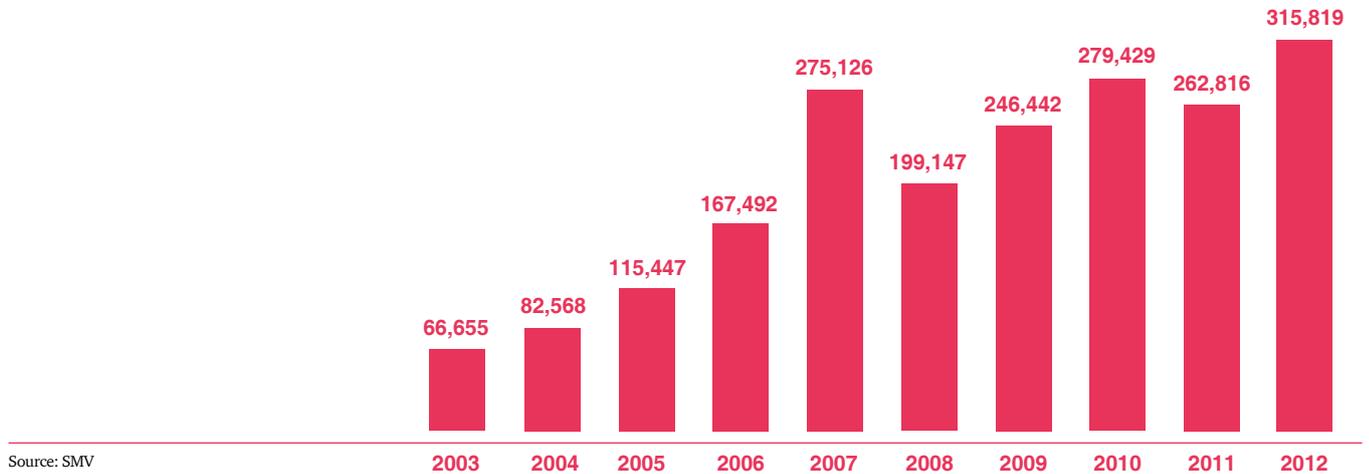
## Mutual funds

The mutual funds industry in Peru has evolved in a positive manner in line with the growth of GDP per capita of the population. In the last 10 years, the funds managed have tripled and the number of participants has grown four times. There are currently 64 types of funds, based on the risk assumed.

### Peru: Mutual funds industry 2003-2012 (US\$ Millions)



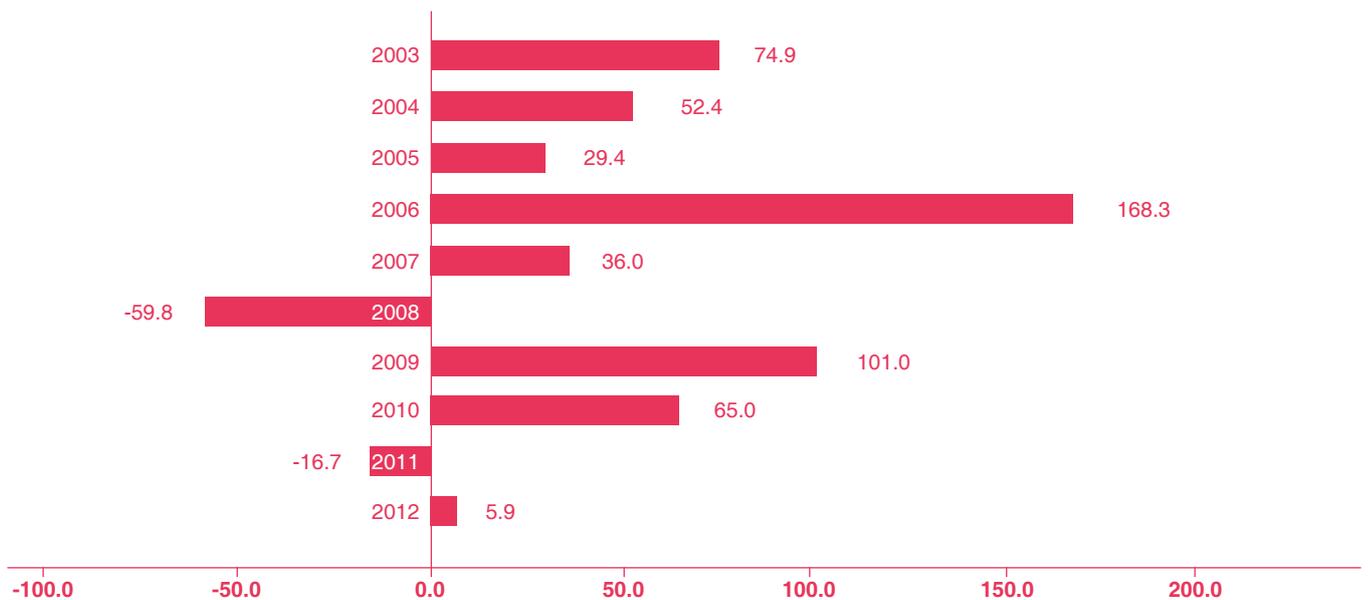
### Mutual funds participants 2003-2012 (In units)



### Lima Stock Exchange

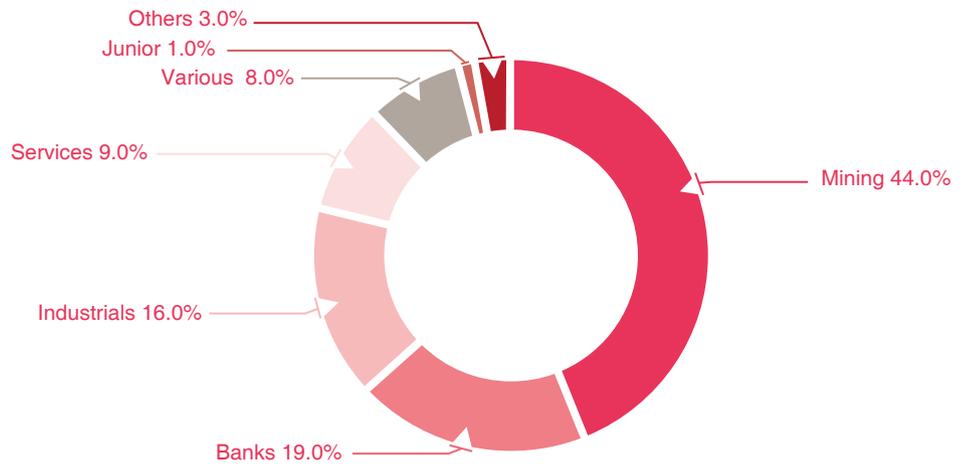
The BVL is the Peruvian secondary market for securities, which lists 280 companies from the various sectors of the economy. In the last 10 years, its average annual profitability has been of 45.6% and it has been subject to the vagaries of the international situation.

### Peru: Profitability of the General Index of the Lima Stock Exchange 2002-2012 (Percentages)



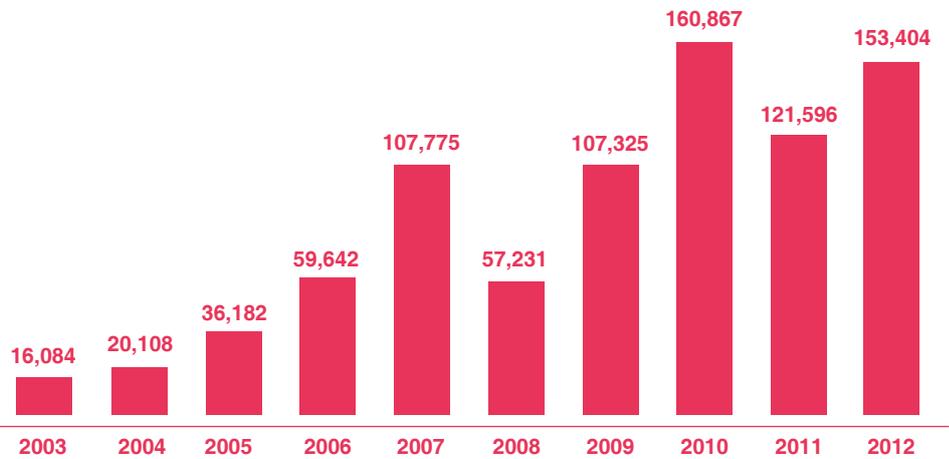
Source: SMV, BVL and BCRP

### Peru: Capital and investment shares in the BVL 2012

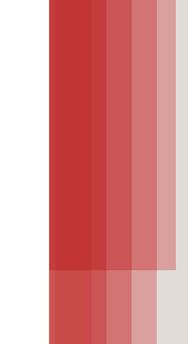


Source: BVL

### Peru: Stock market capitalization of the BVL 2003-2012 (US\$ Millions)



Source: SMV



## ***Integrated Latin American Market (MILA)***

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The Integrated Latin American Market (MILA) is the result of the agreement signed between the Santiago Stock Exchange, Colombia Stock Exchange and Lima Stock Exchange, as well as of the Deceval, DCV and Cavali deposits, which, since 2009, began the process of creation of a regional market for the negotiation of equities of the three countries.

After various months of joint work, with the participation of the main actors of the three markets and the governments of each country, on May 30, 2011 the MILA started operations to open a world of opportunities to investors and intermediaries from Chile, Colombia and Peru, who since then can purchase and sell the shares of the three stock markets, simply through a local intermediary.

The main benefits of the MILA for the investors include greater alternatives of financial instruments for diversification and the possibility of creating new portfolios. For intermediaries, it promotes more attractive and competitive stock markets, increases the type and number of products to distribute to its clients, and makes possible the creation of new investment vehicles and new portfolios. For issuers, it reduces the costs of capital, provides access to a wider market from their local market and expands the demand for their financing. And for the country, it supports the integration process of the economies that comprise the MILA, providing greater stability in the rules of the game and making the region much more competitive.

## ***Flexibility Project***

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In May of this year, the Executive Power has presented to the Congress of the Republic the draft law for the promotion of the stock market, which forms a part of the process of Reform of the Capital Market, the objective of which is to energize and modernize this market, enabling among other aspects, more companies to have access to long and medium term financing at lower costs; and the population to find an attractive source of savings in the stock market.

The project is a comprehensive proposal that includes as central aspects, the creation of a special regime for public issues of corporate enterprises directed at institutional investors with more flexible investment requirements, and expeditious terms –inscription within no more than 7 days-, which can only be negotiated between institutional investors.

Furthermore, it proposes to facilitate the access of Small and Medium Companies to the Stock Exchange, improve the prudential requirements of the intermediary agents, strengthen investor protection and the investigative and penalizing capacity of the Securities Market Regulator (SMV); and improve the tax treatment of the different financial instruments.

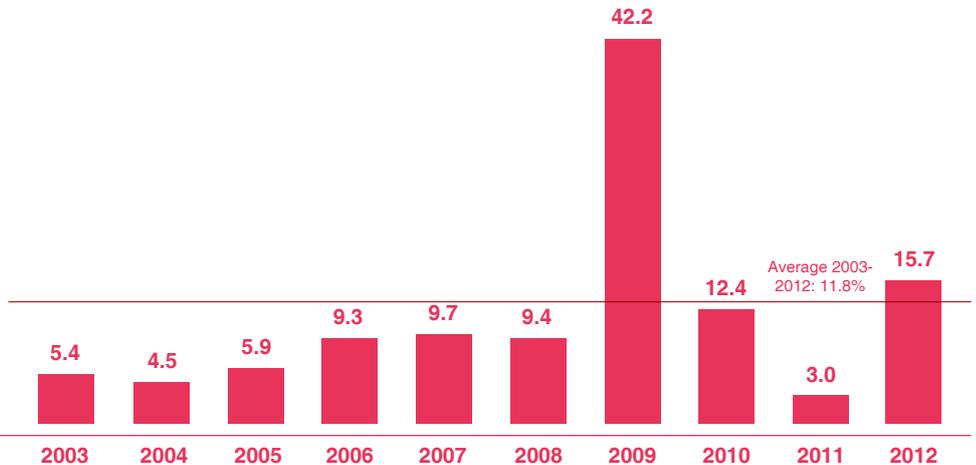
The project constitutes the first stage of the execution process of the Reform of the Capital Market, which contemplates in a second phase the strengthening of Corporate Governance and in a third stage the process of integration of the Pacific Alliance. The commitment of the government is to promote a competitive capital market for local as well as regional investors, in order to position them as an attractive, liquid, profound, integrated and inclusive market; with the highest international standards, improving the country's productive capacity.

## 2.3 Construction

The construction sector is one of the most dynamic activities of the Peruvian economy. In the last 10 years, with an annual growth rate of 10.8%, it has exceeded the rhythm of growth of GDP and the other economic sectors. According to CEPAL (ECLAC in English), the dynamics of Peru's construction sector between 2002 and 2011 have led the region's ranking, as a result of the sustained growth in investment and the country's social progress.

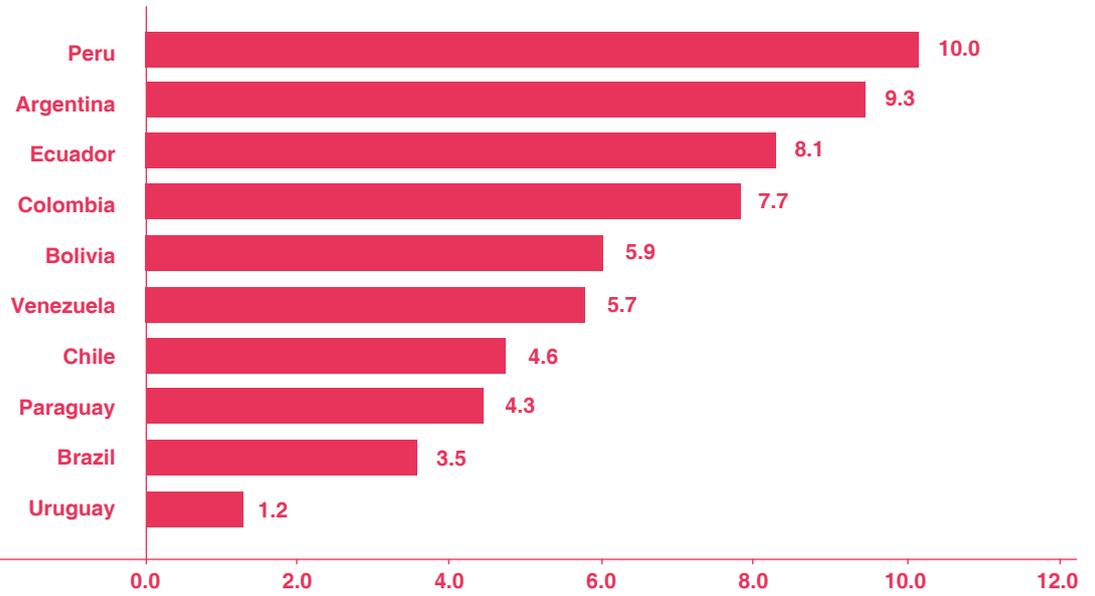
On average, the 11.8% increase in Peru's GDP between 2003 and 2012 is due to this sector. This result is based on the progress in the construction of new works, investment projects and buildings, as well as other construction executed by the public and private sectors. Between 2003 and 2012, domestic cement consumption, which represents 93% of the GDP of the construction sector, increased at an average annual rate of 10.8%, from 3.4 million metric tons in 2003 to 10.2 million metric tons in 2012. The growth in domestic cement consumption is explained by the continuity in infrastructure, mining and electricity works, and construction of shopping malls, housing and commercial and industrial buildings. Furthermore, the investment in the physical progress of works, which represents 5% of construction GDP, doubled in the last 10 years due to the increased investment in rehabilitation, improvement and maintenance of highways and rural roads.

### *Peru: Construction sector, contribution to change in GDP (Percentages)*



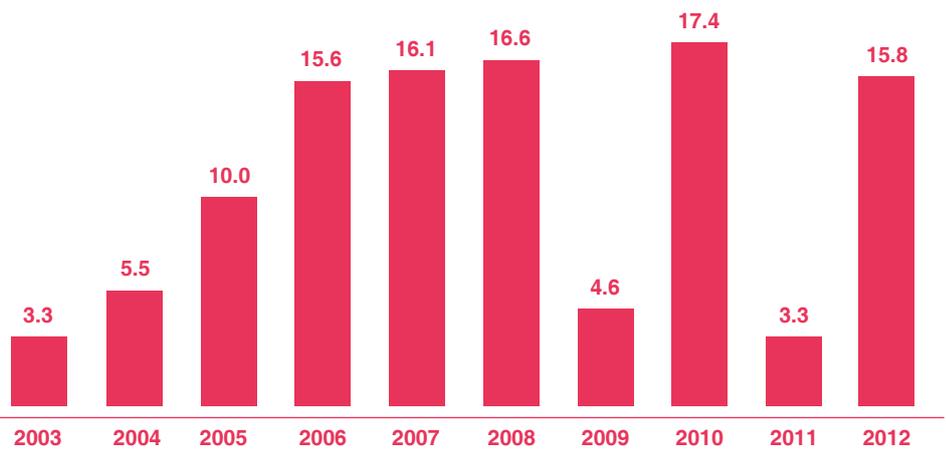
Source: BCRP and MEF

### South America: Average annual growth in Construction GDP 2002-2011



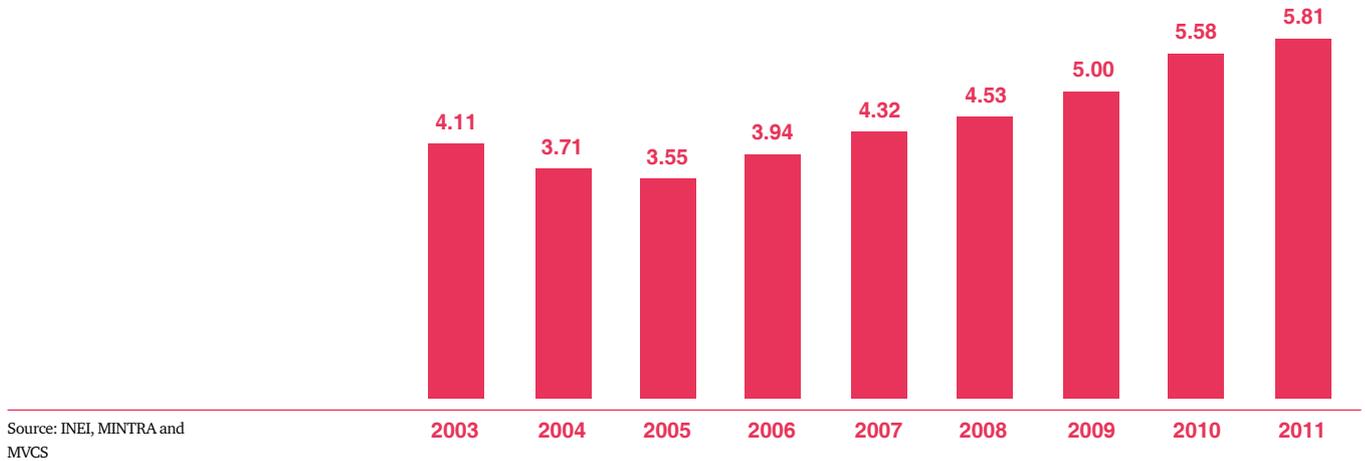
Source: CEPAL

### Peru: Domestic cement consumption\* 2003 - 2012 (annual growth rates)



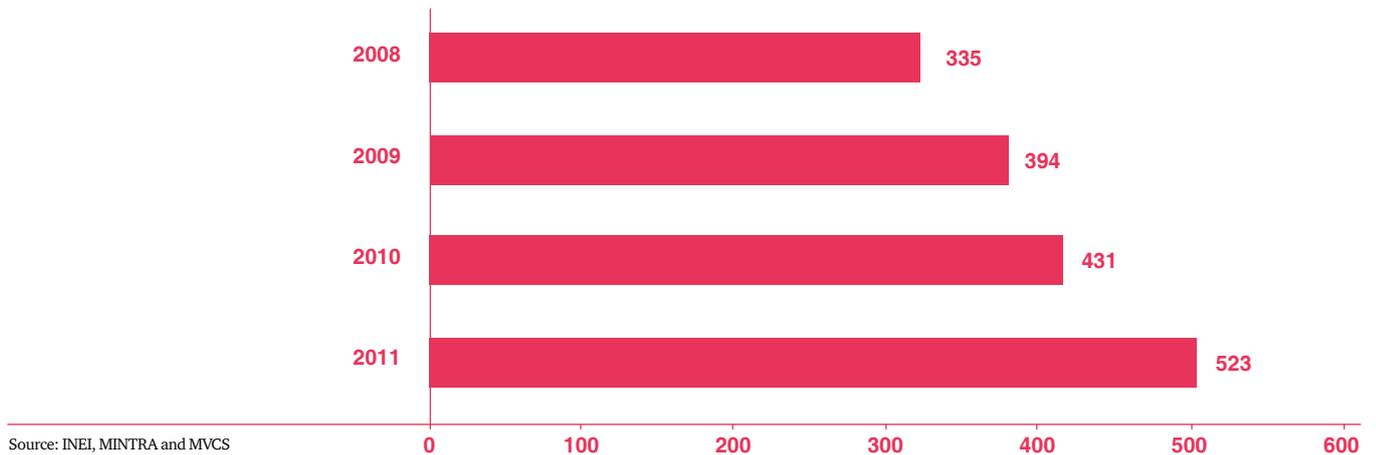
Source: ASOCEM, cement companies, BCRP and MEF  
 (\*) Metric tons

**Peru: Employed Labor Force in the construction sector 2003-2011 (Percentages)**



Source: INEI, MINTRA and MVCS

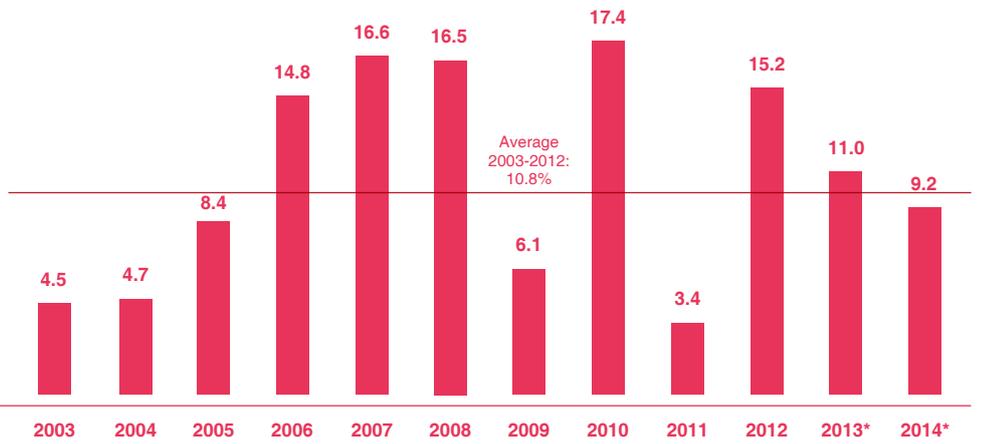
**Metropolitan Lima: Average monthly income in the construction sector (US\$ Dollars)**



Source: INEI, MINTRA and MVCS

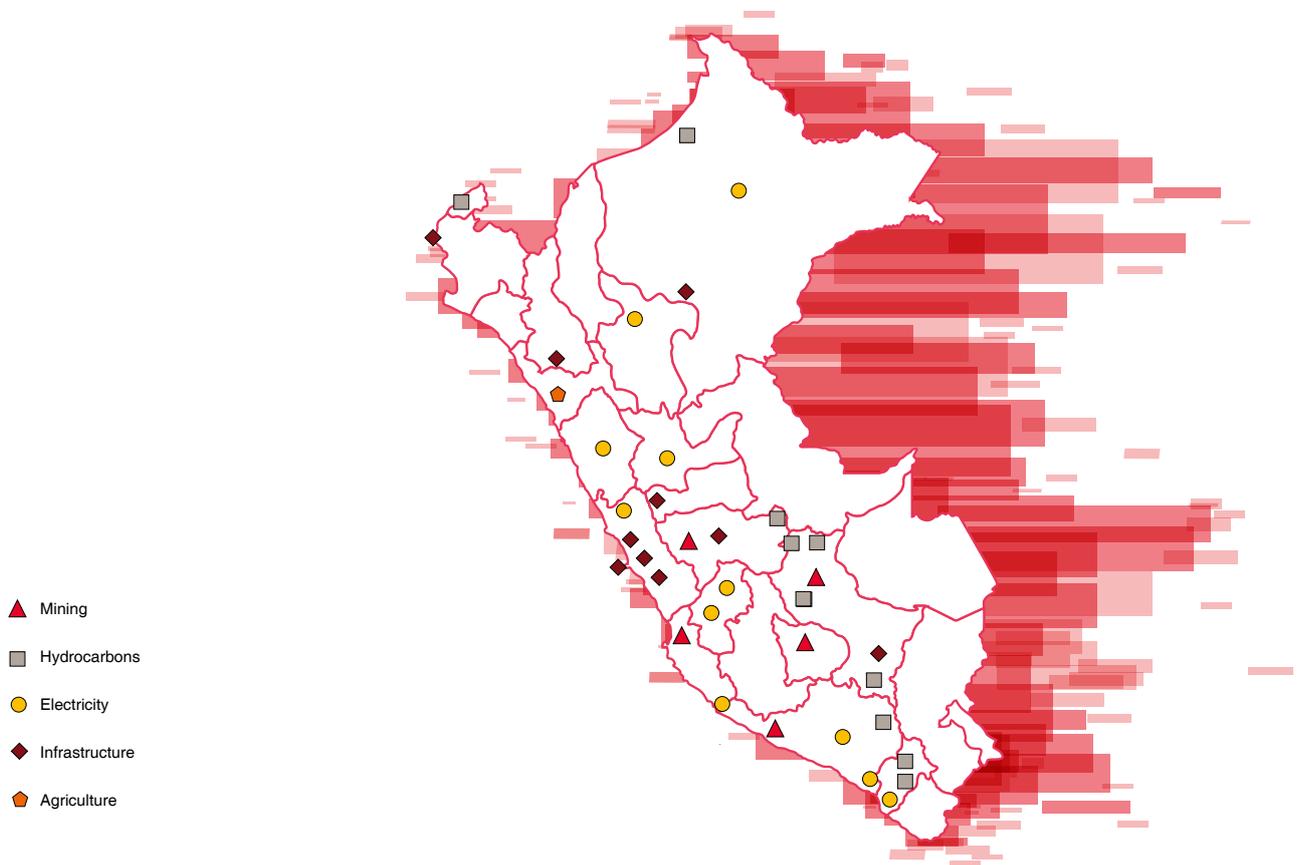
The Ministry of Economy and Finance (MEF) has very auspicious forecasts for the construction sector for this year and next year. It estimates that the GDP of construction activity will expand 11% in 2013, driven by public and private investment, with special emphasis on the construction of highways, hospitals and road infrastructure, the construction of 13 shopping malls (reaching a total of 78), hotels (Casa Andina, GHL Hoteles, Grupo San Pablo, Accor, Decameron), clinics (Grupo Rímac, Grupo Mapfre, San Pablo, among others) and houses. Furthermore, it estimates that in 2014, the sector will grow 9.2%, driven by the opening of new shopping malls (reaching a total of 100), the construction of houses, infrastructure works and hotel investment.

### Peru: Construction GDP 2003-2012 (Annual growth rates)



Source: BCRP and MEF  
(\* Estimated by MEF.)

## Main Investment Projects



Source: MEF

### ▲ Mining

Las Bambas – Cu (Xstrata Copper)  
Expansion of Cerro Verde – Cu (Freeport-MacMoran Copper)  
Toromocho – Cu (Chinalco)  
Constancia – Cu (Hudbay)  
Expansion of Marcona – Fe (Shougang)

### ■ Hydrocarbons

Energetic Security and Development of the Southern Gas Pipeline (Tender Announced)  
Lot 58 (Petrobras)  
Southern Energy Node (Tender Not Announced)  
Expansion of the gas and LGN (TGP) pipeline  
Expansion of Lot 56 and 88 (Pluspetrol)  
Lot 57 (Repsol and Petrobras)  
Lot 67 (Perenco and Petrovietnam)  
Lot Z1 (BPZ, Pacific Rubiales Energy)

### ● Electricity

Chaglla Hydroelectric Plant – 406MW (Odebrecht)  
Cerro del Aguila Hydroelectric Plant – 402MW (Inkia Energy)  
Molloco Hydroelectric Plant – 300MW (Corsan/Engevix/Enex)  
Cheves Hydroelectric Plant – 168MW (SN Power)  
Quitaracsá I Hydroelectric Plant – 112MW (GDF Suez)  
Cold Reserve of Ilo – 569MW (GDF Suez)  
Transmission Line 220 kV Moyobamba – Iquitos (Tender Announced)  
Transmission Line 500 kV Mantaro – Marcona – Socabaya – Montalvo (Tender Announced)

### ◆ Infrastructure

Electric Train of Lima and Callao – Line 2 (Tender Announced)  
Modernization of the North Dock-Port of Callao (APM Terminals)  
Parque Rimac Road (OAS S.R.L.)  
Port Terminal of Paita (Tertir Terminais/Cosmos/Translei)  
Longitudinal Highland Road – Section 2 (Tender Announced)  
PTAR and Submarine Transmitter La Chira (Hidalgo e Hidalgo)  
Central Interoceanic Interconnection Road – Section II (Deviandes)  
Port Terminal Yurimaguas (Hidalgo e Hidalgo)  
International Airport of Chinchero (Tender Announced)  
Works for the supply of potable water for Lima (Tender Not Announced)

### 🏠 Agriculture

Irrigation Project Chavimochic Stage III (Tender Announced)

### Telecommunications

Band 1710 – 1770 MHz and 2110 – 2170 MHz – Blocks A and B (Tender Announced)

Additionally, in order to prioritize and speed up the execution of public investment, in May of this year, the Government adopted a series of measures, especially the publication of Law N° 30025 which declares as a public need the execution of 69 infrastructure projects which are of national interest and large scale and the acquisition or expropriation of affected properties for the execution of various infrastructure works.

## 2.4 Mining

Peru holds an enormous ancestral mineral richness of large polymetallic copper and gold deposits, recognized on a global level. This mining tradition, the potential of the resources and the promotion and liberalization policies of the sector, have permitted the country to reach the leading positions in the region and in the world as a mineral producer. The main metals produced by Peru are copper, gold, zinc and silver, but significant quantities of lead, molybdenum, tin and iron are also produced, and lesser quantities of other metals, with which the production of the sector is relatively diversified. The country currently leads the ranking of producers of gold, zinc, tin and lead in Latin America; and, it holds second place in copper, silver, molybdenum, mercury, selenium, cadmium, phosphate rock and iron. Additionally, it is the world's third producer of copper, tin, zinc and silver.

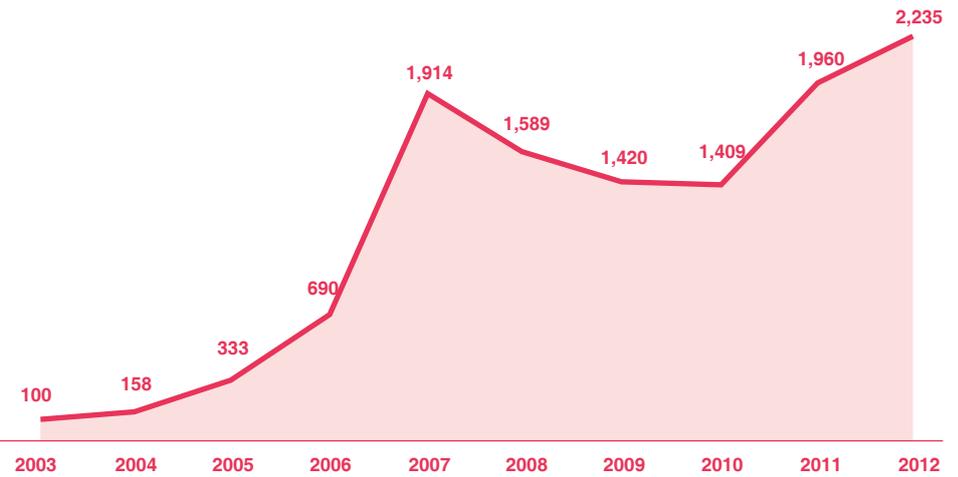
### *Ranking of mining production 2012*

	Latin American ranking	World ranking
Zinc	1	3
Tin	1	3
Lead	1	4
Gold	1	6
Copper	2	3
Silver	2	3
Molybdenum	2	4
Mercury	2	4
Selenium	2	9
Cadmium	2	10
Phosphoric Rock	2	13
Iron	5	17

Source: United States Geological Survey and Anuario Minero MINEM

Mining is very important for the country. In recent years, as a result of the increase in metal prices, it has generated in average of 58% of the exports of goods, 16% of tax revenues and 14.4% of GDP. Only in 2012, in average the mining sector contribution to the sustainable development of Peru's regions, originating from the mining fee, royalties and rights of validity and penalty, totaled 2,235.5 million dollars, according to the Ministry of Energy and Mines (MINEM). This contribution is mainly destined to the execution of infrastructure projects of regional and local impact that contribute to improving the living standards of the population.

**Peru: Economic contribution to the regions 2003 - 2012 (US\$ Millions)**

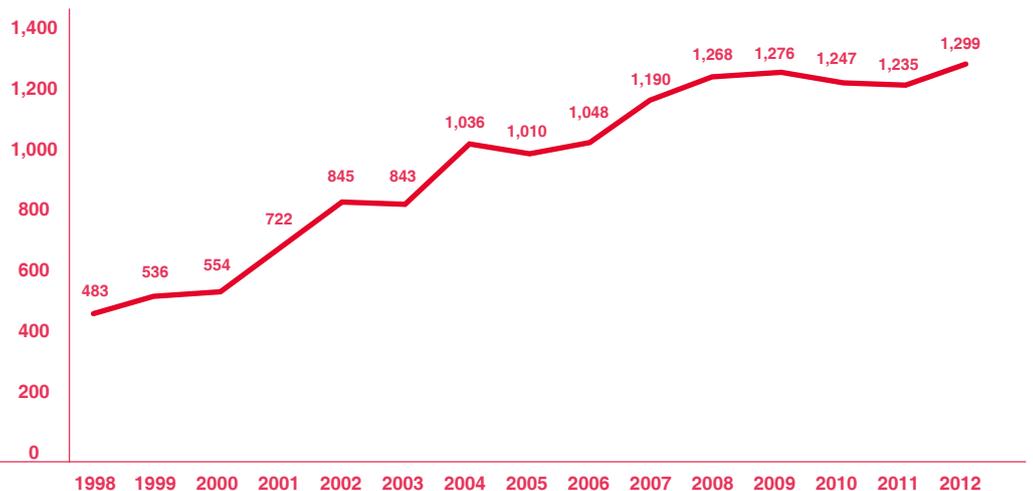


Source: Anuario Minero 2012 MINEM

**2.4.1 Production**

The production of minerals in Peru has recorded a positive performance in the last 15 years. Between 1998 and 2012, copper production has more than doubled, growing at an average annual rate of 8%, gold production has grown almost 88% at an average rate of 5%, silver production has increased by 89% at an average rate of 5%, zinc production has increased by 47% at an annual rate of 3%, and iron production has grown by 107% at an annual rate of 6%.

**Peru: Copper production 1998 - 2012 (Thousands of fine tons)**



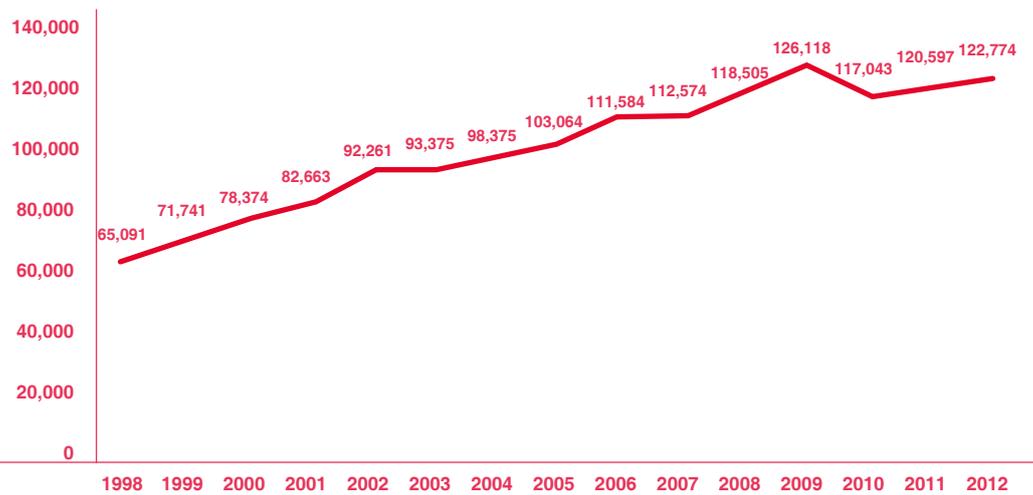
Source: MINEM

### Peru: Gold production 1998-2012 (Thousands of fine ounces)



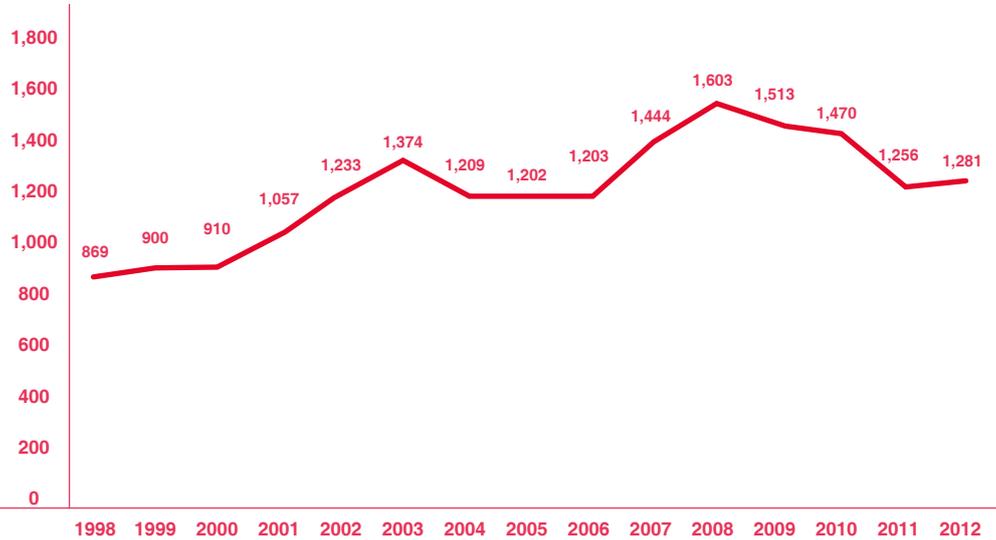
Source: MINEM

### Peru: Silver production 1998-2012 (Thousands of fine ounces)



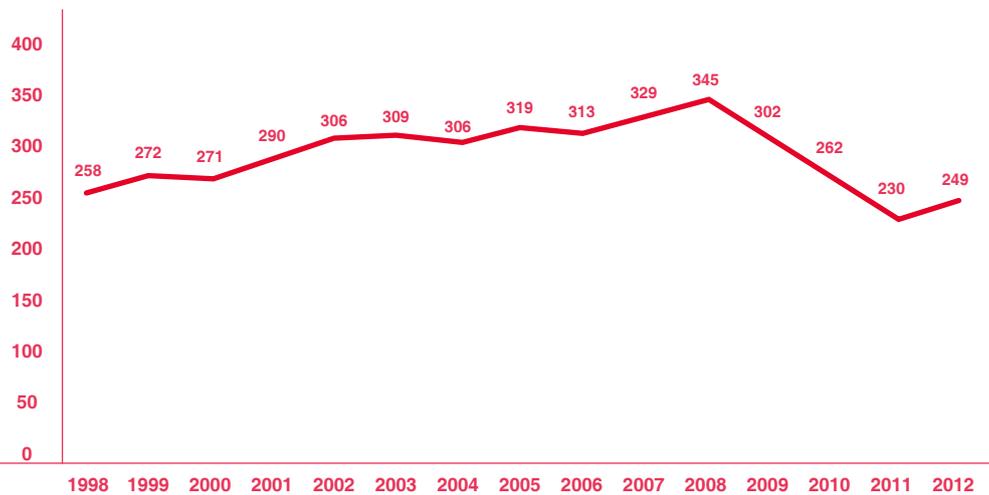
Source: MINEM

### Peru: Zinc production 1998-2012 (Thousands of fine tons)



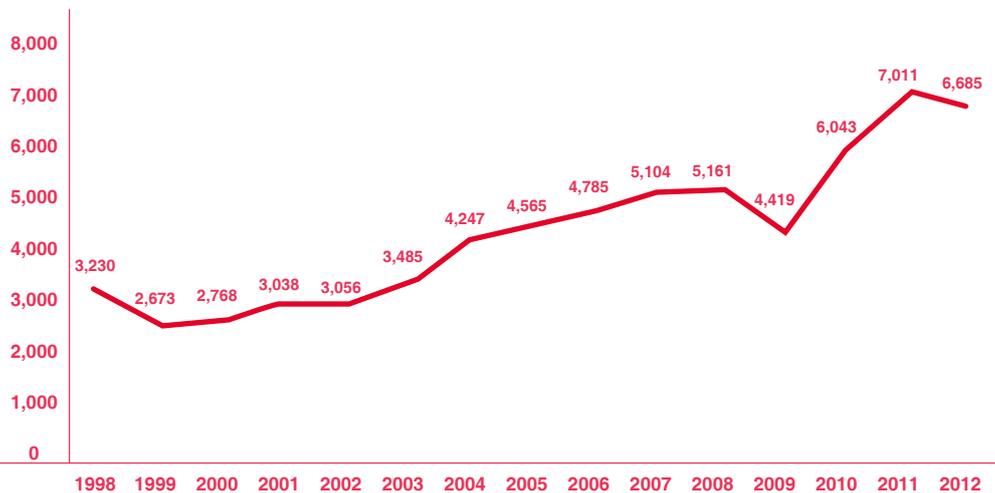
Source: MINEM

### Peru: Lead production 1998-2012 (Thousands of fine tons)



Source: MINEM

### Peru: Iron production 1998-2012 (Thousands of LFT)

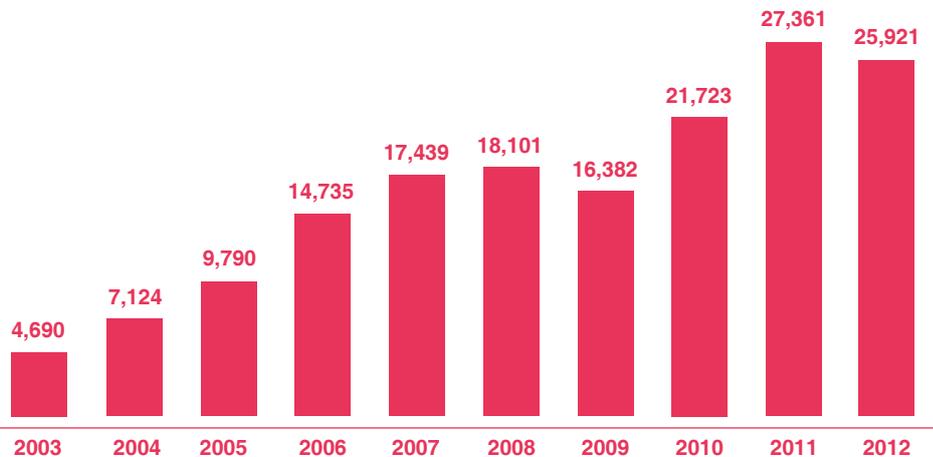


Source: MINEM

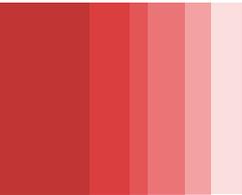
## 2.4.2 Exports

Exports have also had a positive performance, especially in the last 10 years. During this period, the shipments of concentrates—which is the major part of the production that is exported—have quintupled, growing at an average annual rate of 23%. Shipments of copper and gold have concentrated on average 72% of exports in this period. Likewise, during 2012, China was the main destination of mining exports with a participation of 22% of the total; Switzerland, Canada and Japan also stand out, which together with China concentrate 61% of the total of mining exports.

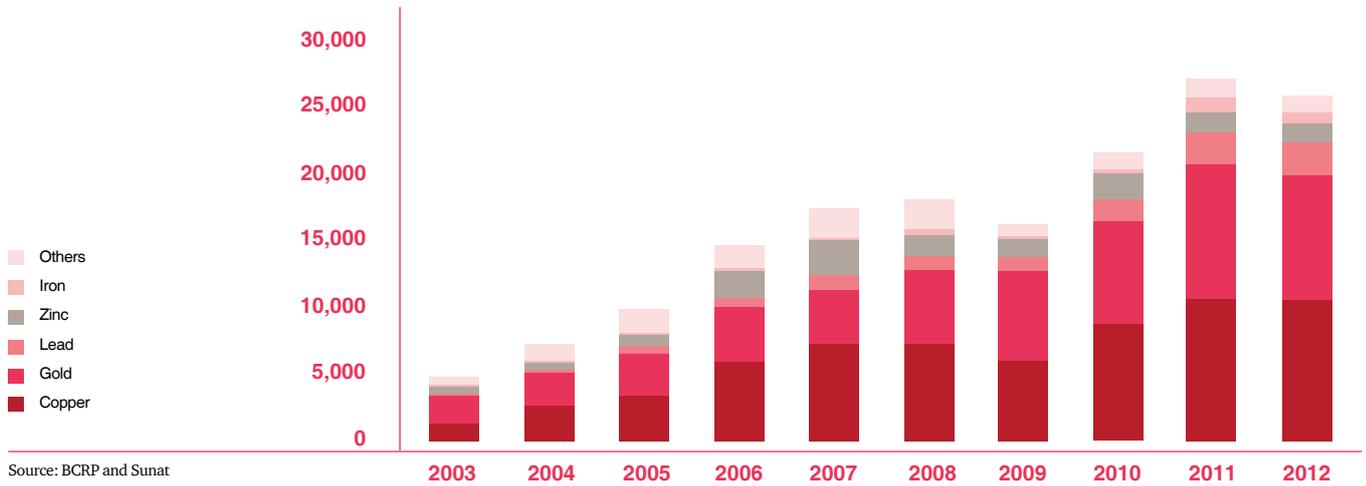
### Peru: Mineral exports 2003-2012 (US\$ Millions)



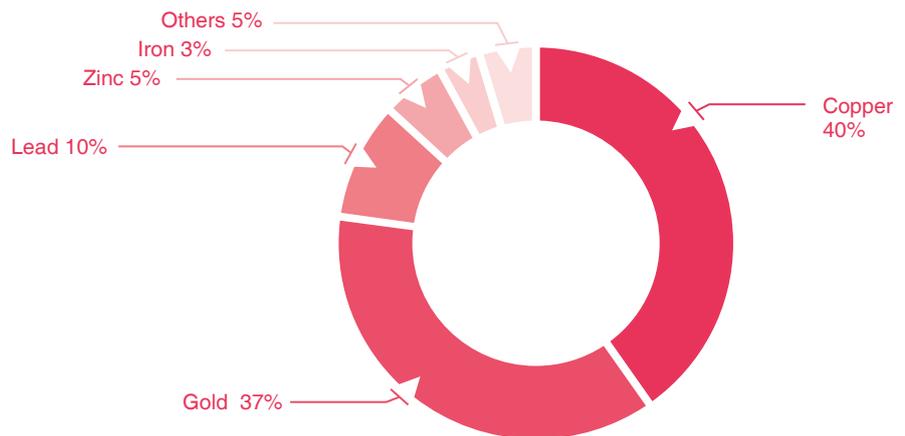
Source: MINEM



### Peru: Exports of mining products 2003 - 2012 (US\$ Millions)

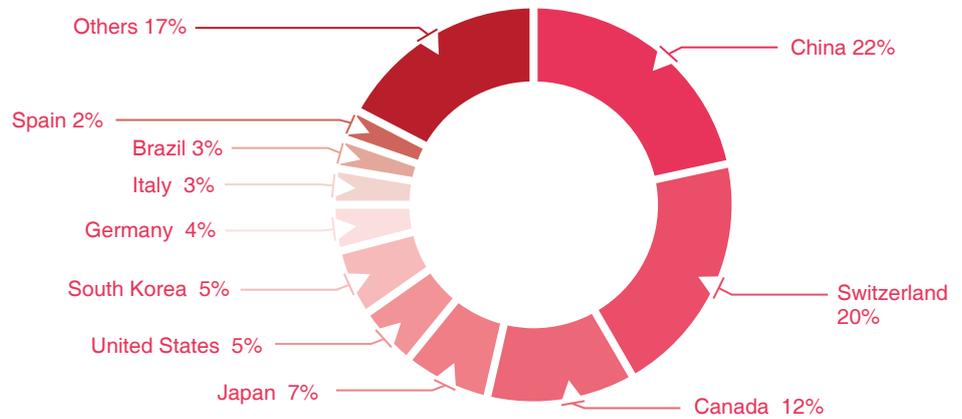


### Peru: Exports of mining products 2012 (US\$ 25,921 Million)



Source: BCRP and Sunat

**Peru: Mining exports by country of destination 2012\* (US\$ 25,921 Million)**



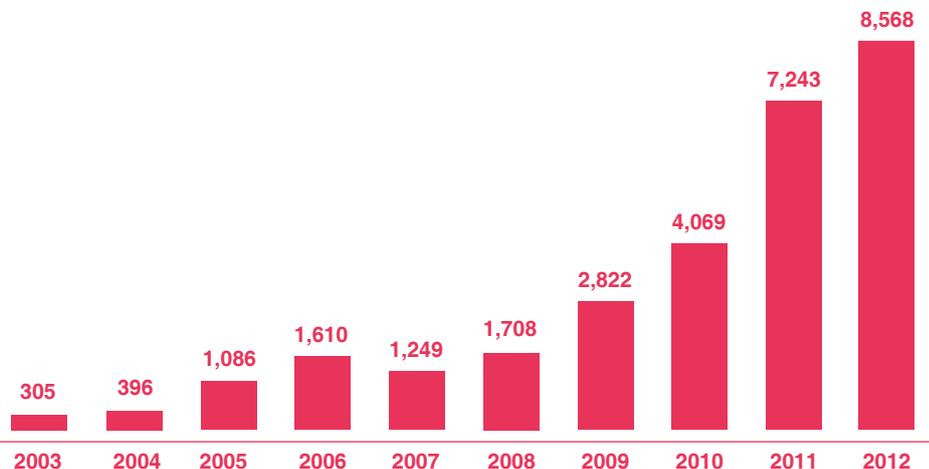
Source: Sunat, BCRP and MINEM  
 (\*) Calculated based on the exports of copper, gold, zinc, silver and lead.

**2.4.3 Investments**

In recent years, the mineral wealth and the high levels of metal prices have led to the mining companies increasing their investments in exploration and exploitation in the country. Between 2003 and 2012, mining investments have multiplied 28 times. This investment was carried out in a decentralized manner, which has stimulated the economy of almost all the regions.

Furthermore, the mining investment projects that have been announced or that are under evaluation exceed US\$ 54,000 million and the government has placed its hopes in their development. In this way, the Ministry of Economy and Finance (MEF) expects that 40% of GDP growth between 2013 and 2016 will be due to private investment; and that the latter will grow at an annual rate of 10% driven by the mining sector and the infrastructure projects in public-private partnerships.

**Peru: Mining investments 2007-2012 (US\$ Millions)**



Source: MINEM

## Announcements of main investment projects: 2013 - 2014

Investors	Name of the project
Xstrata Copper	Las Bambas
Freeport-Macmoran Copper	Expansion of Cerro Verde mine
Aluminium Corp. of China Ltd. (Chinalco)	Toromocho
Norsemont Mining Inc., HudBay Minerals Inc.	Constancia
Antares Minerals Inc.	Haquira
Anglo American Plc.	Quellaveco
China Minmetals Corporation y Jiangxi Copper Company Ltd.	El Galeno
Cumbres Andinas, Korea Resources Corp.	Mina Justa
Bear Creek Mining Corporation	Corani
Grupo Milpo	Expansion of Cerro Lindo and El Porvenir mines
Hochschild Mining International Minerals Corporation	Inmaculada
Shougang Corporation	Expansion of Marcona mine
Minera Gold Corp.	Expansion of Lagunas Norte mine
Grupo Buenaventura	Expansion of Colquijirca mine
Grupo México S.A.B. de C.V.	Expansion of Cuajone mine

Source: BCRP

The government also expects that in 2013, the mining GDP will increase 3.5%, based on the estimate of increased copper production (around 12%) –originating from the expansion of the Antamina mine and the operation of Antapaccay, which would be approaching their production potential (175 thousand and 160 thousand MT, respectively)- and an increased production of iron by the end of the year due to the expansion of Marcona. In this way, this additional production of copper and iron would offset the lower gold production expected for the year (-5.5%), explained by the natural depletion of deposits such as that of Yanacocha.

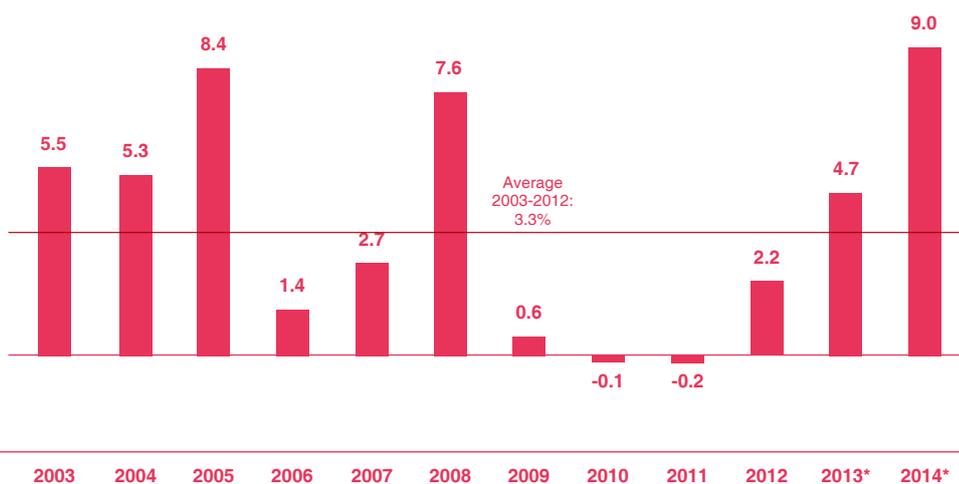
And for 2014, it projects an increase of mining GDP of 9.2%, driven by the beginning of operations of the projects: Las Bambas, expansion of Cerro Verde, Toromocho, and Constancia; which together with the expansion of Antamina and the new mine Antapaccay will permit the increase of copper production towards the end of 2016 to approximately 2,5 million MT, doubling the levels produced in 2011.

**Peru: Copper production estimated at 2016 (thousands of fine tons, includes leaching)**

Projects	Beginning date	2011	2012	2013*	2014*	2015*	2016*
<b>Expansions</b>							
Antamina	4T2012			120	175	175	175
Cerro Verde	2T2016						175
<b>New</b>							
Antapaccay	4T2012			100	160	160	160
Toromocho	3T2014				180	275	275
Constancia	2T2015					50	80
Las Bambas	1T2015					245	310
<b>Production of expansions and new projects</b>				220	515	905	1,175
<b>Total</b>		1,235	1,299	1,519	1,814	2,204	2,474

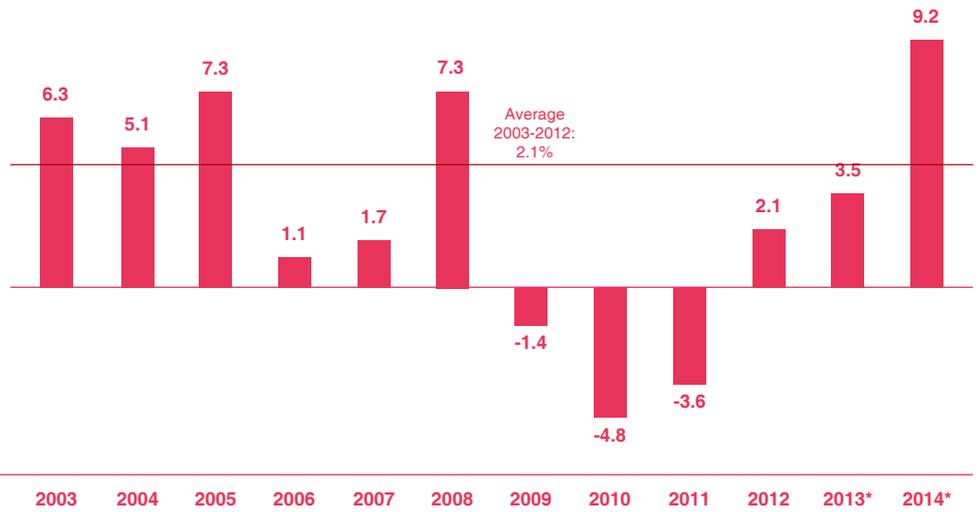
Source: BCRP and MINEM  
 (\*) Estimated by MEF.

**Peru: Mining and fuel GDP 2003 - 2012 (Annual growth rates)**



Source: BCRP and MEF  
 (\*) Estimated by MEF.

### Peru: Metals GDP 2003 - 2012 (Annual growth rates)

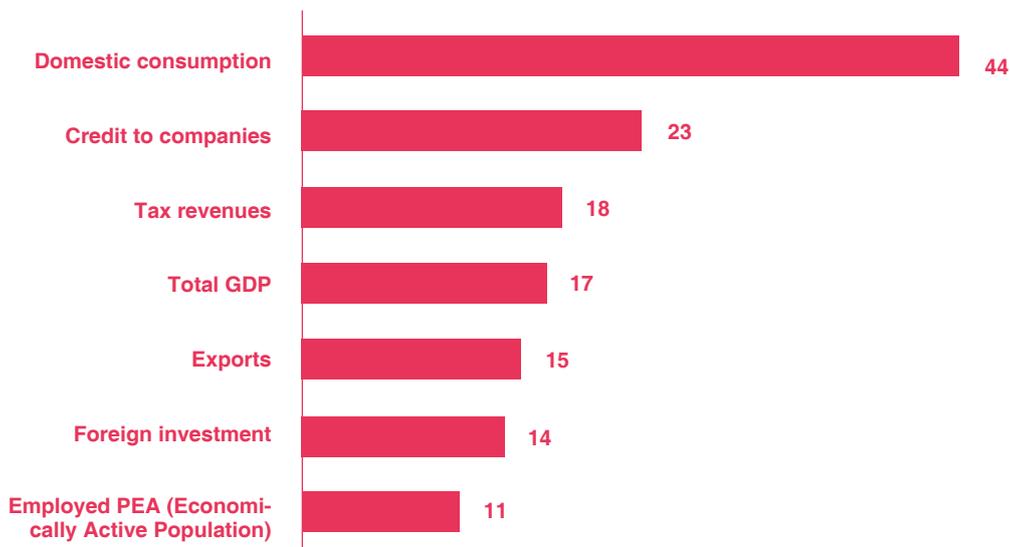


## 2.5 Manufacturing

Peru's manufacturing sector has the strength of being an articulating activity, a generator of direct and indirect employment and producer of value added goods. It currently has a 16.5% share of GDP, 15% of exports, 18% of tax revenues, 14% of foreign investment and 11% of the Economically Active Population.

Peruvian industry is solid because it is less protected and has become more competitive for the benefit of consumers. Trade liberalization was of benefit to industry, making it reconvert and concentrate on those sectors in which it has comparative advantages. Thus, in the last 10 years, the manufacturing GDP grew at an average rate of 5.9% per annum and manufactured exports expanded at an average annual rate of 17.7%, due mainly to the commercial agreements signed by the country.

### *Contribution of industry to the Peruvian economy (Percentage share)*



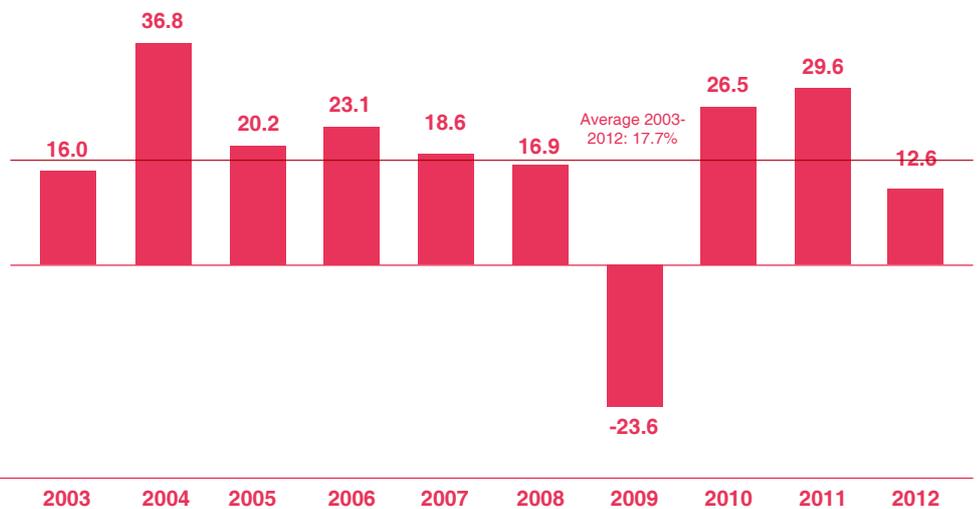
Source: INEI, BCRP, SUNAT, SBS, Proinversion and SNI

## Vertical and horizontal articulation of industry with other economic activities

Type of industry	Principal sectorial input
Fish oil	Anchovies
Canned food	Fruit
Oils and fats	Soy
Dairy products	Milk
Milling	Wheat
Textiles	Cotton
Furniture	Wood
Oil refining	Oil
Paper	Wood pulp
Footwear	Leather
Sector	Principal industrial input
Agriculture	Fertilizers and pesticides
Mining	Mechanical shovels
Electricity	Refined oil
Construction	Cement
Commerce	Printing and publishing
Transport	Vehicles
Hotels and restaurants	Licor and tobacco
Telecommunications	Computer equipment
Education	Paper and paper products
Health	Medicines

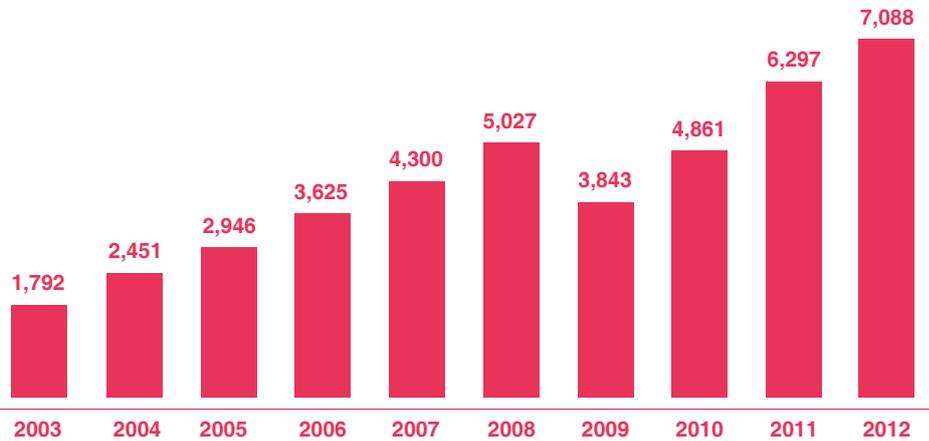
Source: SNI

## Peru: Manufactured exports 2003 - 2012 (Annual growth rate)



Source: Produce and Sunat

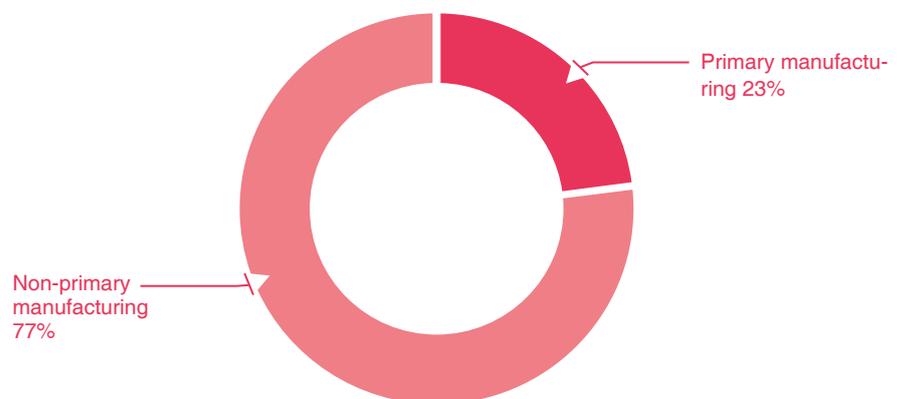
### Peru: Manufactured exports 2003-2012 (US\$ Millions)



Source: Produce and Sunat

76.8% of manufacturing production is represented by the non-primary sector and 23.2% by the primary sector. In the last 10 years, the primary sector has grown at an average rate of 2.8% associated with the performance of the fishing and mining subsectors. Meanwhile the non-primary sector has doubled and has grown at an average annual rate of 6.6%, mainly explained by the production of food and beverages, the paper and printing industry, chemical products, non-metallic minerals and metal products.

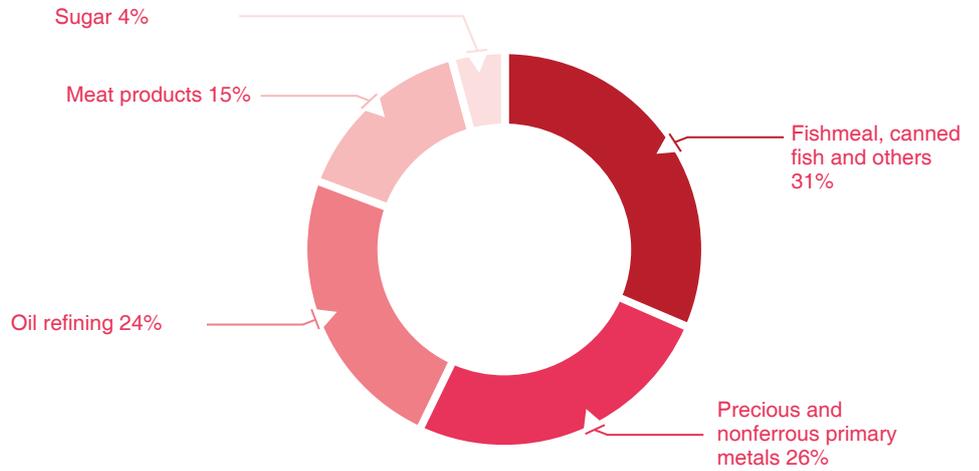
### Peru: Classification of the manufacturing sector



Source: INEI

### Peru: Composition of primary manufacturing

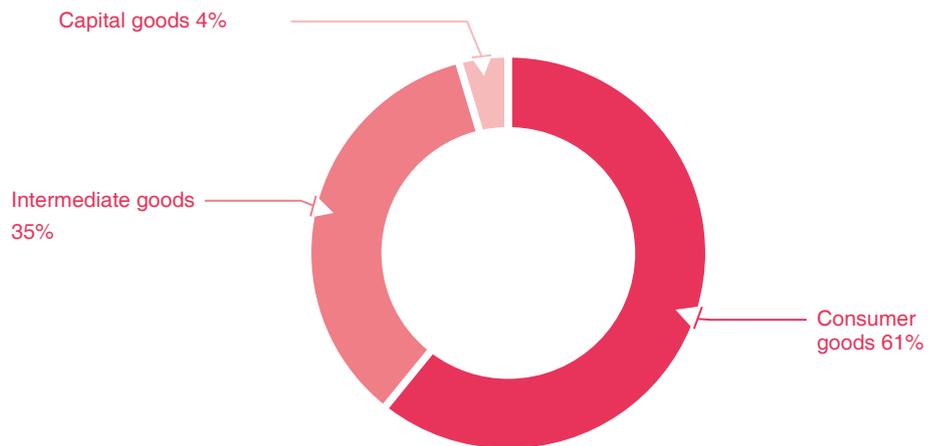
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Source: INEI

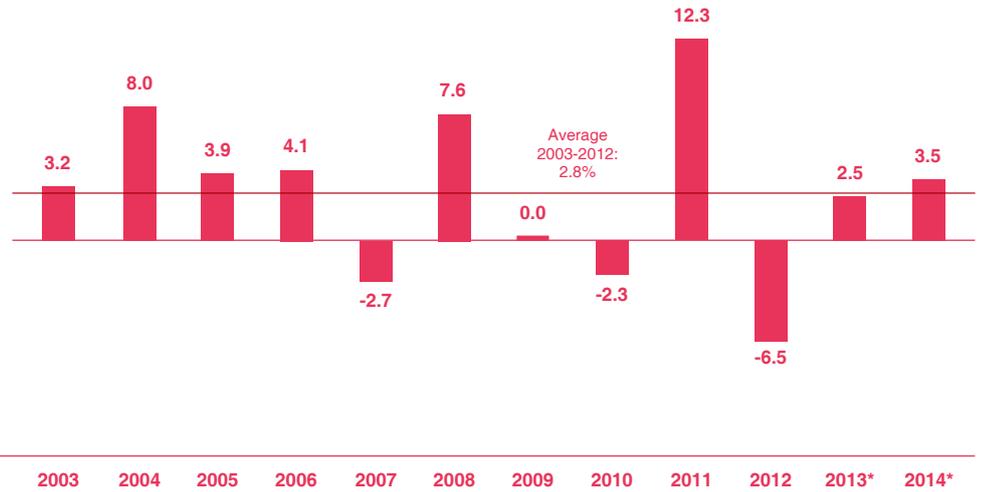
### Peru: Composition of non-primary manufacturing

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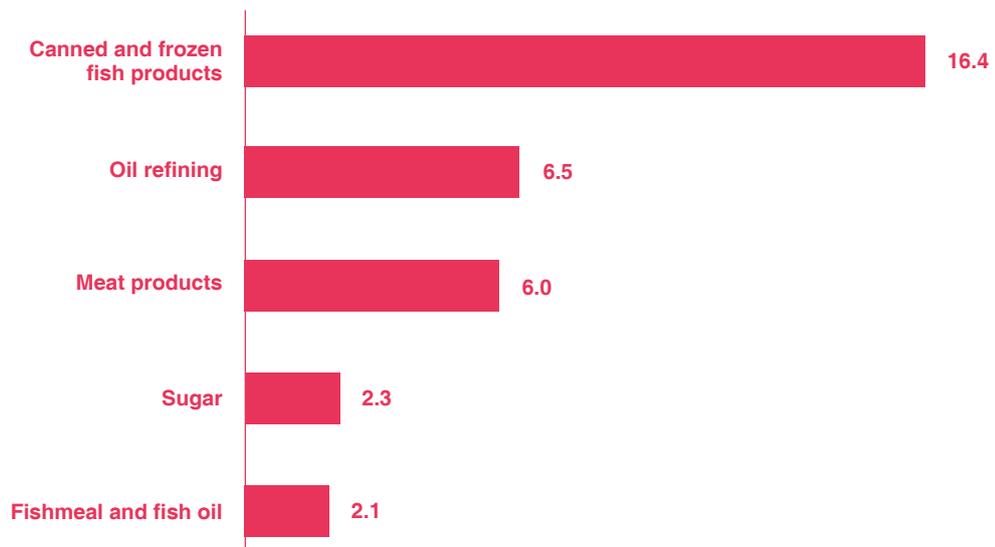


Source: INEI

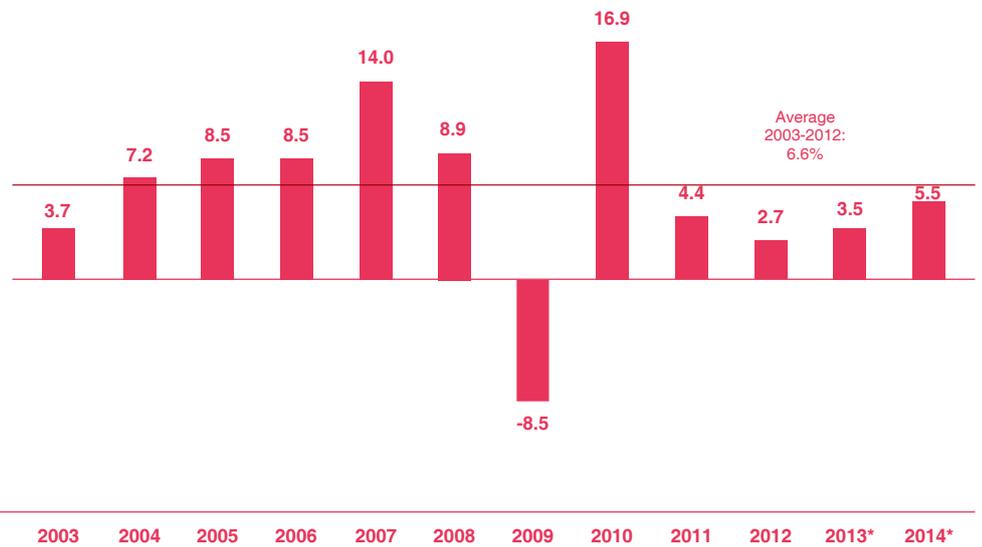
**Peru: Manufacturing Based on raw materials GDP 2003 - 2012  
(Annual growth rates)**



**Peru: Average annual growth of primary manufacturing by sectors  
2003 - 2012**

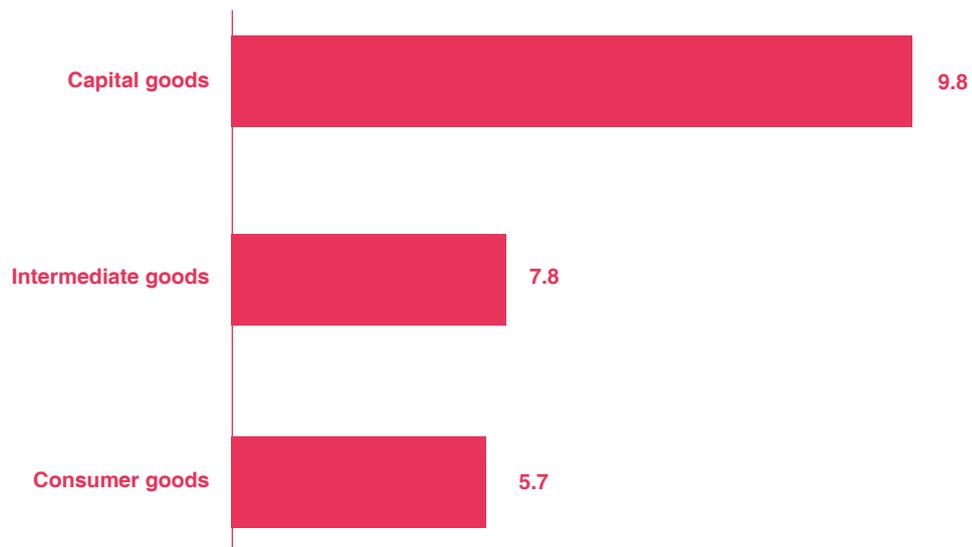


### Peru: Manufacturing non-primary GDP 2003 - 2012 (Annual growth rates)



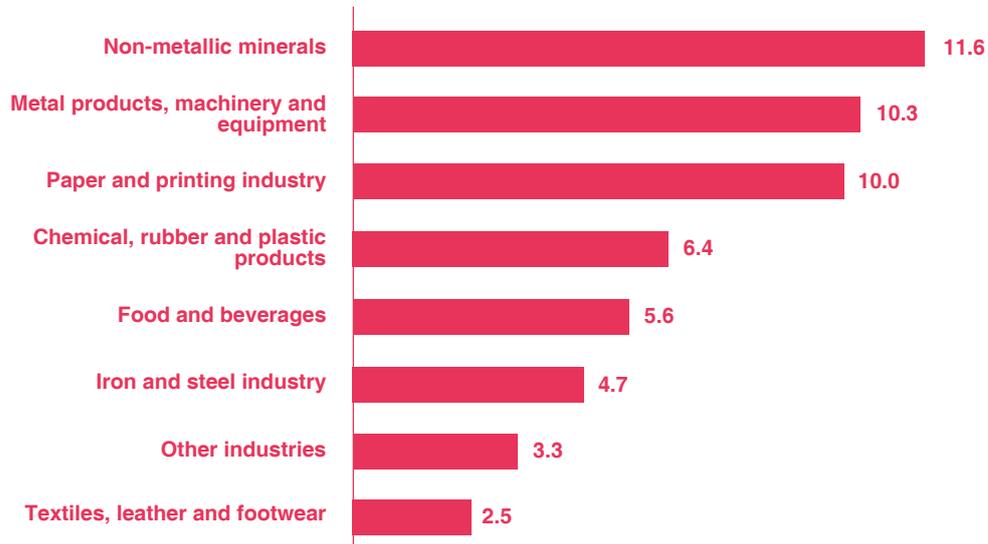
Source: BCRP and MEF  
 (\*) Estimated by MEF.

### Peru: Average growth of non-primary manufacturing by type of goods 2003 - 2012



Source: BCRP and Produce

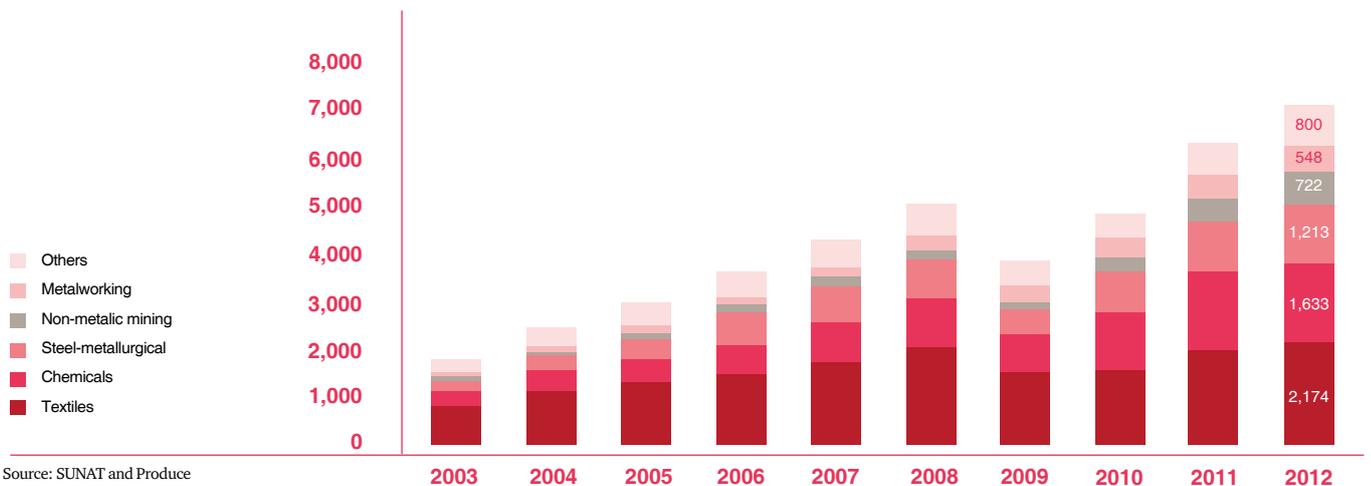
### Peru: Average annual growth in non-primary manufacturing by sectors 2003-2012



Source:BCRP and Produce

Furthermore, in recent years export items related to the manufacture of cars and their parts, mechanical apparatus and metal manufactures have acquired increasing relevance and currently exceed US\$ 500 million. These products are significant to the extent to which they are considered strategic by permitting the development and accumulation of skills that can be applied in the production of other industrial goods.

### Peru: Manufactured exports by subsectors 2003-2012 (US\$ Millions)

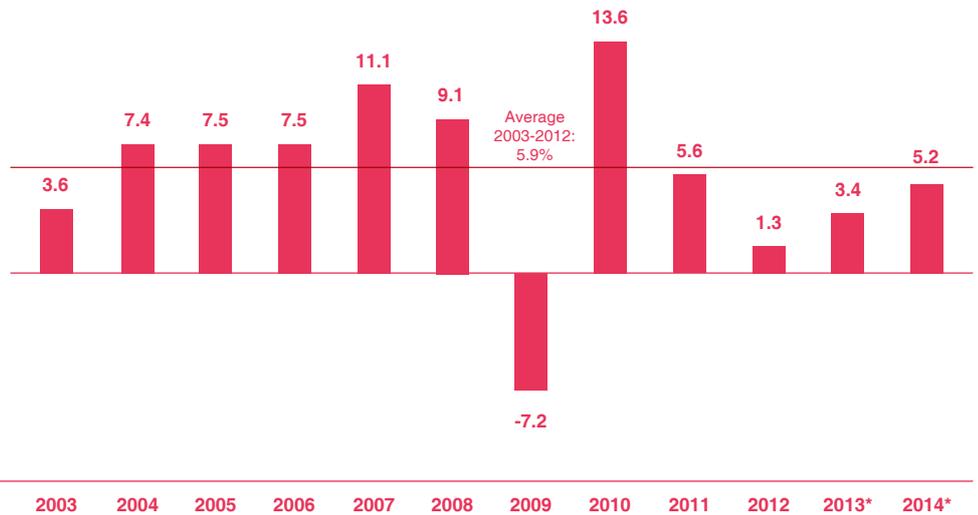


Source: SUNAT and Produce

The Ministry of Economy and Finance (MEF) forecasts that manufacturing is likely to grow to its potential level in the next few years. It estimates that manufacturing GDP will grow by 3.4% in 2013, influenced by the non-primary manufacturing sector, which should grow around 3.5% due to the dynamism of the sectors dedicated to the internal market, such as goods associated with construction, food and beverages, and toiletries.

Additionally, MEF projects that in 2014 manufacturing will grow by 5.2% as a result of non-primary manufacturing recovering dynamism, supported by an improved situation in the developed economies, the strength of the internal market, and the opening up of new markets. It estimates that the dynamism of the internal market will sustain the growth of consumer goods such as food and beverages and cleaning products and toiletries, while the increased robustness of external demand will expand the production of chemical, agro-industrial, textile-clothing and plastic products. Furthermore, the free trade treaties signed will provide opportunities for growth in emerging markets for our agro-industrial, chemical and metalworking products, particularly the Asian market.

### **Peru: Manufacturing GDP 2003 - 2012 (Annual growth rates)**

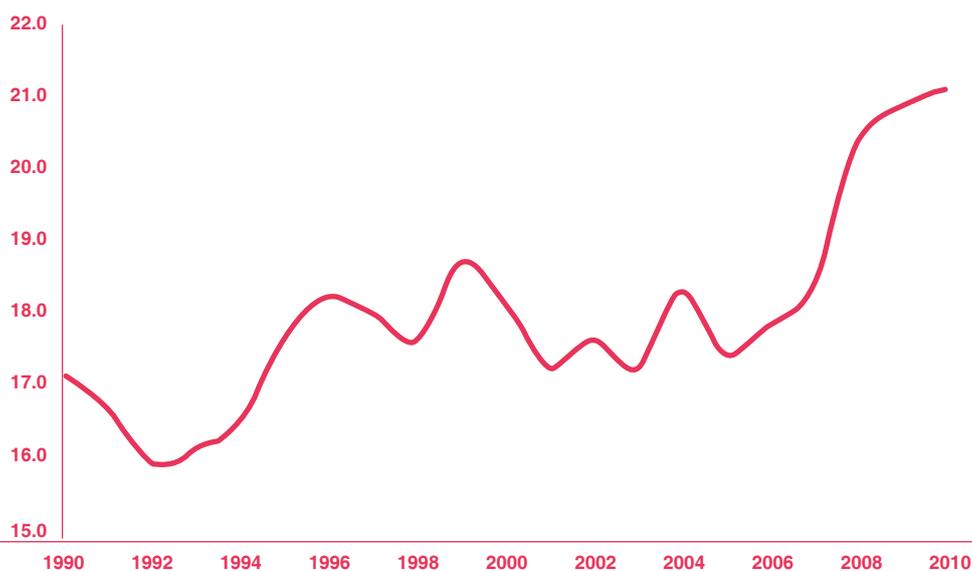


Source: BCRP and MEF  
 (\*) Estimated by MEF.

## 2.6 Energy & Utilities

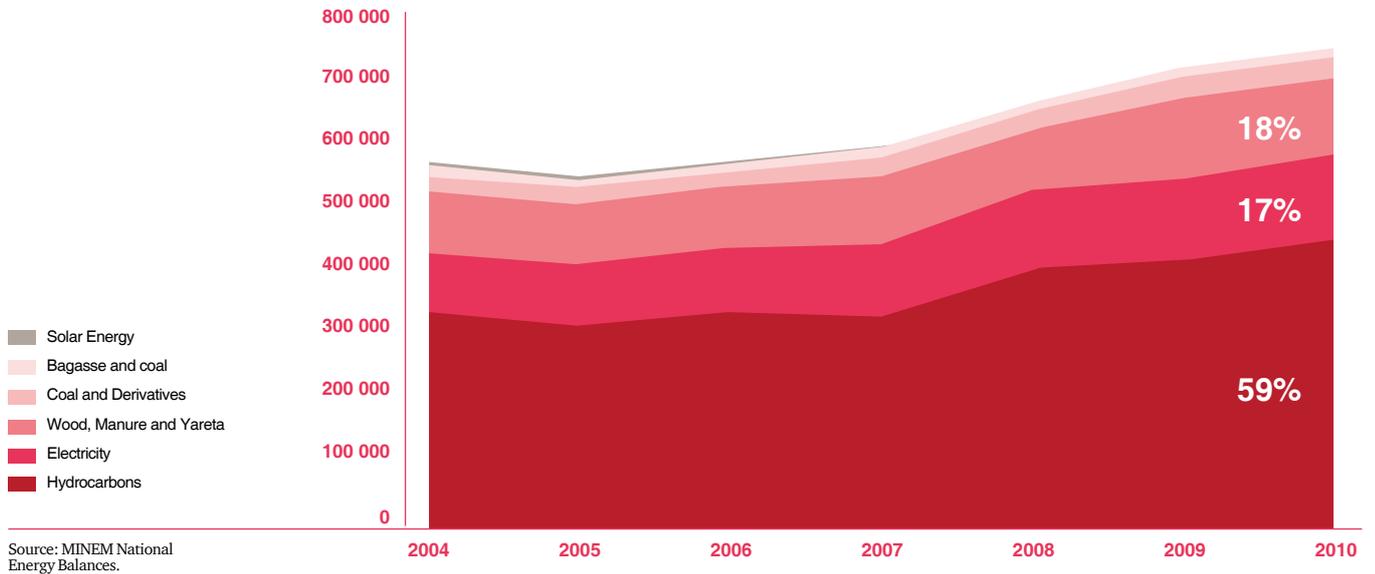
Energy consumption in Peru maintained a growing tendency in recent years, as a result of the increase in economic activity and the income of the population. In the last two decades, the consumption of energy per habitant increased close to 23%, growing in 2010 to 21.14 Terajoule/ $10^3$  habitants, according to the Ministry of Energy and Mines (MINEM). The main resource that supplied this consumption has been hydrocarbons with an average participation in energy consumption of 59%, followed by the group of the energetics: firewood, dung and yareta (18%) and electricity (17%). Additionally, in recent years, the participation of electricity within the energy matrix has maintained an average participation of 18%, according to the MINEM.

### *Peru: Energy consumption per capita (TJ/ $10^3$ Hab.)*

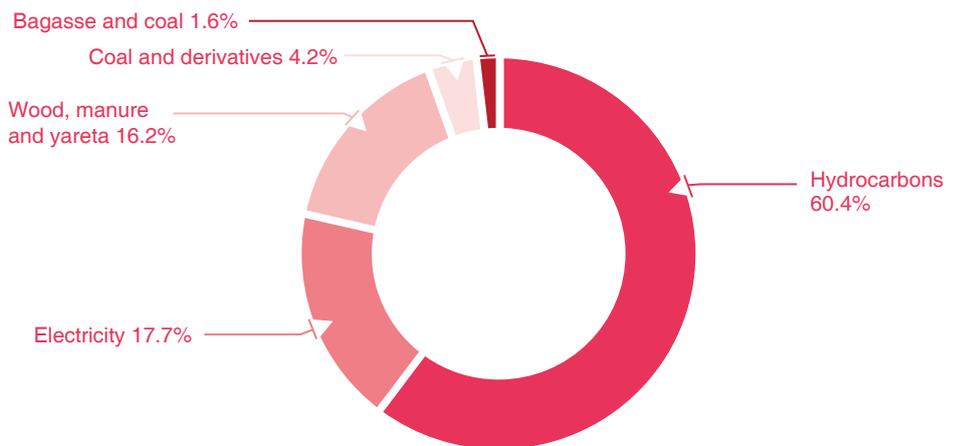


Source: MINEM and MINAM

**Peru: Final consumption by resource (In Terajoule)**



**Peru: Structure of final energy consumption by source 2010 (654,217 Terajoule)**

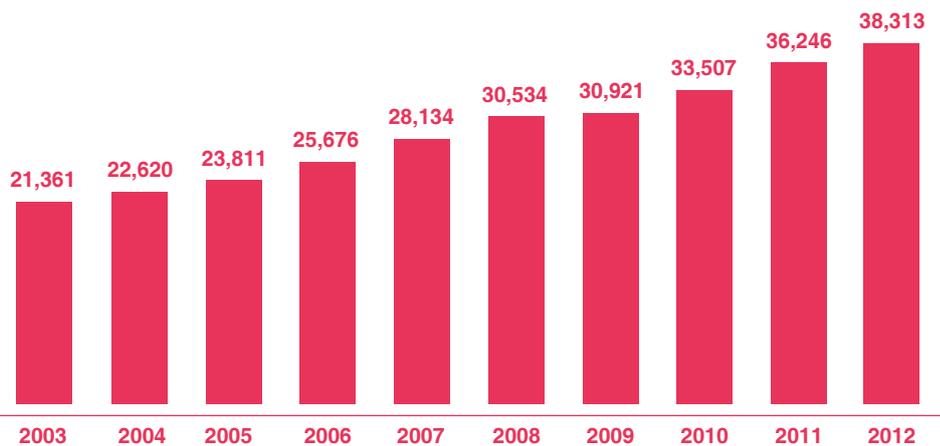


Source: MINEM, National Energy Balances 2010

## 2.6.1 Electricity

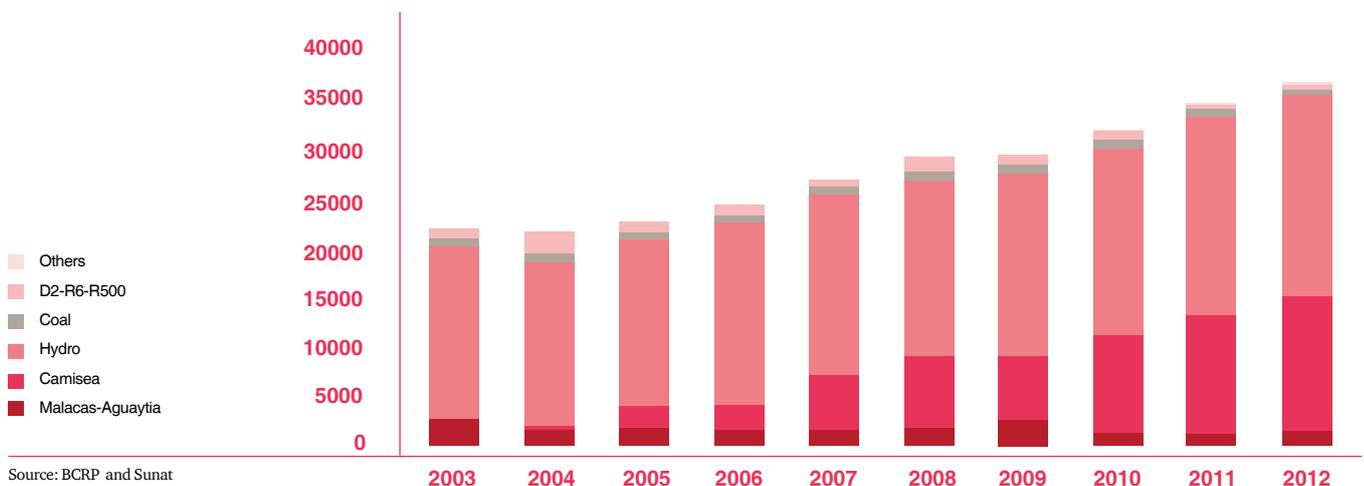
In the last 10 years, the electricity demand has been supplied by production that has grown at an annual rhythm of 7%. 67% of this production on average has originated from hydroelectric power plants and 23% from thermal power plants. The production through thermal technologies has increased its participation to 44% in 2012 from the 15% recorded in 2003. In this manner, by type of source, in 2012, hydropower concentrated 56%, natural gas 41%, diesel and residual 1% and mineral coal 1%, according to the Economic Operation Committee of the National Electricity Grid (COES).

### Peru: Electricity production 2003-2013 (Gigawatt hours)



Source: INEI and MINEM

### Peru: Use of resources in the production of electricity 2003-2012 (Gigawatt Hour)



Source: BCRP and Sunat

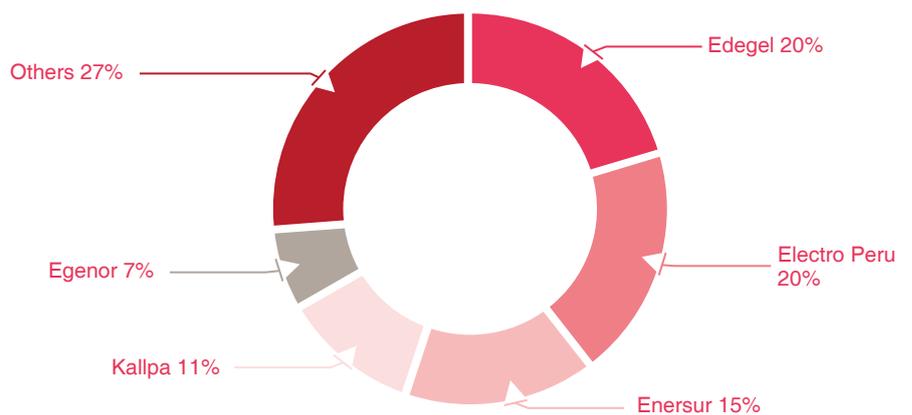
**Peru: Production in the electricity market by type of energy source 2012**



Source: COES

With regard to the electricity generation by companies, in 2012 it is observed that the state company Electro Perú participated with 20% of the production, followed by Edegel (20%) of the Grupo Endesa and EnerSur (15%) of Suez. These added to Kallpa of Globeleq and Egenor of Duke Energy concentrate 73% of the production.

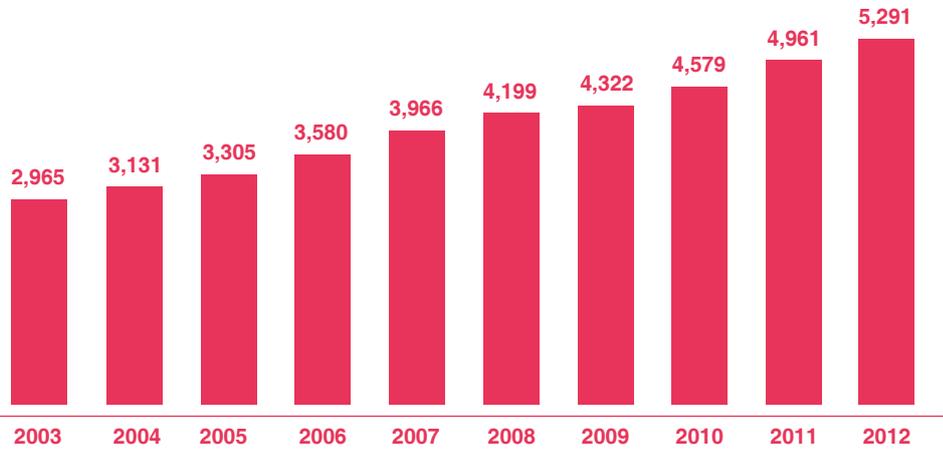
**Peru: electricity production by company 2012 (38,313 gigawatt hours)**



Source: MINEM, INEI and SNMPE

Likewise, in line with production, demand has also experienced important growth, at an annual rhythm of 7%.

### Peru: Maximum demand for electricity 2003-2012 (MW)



Source: COES

### Investments in the electricity sector

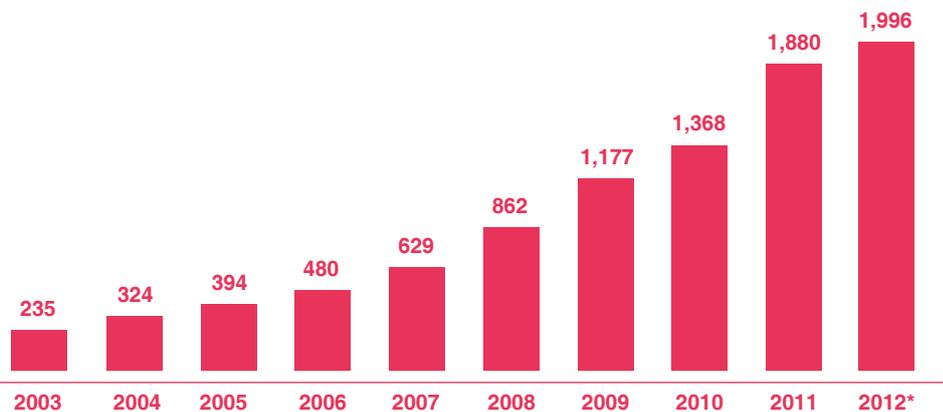
The investments carried out in recent years permitted the duplication of electricity production between 2000 and 2012, and the increase in coverage and diversification of generation sources.

In the last 10 years, the investments made in the electricity sector multiplied 8 times and at the same time the participation of residual and diesel in electricity production was reduced to 1% -from 39% in 1995- and coverage advanced from 75.3% to 87.2%, according to the MINEM.

The government expects that by 2016, 40% of the GDP growth (6.3% annual) will be due to investment in mining and infrastructure; and the projects of the electricity sector form a part of this latter portfolio. According to the MINEM, the portfolio of investment projects in the electricity sector exceeds US\$ 6,000 million at 2016.

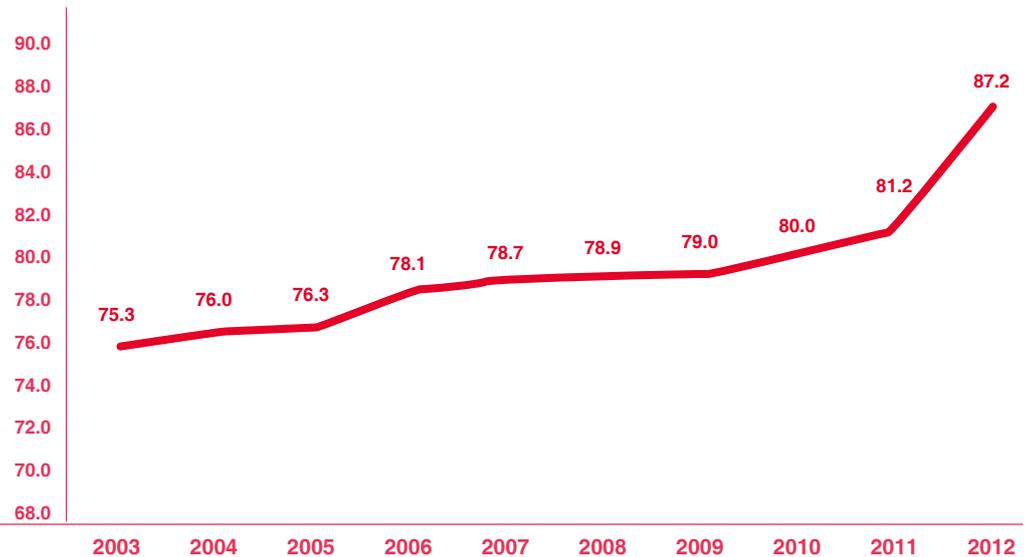
Additionally, the government projects that the GDP of the electricity sector will grow this year by 6.5% and 6.4% in 2014, as a result of these investments.

### Peru: Investments made in the electricity sector 2003-2012 (US\$ Millions)



Source: MINEM and SNMPE  
 (\*) Accumulated at the third quarter of 2012

### Peru: Coverage indicator of the electricity sector 2003 - 2012 (Percentages)



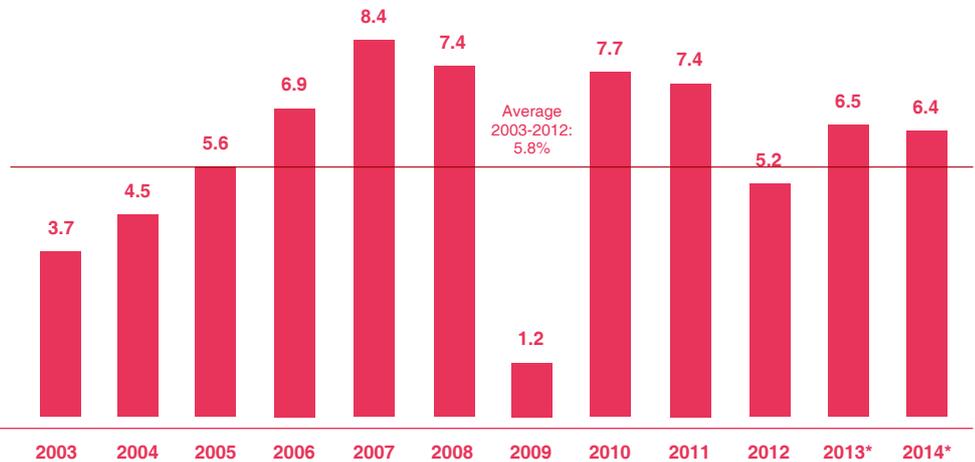
Source: MINEM and SNMPE

### Announcements of main investment projects: 2013-2014

Investors	Name of the project
Odebrecht S.A.	Hydroelectric power plant Cerro de Chaglla
"Inkia Energy"	Hydroelectric power plant Cerro del Águila
Norwind	Wind Farm Cerro Chocan
Energía Azul S.R.L.	Hydroelectric power plant Santa María
SN Power Perú S.A.	Hydroelectric power plant Cheves
Volcan Compañía Minera S.A.A.	Hydroelectric power plant Belo Horizonte
GDF Suez	Hydroelectric power plant Quitaracsa I
Inevarante	Hydroelectric power plants Acco Pucará
GDF Suez	Cold reserve generation - Ilo and Talara
Energía de Entre Ríos S.A. - ENERSA, Grupo Cobra	Cold reserve generation - Eten
Abengoa	LT Machupicchu – Quencoro – Onocora – Tintaya

Source: BCRP

## Peru: Electricity and water GDP 2003-2012 (Annual growth rates)



Source: BCRP and MEF  
(\* ) Estimated by MEF.

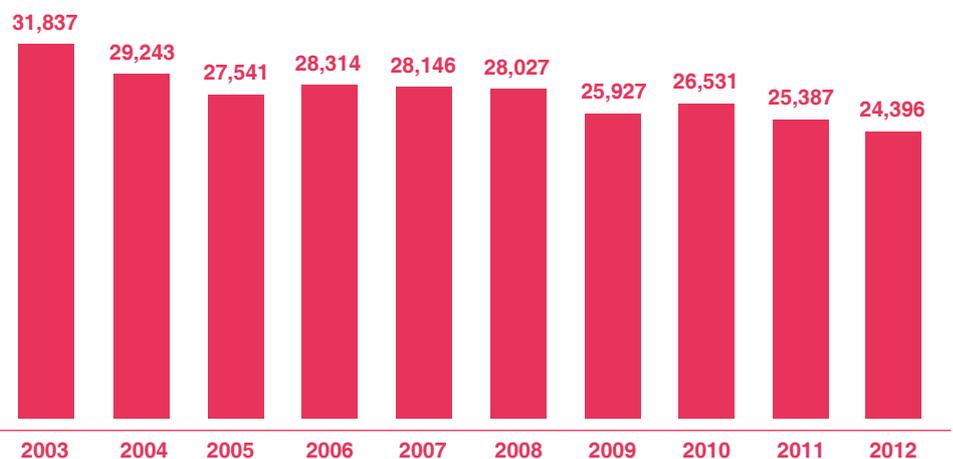
## 2.6.2 Hydrocarbon sector

The hydrocarbon sector has also had a very dynamic development in recent years, mainly due to the evolution of the production of natural gas. Between 2003 and 2012, the production of natural gas liquids multiplied 21 times and the production of dry natural gas multiplied more than 22 times, according to Perupetro.

Likewise, the hydrocarbon reserves of oil and gas are auspicious. The General Direction of Hydrocarbons of the MINEM has estimated that at the end of 2012, the proven oil reserves are 9.28% higher compared to 2011, due to the productive behavior of the declination curve of the lots, the checking of new locations for reserves located in undeveloped areas, as well as the good results obtained from the drilling of wells in recent years. Likewise, the estimates of oil resources have increased by 43.5%, as a result of the re-estimate of wells in undeveloped areas and in non-drilled structures.

In the case of natural gas, the MINEM has estimated that the probable reserves of dry natural gas have increased by 21%, compared to 2011 and the probable reserves have grown by 13%, in the case of liquid gas, reserves have increased by 26%.

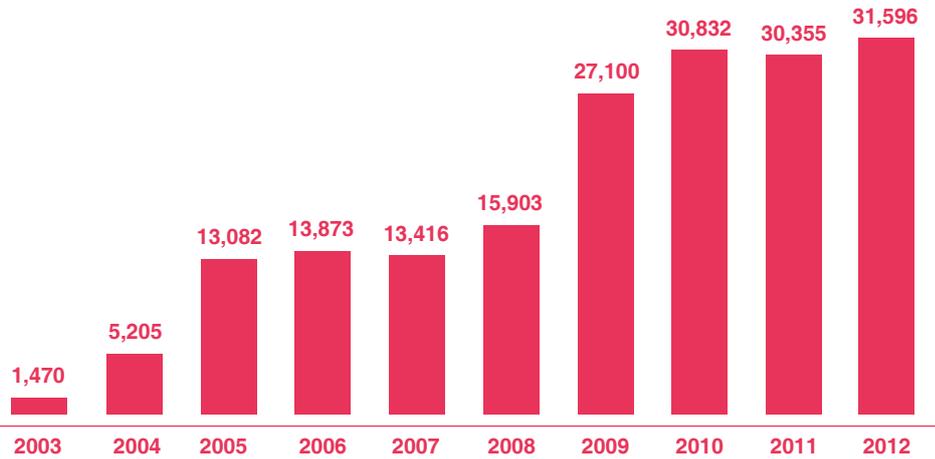
## Peru: Oil production 2003-2012 (Thousands of barrels)



Source: Perupetro

**Peru: Production of natural gas liquids 2003-2012 (Thousands of barrels)**

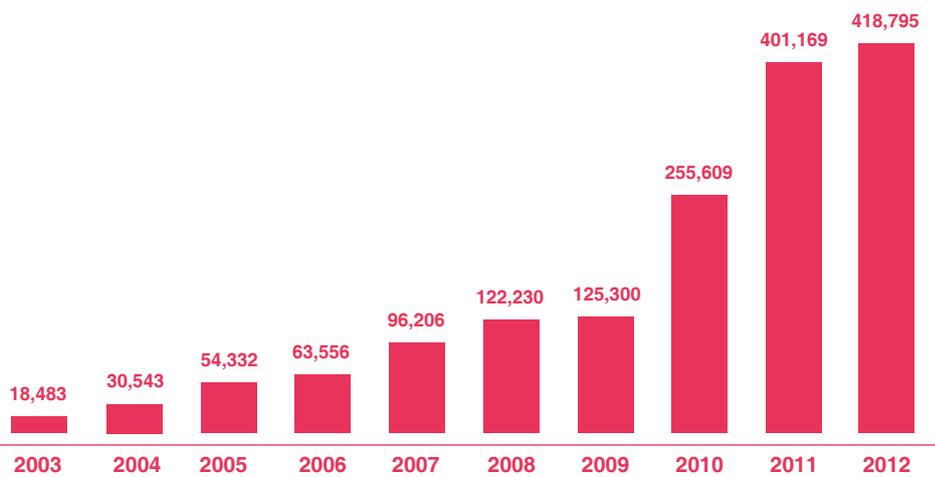
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Source: Perupetro

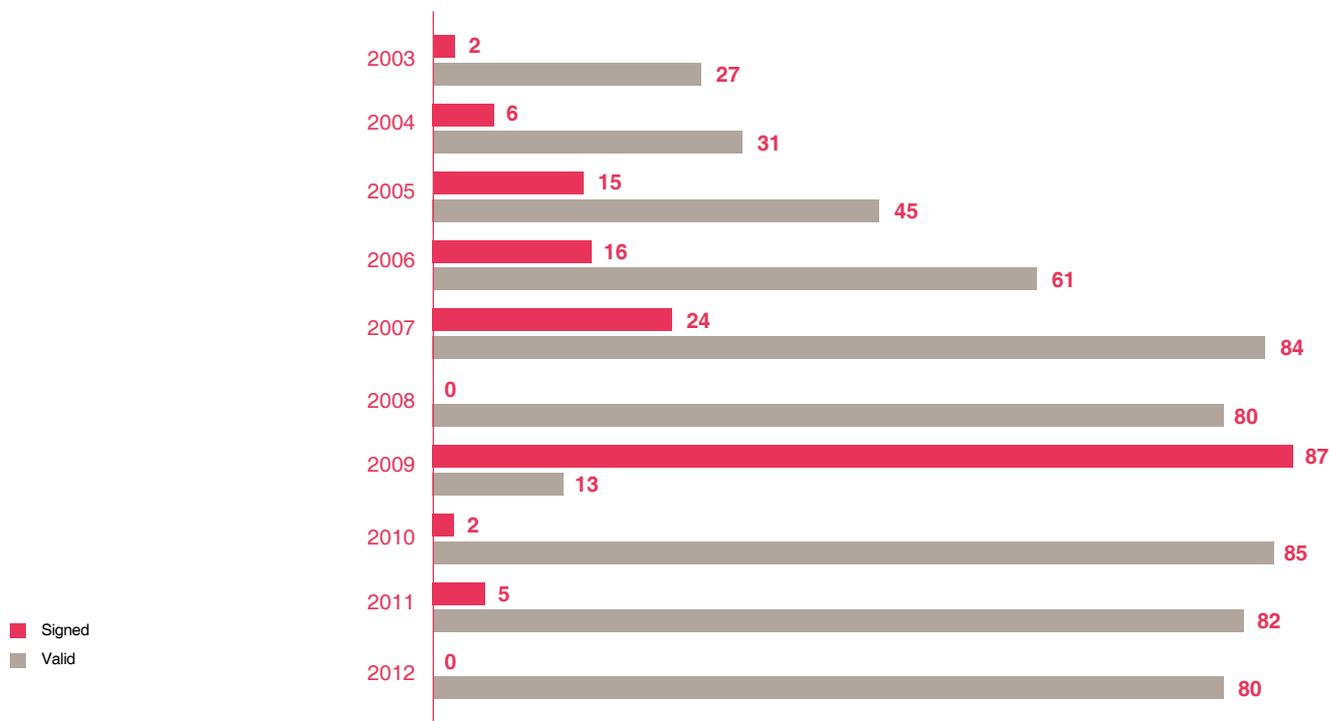
**Peru: Production of natural gas 2003-2012 (In millions of cubic feet)**

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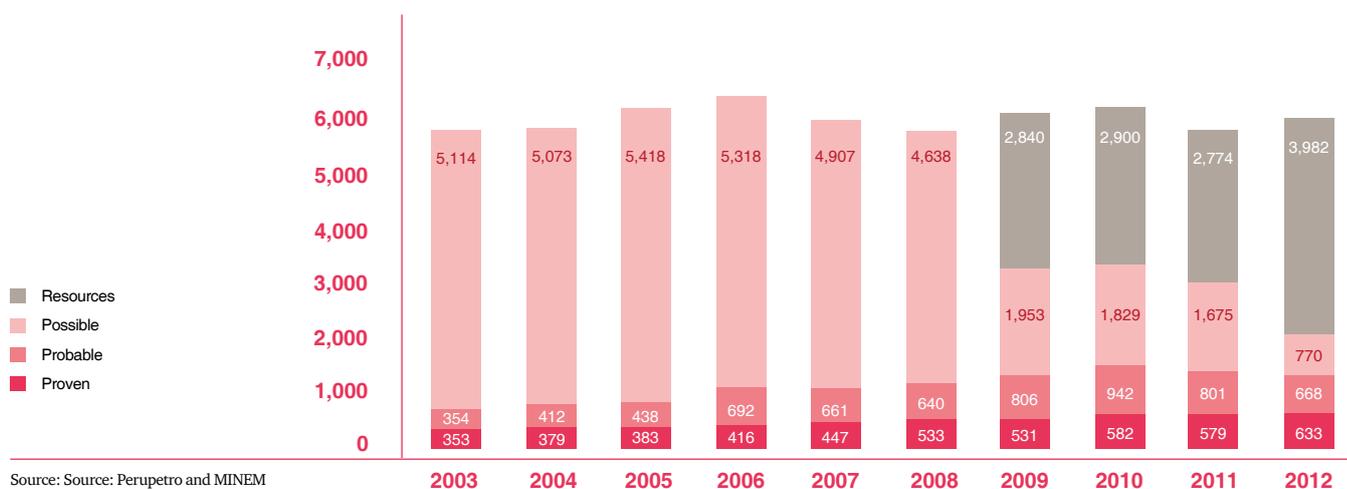
Source: Perupetro

### Peru: Oil contracts 2003-2012 (In units)



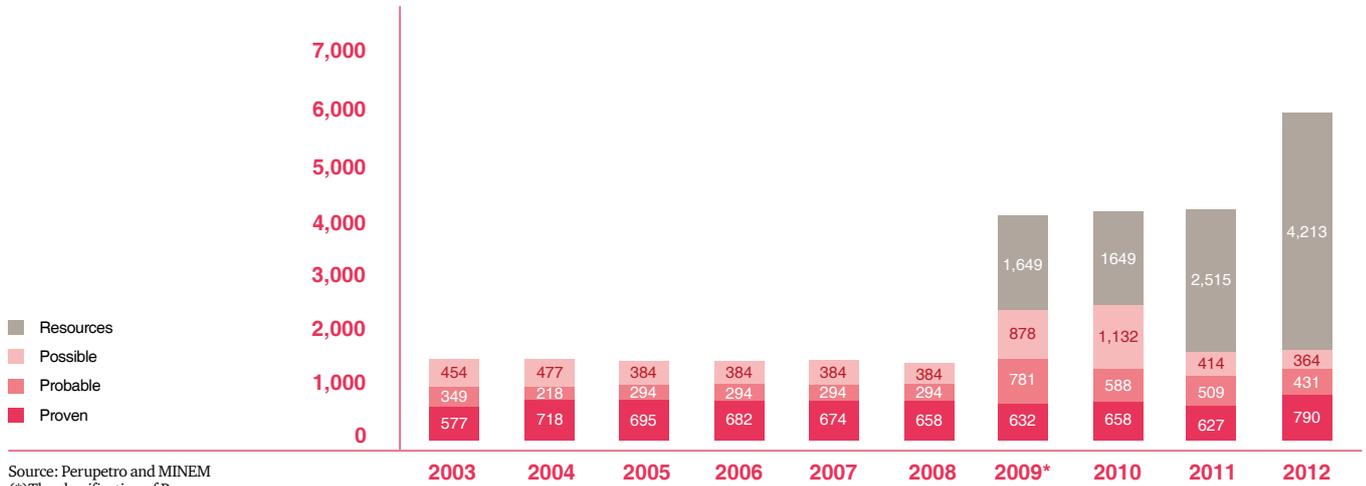
Source: Perupetro

### Peru: Oil reserves 2003-2012 (In millions of barrels)



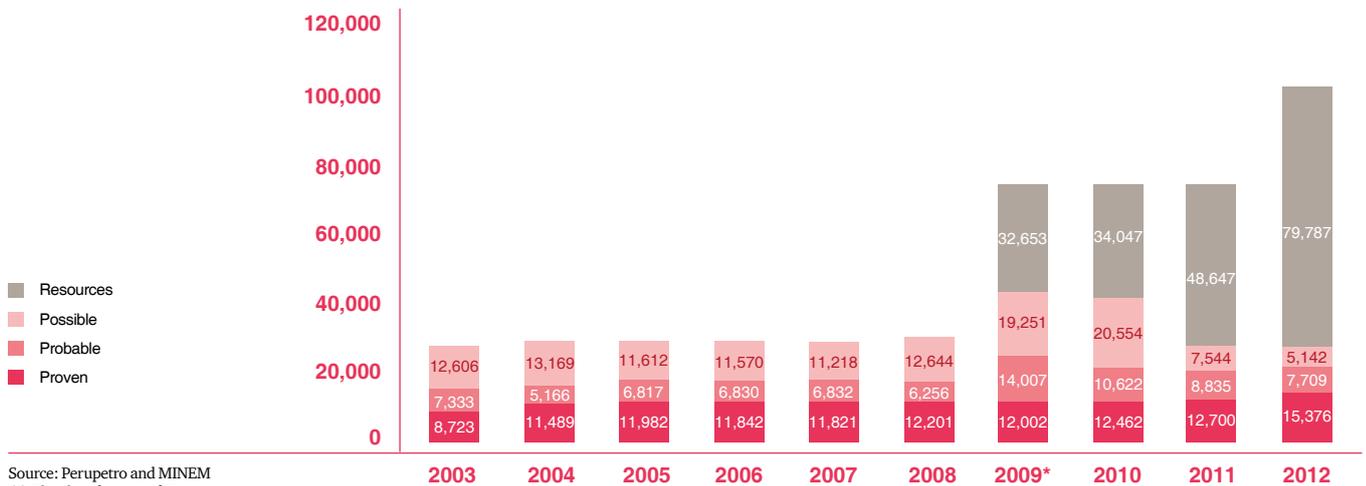
Source: Source: Perupetro and MINEM  
 (\*) The classification of Resources originates from a reclassification of possible reserves to resources as of 2009.

### Peru: Reserves of natural gas liquids 2003-2012 (In millions of barrels)



Source: Perupetro and MINEM  
 (\*) The classification of Resources originates from a reclassification of possible reserves to resources as of 2009.

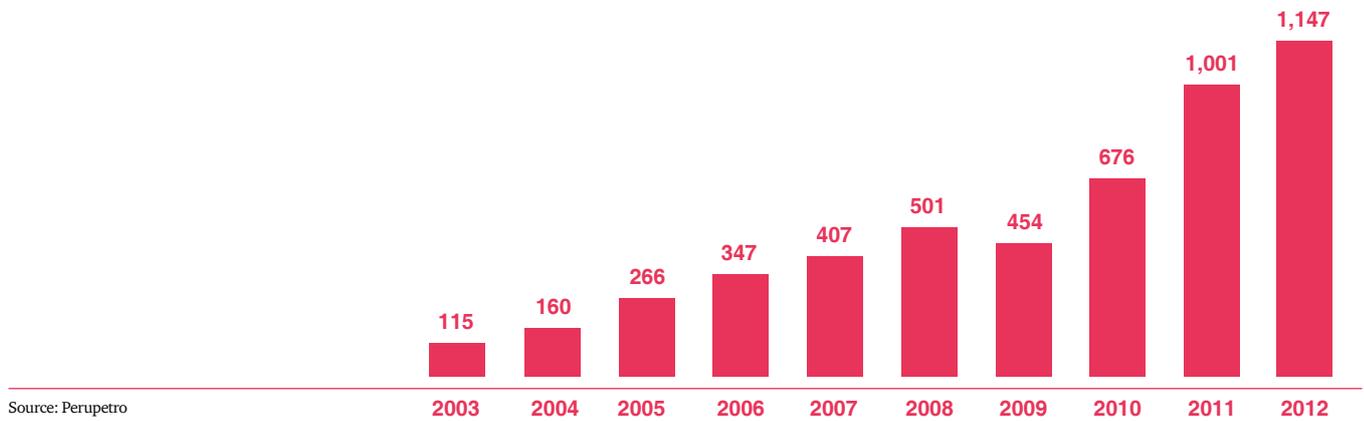
### Peru: Reserves of natural gas 2003-2012 (In thousands of millions of cubic feet)



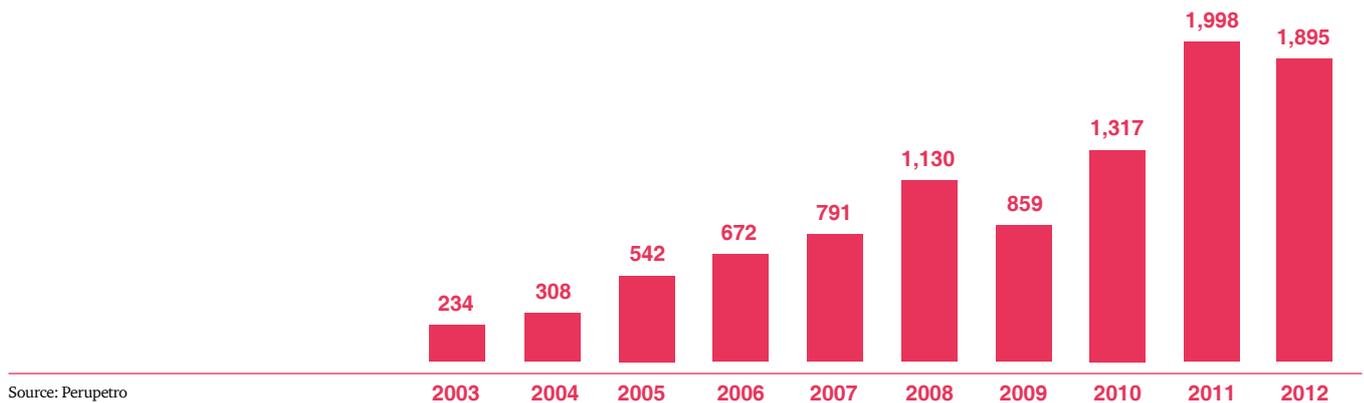
Source: Perupetro and MINEM  
 (\*) The classification of Resources originates from a reclassification of possible reserves to resources as of 2009.

On the other hand, the hydrocarbon sector is an activity that contributes to the development of Peru. In the last 10 years, hydrocarbon tolls and excess tolls have multiplied nearly 10 times to US\$ 1,147 million and the payment in respect of royalties has multiplied 8 times to US\$ 1,895 million.

### Peru: Hydrocarbon tolls and excess tolls 2003-2012 (US\$ Millions)

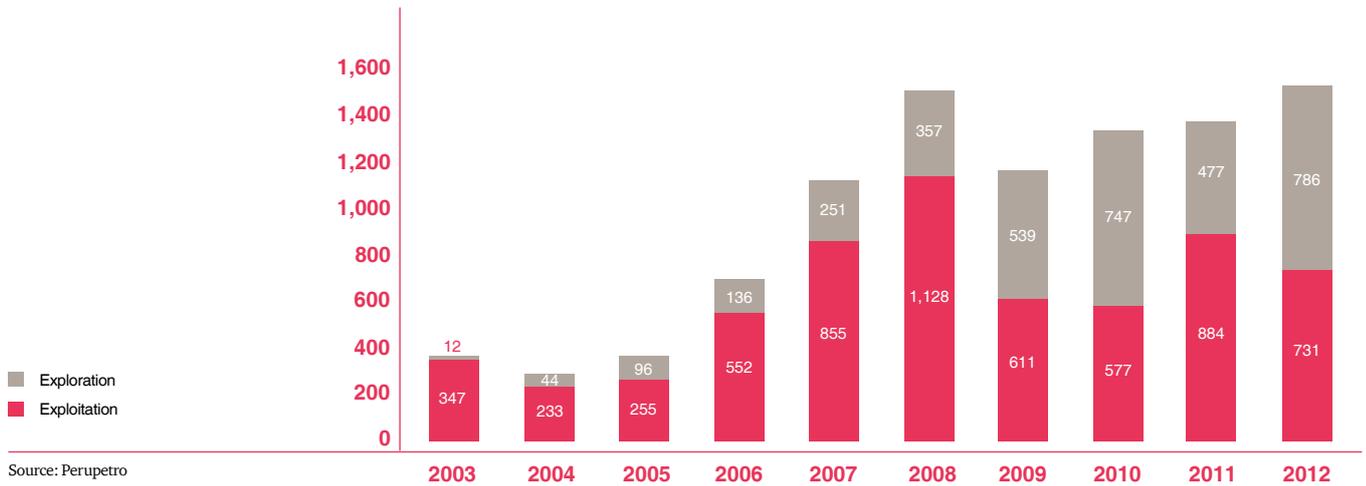


### Peru: Hydrocarbon royalties 2003-2012 (US\$ Millions)

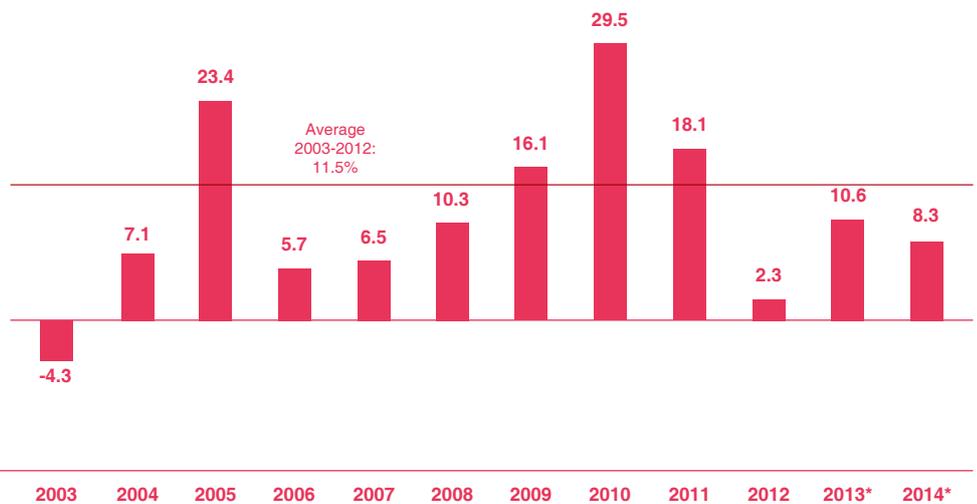


Oil investments have doubled in the last 10 years due to the dynamism of demand. The government projects that by 2013, hydrocarbon activity will grow at a rate of 10.6%, associated with the greater production of natural gas due to the expansion of lots 88 and 57 (located in the province of La Convención in the region of Cusco) and for 2014 it estimates a growth of the sector of 8.3%, also associated with the additional production of natural gas and liquid hydrocarbons.

### Peru: Oil investments by type 2003-2012 (US\$ Millions)



### Peru: Fuel GDP 2003-2012 (Annual growth rates)



### ***Announcements of main investment projects: 2013-2014***

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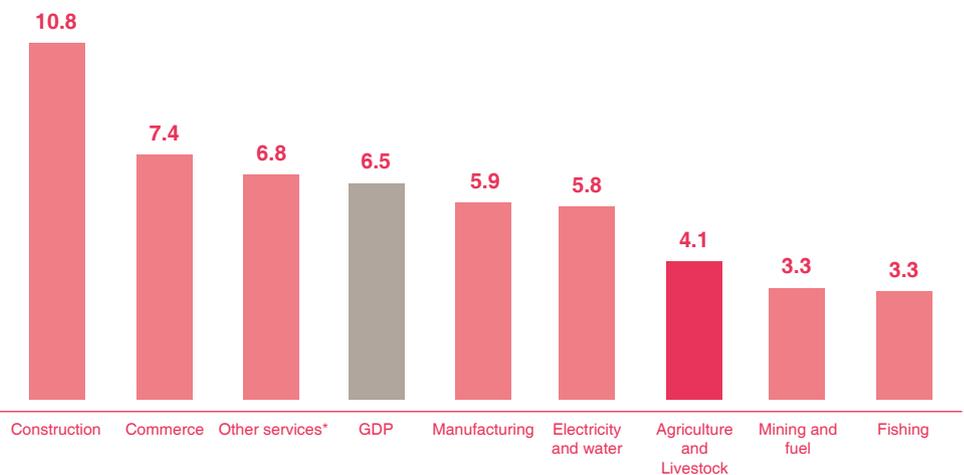
<b>Investors</b>	<b>Name of the project</b>
Pluspetrol Perú Corp. S.A.	Expansion of Pisco and Malvinas plant
Savia Perú S.A.	Lot Z-2B: Drilling, exploration and other investments
Pacific Rubiales Energy	Development of lots: Z1-135 - 137 - 116 - 138
Transportadora de Gas del Perú S.A.	Expansion transport capacity of gas
Petrobras	Lot 58 and Lot X
Cálidda Gas Natural del Perú	Massification of gas
Perenco	Exploration Lot 67 / Pipeline
Pluspetrol Perú Corp. S.A.	Exploration Lot 88 y 56
SK Energy	Exploration Lot Z 46
Repsol Exploration, Petrobras Energía Perú S.A.	Lot 57 – Kinteroni

## 2.7 Agriculture

Peruvian agriculture is one of the most important sectors of the country due to its dynamics and impact. In the last 10 years it has contributed 6.4% of the growth and on average employs one quarter of the Economically Active Population (PEA from Spanish acronym), according to the INEI. The sustained growth of agriculture in the last decade has been driven by the agricultural export boom and the advance in agricultural and livestock production. Between 2001 and 2012, agro-industrial exports increased six fold, from US\$ 437 million to US\$ 3,081 million. Furthermore, between 2003 and 2012, agricultural GDP grew at an average annual rate of 4.1%, the livestock subsector being the most dynamic, with a growth rate of 5.2%.

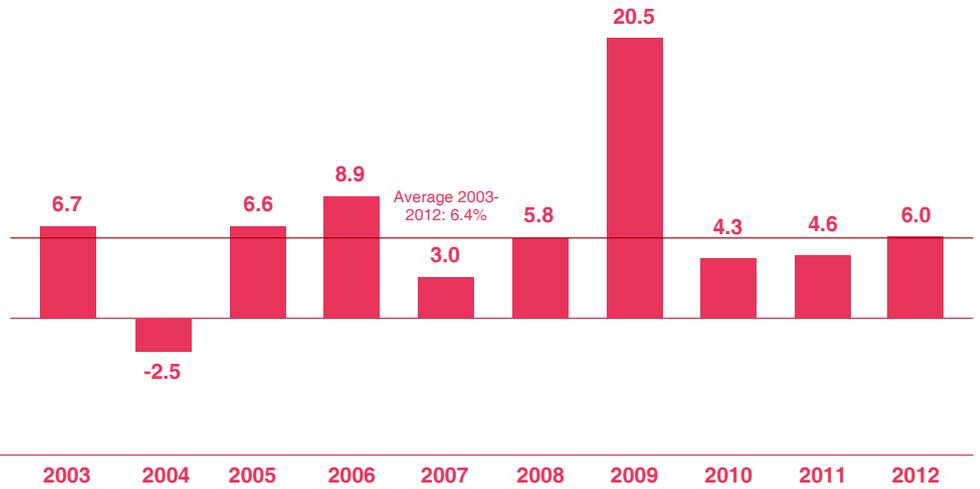
The superiority of the livestock subsector compared to that of agriculture during the last decade has been due to the increased production of poultry and beef, followed by the increased production of hens' eggs and milk. According to the Ministry of Agriculture (MINAG), in the last 10 years, the gross value of the production of poultry meat has grown by 91%, beef by 72%, fresh milk by 98% and eggs by 135%. On the side of the agricultural subsector, its increased dynamism has been explained by the higher volumes of potatoes, rice and the historically high production of bananas, coffee, hard yellow corn and asparagus.

### *Peru: Average annual growth rates 2003-2012 (Percentages)*



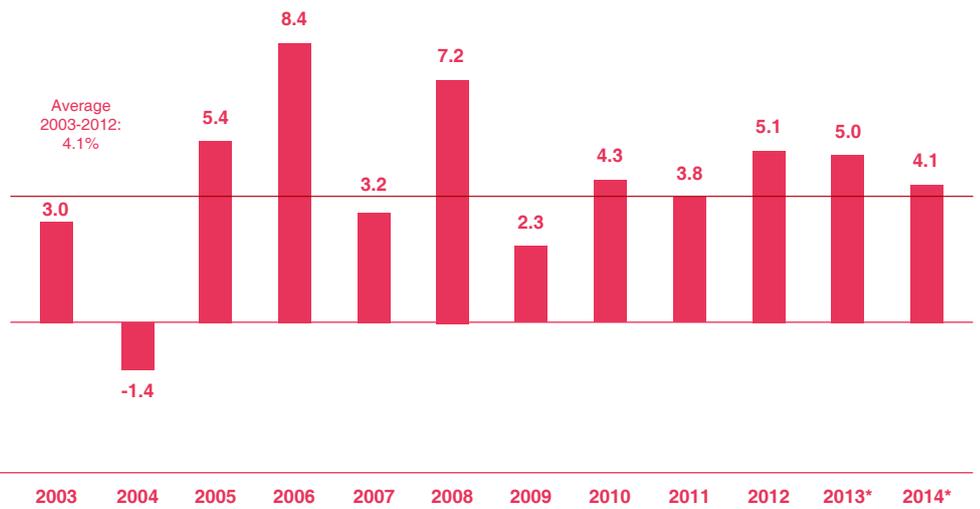
Source: BCRP and MEF  
(\* ) Including import duties and other taxes on products.

**Peru: Agricultural sector, contribution to change in GDP 2003-2012 (Percentages)**

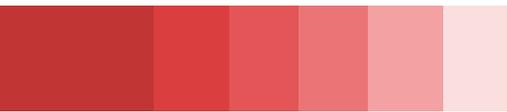


Source: BCRP and MEF

**Peru: Agriculture and Livestock GDP 2003-2012 (Annual growth rates)**



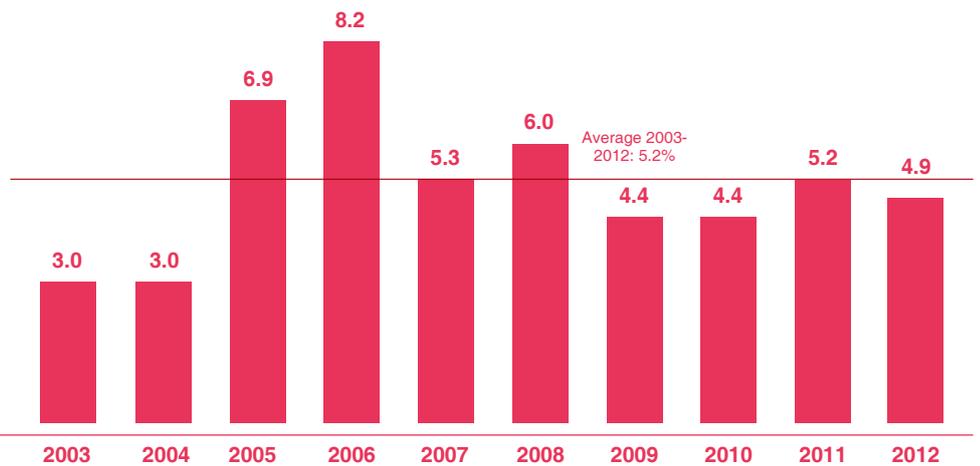
Source: BCRP and MEF  
 (\*) Estimated by MEF.



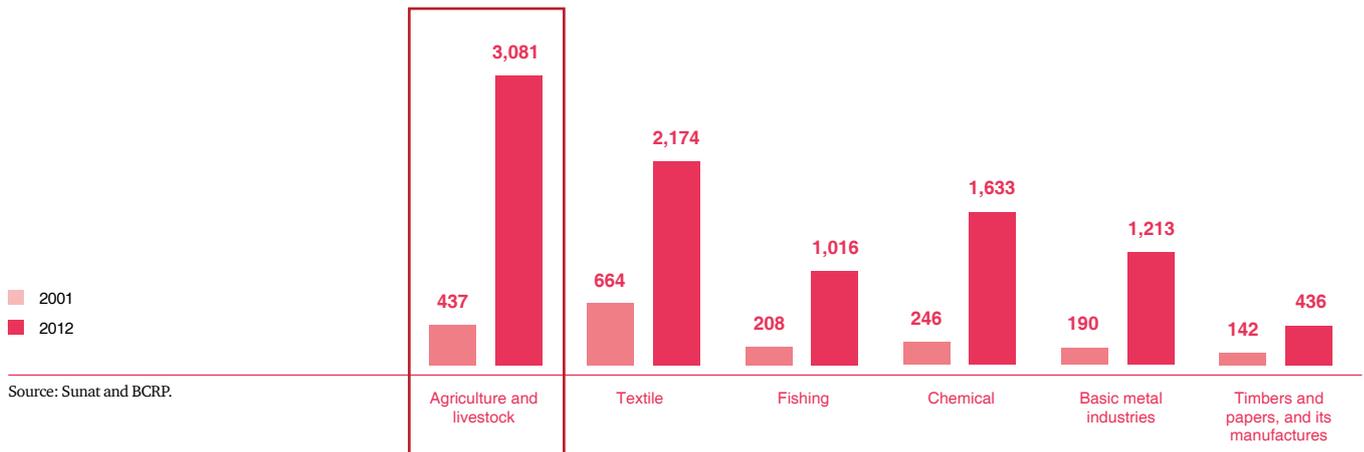
### Peru: Agricultural GDP 2003-2012 (Annual growth rates)



### Peru: Livestock GDP 2003-2012 (Annual growth rates)



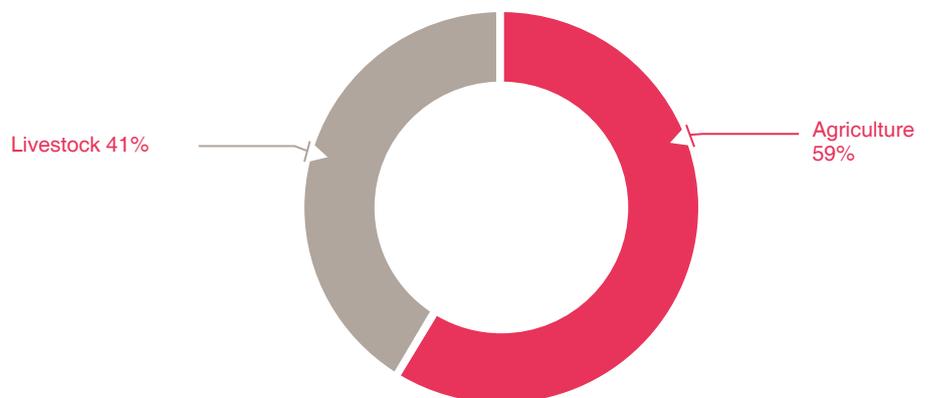
### Peru: Exports of non-traditional products (US\$ Millions)



Agricultural activity in Peru comprises the agricultural and livestock subsectors. The agricultural subsector concentrates almost 60% of the gross value of production and livestock the remaining 40%.

80% of the production of the agricultural subsector is directed to human and industrial consumption, while 80% of livestock activity is dedicated to meat production, according to MINAG. In the last 10 years, the main products of both subsectors have grown more than 50%.

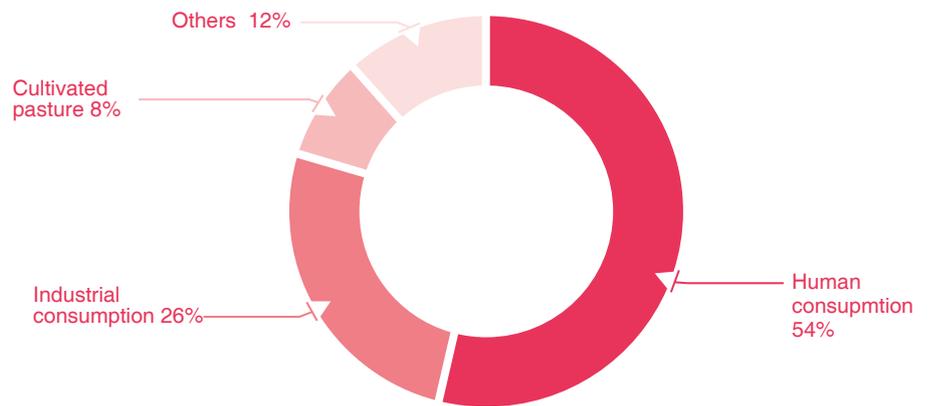
### Peru: Gross value of Agricultural production 2012 (US\$ 8,716 Million)



Source: MINAG

**Peru: Gross value of production Agriculture Subsector 2012 (US\$ 5,126 Million)**

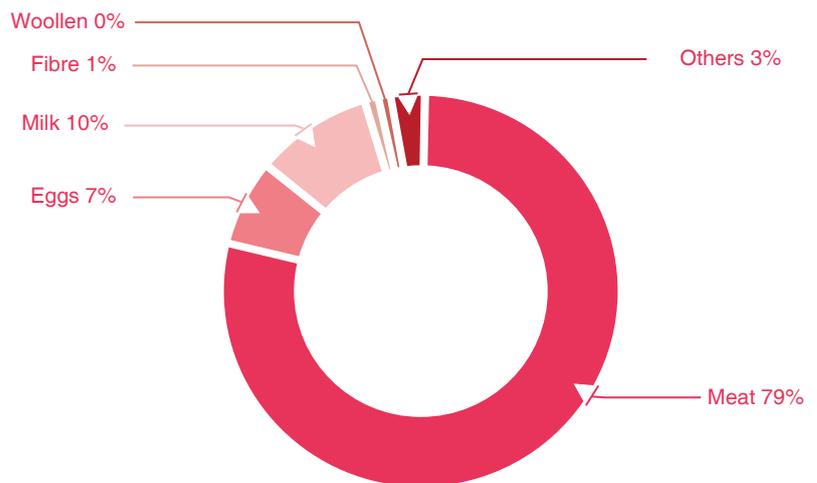
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Source: MINAG

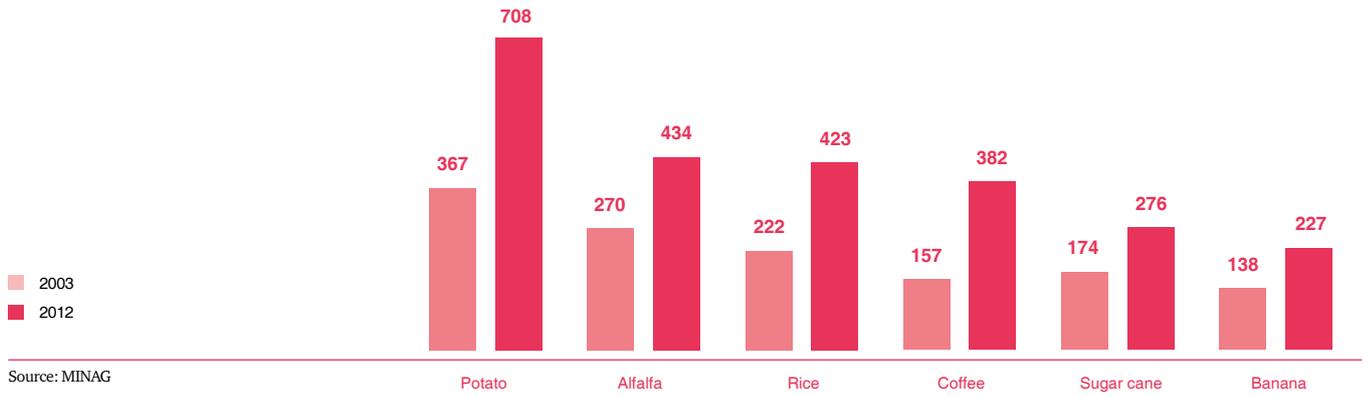
**Peru: Gross value of production Livestock Subsector 2012 (US\$ 3,591 Million)**

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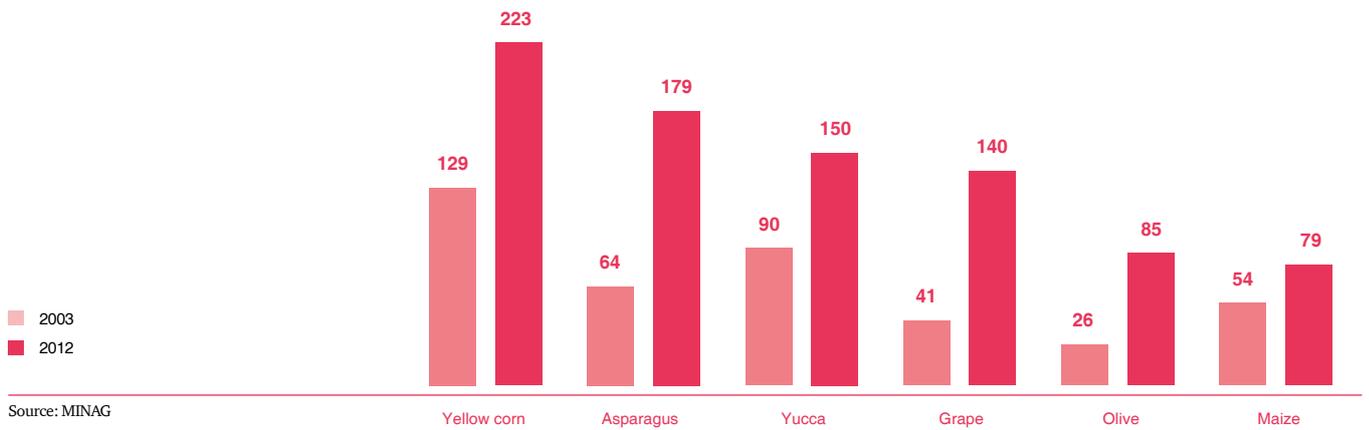


Source: MINAG

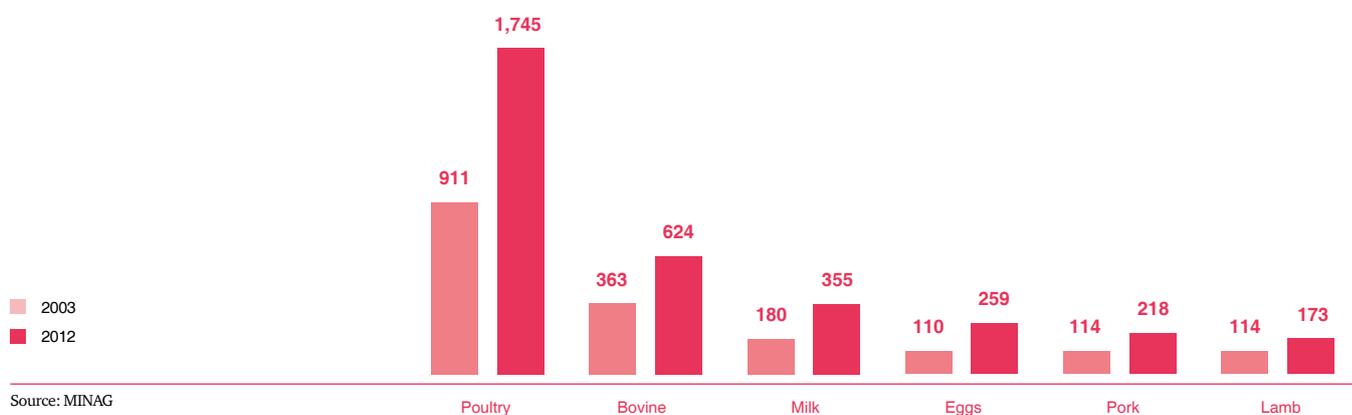
### Peru: Main products Agriculture Subsector (US\$ Millions)



### Peru: Main products Agriculture Subsector (US\$ Millions)



### Peru: Main products Livestock Subsector (US\$ Millions)



### Peru: Agro-industrial products (US\$ Millions)

	2003	2012
Sugar	0	558
Milk	240	550
Feed	226	510
Oils and fats	212	426
Flour	237	409
Noodles	101	237
Sausages and processed meats	49	122
Asparagus	49	95
Processed oats	8	15
<b>Total</b>	<b>1,122</b>	<b>2,923</b>

Source: MINAG

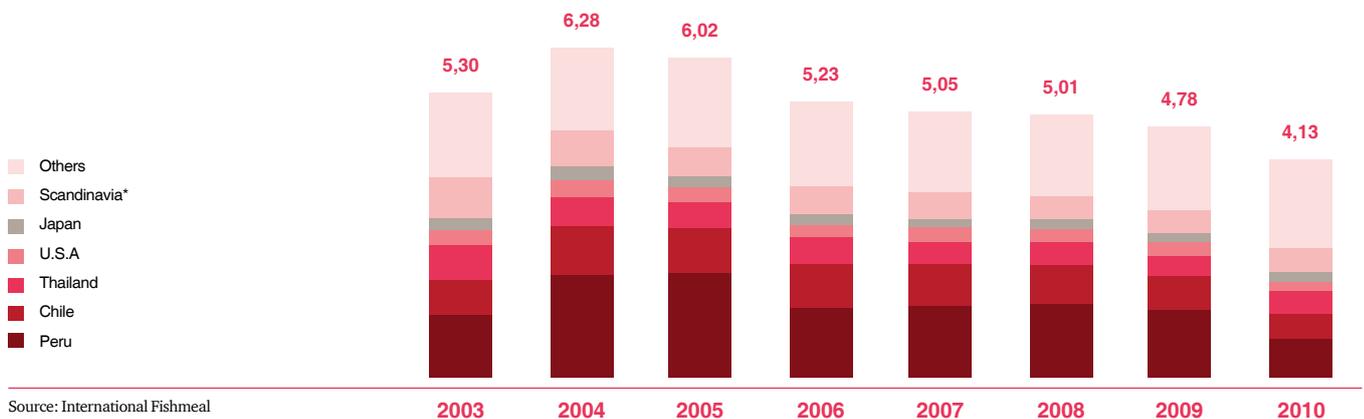
The Ministry of Economy and Finance (MEF) expects that agriculture will continue to be a key sector for the country's growth, both this year and next year. The MEF expects agricultural activity to grow by 5% in 2013, driven by the dynamism of the agricultural and livestock subsectors. In the agricultural sector it forecasts increased production of paddy rice, potato, mango, asparagus, hard yellow corn and a significant fall in coffee production due to the yellow blight plague. And in the livestock subsector it foresees growth in poultry and fresh milk. For 2014, it estimates that agriculture will grow by 4.1%, supported by the expansion of the agricultural frontier by the third stage of the Chavimochic project and Olmos.

## 2.8 Fishing

The biodiversity of the Peruvian ocean is impressive. Peru occupies first place in terms of varieties of species, with close to 2,000 species of fish of marine and continental waters that represent 10% of the global total. Likewise, it is the global leader in the production of highest quality fishmeal and fish oil, according to the Food and Agriculture Organization of the United Nations (FAO). In the last 10 years, Peru has produced on average 1'389,000 tons of fishmeal per year and 274,000 tons of fish oil, which has represented between 25% and 30% of the global production.

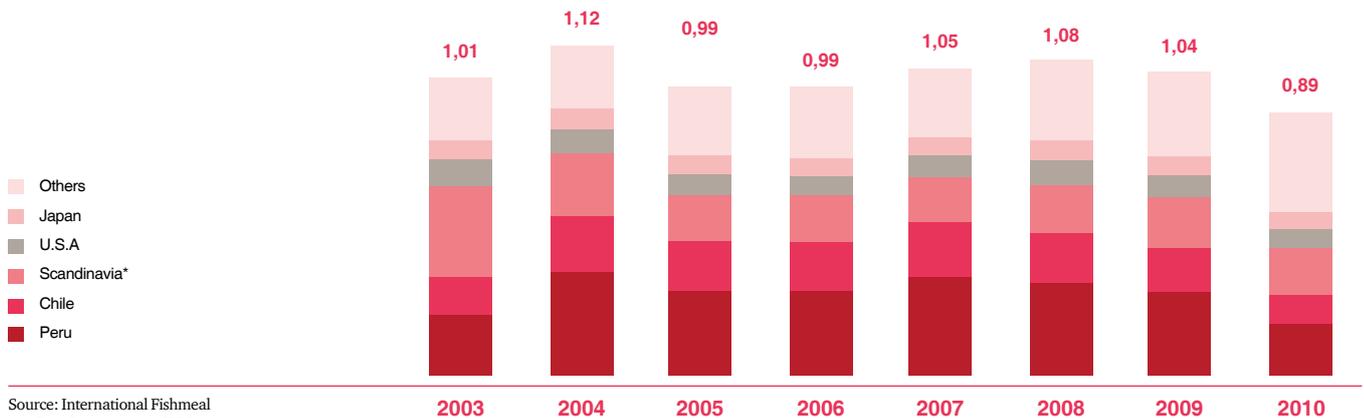
In the North Coast of Peru, the Mangroves of Tumbes produce crabs, lobsters, prawns, mangrove cockles, blade cockles, scallops and black clams. In the coastal zone of Piura, Lambayeque and La Libertad, fish such as the grouper, dogfish, grape eye sea bass, guitar fish, skate and cachema weakfish and other species are produced. In the South Coast numerous marine species are produced such as flounder, croaker, pompano, dogfish, skipjack tuna, scallops and mussels, as well as others. In the Sierra, there is mainly production of suches, sand smelts and trout. The Jungle offers delicious fish such as the paiche, which is one to two meters long and can weigh up to 180 kilos. Nevertheless, its fishing is restricted due to the danger of extinction. Additionally, in Huánuco, it is possible to find the gold fish or chaquechallua, which was the favorite of the Inca according to Peruvian history, besides others such as gamitana, paco, corvinilla, palometa, skate, sardine and shad.

### World fishmeal production: Major producer (Millions of tons)



Source: International Fishmeal and Fish Organization (IFFO) and Tasa Worldwide  
 (\*) Includes Denmark, Norway and Iceland.

## World fish oil production: Major producer (Millions of tons)

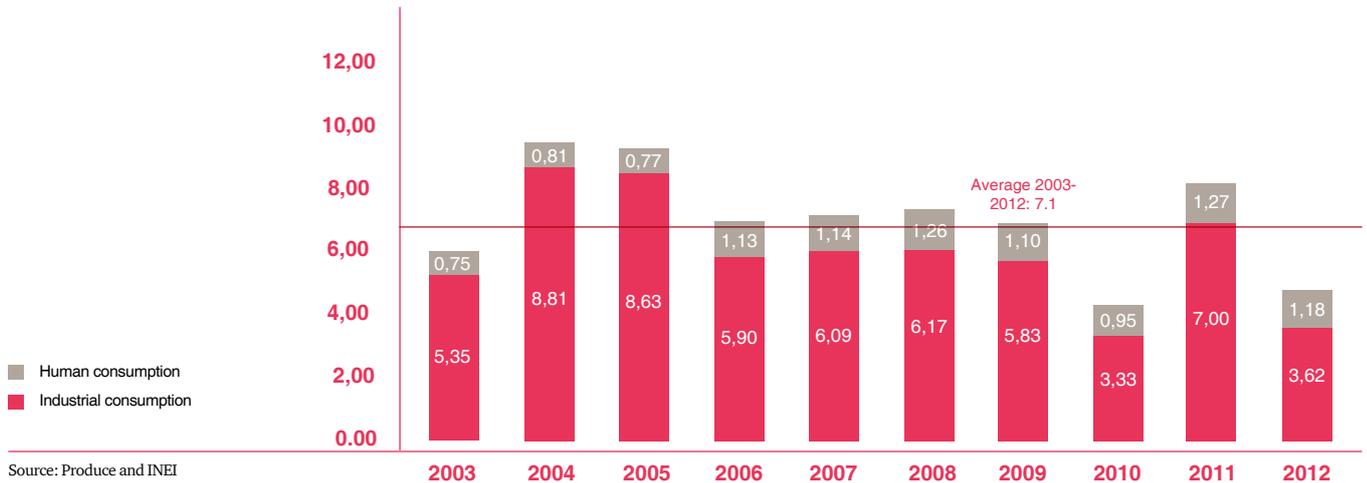


Source: International Fishmeal and Fish Organization (IFFO) and Tasa Worldwide  
 (\*) Includes Denmark, Norway and Iceland.

Likewise, in the Coast of Peru, where the greatest activity takes place, fishing is directed at two main end uses, human and industrial consumption. In the first, the fish, shellfish and seaweed are extracted through smaller or traditional vessels, to be distributed in the main markets of the country. In the second use, large vessels catch the largest quantity of fish possible for the production of fishmeal, fish oil and balanced feed (used mainly in agriculture and in the breeding of animals) as well as canned goods for human consumption.

In the last 10 years, Peru has landed an average of 7.1 million tons of annual hydrobiological resources; of which on average 85% has been for industrial consumption and the difference for human consumption. However, the share of the catch for human consumption has shown a growing trend, increasing from 12% in 2003 to 25% in 2012. In the use of the catch for human consumption the following stand out in 2012: frozen goods with 54%, fresh fish with 33% and canned goods with 10%. In industrial use, the anchovy for fishmeal, fish oil and animal feed stands out with 99.98%.

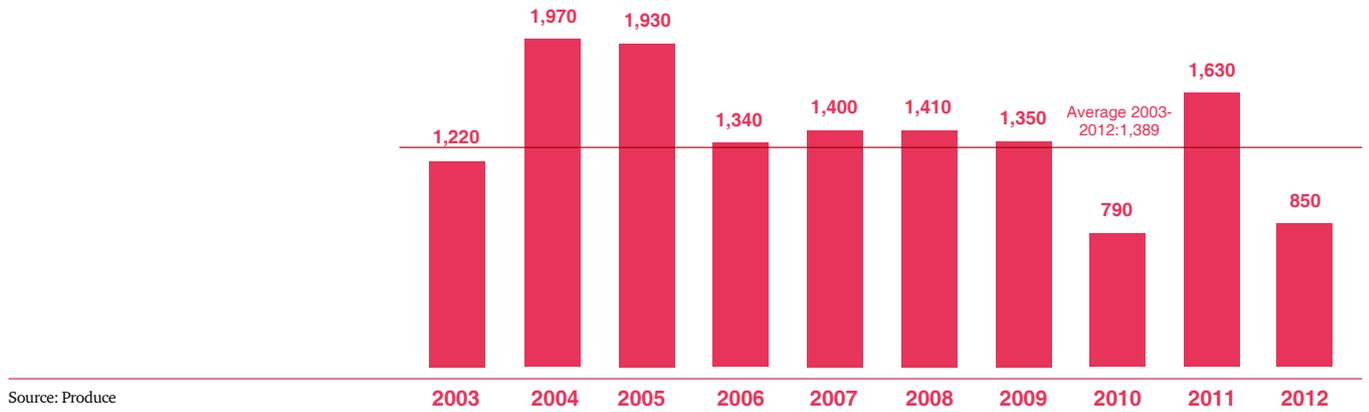
## Peru: Landing of hydrobiological resources (Millions of tons)



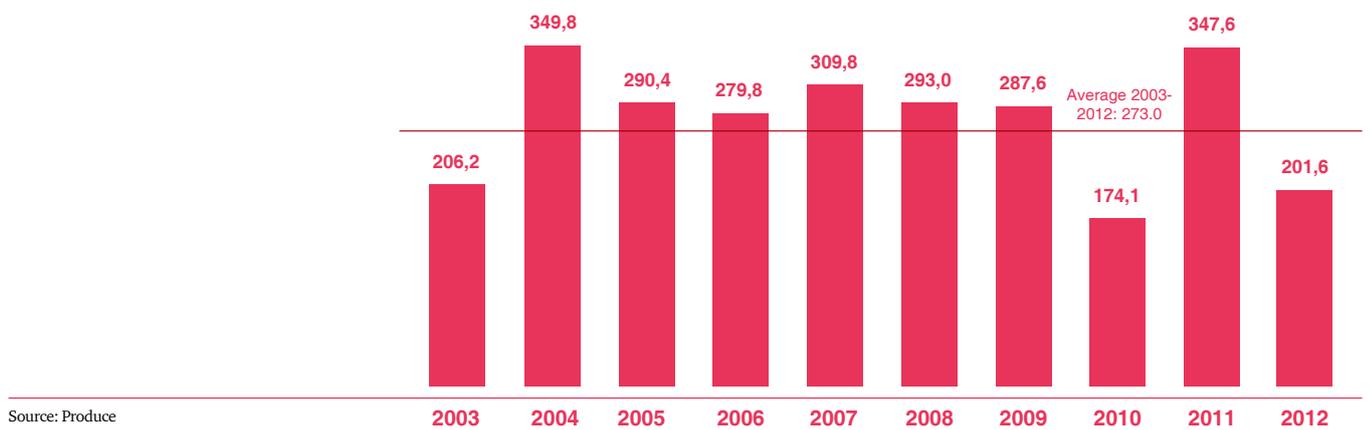
The fishing industry has the Peruvian anchovy as its main resource, which is a non-migratory species with a short growth and reproduction cycle. Anchovy fishmeal is the main source of proteins in the preparation of balanced feed for aquaculture, which is a source of strength, since in the future the increase in the demand for fish will be covered by aquaculture. Currently, close to 70% of fishmeal is used for aquaculture, according to the FAO. Likewise, anchovy oil is a source of omega 3 fatty acids and an input of food supplements for human consumption. According to the FAO, 70% of fish oil is used for aquaculture and 27% as refined oil.

In 2012, the production of fishmeal and fish oil in the country totaled 850 thousand and 202 thousand tons, respectively, below the average of the last 10 years, due to the lower extraction quota of anchovy for industrial consumption, because of the presence of juvenile species. In 2010, a similar situation occurred, resulting in measures to reduce the anchovy catch. But in the following year, in 2011, the country and its industry benefited from increased catches that exceeded the level reached in 2009. Currently and since 2008, the Peruvian government has established a new system of maximum catch limits of anchovy for industrial purposes. This regulation has permitted the guaranteed sustainability of the biomass and has promoted the efficiency of the companies of the sector.

### Peru: Fishmeal production (Thousands of tons)

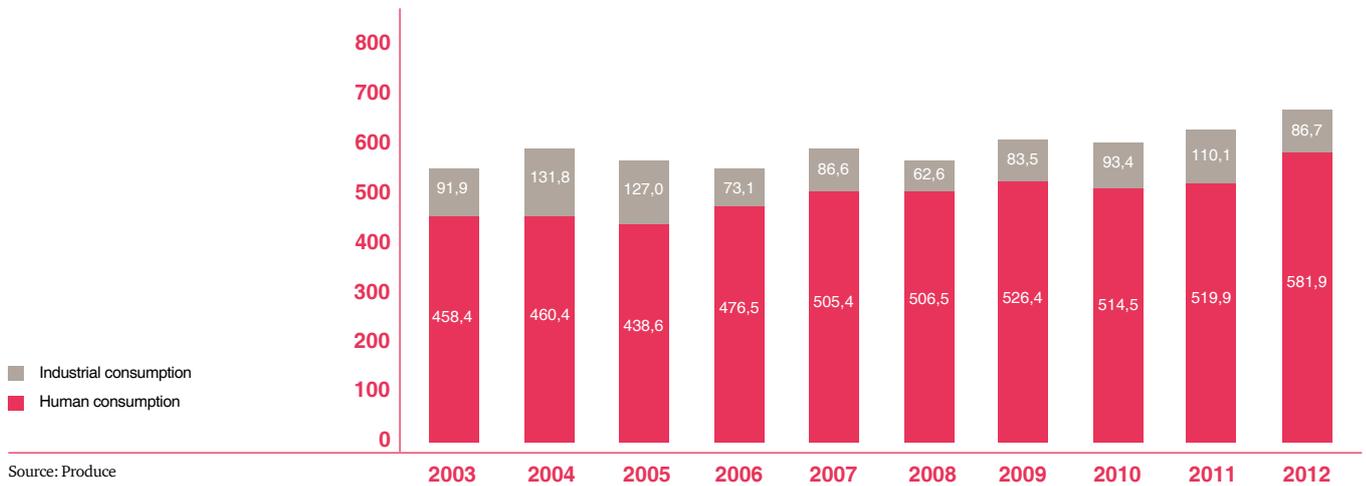


### Peru: Fish oil production (Thousands of tons)

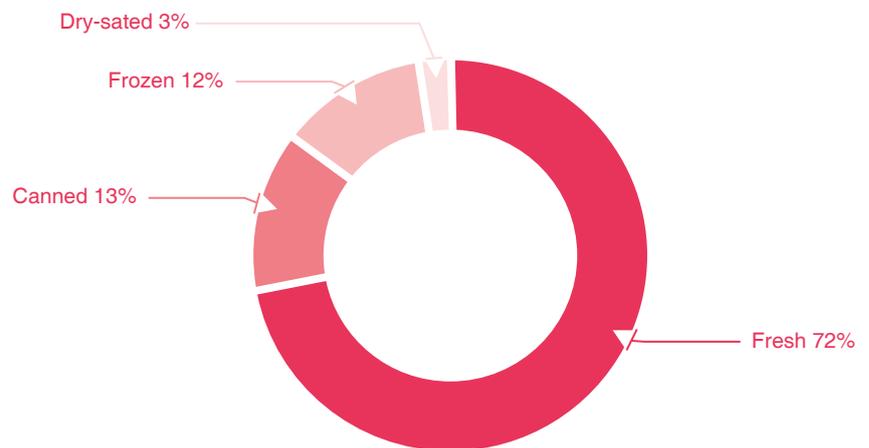


On the side of commercialization, in the last 10 years, the internal sales of hydrobiological products increased to an average of 594,000 tons, led by canned goods, frozen goods, and especially fresh goods, destined for human consumption.

### Peru: Domestic sale of hydrobiological products (thousands of tons)



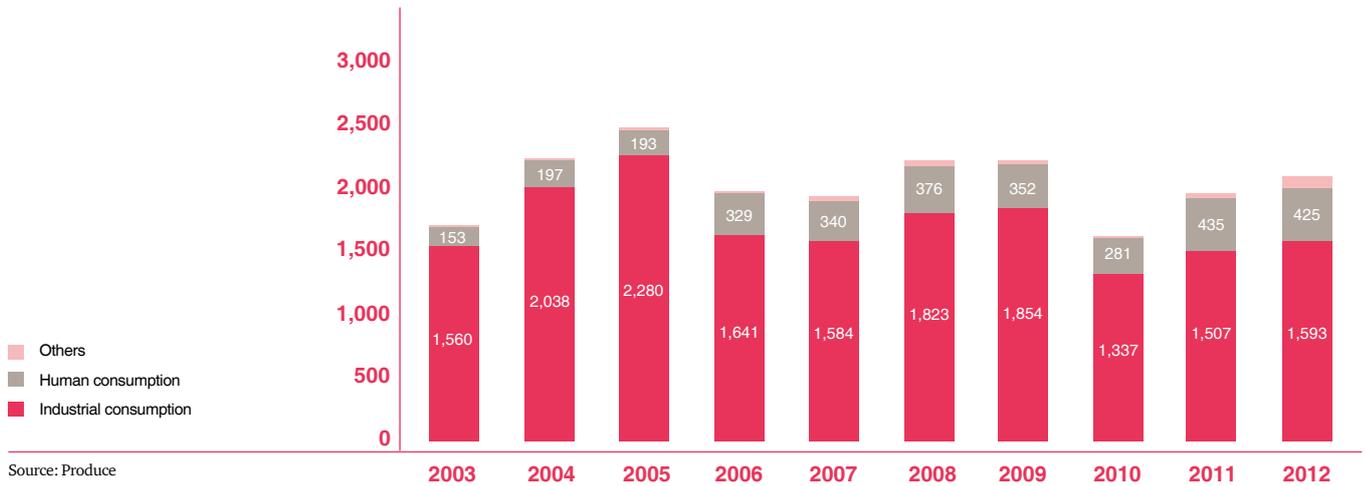
### Peru: Landing of hydrobiological resources for human consumption 2012 (581,900 tons)



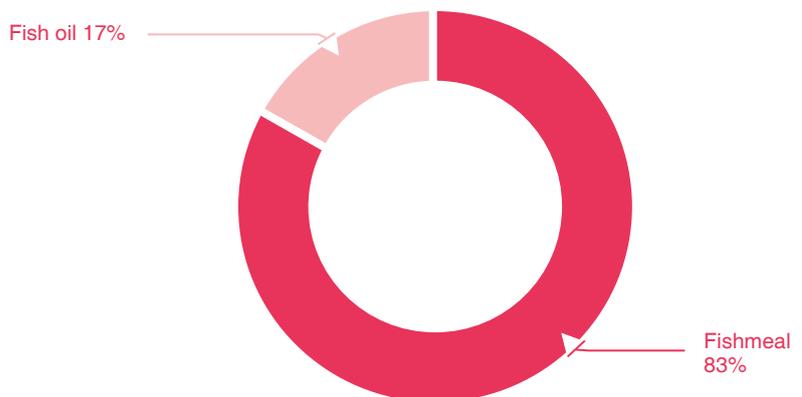
Source: Produce

On the side of exports, in the last 10 years, the sale of Peruvian hydrobiological products has increased to an average of 2'058,000 tons per year, led by the supply for industrial consumption with a total of 84%. In 2012, the volume of exports of these resources totaled 2'105,200 tons, exceeding the average, but the supply destined to industrial consumption represented 76%. Among the shipments for industrial consumption, fishmeal stands out with 83% and fish oil with 17%. In the case of human consumption, frozen goods stand out accounting for 90% of those exports.

**Peru: Exports of hydrobiological products (Thousands of tons)**

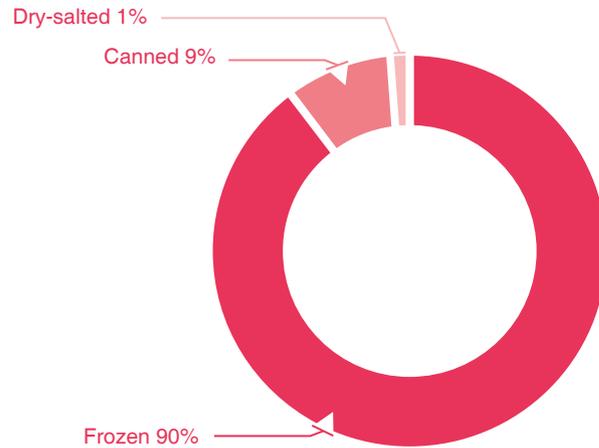


**Peru: Exports of hydrobiological products for industrial consumption 2012 (1'593,000 tons)**



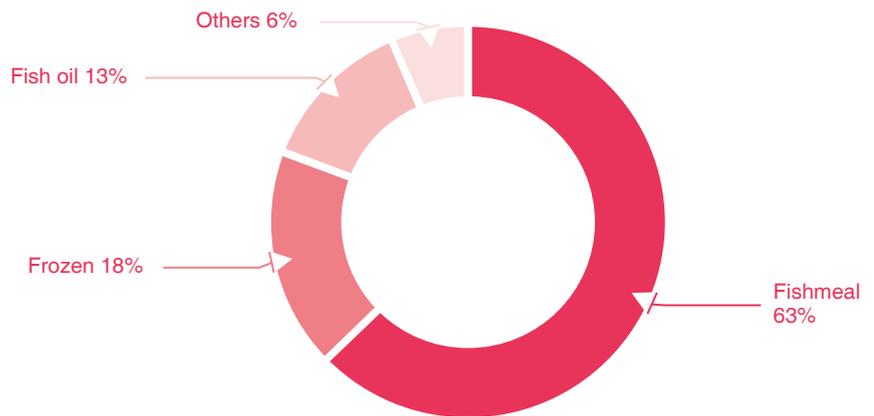
Source: Produce

**Peru: Exports of hydrobiological products for human consumption 2012 (424,900 tons)**



Source: Produce

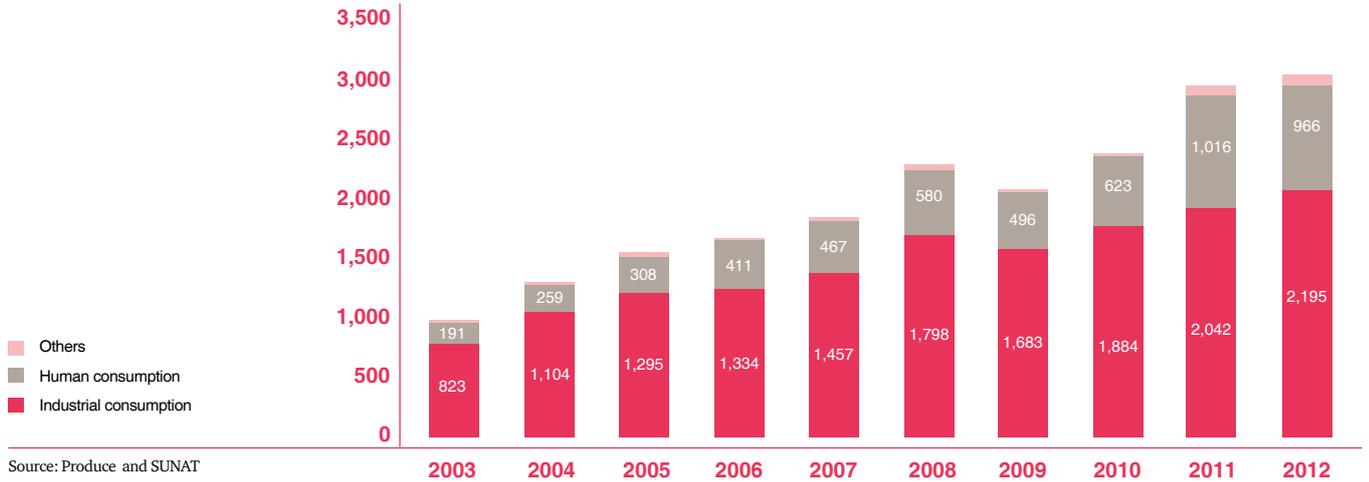
**Peru: Exports of hydrobiological products by type (2'105,200 tons)**



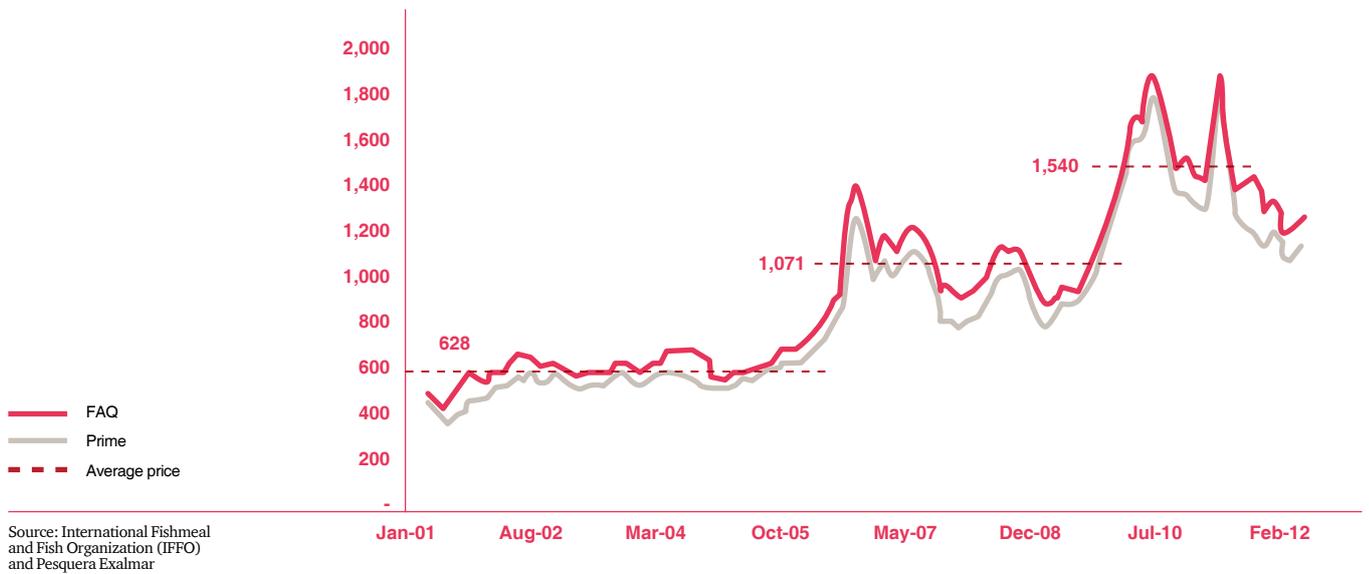
Source: Produce

The greater participation of fishmeal and fish oil in exports and the favorable evolution of prices have caused the income originating from shipments to maintain their growing trend, at an average rhythm of 14.3% per year.

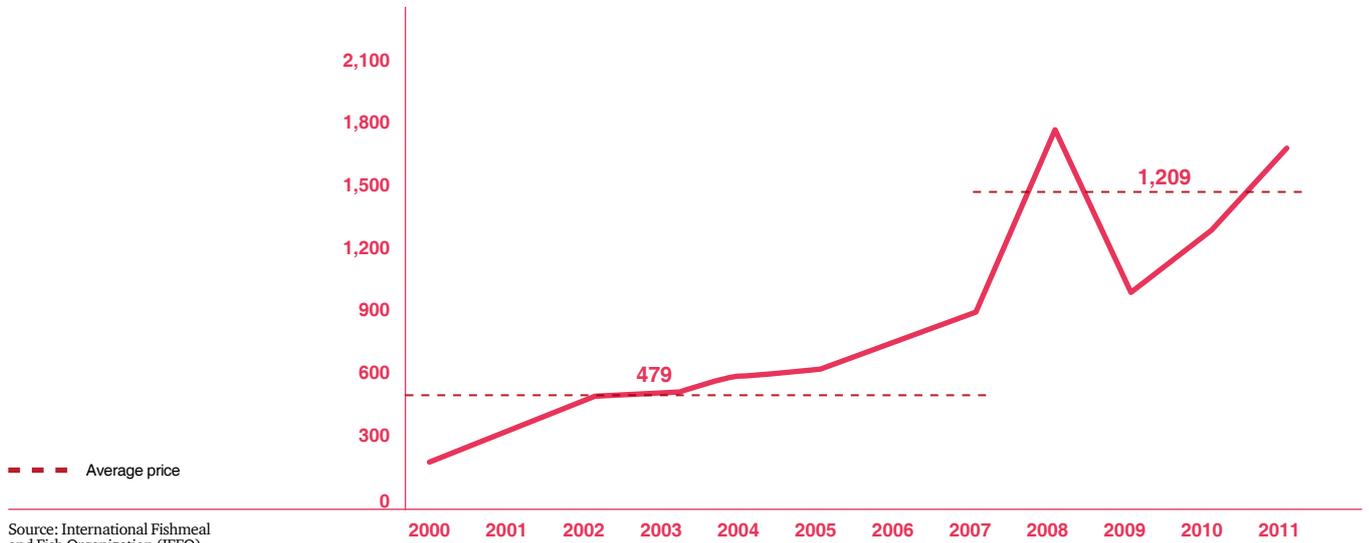
### Peru: Exports of hydrobiological products (US\$ Millions)



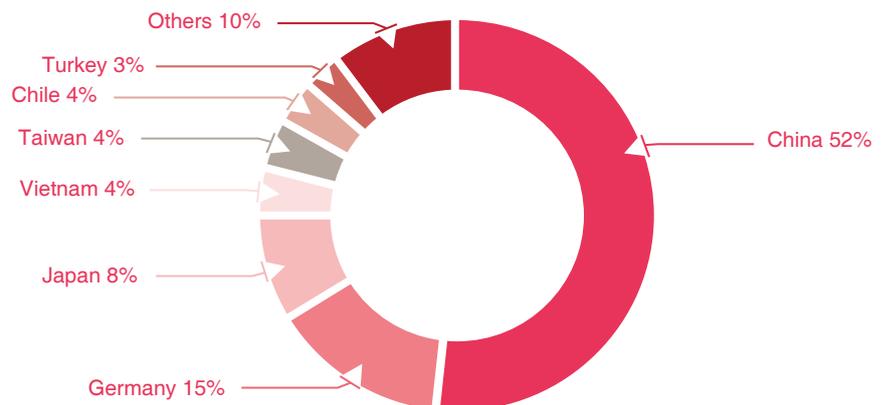
### Fishmeal: Spot price FAQ and Prime (US\$/tons)



### Average annual price of fish oil (US\$/tons)

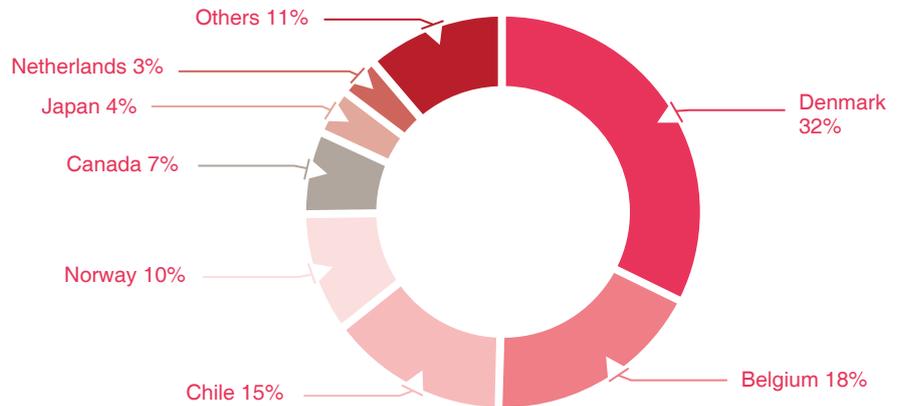


### Peru: Destinations of fishmeal exports 2012 (1'320,000 tons)



Source: Produce

### Peru: Destinations of fish oil exports 2012 (273,259 tons)



Source: Produce

In the last 10 years, the GDP of fishing has grown on average 3.3% per year and has had a lower participation in the growth of the total GDP due to the restrictions imposed by the ocean's biological capacity and the rapid growth of the other sectors of the economy. The Ministry of Economy and Finance (MEF) projects in 2013 a slight fall in the fishing GDP of 1,7% due to the lower catch of anchovy. It foresees that the landing quota of anchovy will reach 3,0 million tons, lower than the 3,5 million of 2012. Nevertheless, for 2014, it expects a growth of 5.0% for fishing, as a result of the gradual recovery in the landing levels of anchovy.

### Peru: Fishing GDP 2003-2012 (Annual growth rates)



Source: BCRP and MEF  
(\* Estimated by MEF.)

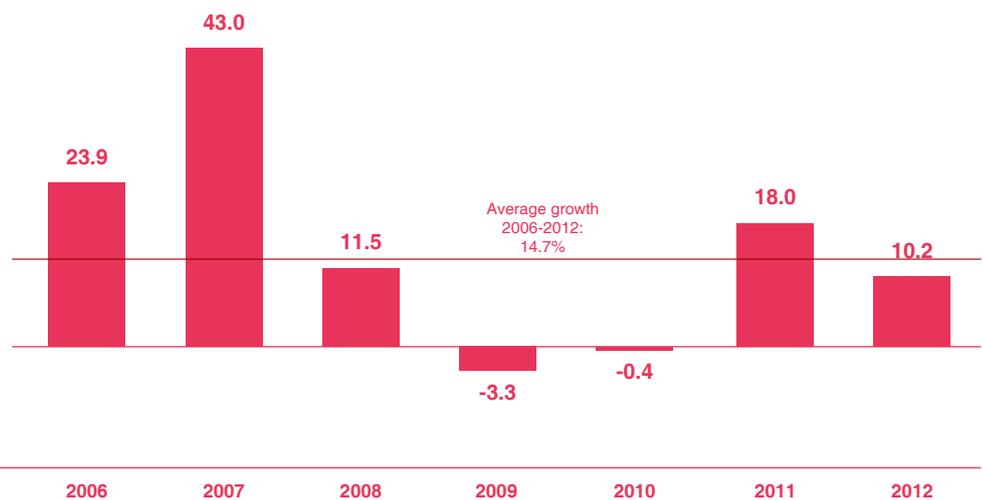
## 2.9 Telecommunications

The Peruvian telecommunications sector has been one of the principal thermometers of the country's economy due to its impact and because its development is associated with investment and the social progress of families. In Peru, the improvements in the road network and the massification of the cellular phone and internet have permitted the increase in rural incomes and the reduction in the degree of isolation of the rural population since the 90s, which accelerated in the past decade. In the last 7 years, the telecommunications activity in the country has grown at an average rate of 14.7% per annum, a product of the significant increase in the mobile phone, the use of the message service it provides, the Internet service and subscription television.

Between 2003 and 2012, the mobile service lines increased by eleven times, growing at an average annual rate of 33%, associated with the growth in the population's income and investments in telephony. In the last 10 years, fixed telephone service lines have grown by almost 50%, reaching their maximum level in 2009. According to a survey taken by the telecommunications regulator Osiptel in 2012, 75% of people with mobile telephone service argue that they do not plan to acquire the fixed telephone service because they consider it unnecessary.

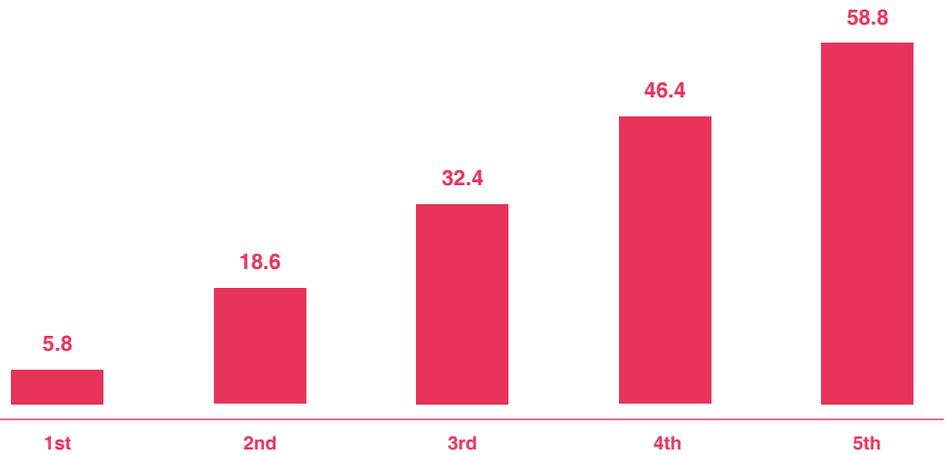
At the end of July of this year, ProInversión, acting on behalf of the Ministry of Transport and Communications, put out to tender the following 4G telecommunication bands: A of 1,710 - 1,770 Megahertz (Mhz) and B of 2,110 - 2,170 Mhz, on a national level. Telefonica Moviles won the bid for Band A, with an offer of US\$ 152.3 million and Americatel Peru was awarded Band B with an offer of US\$ 105.5 million. With these public tenders it is expected that in the next five years, 234 districts of Peru will have 4G coverage and that each winning company will carry out investments for US\$ 400 million.

### ***Peru: GDP Telecommunications 2006 - 2012 (Annual variation rate)***



Source: INEI

### Peru: Access to Mobile Telephone Service by Income Quintile 2012 (Percentages)



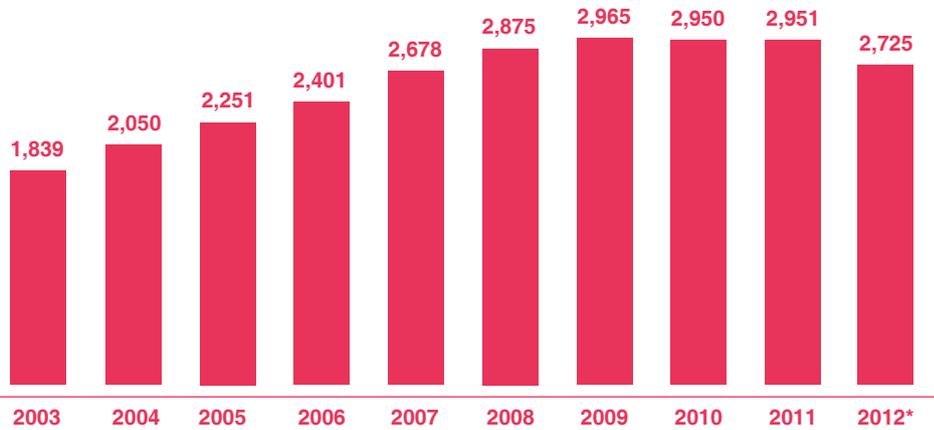
Source: Survey of demand for telecommunications services and characterization of users 2012 - Osiptel

### Peru: Homes possessing consumer durables (Percentages)

	2005	2012
Residential telephone	28.5	29.4
Mobile phone	20.7	79.8
Cable television	10.3	33.4
Computer	8.8	30.5
Internet connection	3.7	22.4
Radio	88.6	83.9
Television	69.0	80.3
Refrigerator	37.3	44.2
Bicycle	21.1	17.6
Motorcycle	2.6	12.8
Car/van	7.8	10.4

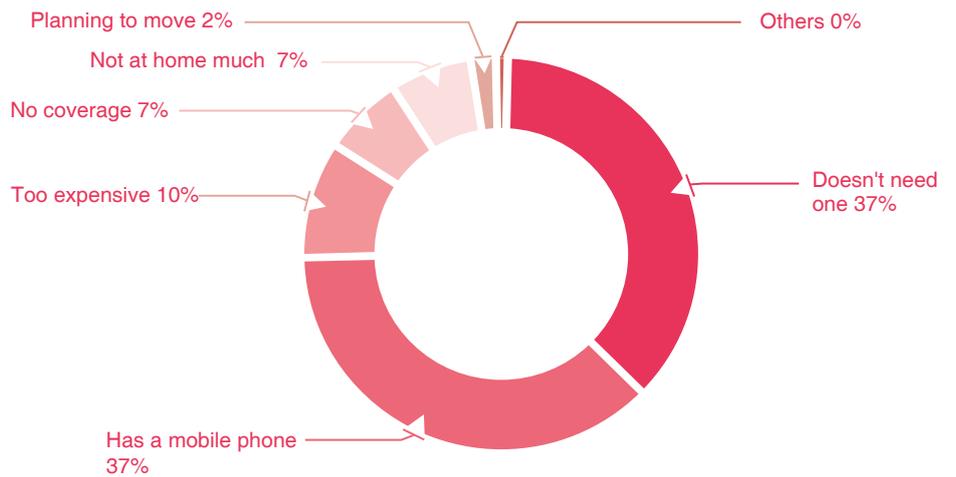
Source: INEI

**Peru: Fixed telephone lines in services 2003 - 2012 (Thousands of units)**



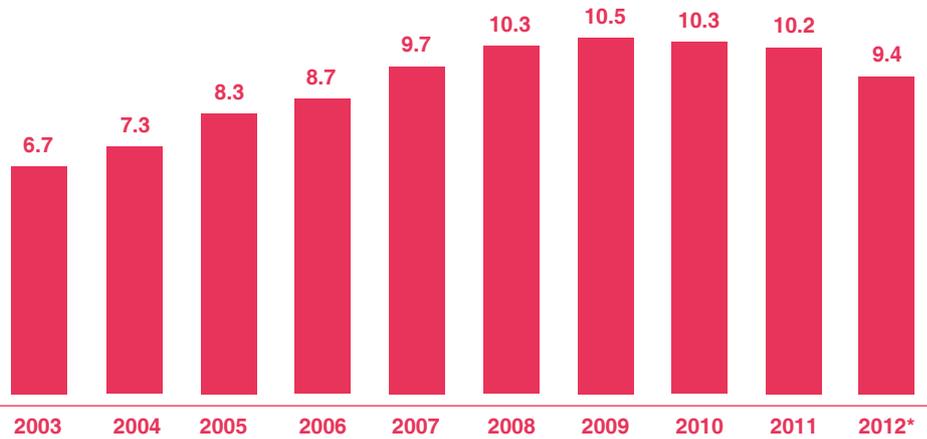
Source: Osiptel  
(\* Preliminary)

**Peru: Reasons of mobile phone owners for not planning to have a fixed telephone line 2012 (Percentages)**



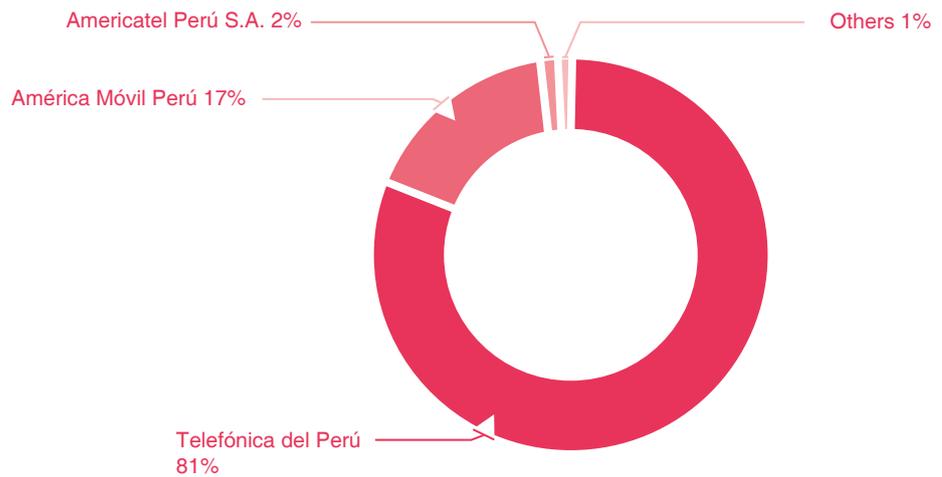
Source: Survey of demand for telecommunications services and characterization of users 2012 - Osiptel

**Peru: Density of fixed telephone lines in service 2003-2012 (Lines per 100 inhabitants)**



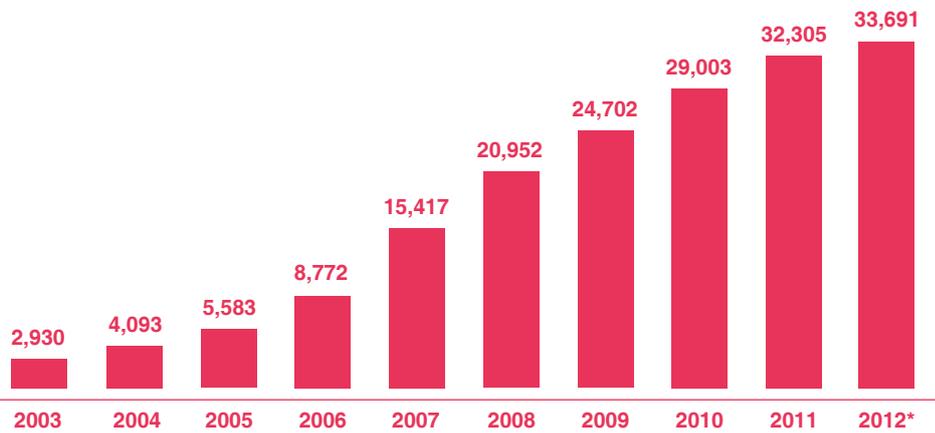
Source: Osiptel  
(\* Preliminary)

**Peru: Fixed telephone lines in service per company 2012 (2'725,018 lines)**



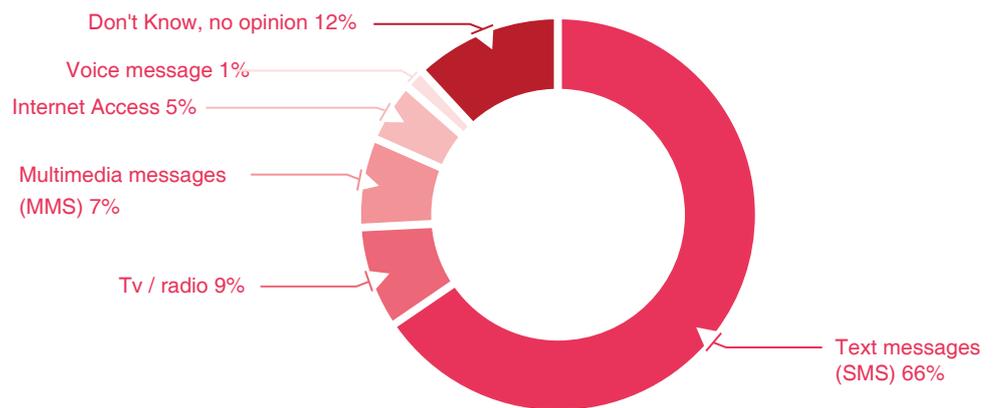
Source: Osiptel

**Peru: Mobile telephone lines in service 2003 - 2012 (In thousands of units)**



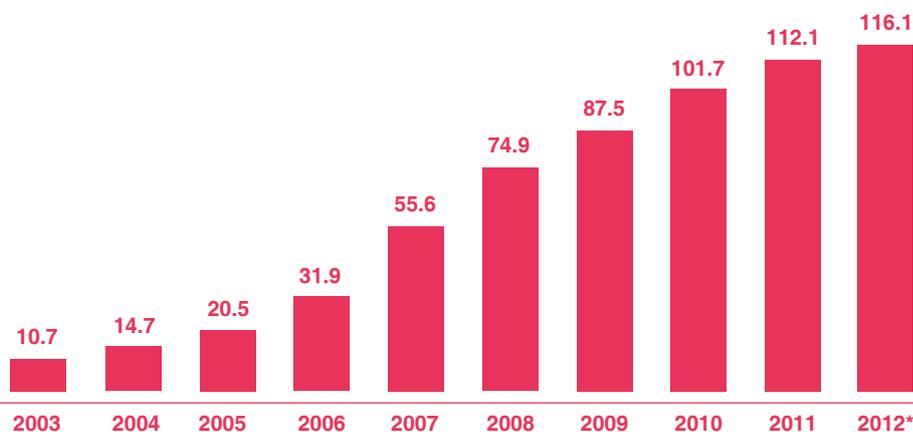
Source: Osiptel  
 (\*) At September 2012

**Peru: Use of other services from mobile phone 2012 (Percentages)**



Source: Survey of demand for telecommunications services and characterization of users 2012 - Osiptel

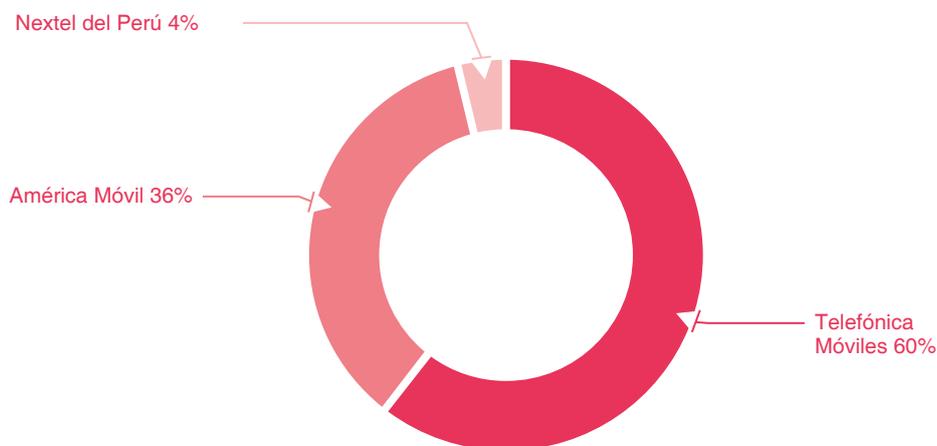
### Peru: Density of mobile lines 2003 - 2012 (Lines per 100 inhabitants)



Source: Osiptel  
 (\*) At September 2012

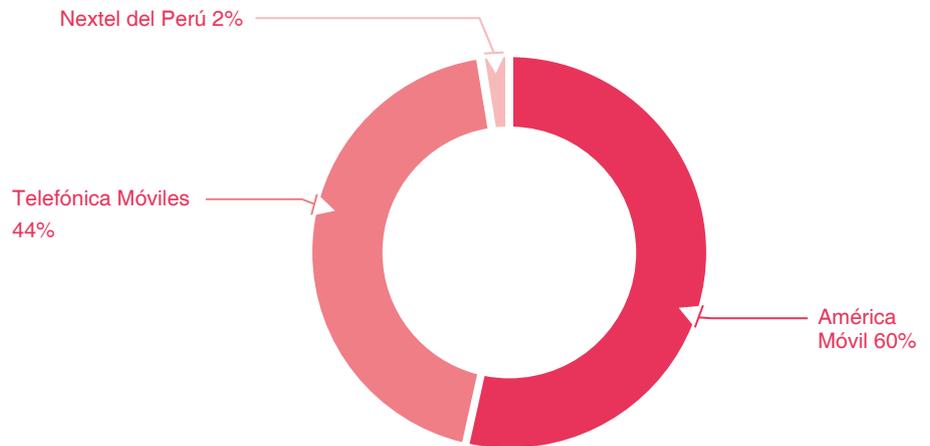
In terms of market share, the Spanish company Telefónica through its subsidiaries Telefónica del Perú and Telefónica Móviles concentrate the largest market share, both in fixed telephony (81%), as well as mobile (60%). This year, the Peruvian Government renewed the concession contracts of Telefónica del Perú for 18 years and 10 months for the bands of 800 Megahertz (MHz) for Lima and Callao, the bands of 1,900 MHz and third, the band of 800 MHz. Within the terms of the contract, the telecommunications company undertook to invest more than US\$ 1,170 million, mainly in rural and remote areas of the jungle which do not have access to telephone and Internet service at this time. According to Osiptel, in 2012, investments in the telecommunications sector rose to US\$ 964 million, increasing by 10% compared to 2011. Within the main projects in the telecommunications sector which the Government expects to carry out in the next two years is the 1710 – 1770 MHz Band, Blocks A and B, which has already been put out to tender.

### Peru: mobile service lines by company 2012\* (33'691,373 lines)



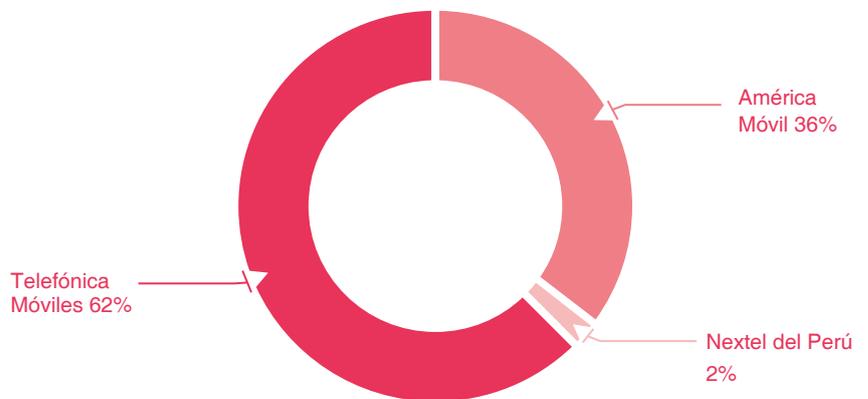
Source: Osiptel  
 (\*) At September 2012

### Peru: Post-payment mobile service lines 2012\* (4'473,930 lines)



Source: Osiptel  
(\* At September 2012)

### Peru: Prepaid mobile service lines 2012\* (27'375,365 lines)



Source: Osiptel  
(\* At September 2012)

On the other hand, at the end of 2012, the Peruvian Congress approved the Electronic Money Law as a new means of transferring money via mobile telephone. This law aims to include more people in the financial system by permitting them to make purchases, sales, transfers, payments and any other operation related to the monetary value which the account holder has available through his cellular phone. Among the principal benefits of electronic money, it is expected to massify and reduce the costs of financial services for people with scarce resources who do not have a bank account. Also the formalization of tax payment and access to social security, competition between the companies issuing electronic money to achieve improved service to the public and better tariffs, without the exclusivity of Banks. Increased productivity and security in the transport of money for people and businesses, as well as an increase in productivity and quality of life as a result of reduced travel time. Time saving in daily transactions and sending transfers to Peru's provinces; at the same time forming a credit record. Improved control of their finances on the part of users, and reduced security risk for cash management.

## 2.10 Tourism

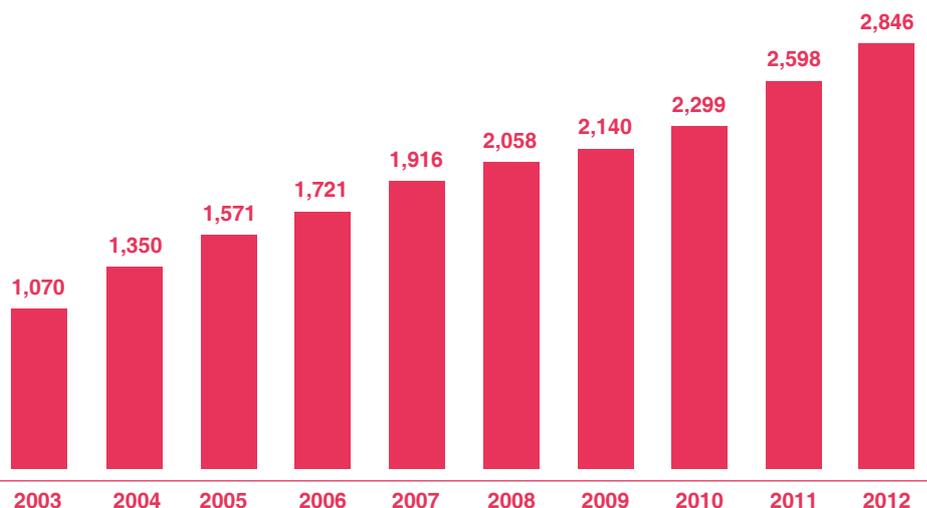
Peru has experienced a boom in tourism in recent years. Between 2003 and 2012, international tourist arrivals to Peru multiplied 2.7 times, with an average annual rate of increase of 11%, according to the Ministry of Foreign Trade and Tourism (Mincetur). This rhythm has exceeded that of other world regions and is one of the highest in the Andean Community. This dynamism has permitted foreign exchange earnings from tourism to triple in the last 10 years and expand at annual rate of 15%. The Peruvian tourist boom is associated with the country's economic growth which has increased business travel, the touristic attraction of Peru and the policy related to the sector implemented by the Government.

In 2009, as part of a strategy to promote the country abroad, the Government decided to create the Marca País Perú (Peruvian Country Brand), seeking to promote those commercial sectors with more international exposure, such as tourism, exports and attraction of investments. The reasons that led to the creation of the Peru brand were the country's new economic, social and cultural panorama and the prospect of a promising future as indicated by the growth of its economy.

Furthermore, the Fund for the Promotion and Development of National Tourism, created with the objective of financing activities and projects aimed at the promotion and development of Domestic Tourism and the efforts of the respective Ministry, permitted the country to begin an aggressive promotional campaign in the markets considered as priorities. As a result of this effort, in 2004, after the publisher Lonely Planet considered that Peru occupied third place among the "Top Destinations"; the country began to appear among the "Top Ten" destinations of the ranking of touristic brands Country Brand Index - The Future Brand.

Tourism in Peru is characterized as a cultural and experiential activity. According to the Commission for the Promotion of Peru for Export and Tourism – PROMPERU, 50% of tourists who arrive in Peru do so for vacation purposes and nearly 25% for business. The latter segment has been increasing since 2009, resulting in greater use of 4 and 5 star hotels.

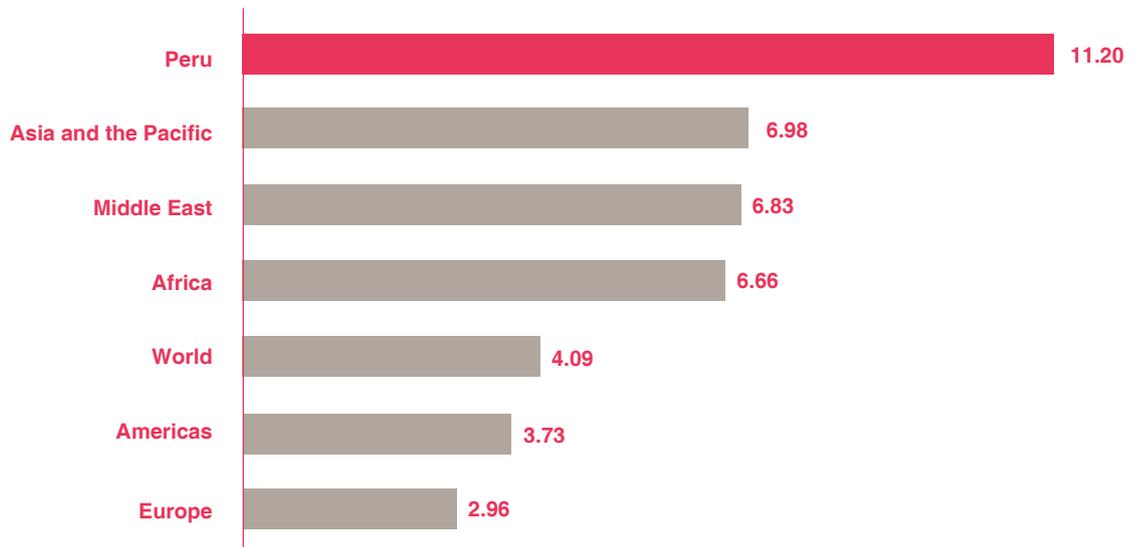
### ***Peru: International tourist arrivals 2003-2012 (Thousands of people)***



Source: Mincetur

### **International Tourist Arrivals 2003-2012 (Average annual growth rates)**

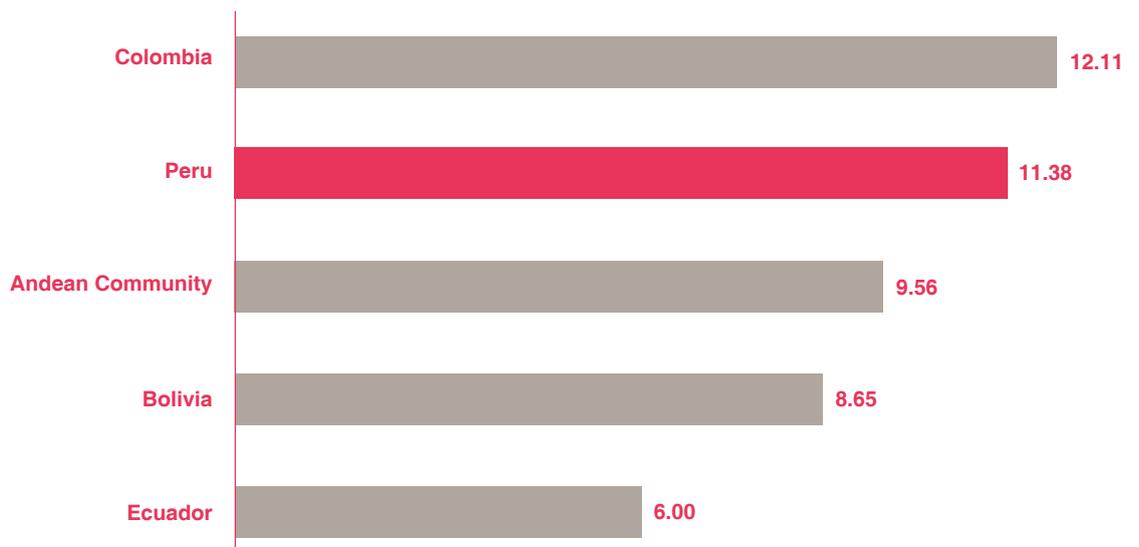
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Source: OMT

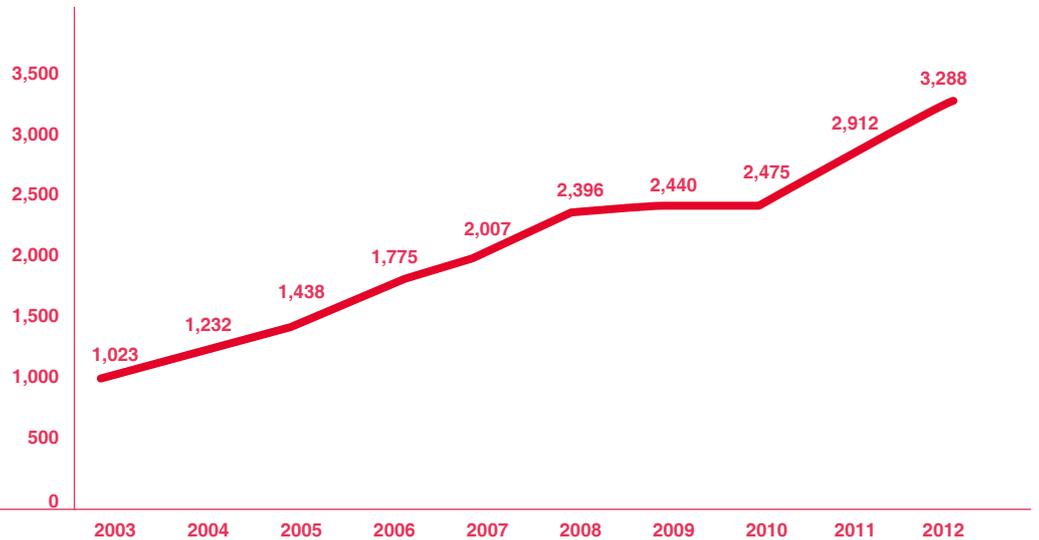
### **Andean Community: International Tourist Arrivals 2003-2011 (Average annual growth rates)**

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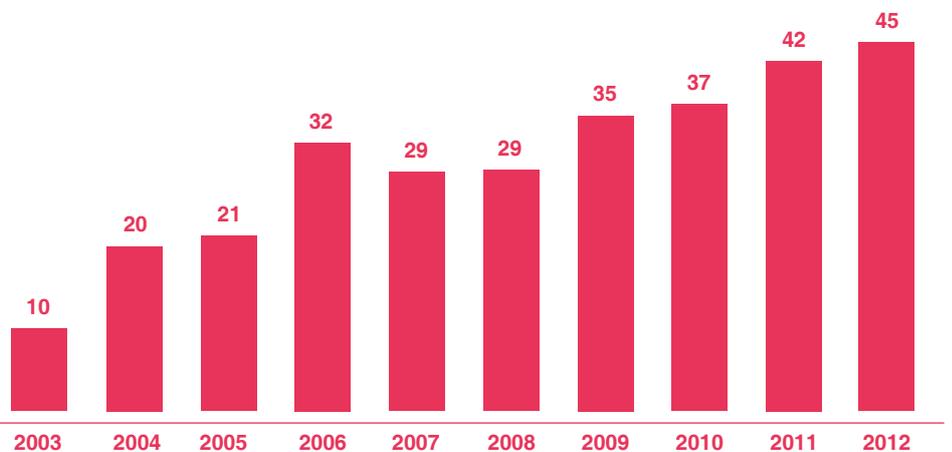
Source: Andean Community and Mincetur

**Peru: Income generated by inbound tourism 2003-2012 (US\$ Millions)**



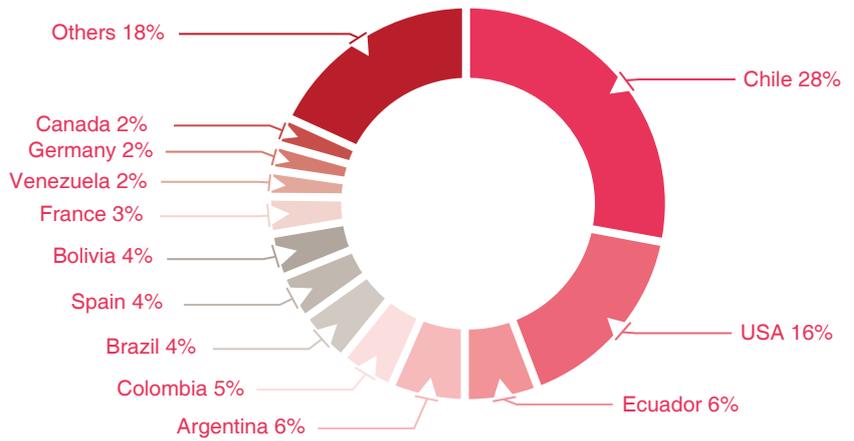
Source: Mincetur

**Peru: Fund for the Promotion and Development of National Tourism 2003-2012 (US\$ Millions)**



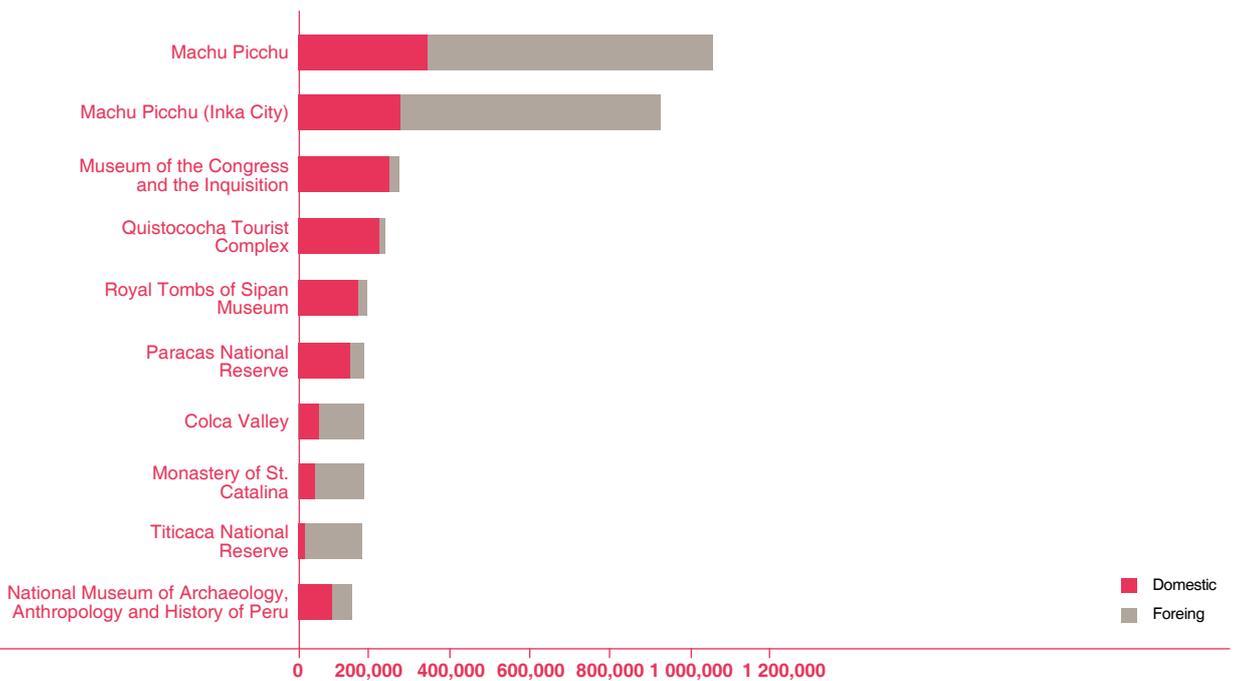
Source: Mincetur

**Peru: International tourist arrivals according to country of residence 2012 (Percentages)**



Source: Mincetur

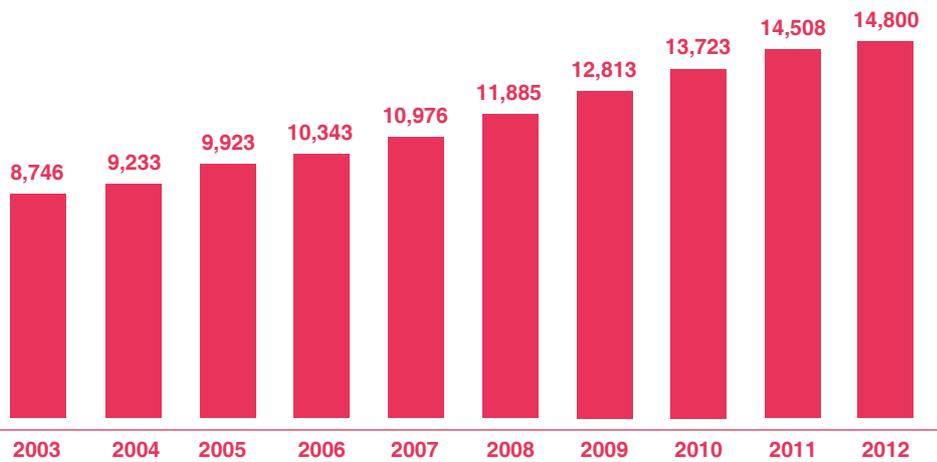
**Peru: The 10 most visited tourist attractions in 2012**



Source: Mincetur

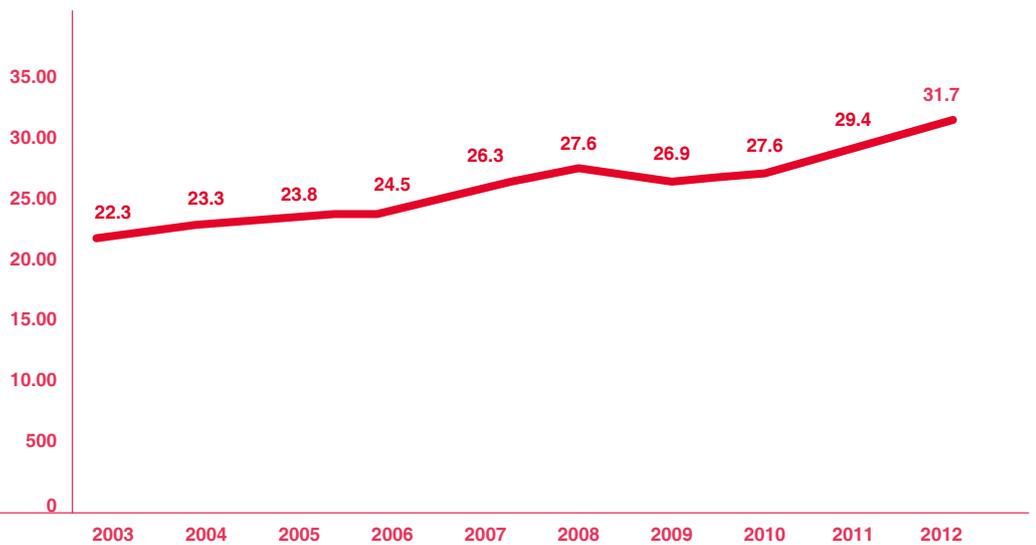
The Peruvian tourist boom has also had an impact on the supply of accommodation for tourists. In the last 10 years, the number of hotels has multiplied 1.69 times, at an annual growth rate of 6%, and the net occupancy rate has increased by almost 10 percentage points, from 22.3% to 31.7%. Additionally, in the accommodation industry there has been an important dynamism in hotels with 4 and 5 stars, which have grown 131% in the last 10 years, driven by foreign investment.

### **Peru: Number of lodging establishments 2003-2012 (In units)**



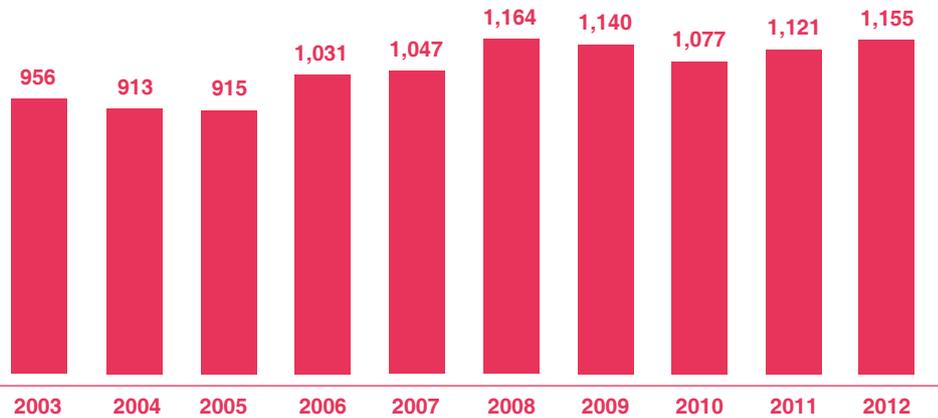
Source: Mincetur

### **Peru: Net room occupancy rate 2003-2012 (Percentages)**



Source: Mincetur

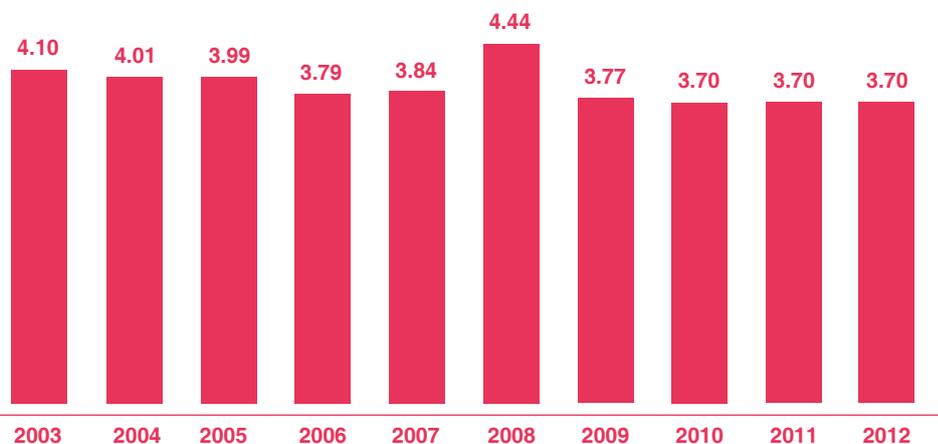
### Peru: Average spending per capita of inbound tourism 2003-2012 (US\$ Dollars)



Source: Mincetur

Currently, the tourism sector has a 3.7% share of GDP. In recent years, this quota has remained constant and slightly declining as a result of the explosive growth of other sectors such as mining and construction, driven by high metal prices and the dynamism of investments, respectively. Nonetheless, the Peruvian Government has designed a Strategic National Tourism Plan (Pentur) 2012 – 2021, which has the target, by 2021, of receiving 5.1 million foreign tourists per annum and increasing the share of tourism in GDP to 4.24%. Peru's plans include converting tourism into the second largest foreign currency generating activity and of new jobs in the country. MINCETUR expects that in 2013, 3.3 million of foreign tourists will arrive in Peru.

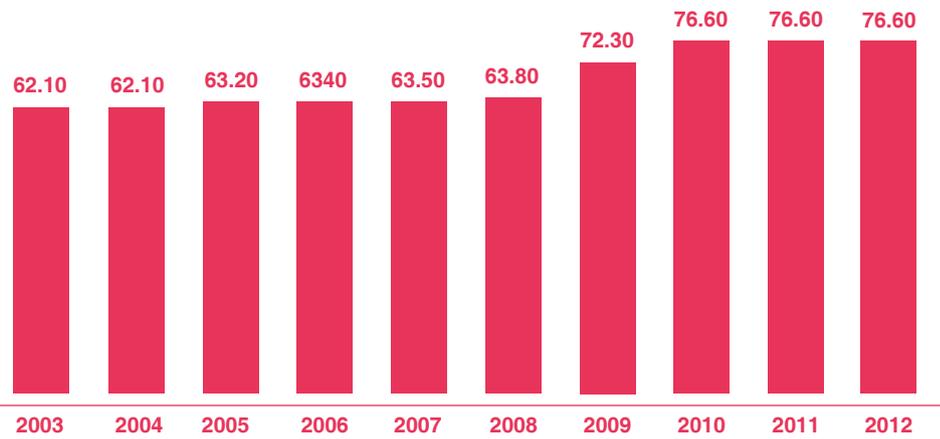
### Peru: Participation of tourism in GDP 2003-2012 (Percentages)



Source: BADATUR – OTP, INEI and Mincetur

**Peru: Direct foreign investment in tourism 2003-2012 (US\$ Millions)**

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Source: Proinversion

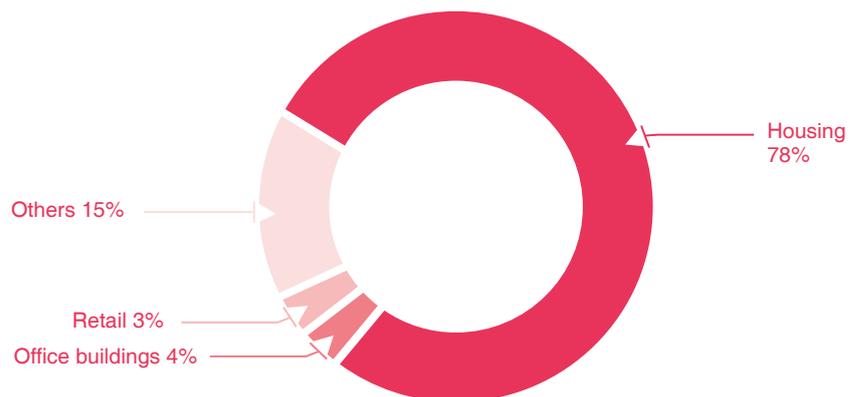
## 2.11 Real Estate

Construction activity in Peru has expanded in recent years, driven by the growth of the economy, the growth in the population's incomes and of the construction sector. In the last 10 years, construction in the country with an average annual growth rate of 10%, has been the most dynamic in the region, according to CEPAL. Thus, in the real estate industry, housing construction has been the main engine of activity with 78% of all buildings, and the construction of commercial offices and premises has participated with a 7% share.

The supply of new multi-family homes in Lima and Callao has grown at an average rhythm of 22% in the last 5 years, while sales have grown at an average rate of 16%. In 2012, the largest number of housing purchases was in the B segment with a 59% share, followed by the C segment with 19%. With regard to housing prices, in 2012, the average price of the units for the B segment rose to US\$ 81,248 with a cost per square meter of US\$ 1,136, below the average cost in the capital, and for sector C, the average price rose to US\$ 41,947 with a cost per square meter of US\$ 729, according to the consulting company Tinsa Peru.

For its part, the Central Reserve Bank (BCRP), based on the median house prices in the districts with highest average incomes –La Molina, Miraflores, San Borja, San Isidro and Surco-, has estimated that the price per square meter of housing in these areas, in local currency, has grown 64.7% between the first quarter of 1998 and the first quarter of 2013; and in US Dollars it has grown by 168%, in the same period. Furthermore, the average price of housing in the middle income districts has grown 88% in local currency between the fourth quarter of 2007 –the oldest information collected- and the first quarter of 2013; and it has grown 159% in foreign currency in the same period. Nonetheless, Peru has one of the lowest housing prices per square meter in the region.

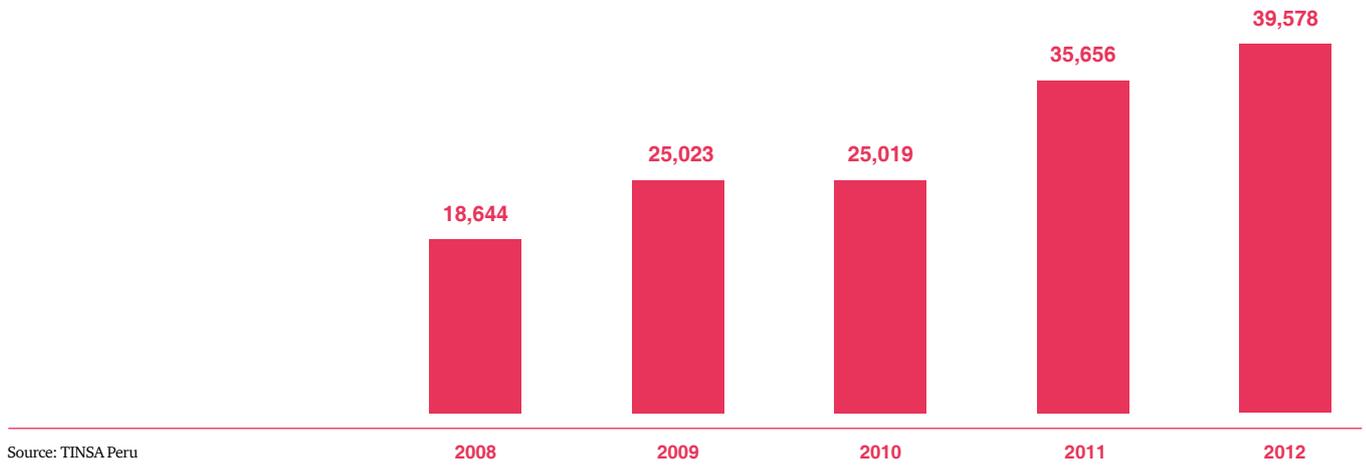
### ***Metropolitan Lima and Callao: Composition of building activity by square meters (Average 2003-2011)***



Source: CAPECO and MVCS

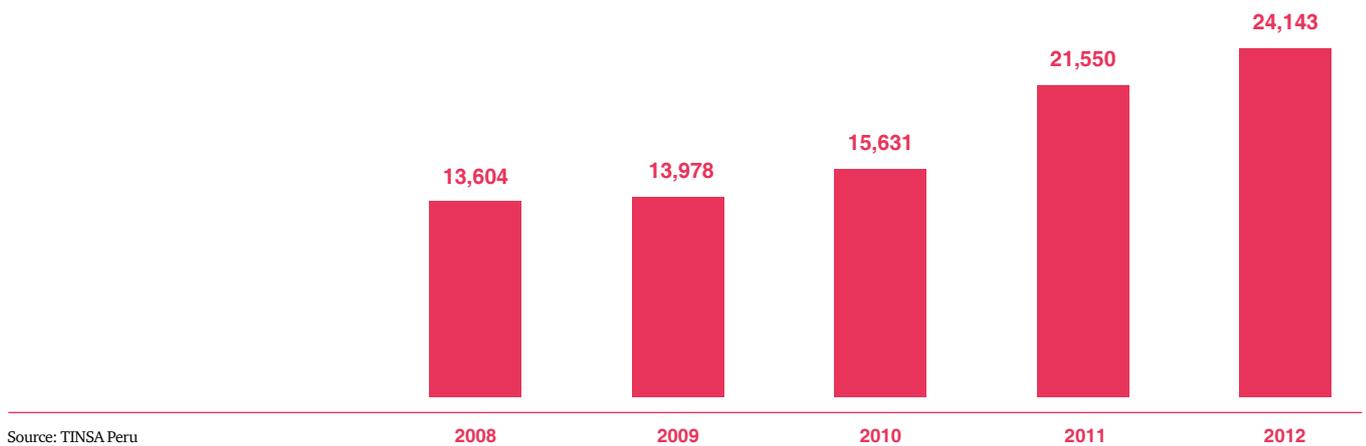
**Metropolitan Lima and Callao: Supply of new multi-family housing units (2008-2012)**

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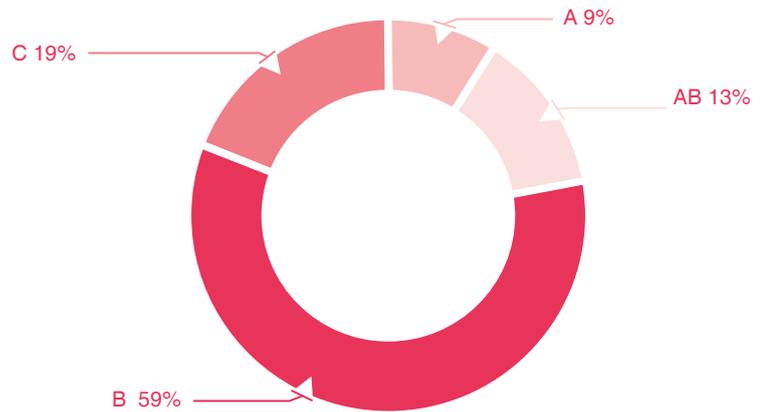


**Metropolitan Lima and Callao: New multi-family housing units sold (2008-2012)**

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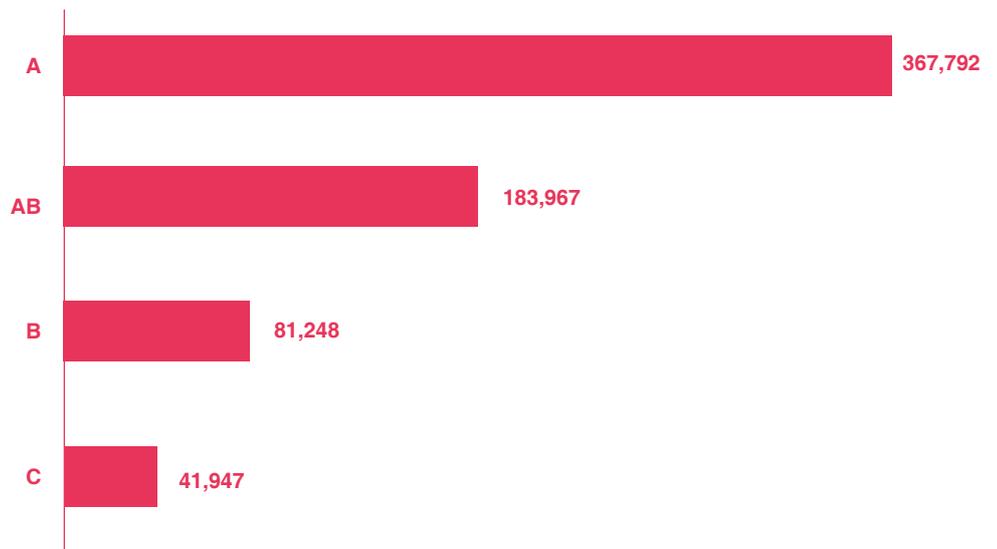


### Metropolitan Lima and Callao: New multi-family housing units sold by socioeconomic segment (2012)



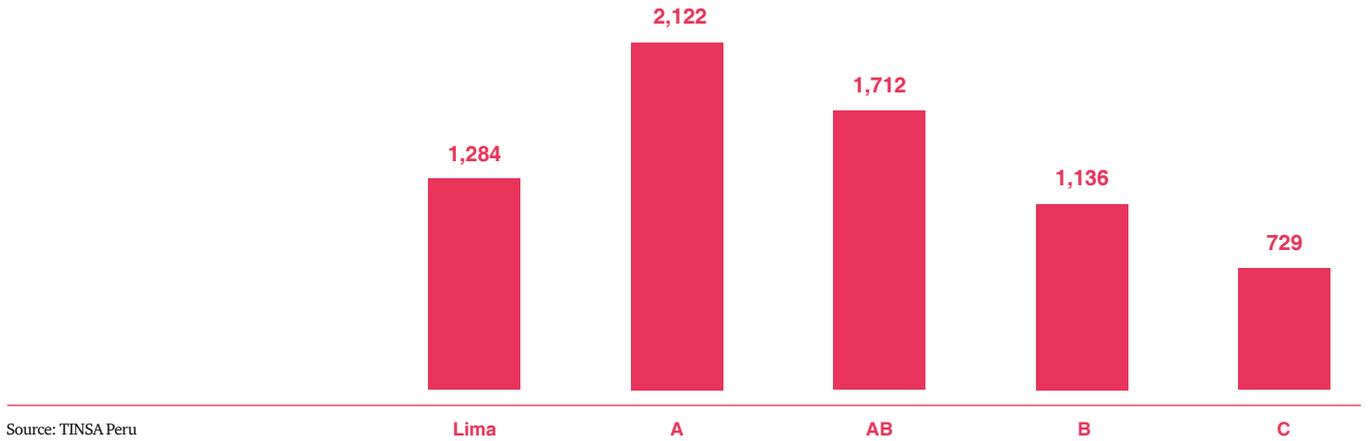
Source: Tinsa Peru

### Metropolitan Lima and Callao: Average sale price by socioeconomic segment 2012 (US\$ Dollars)



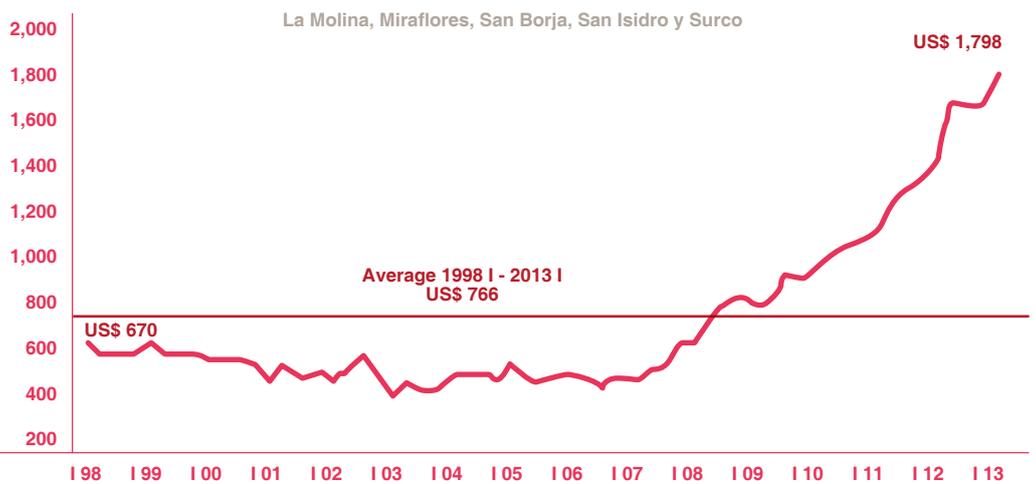
Source: Tinsa Peru

**Lima and Callao: Price per square meter 2012 (US\$ Dollars)**

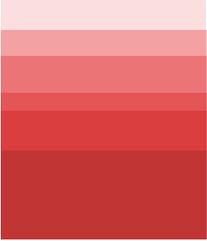


Source: Tinsa Peru

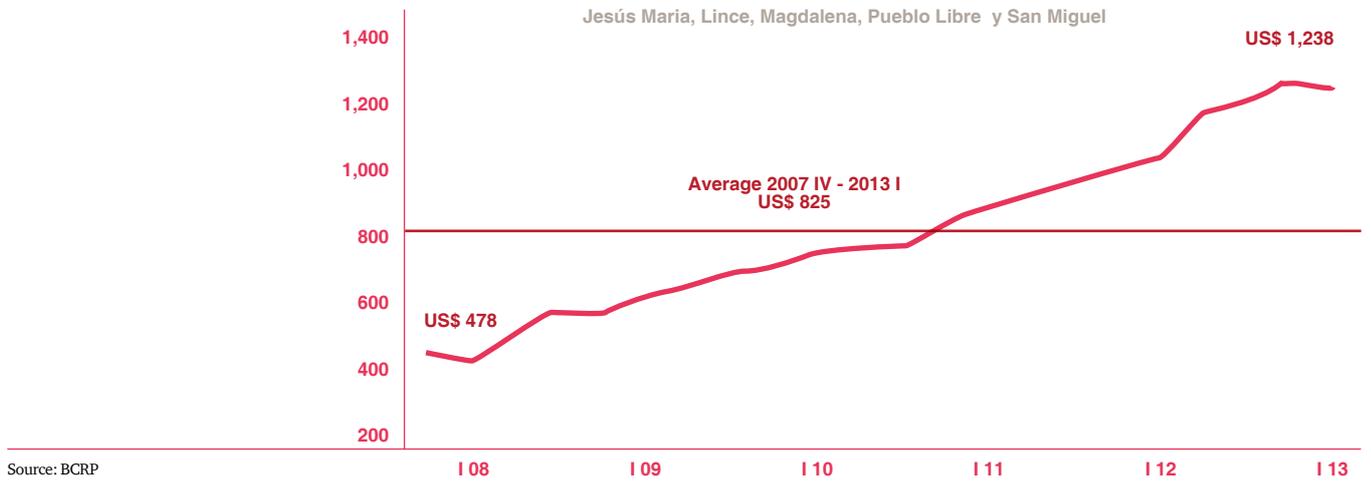
**Metropolitan Lima: Average quarterly sale price of apartments per square meter (US\$ Dollars)**



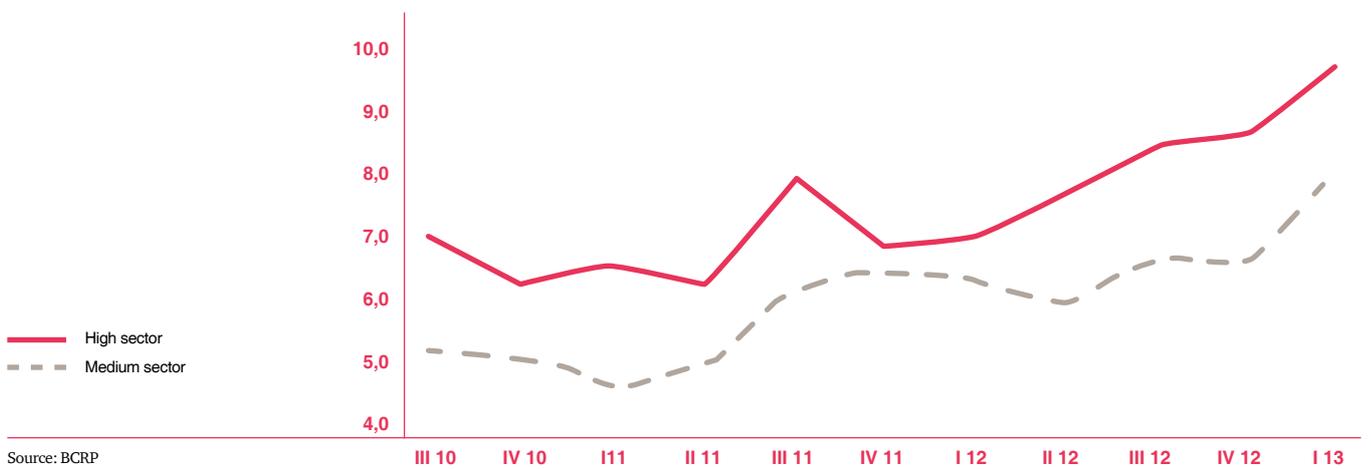
Source: BCRP



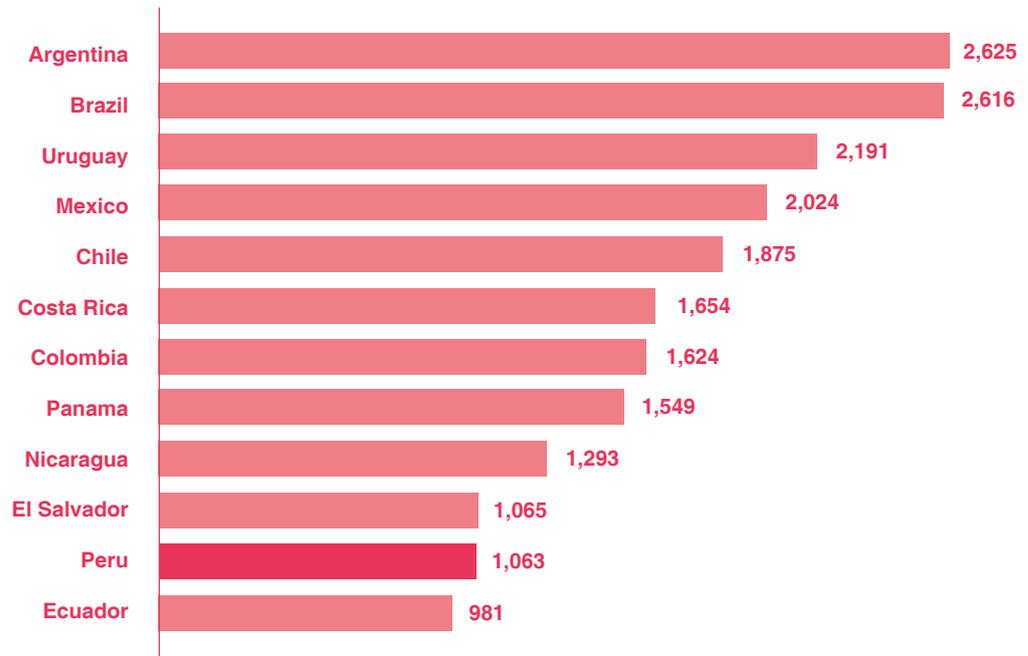
### Metropolitan Lima: Average quarterly sale price of apartments per square meter (US\$ Dollars)



### Metropolitan Lima: Apartment rents per square meter (In US\$ Dollars)



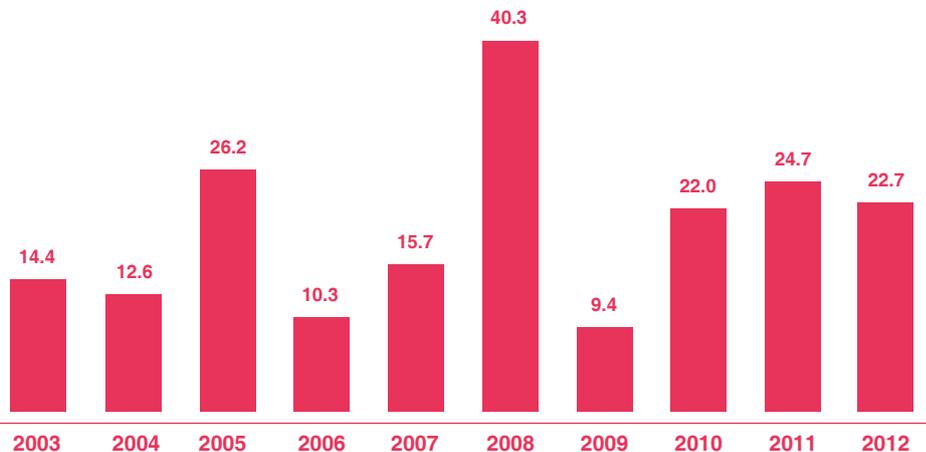
### Price of housing in Latin America 2010 (US\$ per square meter)



Source: Global Property Guide

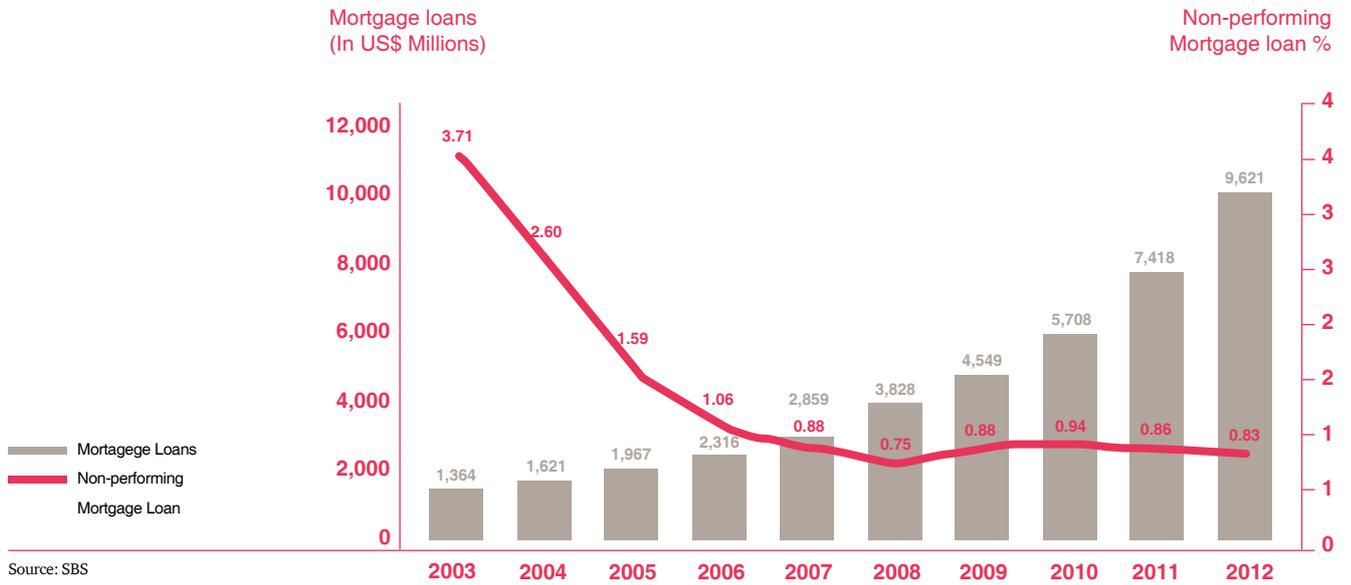
On the other hand, with regard to financing, mortgage finance has maintained a strong rhythm of healthy growth in recent years. Between 2003 and 2012, it grew at an average rate of 20% favored by the reduction in interest rates, along with the population's purchasing power. Furthermore, delinquency fell by 288 base points. Nonetheless, this increase has generated policy responses of a macro-prudential nature. The Superintendence of Banking and Insurance (SBS) has imposed increased capital requirements, especially affecting longer term loans in US\$ Dollars. Meanwhile, the BCRP has been increasing the legal cash reserve requirements for deposits in US\$ Dollars and Nuevos soles.

### Peru: Mortgage loans of financial system 2003-2012 (Annual growth rates)



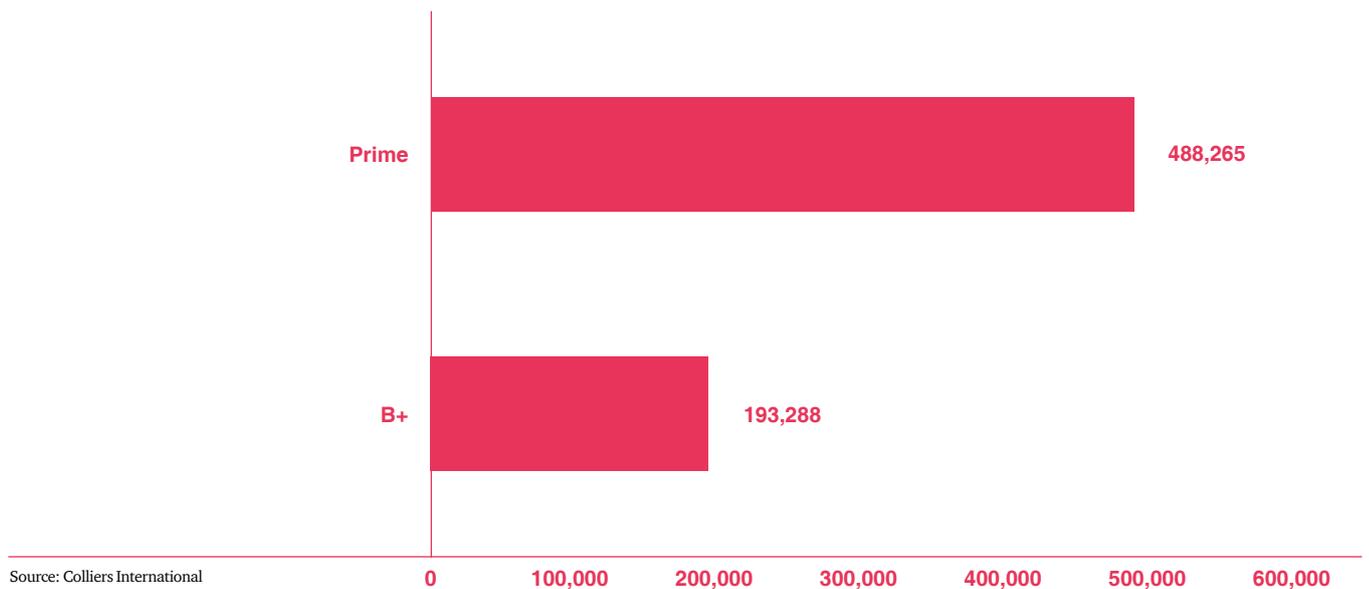
Source: SBS

## Peru: Mortgage loans of financial system 2003-2012



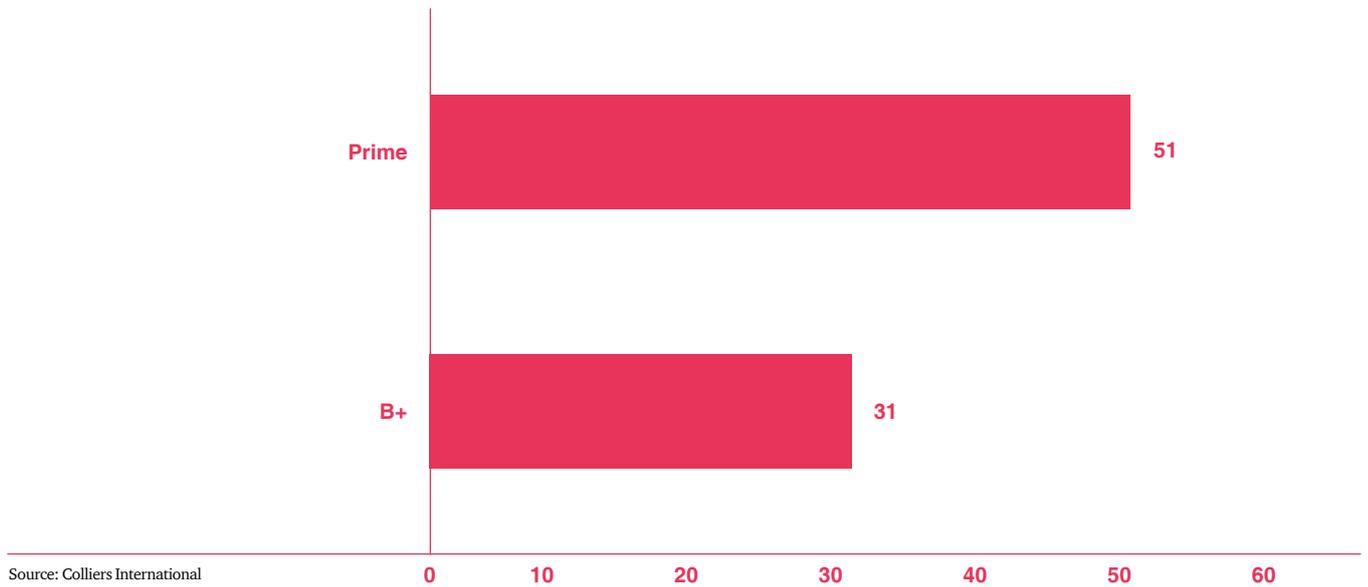
## Office supply situation

### Lima: Inventory of offices 2012 (In square meters)



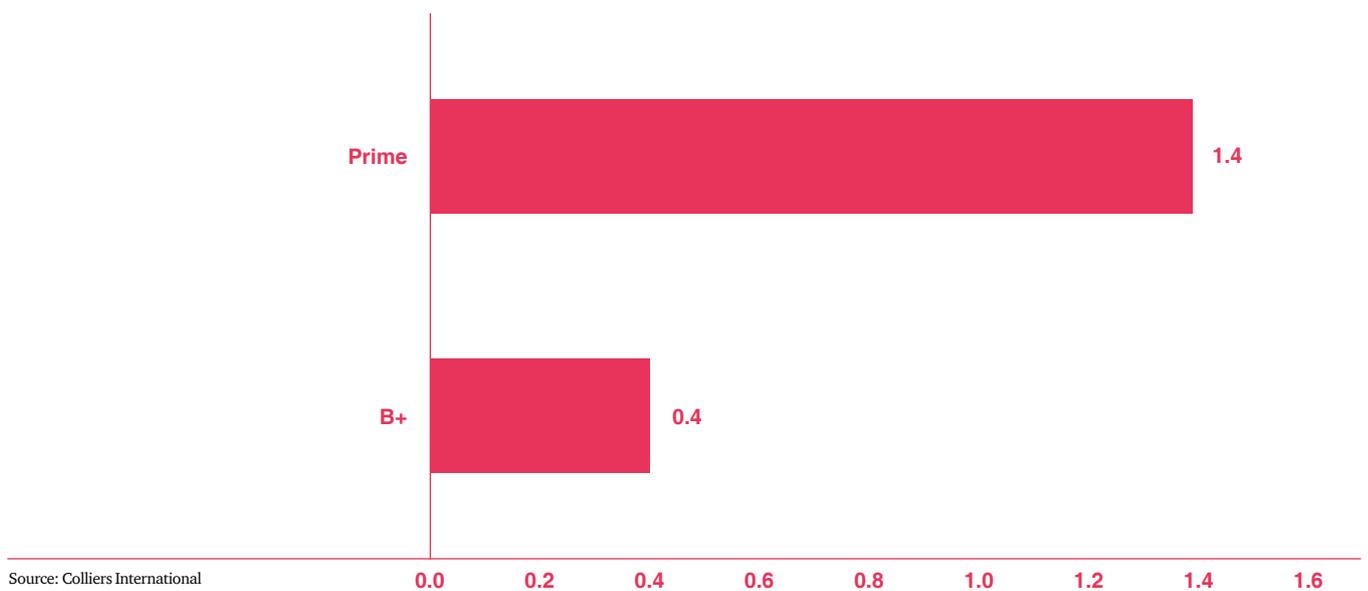
### *Lima: Number of office buildings 2012 (In units)*

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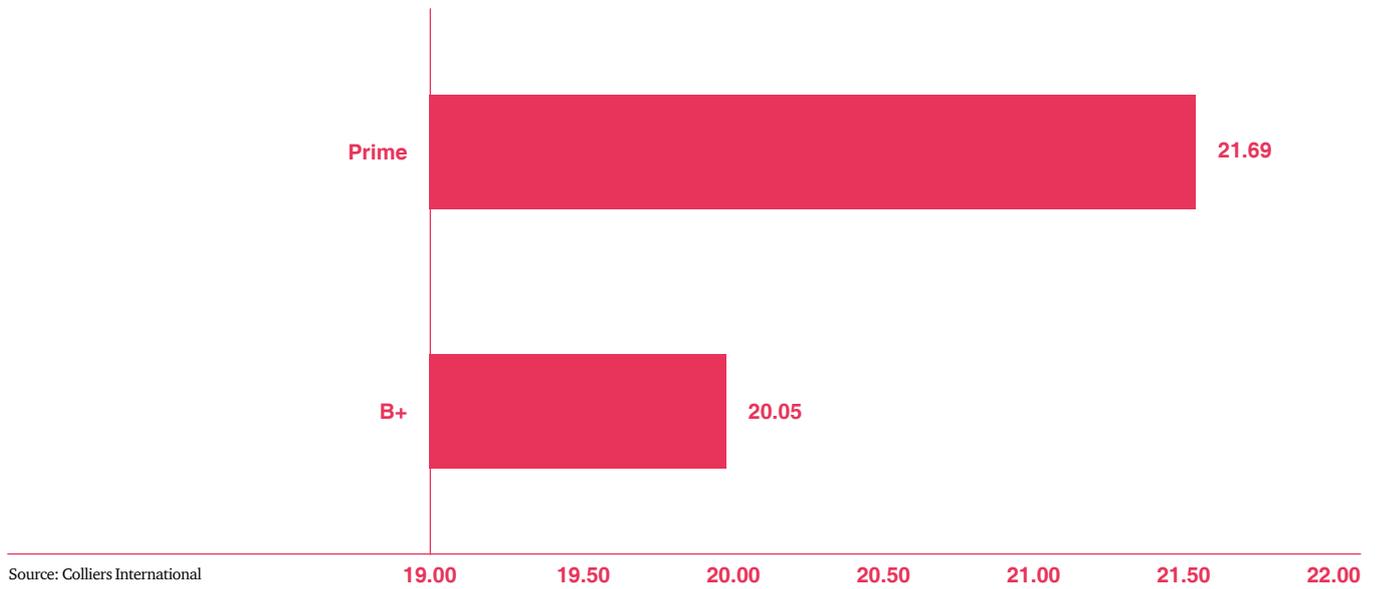
### *Lima: Availability of offices 2012 (Percentages)*

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**Lima: Office rent prices 2012 (In square meters and US\$ Dollars per month)**

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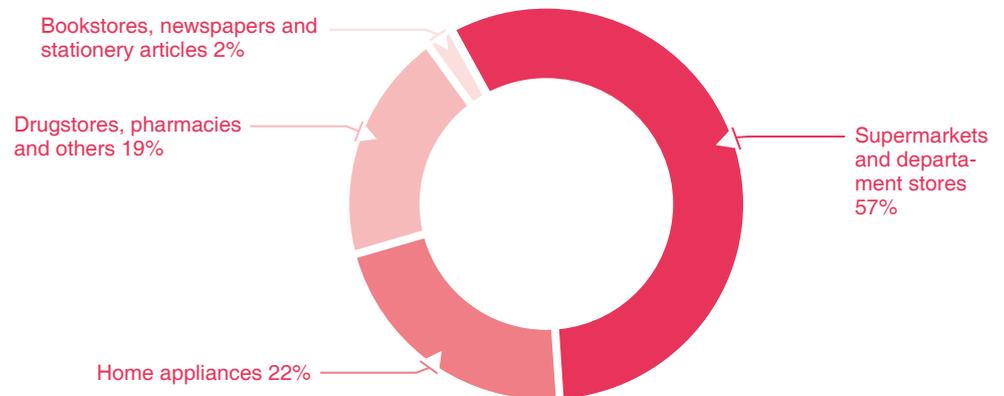
Source: Colliers International

## 2.12 Retail

The retail sector in Peru has been a key element in the progress of social inclusion in the country and its sustainability has been possible thanks to the dynamism of its investments and the population's social progress. The sales of the retail sector exceed approximately US\$ 7,800 million per annum, according to the latest official figures, and these are controlled by the supermarkets and department stores –grouped through shopping centers-, with a share of close to 60%. Between 2003 and 2012, the number of shopping centers has quadrupled to 57 projects, with a clear expansion into the country's provinces and the periphery of the capital.

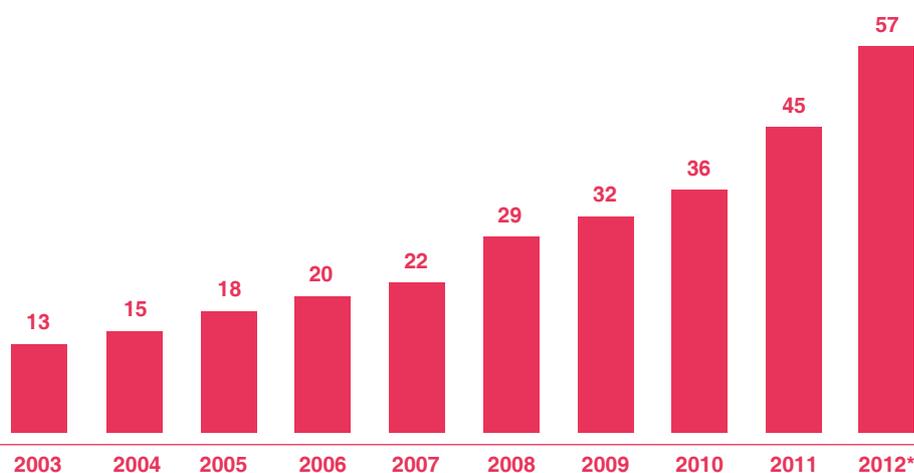
The population served in the shopping centers has multiplied more than 13 times in the last decade. Numbers attended have passed from 613 thousand people in the year 2000 to approximately 8.4 million in 2012; and the frequency of monthly visits has grown from 16.7 million in 2009 to 35.8 million in 2012, according to the Association of Shopping Centers and Entertainment of Peru (ACCEP). This response by the population has permitted the sales of the shopping centers to grow at an average of 23.7%, in the last 5 years. In the case of the rentable area, this has increased from 632 thousand m<sup>2</sup> in 2008 to 1.6 million m<sup>2</sup> in 2012.

### ***Peru: Sales by type of modern retail format 2011 (US\$ 7,808 Million)***



Source: Produce

### Peru: Number of shopping centers 2003-2012 (In units)



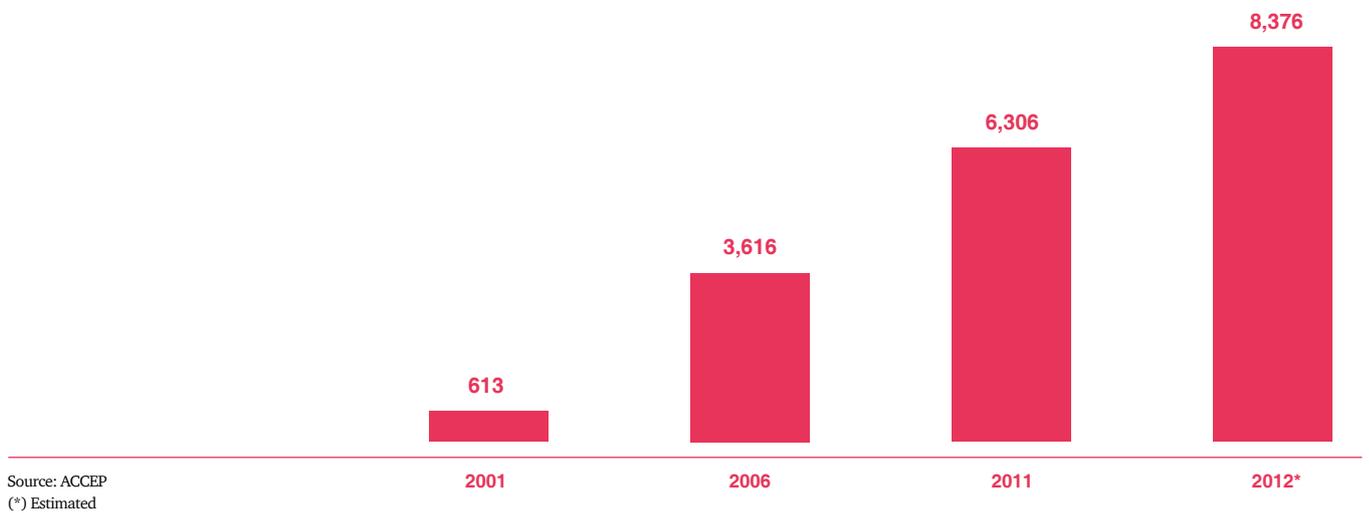
Source: ACCEP  
(\* Estimated)

### Peru: Expansion of shopping centers into Peru's provinces

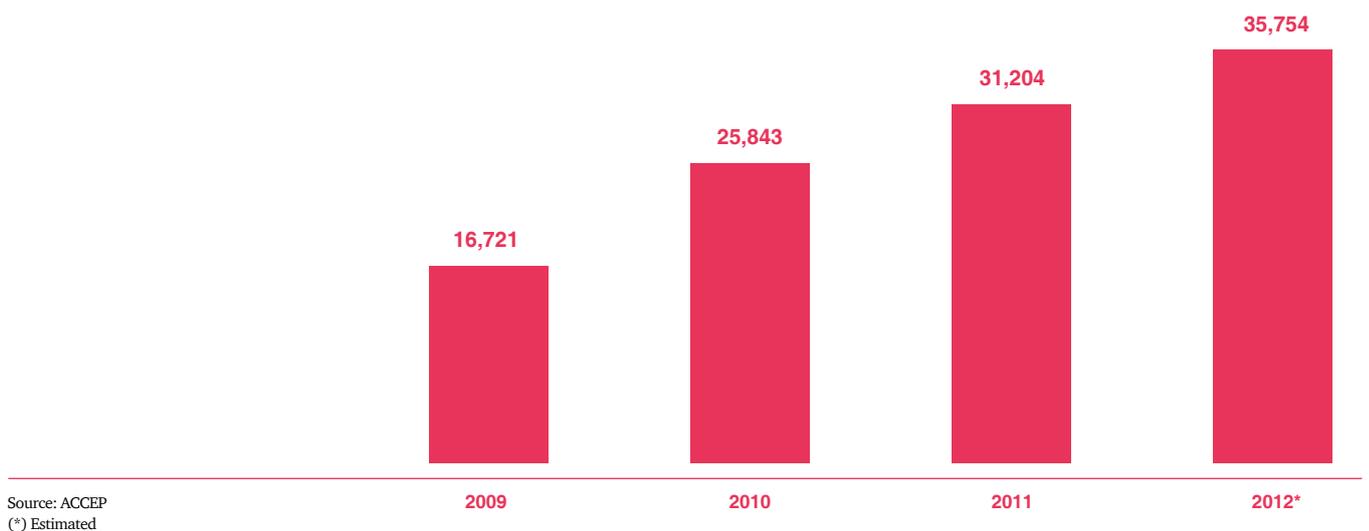
Place	Year	Number of SC
Lima Provinces	1998	2
Arequipa	2002	4
Piura	2004	4
Chiclayo	2005	2
Cajamarca	2006	1
Trujillo	2007	3
Ica	2008	1
Huancayo	2008	1
Juliaca	2011	1
Chimbote	2012*	1

Source: ACCEP  
(\* At June, 2012. SC: Shopping Centers)

**Peru: Population served in shopping centers 2001-2012 (Thousands of people per month)**

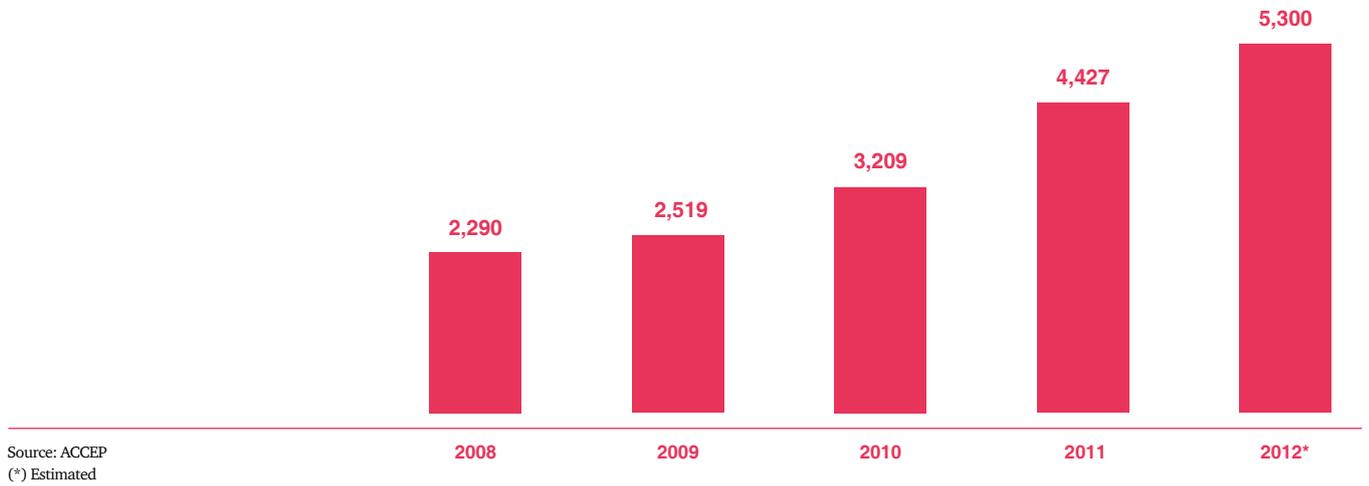


**Peru: Frequency of visits to shopping centers 2009-2012 (Thousands of people per month)**



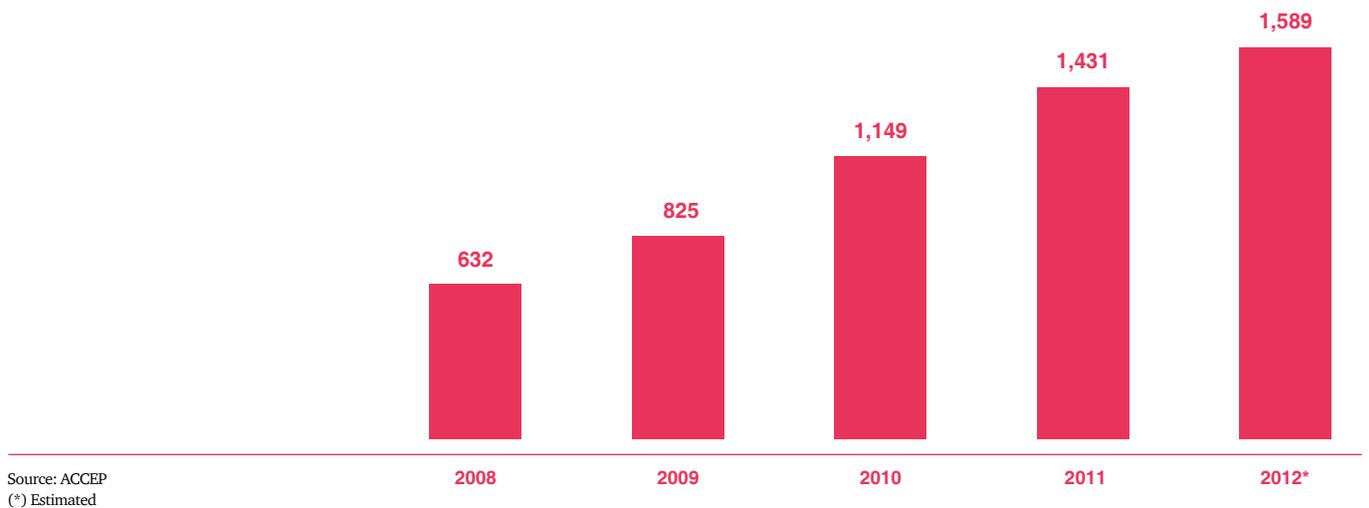
### Peru: Sales of shopping centers 2008-2012 (US\$ Millions)

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### Peru: Rentable area of shopping centers 2008-2012 (Thousands of square meters)

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### Peru: Rent prices and maintenance costs in typical premises (US\$ per square meter)

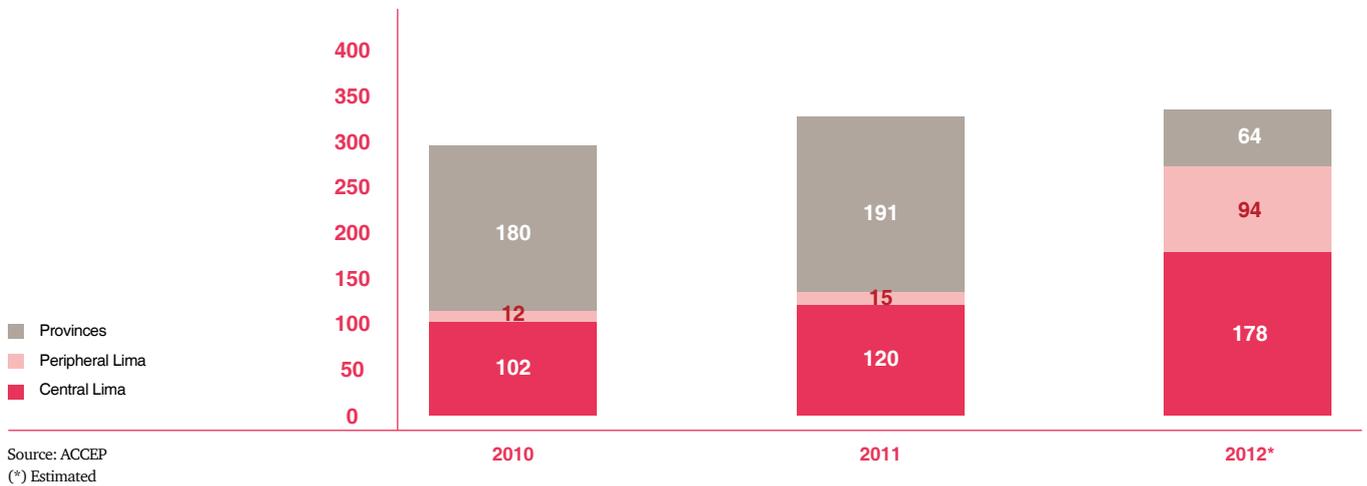


Source: Colliers International.

Furthermore, shopping centers have brought development to Peru's cities in areas such as image of modernity, formality (consumption and taxes), investments, employment and property appreciation. The consultancy firm Arellano Marketing claims that in Peru and its regions there are increasing patterns of modern consumption, which demand an even more interesting shopping experience. In the last three years, on average, 60% of the investments in this industry have been destined to the provinces and 5% to peripheral Lima.

ACCEP estimates that between 2011 and 2014, US\$ 920 million will be invested in commercial projects in Peru and over the next few years at least 40 new projects are expected in 10 cities. Currently, there are 1.5 shopping centers for each million inhabitants and it is expected that by 2015 the figure will reach 2.8. In 2012, the US consultancy firm AT Kearney put Peru in the ninth place among 185 countries with the best prospects for the development of retail sales.

### Peru: Investments in shopping centers (US\$ Millions)

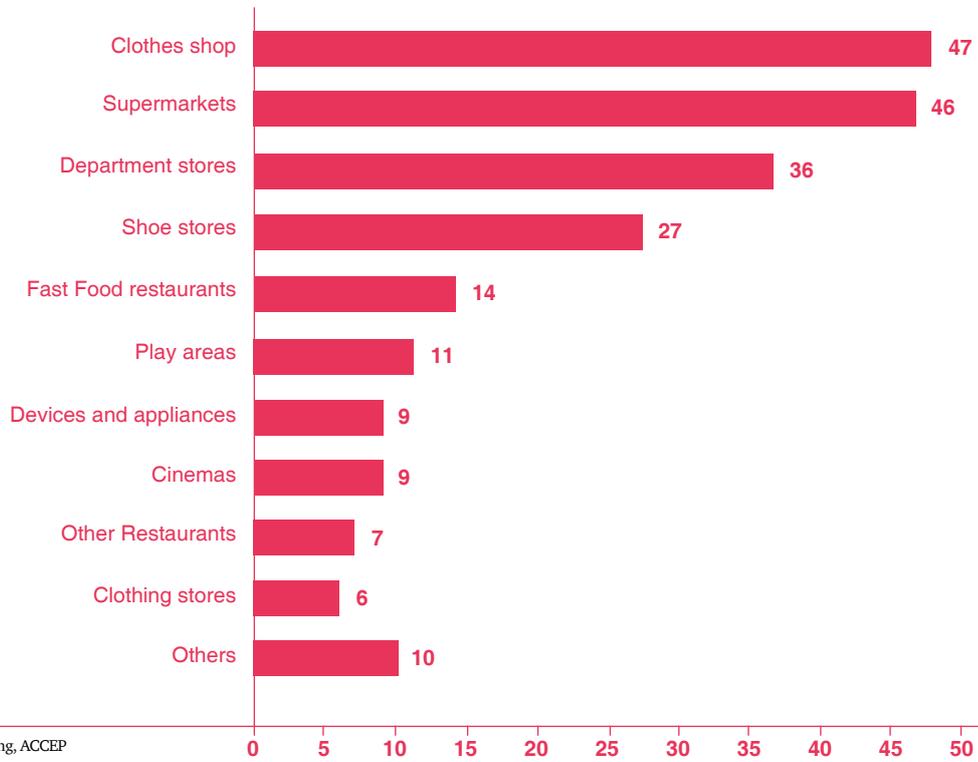


### Peru: Impact of shopping centers on employment (Average annual growth rate)

City	Year of entry of SC	Employment without SC	Employment with SC
Arequipa	2002	-17.4	5.3
Piura	2004	3.3	3.2
Chiclayo	2005	3.6	4.9
Cajamarca	2006	22.7	-3.4
Trujillo	2007	-2.7	3.4
Huancayo	2008	4.5	0.5
Ica	2008	-10.3	6.5

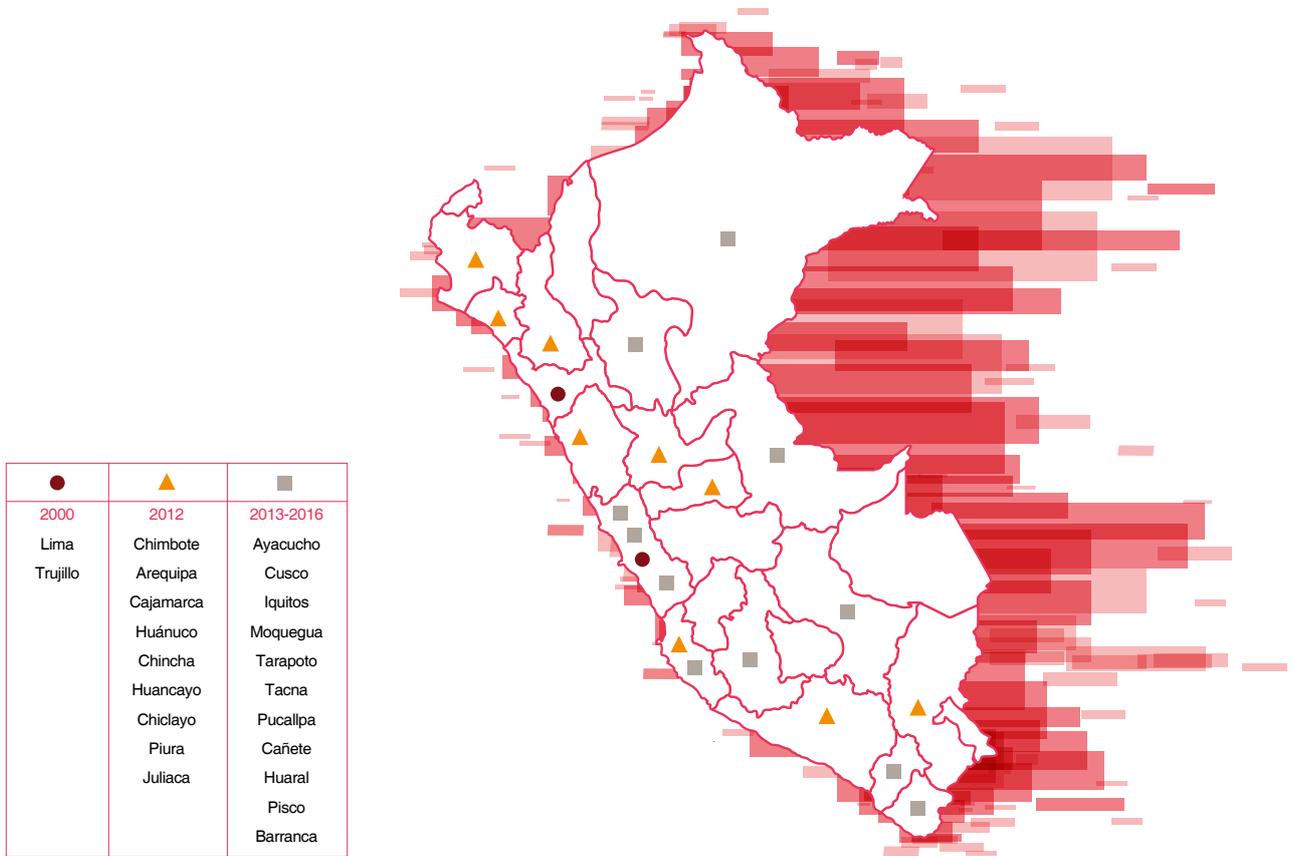
Source: ACCEP  
SC: Shopping Centers

### Peru: Places visited in a shopping center



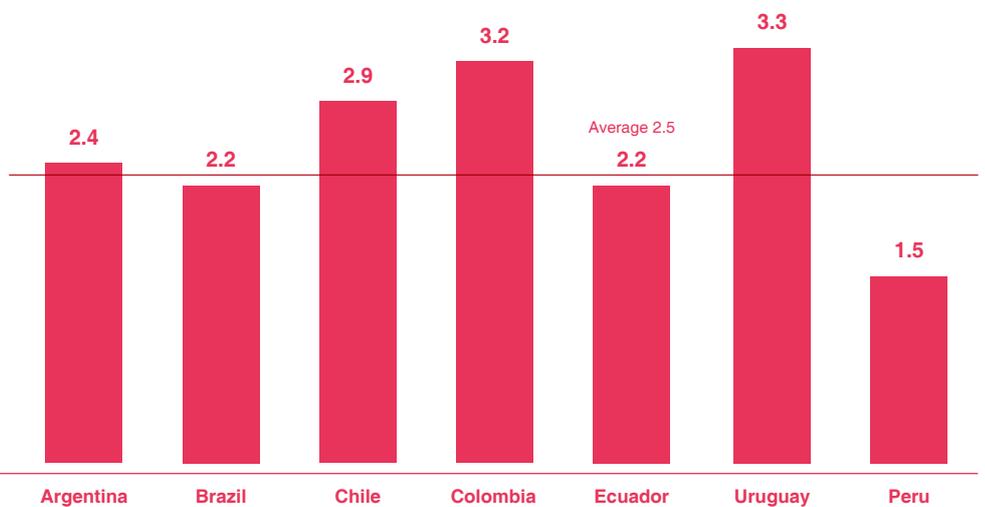
Source: Arellano Marketing, ACEP and Diario Gestion

## Expansion of Shopping Centers by cities



Source: ACEP

## South America : Number of shopping centers per million inhabitants (2011)



Source: ACEP, ABRASCEM, ACECOLOMBIA, CASC and CCHCC

## Global retail development index 2010

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Rank	Country	Market attraction	Country risk	Market saturation	Score	Change with respect to 2009
1	China	50.6	85.8	32.9	64	+2
2	Kuwait	75.4	94.3	56.2	62.9	N.A.
3	India	35.4	51.3	62.2	61.7	-2
4	Saudi Arabia	65.4	86.5	50.7	58.4	+1
5	Brazil	73.5	74.3	46.6	57.8	+3
6	Chile	71.8	92.3	27.5	57.5	+1
7	United Arab Emirates	79.1	100	18.8	57.5	-3
8	Uruguay	67.7	74.3	58.6	55.9	N.A.
9	Peru	43.4	54.6	72.2	54.9	+9
10	Russia	63.5	55.1	32	53.1	-8

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Source: A.T. Kearney's and  
ACCEP



**Legal  
Economic  
Aspects** **3.**

# 3.1 Tax Issues

## 3.1.1 Corporate Income Tax

### Overview

- 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 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 fulfill their annual Income Tax obligation, the aforementioned entities must make monthly estimated tax payments by choosing the higher amount from: i) the quota obtained by applying to the net income a coefficient that results from dividing the tax obtained in the prior fiscal year (or in the preceding year, in the case of January and February) and the total net income of said fiscal year, or ii) the one obtained by applying 1.5% to the month's net income. If no tax is calculated in the prior fiscal year (or in the preceding year), the advance payments shall be determined by applying 1.5% to the month's net income. Any unpaid balance or excess payment is paid or credited, respectively, upon the filing of the annual Income tax return. The income tax must be filed and paid within the first 3 months of the fiscal year following the one in which the tax obligation is acquired (e.g. 2013 annual Income Tax return must be filed no later than March 2014). The fiscal year is the calendar year.
- For purposes of determining their taxable income, such entities are allowed to deduct expenses, to the extent that these 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 debts 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 Income Tax Law, (ii) permanent establishments located in tax havens, or (iii) entities that obtain revenues or income through tax havens. Notwithstanding this, 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 Canal.

Depreciation is applied under the straight line method. The limit for the depreciation expense allowed for tax purposes is the one recorded for accounting purposes (financial depreciation); however, the tax depreciation can in no case exceed the following maximum rates:

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

(\*) Buildings must be subject to a flat 5% depreciation rate, regardless of financial depreciation.

## 3.1.2 Withholding Taxes

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

Interest paid on loans with non-related parties, provided certain requirements are met	4.99%
Interest paid on 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%
Dividends or profit distributions paid by Peruvian entities	4.1%
Digital services	30%
Technical assistance, provided certain formal requirements are met (*)	15%
Lease of vessels or aircrafts	10%
Other income	30%

(\*) The user of the technical assistance has to have a report issued by an audit firm stating that the technical assistance was effectively rendered, if the consideration for the services exceeds 140 Tax Units (S/. 518,000).

Note 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 the debtor has contractually assumed the obligation to bear 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 generate Peruvian source income at the following percentages:

Taxable transaction	Peruvian source income	Effective tax rate
Insurance	7%	2.1%
Lease of vessels	80%	8%
Lease of aircrafts	60%	6%
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%
Right for broadcasting within Peru live foreign TV shows	20%	6%

### 3.1.3 Indirect sale of shares

- Income obtained from the indirect sale of shares issued by entities incorporated in Peru is deemed as Peru-sourced. 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:
  - I. During the 12 months prior to the transfer, the market value of the shares of the Peruvian entity owned by the foreign entity equals 50% or more of the market value of the shares of the foreign entity; and,
  - II. During any given 12-month period, shares representing 10% or more of the foreign entity's share capital are transferred.

### 3.1.4 Market value and transfer pricing rules

For tax purposes, the value assigned to any transaction must meet market value standards (arm's length). If the value assigned to a transaction differs from market value, either by overvaluation or sub-valuation, the Tax Administration may adjust it for both the purchaser and the seller.

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, subject to the mandatory requirement to support such value with a transfer pricing study when accrued income exceeds PEN 6'000,000 and the amount of the transactions exceeds PEN 1'000,000 (when transactions exceed PEN 200,000 per year, only an annual informative statement is needed.); otherwise penalties may be imposed.

### 3.1.5 Stability Agreements

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

Under the general regime, investors may enter into 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 prior authorizations.
- Right of non-discrimination in relation to local investors.

On the other hand, under the General Mining Law, local mining companies may enter into stability agreements of guarantees and investment promotion measures that grant them, for 10 or 15 years, among others, the following:

- Stability of the overall tax regime.
- Stability of the overall administrative regime.
- Free availability 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 import and similar regimes.

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

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

## 3.1.6 Income Tax on individuals

- 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 are physically present in Peru for more than 183 calendar days within a 12 month period. Temporary absences 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 enter in force as of the next fiscal year. This means that non-domiciled individuals who meet conditions to be considered as a Peruvian tax resident 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 Peru source income. 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 labor income and foreign income generated by domiciled individuals is imposed through a scale of brackets, as shown below:

Bracket	Reference in tax units	Tax rate
1 <sup>st</sup>	Up to 7 Tax Units (*)	0%
2 <sup>nd</sup>	From 7 to 34 Tax Units	15%
3 <sup>rd</sup>	From 34 to 61 Tax Units	21%
4 <sup>th</sup>	Above 61 Tax Units	30%

(\*) For fiscal year 2013, 1 Tax Unit is equal to PEN 3,700.

- Income from leases is subject to an effective 5% Income Tax rate.
- Losses can be offset against capital gains obtained in the same fiscal year. They cannot be carried forward.
- When there is 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 stock 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:**

- Domiciled acquirers have the obligation to withhold the corresponding Income Tax. Said obligation is not applicable when the sale is conducted through the Lima Stock Exchange. In this case, the Peruvian Clearing House (CAVALI) has the obligation to withhold the corresponding Income Tax.

### 3.1.7 Income Tax on individuals: tax exemptions

- a. Capital gains made by the direct or indirect sale of securities underlying an Exchange Traded Fund (ETF) when such sale or conveyance is performed for the constitution of the 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.
- c. Interest from bank deposits made by individuals will be tax exempt.

### 3.1.8 Controlled Foreign Corporations (CFC) rules

As of January 1, 2013 CFC rules came into effect in order to avoid the deferral of Peruvian income tax liabilities derived from passive income received by determined foreign entities controlled by domiciled taxpayers. Passive income includes dividends, interest, royalties, capital gains, among others.

Pursuant to the CFC rules, when a domiciled taxpayer owns (directly or indirectly) more than 50% interest in a foreign entity located in a tax haven or jurisdiction with reduced tax rates (i.e. where the applicable tax rate on similar income is less than 75% of the rate which would apply in Peru), the passive income obtained by the foreign entity would be directly allocated to the domiciled taxpayer. Therefore, the shareholder will pay the Income Tax on foreign passive income obtained by the foreign entity in the fiscal year when said entity actually receives it, and not when a dividend is distributed to the shareholder.

### 3.1.9 Tax treaties

- Tax treaties to avoid double taxation with Canada, Chile and Brazil (they follow the OECD Model Tax Convention) are currently in force.
- Peru has also entered into tax treaties with Spain, Mexico, Switzerland, South Korea and Portugal (which follow the OECD Model Tax Convention), but are not in force yet.
- Peru is a member of the Andean Community, 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.

### 3.1.10 Payroll taxes: health contribution (EsSalud)

- Employers shall make mandatory monthly payments equal to 9% of the compensation paid to employees.
- Employees shall be affiliated either to the National Health System (EsSalud) or the Private Health System (EPS). If the EPS is chosen, of that 9%; 6.75% is distributed to EsSalud and 2.25% goes to the EPS, this last amount may be used as credit by the employer against health contribution.

### 3.1.11 Payroll taxes: 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 institution that assigns personnel to a company where risky activities are performed, are obliged to contract the complementary insurance for risky work.
- Employers that hire work services or labor through the abovementioned companies are obliged to verify that all the employees assigned to their offices have been duly insured according to the corresponding legal provisions. Otherwise, they will have to contract the insurance (on their own account), in order to guarantee the coverage of the referred employees, under penalty of being jointly liable with such companies before those employees and the National Health System, for the obligations established by law.

### 3.1.12 Payroll taxes: pension fund contributions

- Employers shall apply monthly withholdings for pension fund contributions equal to 13% of the compensation received by the employee, in case he/she is affiliated to the National Pension System, or 12.4%, approximately, in case he/she is affiliated to the Private Pension System (in this case, 10% corresponds to the personal pension account and almost 2.4% to the insurance and commissions for managing the fund).
- Should the labor contract of the foreign individual end and he/she leaves Peru, the pension funds deposited in the Private Pension System may be transferred to an account of the employee in a foreign bank (the aforementioned 10%).
- We set forth below a summary of the payroll contributions:

Payroll tax	Employer	Employee	Rate
Health Contributions	x		9%
Complementary Insurance for risky work	x		1.30% approx.
National Pension Fund		x	13%
Private Pension Fund		x	12.4 % approx.

### 3.1.13 Financial Transactions Tax (FTT)

- Obligations that are fulfilled through cash payments, which exceed PEN 3,500 or USD 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) is not allowed as a deductible expense nor recognized for tax purposes, nor is it allowed for the recognition of tax credits.
- On the other hand, according to Law N°.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 FTT rate is 0.005%.

The FTT may be deducted for Income Tax purposes according to rules applicable to this tax.

Among others, the following transactions are exempt from the FTT:

- a. Credits or debits made in bank accounts opened at the employer's request exclusively in order to deposit the salaries of its employees.
- b. Credits or debits in bank accounts of severance indemnities (compensation for time of service of the employee).
- c. Credits

### 3.1.14 Temporary Net Assets Tax (TNAT)

- Companies subject to corporate Income Tax are obliged to pay the TNAT, except for those in the pre-operative stage or that commenced operations as of January 1 of the fiscal year for which the TNAT must be paid.
- The tax 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 by the deductions and amortizations accepted by the Peruvian Income Tax law. Thus, the amount of the TNAT is determined by the application of the following rates on the tax basis:

Rates	Net Assets
0%	Up to PEN 1'000,000
0.4%	In excess of PEN 1'000,000

- It should be noted that the amount paid for the TNAT by the taxpayer is a credit against Income Tax advance payments. If not totally utilized, during the fiscal year a refund may be requested from the Tax Administration.

### 3.1.15 Value Added Tax (VAT)

The following transactions are subject to VAT:

- Sales of movable goods made within Peru
- Services rendered within Peru
- Import of services (services economically used within Peru by a domiciled entity)
- Import of goods
- Construction agreements
- The first sale of real estate performed by constructors

The 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 (originating from 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 the pre-operative stage, provided certain conditions are met.

### 3.1.16 Obligatory Tax Payment System (SPOT)

The SPOT was created by Resolution N°.183-2004/SUNAT and is applicable to the sale of certain goods and the rendering of certain services subject to Peruvian VAT. The main purpose of the SPOT is to generate funds to enable the payment of tax obligations by the VAT taxpayer.

According to the SPOT, all sales of goods and services listed in the appendices of the Resolution, on which VAT is levied, will be subject to withholding, applying the rates established for each kind of good and service. Regarding services, Appendix 3 of the Resolution establishes that the services subject to the SPOT are:

1. Labor intermediation (12%).
2. Lease of goods (12%).
3. Maintenance and repair of movable goods (9%).
4. Cargo movement (12%).
5. Other entrepreneurial services (12%).
6. Business commission (12%).
7. Fabrication of goods by order (12%).
8. People transport services (12%).
9. Construction agreements (5%).
10. All services subject to VAT (there are some exceptions), which have not been mentioned above (9%).

The purchaser or service recipient must withhold a percentage of the transaction price and deposit said amount within the seller's or service provider's State Bank account (Banco de la Nacion). It is important to note that the right of the purchaser or user of the service to offset input VAT related to such goods and services may be exercised only after the deposit has been made.

The amount deposited is applied towards the payment of the seller or service provider's Peruvian tax obligations (not just VAT). If after 4 consecutive months such amount is not utilized, the seller or service provider may apply for a refund or use the amount to pay withholding applicable to purchasers or service recipients.

### 3.1.17 Early recovery of VAT

- Companies at the pre-operative stage with large projects that require at least 2 years for maturity may apply for the early recovery of VAT, which allows for a VAT credit refund prior to starting operations. An investment agreement with the Government is required and a minimum investment of USD 5'000,000 (not including VAT) must be met. Minimum amount mentioned does not apply to agriculture projects.

### 3.1.18 Recovery of VAT on exploration activities for mining and oil & gas

- Holders of mining concessions have the right to recover the VAT paid in connection with their activities during the exploration stage. In order to access this regime, mining companies must comply with certain conditions, such as being entirely at the pre-operative stage and performing exploration activities of minerals within the country, and entering into an exploration investment contract with the Government, for a minimum investment of an amount in national currency equivalent to USD 500,000.
- Likewise, entities that enter into oil & gas agreements with the Government (PERUPETRO) have the right to recover the VAT paid in connection with their activities during the exploration stage.

### 3.1.19 Exporter's positive VAT balance

- Export of goods (including the sale of goods in international zones of ports and airports) as well as some services performed for foreign entities are taxable at 0% rate. VAT paid upon the acquisition of goods, services, construction agreements and import of goods related to the exported goods or services, grants exporter a 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 favour of the Central Government. In case the positive balance is not completely offset, as the amount of the aforementioned tax obligations does not fully absorb the balance, the taxpayer may apply for a refund (which may be made in cash or by check).

### 3.1.20 Excise Tax

- The sale of some specific goods, such as fuel, vehicles, among others, is subject to Excise Tax.
- Tax rates are determined according to the type of good. For example, in the case of fuel, the taxpayer is obliged to pay a determined amount per gallon sold locally or imported (from PEN 0.50 to PEN 2,30, per gallon, depending on the type of fuel); in the case of vehicles, the tax rate is 0%, 10% or 30%, depending on the type of vehicle.

### 3.1.21 Customs duties

- Customs duties are imposed on the CIF value of imported goods, at rates of 0%, 6%, 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 tax. The import of most capital goods is subject to a 0% rate.
- Peru is a member of the World Trade Organization (WTO) and various bilateral agreements based on 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.

### 3.1.22 Customs duties: drawback regime

- Pursuant to the drawback regime, the exporter may apply for the refund of the customs duties paid upon: (i) the import of the goods contained in the exported goods, or (ii) the import 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 such amount does not exceed 50% of the good's production cost. The refund will apply for each type of good exported by the exporter and for the first USD 20'000,000 worth of goods exported per year (the excess will not be subject to refund).
- For said purpose, Supreme Decree N°.104-95-EF establishes that the beneficiaries of the drawback regime are the manufacturing – exporting companies whose cost of production has been increased by the custom duties paid upon the import of: (i) raw material, (ii) intermediate products, or (iii) pieces incorporated or consumed in the production of the exported good. It should be noted that fuel or any other energy source, the aim of which is to generate heat or energy for the purposes of obtaining the exported good, is not considered as raw material.

### 3.1.23 Free Trade Agreements (FTA)

- Peru has entered into FTA with the United States, Canada, Singapore, China, the European Union (EU), Thailand, Chile, Panama, South Korea, Japan, Mexico, European Free Trade Association (EFTA) and Costa Rica, and has begun trade talks with other countries.

## 3.2 Corporate Issues

### 3.2.1 Business entities issues

#### Guide to “doing business” entities

- *Choice of entity*

The corporation is the legal vehicle 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 Commerce 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, 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) - Corporation:

- *Private Corporation (Sociedad Anónima - 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 corporation is incorporated as an open 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.) - Limited liability company:

*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. The members are registered on the Public Registry.

## 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.
- In general, the government supervises certain industry activities, such as:
  - Mining and energy
  - Drug and chemical use
  - Education
  - Banking and insurance
  - Public Infrastructure
  - Water and sewage services, among others

## Corporation

The most common form used by national or foreign investors to conduct business in Peru is a private 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 details of the signatories of the deed.
- The express intention to incorporate a corporation.
- The share capital amount.
- The number of shares into which it is divided.
- The form of payment of the share capital.
- The contribution of each shareholder, either monetary or in-kind (including in this case the corresponding valuation report); and,
- 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 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 shareholders' 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.
- 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 -UIT (S/. 3,700 for the year 2013) 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, financing entities, insurance companies and pension fund administrators, and 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.

## 3.2.2 Relationships of shareholders, directors and officers

### **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.

### **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 of the Bylaws**

Increase or decrease of share capital and modification of 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 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. Such 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 in 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.

General Law of the Bankruptcy System is also applicable, when the creditors start the procedure.

### ***Books, records and publications***

All kinds of companies must have corporate books for recording the main activities that have been carried out. The corporate books are used for:

- Shareholders’ minutes
- Board of Directors resolutions (if applicable)
- Share entries

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 Bylaws.
- 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 Peruvian Tax Units (UIT), in a given year, which is equivalent to S/ 11 ‘ 100,000 or US\$ 4 ‘ 141,791 (S/. 2.68 per US\$ 1.00).

### ***Limited liability company (S.R.L.)***

In Limited liability companies (S.R.L.), the capital 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.

Limited liability companies 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 reception 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, 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, unless otherwise provided for in the Bylaws.
- Other rules and procedures deemed convenient for the organization of the company, as well as any other lawful 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 be partners or not, 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 5th, 1961, which abolishes the requirement of legalization for foreign public documents to be used only in signatory countries.

The referred convention entered in force in Peru on October 1st, 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 (active) 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 (active) partner operates the business and is responsible towards third parties. This agreement does not give rise to an entity different from the managing (active) 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).

## 3.3

# Work Force and Labor Charges

## 3.3.1 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 undergo 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 trust positions.

Unlimited term agreements are those entered into for an unlimited (i.e. open-ended) period of time (permanent employees). In the event of unjustified dismissal, employees are entitled to an indemnity that equals 1.5 times their monthly remuneration per each year of service, up to a limit of 12 monthly remunerations. This type of agreement does not require compliance of any special formality.

Fixed term agreements are those signed for a limited period of time. Employees hired under this type of work contract, are entitled to an indemnity that equals 1.5 times their monthly remuneration per each month pending up to the end of the contract, with a maximum of 12 remunerations, in the event of work termination due to unjustified dismissal. These types of agreements are exceptional, and are only acceptable for temporary positions and certain specific jobs. If they do not correspond to the nature of the tasks performed, they could be considered by the Labor Authority as unlimited term agreements, which would imply the obligation of providing all the legal rights originated by this type of contract. According to law, fixed term agreements must be entered in written form and the purpose of each one of them must be duly detailed in the contract.

### *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 emission is left and its effective reception by the employee is guaranteed).
- II. If 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 correspondent 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 consist in 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 before the Labor Authority, having 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 they assume the services to be rendered under its own risk, with its own financial, technical and material resources, assume responsibility for the result of their activities and their employees are under their exclusive subordination. Some characteristic elements of an outsourcing company are, among others, that they should have more than one client, their own equipment, their own working capital and the service fee must not be determined per employee but for an integral service.

Company that hires employees through intermediation agencies or outsourcing services is jointly responsible with the employer for the fulfillment of labor and social security obligations accrued during the employees' assignment term.

### ***Unions***

Employees in construction, transportation and industrial companies commonly form the strongest unions, the most important being the Confederación General de Trabajadores del Peru (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 in case of a company union and 50 in other kinds (activities, professions, specialities).

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 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, only to 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 until December 31st 2014.

## 3.3.2 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. Compensations are subject to statutory social contributions and employee's taxes.

Supreme Decree 007-2012-TR dated May 17th, 2012 increased the minimum wage to seven hundred and fifty (750) Nuevos Soles from June 1<sup>st</sup> 2012.

The employer may also agree with employees whose monthly compensation is not less than two tax units (equivalent to S/. 7,400 or approximately US\$ 2,797.73, at an exchange rate of 2.645) 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 %

### Legal Bonuses

According to Law No. 27735, employers must pay on July and December a bonus equal to one month's salary.

In response to the economic and financial crisis, the government published Law No. 29351 and 29714, that established that legal bonuses would not be subject to social benefits and contributions from 2009 to 2014, and instead this amount would be given to employees as an extraordinary bonus.

### 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.

The employer and employee may agree instead, to compensate overtime with rest periods.

Normal working hours should not exceed 8 hours per day or 48 hours per week. This 48 hour work per week applies to all employees with the exception of those appointed to management and trust positions and those whose activities are not performed under the employer's supervision.

### Night Shift Additional Payment

Employers with employees who work between 10:00 p.m. and 6:00 a.m. are obliged to make an additional payment. This amount corresponds to an additional 35% of the ordinary work hour wage if the employees earn the minimum salary wage (S/. 750).

## **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 semiannual 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 the same number of twelfth parts (1/12) of the computable remuneration received by the employee in the months of April and October respectively, as the number of complete months worked by said employee in the respective semester.

While in 2009 the CTS deposited in banking or financing institutions was entirely available (100%), from May 2011 until termination of employment, employees may only dispose of 70% of the deposited amount exceeding 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 a serious misdemeanor is involved, 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 salaries 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 terms 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 System**

The National Pension Fund System, 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.

In accordance with the reform of the Private Pension System Law, until May 31<sup>st</sup>, 2013, current Private Pension System affiliates were able to exercise their right to choose where the commission will be discounted from: (i) from the salary, discounted from their monthly remuneration or, (ii) from the fund. Under the latter commission system, for the following ten (10) years, one percentage of the commission will be discounted from the salary and the other from the affiliate's fund. After this period, it will be discounted solely from the affiliate's fund. This new scheme was applicable from June 2013 onwards. New private pension system affiliates will automatically be included in this last scheme and enrolled in AFP Habitat until mid 2015. Note that people who decided to stay under the discount from salary are able to choose to move to the other system until November 30<sup>th</sup>.

### ***Life Insurance***

Legislative Decree No. 688 states that employees with 4 years of work for the same employer (consecutive or not), are entitled to a mandatory life insurance provided by the employer.

### ***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 (CIU)" 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.

### ***People with disabilities***

The General Law of Disabled People, Law N° 29973, states that people with disabilities have the right to work in equal conditions to other employees.

Hence, private employers with more than fifty (50) workers are obliged to hire people with disabilities at a rate not lower than 3% of their payroll.

This provision will be mandatory from December 25<sup>th</sup>, 2014 onwards.

### ***Labor Audit System***

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

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

On January 2013, the National Superintendence of Labor Inspection (SUNAFIL) was created. This is a technical and specialized organism attached to the Labor Ministry, which will be in charge of the Labor Audit System. Maximum fines (if infringement affects more than 141 workers) have been increased as detailed in the following chart.

Infringement	Fine
Slight Infringement (50 UIT)	S/. 185,000
Serious Infringement (100 UIT)	S/. 370,000
Very Serious Infringement (200 UIT)	S/. 740,000
Infringement accumulation:	S/. 1'110,000 per year

## 3.4 Financial Accounting & Reporting

### IFRS and the accounting practices in Peru

The current status of accounting practices in Peru could be divided into four groups:

**First** are the entities under the oversight of a regulator. This group consists of companies with equity shares or debt instruments traded in the local markets or operating in specific business areas (broker dealers, mutual funds and investment funds). These entities are overseen by the local company and securities regulator (Superintendencia de Mercado de Valores, SMV), and they were required to fully adopt IFRS for the preparation of their financial statements of 2011; except for broker dealers, mutual funds and, investment funds, which have been required to prepare their first IFRS financial statements for the year ended December 31, 2012.

**The second** group is formed by private companies (not overseen by SMV) with assets or revenues greater than 30,000 UIT\* (that considering the current value of UIT would amount to S/.109.5 million), which were required to adopt IFRS voluntarily in 2012, and mandatorily in 2013. In 2012, an important number of these companies decided to adopt IFRS voluntarily. Entities required to adopt IFRS are also required to file their financial information with the SMV. This means that the SMV will enhance its functions in order to act as an agent compiling information presented by private entities. The minimum information required to be filed with SMV consists of a set of basic financial statements (without notes), which will be made public to any party making a formal request.

**The third** group consists of private companies (not overseen by the SMV), with assets and revenues below 30,000 UITs and above 3,000 UITs (between S/.109.5 million and S/.11 million), which are being required to adopt IFRS voluntarily in 2013, and mandatorily in 2014. These companies are also required to file their financial information with the SMV, under the same rules applicable to the entities in the preceding group.

**The fourth** and last group consists of private companies (not overseen by the SMV), with assets or revenues below 3,000 UITs (S/.11 million), which should apply generally accepted accounting principles in Peru (Peruvian GAAP).

Peruvian GAAP comprises the following:

The legal and regulatory requirements on accounting matters

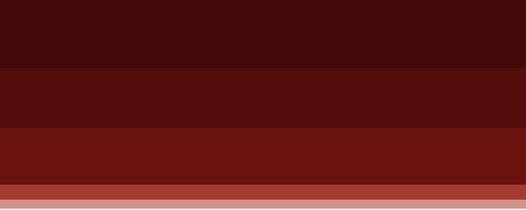
- a. The IFRS made official through resolutions issued by the Peruvian standard-setter, the Consejo Normativo de Contabilidad (CNC).
- b. Currently, in considering the most recent approvals of certain standards and pronouncements by the CNC, the major differences between IFRS and Peruvian GAAP are as follows:

Under Peruvian GAAP effective as of December 31, 2004, the 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 1994; therefore, the financial statements for years beginning on or after that date are not required to be restated for inflation, in accordance with IAS 29 - Financial Reporting in Hyperinflationary Economies.

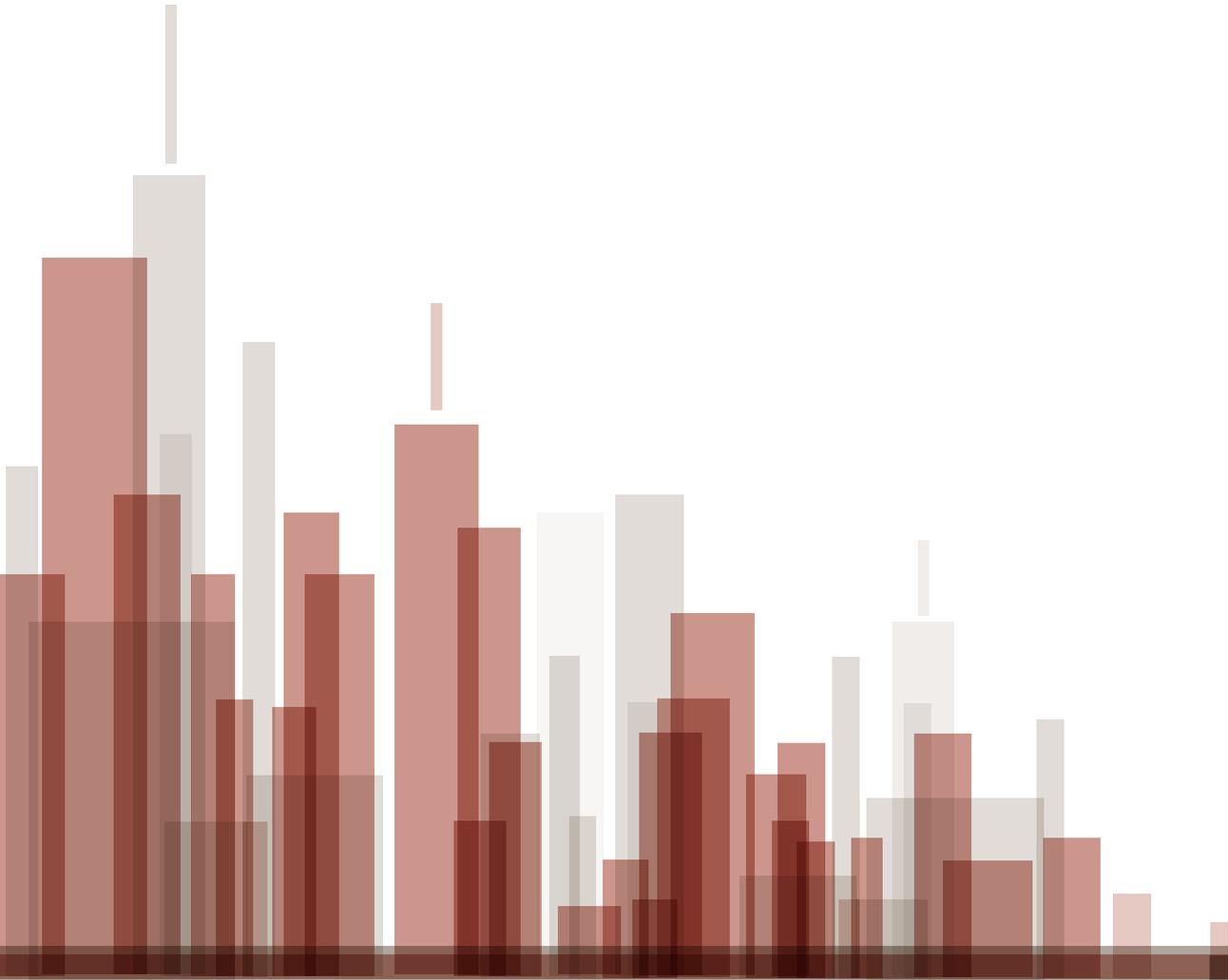
For Peruvian GAAP purposes, it is permitted to apply the equity method to account for investments in subsidiaries in separate financial statements. Under IFRS, IAS 27 - Separate Financial Statements, investments in subsidiaries, presented in separate financial statements, are permitted to be accounted for at cost or applying rules of IAS 39.

In addition to the previous GAAP differences, although Peruvian GAAP includes most of the IFRS, in practice it shows certain departures from a strict application of IFRS, for example, most companies follow tax criteria to depreciate fixed assets, or do not apply concepts such as componentization, or residual values or do not identify embedded leases or embedded derivatives.

<sup>1</sup>UIT\* = "Unidad Impositiva Tributaria", which is an index generally used as a referential value for tax determination purposes in Peru, that is updated on an annual basis to reflect changes in prices.



For entities required to apply full IFRS, it is necessary that their management assesses the impact of IFRS on its financial reporting framework. The transition to the IFRS framework may be much more complex than the technical accounting challenge arising when adopting new accounting standards. This process implies focusing on complex issues inherent to the financial information collection and formulation process as well as with the business processes and systems; in addition, but equally important, this conversion process requires making sure awareness is raised company-wide of the implications of adopting this new accounting framework. Careful planning and monitoring of the activities underlying this conversion initiative will contribute to a smooth transition for the company and will mitigate any potential additional pressure that this initiative may place on the day-to-day activities of the company's personnel.



## 3.5

# Environmental and Social Aspects

## 3.5.1 Planning

The Peruvian Government directs its environmental and social efforts through two ministries, the Ministry of Environment (MINAM) and the Ministry of Development and Social Inclusion (MIDIS), which were created in the past five years and act on a national level.

### **Environmental aspects:**

- 1 Created in 2008 by Legislative Decree N° 1013, MINAM is in charge of the National System of Environmental Management. The actions of the Ministry are directed by the National Environmental Action Plan (PLANAA) 2011-2021 (DS N° 014-2011-MINAM).
- 2 The PLANAA considers the following goals for 2021:
  - **Water:** 100% of residual water from urban homes is to be treated and 50% of this water is to be reused.
  - **Solid waste:** 100% of municipal solid waste is managed, reused and adequately disposed of.
  - **Air:** 100% of prioritized cities are to implement their action plans for the improvement of air quality and to comply with the environmental standards of air quality.
  - **Forest areas and climate change:** reduce the rate of deforestation by 54 million hectares of primary forests under the diverse categories of territorial domains contributing, alongside other initiatives, to reducing by 47.5% the emission of greenhouse gases in the country, generated by the change in the use of land; as well as reducing the level of vulnerability to climate change.
  - **Biological diversity:** Conservation and sustainable use of the diversity of eco-systems, species and genetic resources of the country; increasing by 80% the area used for organic production; by 70% the value of exports of bio-commerce products; by 50% the investment in eco-businesses; and in 100% the value of goods and services of the Protected Natural Areas (ANP).
  - **Mining and Energy:** 100% of small mining and artisan mining should have implemented and/or have available instruments for environmental management; 100% of the large and medium companies in mining and energy are to improve their environmental performance.
  - **Environmental management:** 100% of the entities in the National System of Environmental Management implement the National Policy of the Environment and the Tools for environmental management.
- 3 Regarding the national objectives in environmental aspects, the MINAM drew up a Strategic Plan for the period 2013 -2016, which consists of the following pillars:
  - A. Sovereign state and rights guarantor
    - Decrease in socio-environmental conflicts.
    - Increase the cultural level of citizens in environmental topics.
    - Strength regulatory practices.
  - B. Improve the quality of life with a healthy environment
    - Decrease pollution of water resources.
    - Decrease air pollution.
    - Prevent and stop degradation of land.
    - Increase the knowledge of citizens related to water resource availability.
    - Decrease noise contamination.
  - C. Harmonized exploitation of natural resources
    - Decrease the vulnerability of population exposed to risk of disasters by means of territorial ordering.
    - Maintain the ecosystem services in the natural areas.
  - D. Healthy natural resources
    - Increase the capacity to adapt to climate change
    - Decrease deforestation and forest degradation.
    - Decrease the emission of greenhouse gases.
    - Conserve biological diversity.
    - Preserve genetic diversity.
    - Preserve integrity of fragile ecosystems.

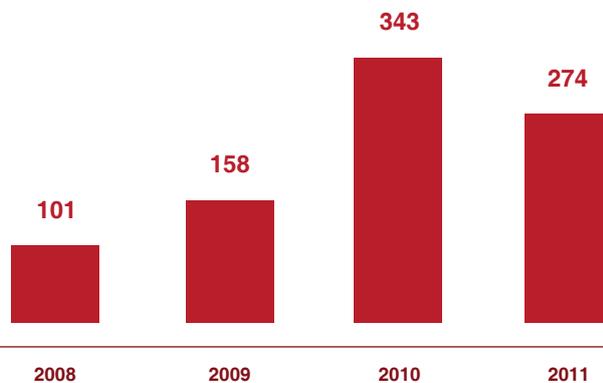
### Social aspects:

- 1 Social aspects are regulated and led by the Development and Social Inclusion Ministry which was created in October 2011 by Law N°29792.
- 2 The Ministry's efforts are based on five principal National Programs:
  - "JUNTOS": gives monetary support to the poorest population in order to break up the inter generational transmission of extreme poverty.
  - "FONCODES": promotes economic opportunities of the rural population.
  - "Qali Warma": directed to feeding students during their first years.
  - "PENSION 65": assists a vulnerable population over 65 years old which does not have the basic conditions for subsistence, and
  - "CUNA MAS": improves child growth from 0-3 years in areas of poverty and extreme poverty.

## 3.5.2 Highlights 2012

- 1 The number of Environmental Assessments increased from 8 (2010) to 18 (2011). Additionally, the number of public audiences increased from 17 to 18. In the agrarian sector, the number of Environmental Impact Assessments decreased from 43 to 20, nonetheless the figure related to Environmental Risk decreased from 228 to 185.

### Peru: number of environmental actions (2008 - 2011)



Source: Ministerio de Agricultura (MINAG)

- 2 Peru has a population of 30'135,875 (up to 2012).
- 3 From the total population, 25.8% is considered to be living in poverty and 6.3% in extreme poverty.
- 4 For 2016, the Peruvian Government expects to:
  - Reduce its population in extreme poverty from 6.3% to 5%
  - Decrease chronic undernourishment from 23.2% to 10%
  - Increase basic services coverage (water, sanitation, electricity and telephone) in homes from 59.4% to 70%.

### 3.5.3 Legal Framework 2012-2013

#### **Environmental field:**

- 1 Supreme Decree N°002-2013-MINAM (25/03/2013); Approved Environmental Quality Standards for land.
- 2 Ministerial Resolution N°027-2013-MINAM (28/01/2013); Approved the National Agenda for Environmental Action 2013-2014.
- 3 Ministerial Resolution N° 334-2012-MINAM (27/12/2012); Approved the Strategic Plan 2013-2016 (PESEM-2013-2016) for the Environmental Sector.
- 4 Supreme Decree N° 010-2012-MINAM (19/12/2012); Approved Protocol for Joint Intervention in Mining Environmental Supervision and Control Actions.
- 5 Ministerial Resolution N°225-2012-MINAM (30/08/2012); Approved Environmental Quality Standards (ECA) and Maximum Permissible Limits (LMP) for Period 2012-2013.

#### **Social field:**

- 1 Ministerial Resolution N°058-2012-MIDIS (25/04/2013); approved terms of references for the creation of the Internal Control Committee for the Development and Social Inclusion Ministry.
- 2 Law N° 29792 approved the creation of the Development and Social Inclusion Ministry of Peru.
- 3 Ministerial Resolution N° 087-2013- MIDIS (02/05/2013); approved the Operational Funds Handbook for Economic Inclusion in Rural Zones (FONIE for its acronym in Spanish)
- 4 Supreme Decree N° 008-2013-MIDIS (26/04/2013); approved the National Strategy for Development and Social Inclusion "Incluir para crecer".
- 5 Emergency Decree N° 001-2013 (25/04/2013); established extraordinary actions to attend to the population in a vulnerable situation.

### 3.5.4 Key facts and figures

- 1 Peru is one of the 17 countries with the greatest biological diversity in the world.
- 2 It is the fourth country in area of tropical forests, the first in the number of plant species of recognized properties and the first in domesticated native species.
- 3 It also has 7.8% of the world's cultivable plants and 10% of the planet's flora species (25,000 plant species of which 30 % are endemic).
- 4 This country is the first in varieties of fish, second in bird species, third in amphibians and third in mammals. It has 515 species of mammals, 1,816 species of birds, 418 species of reptiles, 449 species of amphibians, 855 marine species, 1,300 species of continental fish, 1,070 species of marine fish.
- 5 Has eleven eco-regions, 28 of the 32 weather types and 84 of the 104 life areas of the world.
- 6 Up to 2012, the population growth rate is approximately 1.13%.
- 7 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 resources of the country and the world.

## 3.6 Regulatory Bodies

### ***Central Reserve Bank of Peru (BCRP)***

[www.bcrp.gob.pe](http://www.bcrp.gob.pe)

The BCRP is a public legal entity, which is autonomous within the framework of its Organic Law and its purpose is to preserve monetary stability. Its functions are to regulate the currency and the credit of the financial system, administer the international reserves under its responsibility and the other functions stated by its Organic Law. The bank must exactly and periodically inform the country of the state of the national finances (Article 84 of the Political Constitution of Peru). Additionally, the bank is prohibited from granting financing to the public treasury, except for the purchase in the secondary market of securities issued by the Public Treasury within the limits stated by its Organic Law (Article 77). The Political Constitution of 1993, like that of 1979, enshrines the fundamental principles of the monetary system of the Republic and the regime of the BCRP. The issue of bills and coins is an exclusive faculty of the State, which it exercises through the BCRP (Article 83).

### ***Superintendent of Banking, Insurance and Pension Funds (SBS)***

[www.sbs.gob.pe](http://www.sbs.gob.pe)

The SBS is the entity in charge of the regulation and supervision of the Financial and Insurance Systems as well as of the Private Pension System (SPP in Spanish), as well as preventing and detecting the laundering of assets and financing of terrorism. Its principal objective is to preserve the interests of the depositors, of the insured and of the affiliates of the SPP. The SBS is a public institution whose functional autonomy is recognized by the Political Constitution of Peru. Its objectives, functions and attributions are established in the General Law of the Financial System and of the Insurance and Organic System of the Superintendent of Banking, Insurance and Pension Funds (Law 26702).

### ***Superintendent of Securities Market (SMV)***

[www.smv.gob.pe](http://www.smv.gob.pe)

The SMV is a specialized technical entity attached to the Ministry of Economy and Finance that has the purpose of ensuring the protection of investors, the efficiency and transparency of the markets under its supervision, the correct formation of prices and the dissemination of all the necessary information for such purposes. It has legal status in accordance with internal public law and enjoys functional, administrative, economic, technical and budgetary autonomy. Its main functions include: Establishing the legal norms that regulate aspects of the securities market, product market and collective fund system; supervising the compliance of the legislation by the individuals and legal entities that participate in those markets and its promotion. It also supervises the compliance of the international auditing standards by the auditing firms authorized by the association of public accountants of Peru.

### ***Supervisory Board of Private Investment in Telecommunications (OSIPTEL)***

[www.osiptel.gob.pe](http://www.osiptel.gob.pe)

OSIPTEL is a decentralized public entity in charge of regulating and supervising the market of public telecommunication services, independent of the operating companies, attached to the Presidency of the Council of Ministers. It was created in July 11th, 1991 by Legislative Decree N° 702, and began its activities with the installation of its first Advisory Board on January 26th, 1994.

### ***Supervisory Board of Investment in Energy and Mines (OSINERGMIN)***

[www.osinergmin.gob.pe](http://www.osinergmin.gob.pe)

Public institution in charge of regulating and supervising that the companies of the electricity, hydrocarbon and mining sector comply with the legal provisions of the activities that they carry out. OSINERGMIN is an internal public legal entity and enjoys functional, technical, administrative, economic and financial autonomy. The regulation and supervision tasks of this institution are regulated by technical criteria, in this manner it contributes to the energy development of the country and the protection of the interests of the population.

### ***National Superintendent of Sanitation Services (SUNASS)***

[www.sunass.gob.pe](http://www.sunass.gob.pe)

SUNASS is a decentralized public entity, created by Decree Law N° 25965, attached to the Presidency of the Council of Ministers, with public law status and with administrative, functional, technical, economic and financial autonomy, whose function is to set standards for, regulate, supervise and control the provision of sanitation services, impartially and objectively protecting the interests of the State, investors and users.

### ***Supervisory Board of Investment in Transport Infrastructure of Public Use (OSITRAN)***

[www.ositran.gob.pe](http://www.ositran.gob.pe)

OSITRAN was created in January of 1998. It is a public organism, decentralized, attached to the Presidency of the Council of Ministers, with administrative, functional, technical, economic and financial autonomy. It has the general objective of regulating, setting standards for, supervising and controlling, within the scope of its competence, the behavior of the markets in which the Service Providing Entities act, as well as compliance of the concession contracts, impartially and objectively protecting the interests of the State, investors and users.

### ***National Institute of Defense of Competition and of the Protection of Intellectual Property (INDECOPI)***

[www.indecopi.gob.pe](http://www.indecopi.gob.pe)

INDECOPI was created in November of 1992, through Decree Law N° 25868. It has the functions of promotion of the market and the protection of the rights of the consumers. Additionally, it promotes, within the Peruvian economy, a culture of fair and honest competition, safeguarding all forms of intellectual property, from distinctive signs and copyright to patents and biotechnology. INDECOPI is a Specialized Public Entity ascribed to the Presidency of the Council of Ministers, with legal status under internal public. As a result, it enjoys functional, technical, economic, budget and administrative autonomy (Legislative Decree N° 1033).

### ***National Superintendent of Public Registries (SUNARP)***

[www.sunarp.gob.pe](http://www.sunarp.gob.pe)

SUNARP is an autonomous decentralized organism of the Justice Sector and governing body of the National System of Public Registries, and has among its main functions and attributions the establishment of the technical registration policies and norms of the public registries that form the National System, plan and organize, set standards for, direct, coordinate and supervise the inscription and publication of minutes and contracts in the Registries that make up the system.

## 3.7 Business Associations

### ***National Confederation of Private Business Institutions (CONFIEP)***

[www.confiep.org.pe](http://www.confiep.org.pe)

CONFIEP is the institution which brings together and represents Peruvian private business activity, at local and international level. It assembles a total of 26 business associations, including the Federations of Chambers of Commerce from the North, Centre, South and Amazon Regions of Peru, which unite the main Chambers of Commerce and Production on a national level. Its main objective is to contribute to the process of sustained economic growth based on investment and the promotion of employment. Furthermore, CONFIEP promotes intersectorial coordination, supporting and advising businessmen.

### ***National Society of Industries (SNI)***

[www.sni.org.pe](http://www.sni.org.pe)

The National Society of Industries is the institution that assembles the private industrial companies of Peru. It is a non-profit legal entity subject to private law that does not develop any party political activity. At present, the SNI has more than 1,000 of the most important companies of the industrial sector of the country, that represent 90% of the Gross Value of National Production.

### ***Lima Chamber of Commerce (CCL)***

[www.camaralima.org.pe](http://www.camaralima.org.pe)

The Lima Chamber of Commerce is a non-profit civil association with national and international representation. It brings together individuals and legal entities dedicated to trade, production and services. Its main objectives are to exercise the representation and the defense of the interests of businessmen before the authorities of the country and national and foreign entities, promote the market and free enterprise with social responsibility, and fair and honest competition within a group of ethical values and principles. With more than 12,000 member companies, is the oldest business association of the country.

### ***Foreign Trade Society of Peru (COMEXPERU)***

[www.comexperu.org.pe](http://www.comexperu.org.pe)

This is the private guild that groups the main companies related to Foreign Trade in Peru. It has the objective of contributing to the improvement of competitive conditions, in a free market environment, that will convert Peru into an attractive destination for private investment.

### ***Association of exporters of Peru (ADEX)***

[www.adexperu.org.pe](http://www.adexperu.org.pe)

ADEX is a business institution that represents and provides services to its associates: exporters, importers and suppliers of trade services. It also offers the services of associative action, business advice, commercial information, updating and training, commercial promotion, union management, business services and certification center.

### ***American Chamber of Commerce of Peru (AmCham Peru)***

[www.amcham.org.pe](http://www.amcham.org.pe)

The American Chamber of Commerce of Peru is an independent and non-profit organization, which represents Peruvian, North American and foreign companies. It has approximately 3,000 members who represent more than 580 member companies.

[www.araper.pe](http://www.araper.pe)

### ***Association of Automobile Representatives of Peru (ARAPER)***

This is the civil non-profit association, which brings together the authorized representatives of new motor vehicles. Its main functions are to represent its associates, provide information and specialized advisory services in aspects of the automobile sector, organize activities that enable the community to be presented with the commercial offering and technical contributions of the industry; and support the authorities and civil organizations in the solution of problems that affect the sector.

[www.capeco.org](http://www.capeco.org)

### ***Peruvian Construction Chamber (CAPECO)***

CAPECO is a non-profit civil association, with the characteristics of a union. It groups and represents the companies that operate in the construction activity in Peru. It has the mission of providing services to its associates, promoting national development and improving the quality of life of the citizens through construction.

[www.asbanc.com.pe](http://www.asbanc.com.pe)

### ***Association of Banks of Peru (ASBANC)***

The Association of Banks of Peru is a union institution that brings together the private banks and financial institutions of the country. Its main objective is to promote the strengthening of the private financial system, providing its associates with information, advisory and consulting services in matters of general interest.

[www.apeseg.org.pe](http://www.apeseg.org.pe)

### ***Peruvian Association of Insurance Companies (APESEG)***

The Peruvian Association of Insurance Companies is a non-profit institution that groups and represents all the Insurance and Reinsurance Companies established in the country. It represents the associates before the public and private sectors, in matters of general interest for the country's insurance activity.

[www.asociacionafp.com.pe](http://www.asociacionafp.com.pe)

### ***Association of Private Pension Fund Administrators (Asociación AFP)***

This is a private union organization, which assembles the five Private Pension Fund Administrators (AFP) that operate in Peru. Their objective is to improve the quality of life of the affiliates and pensioners of the Private Pension System, as well as publicize the benefits and services offered by the AFP.

[www.snmpe.org.pe](http://www.snmpe.org.pe)

### ***National Society of Mining, Oil and Energy (SNMPE)***

The National Society of Mining, Oil and Energy is a business organization constituted as a non-profit Civil Association, which assembles legal entities related to mining, hydrocarbon and electricity activity.

[www.snp.org.pe](http://www.snp.org.pe)

### ***National Fisheries Society (SNP)***

The National Fisheries Society groups and integrates the Peruvian companies that care for and make responsible use of hydrobiological resources. These companies are provided, through advanced professional management, union support services in their planning, execution and control activities, helping them to achieve common objectives with regard to the wellbeing of their workers, the nutritional and environmental improvement of the communities of their areas of influence, as well as the growing contribution of foreign exchange to the state, and to the expansion and recognition of its commercial activities

### ***Chambers of Peru (Perucamaras)***

[www.perucam.com](http://www.perucam.com)

Perucamaras groups the chambers of commerce of the entire country and it is made up of federations, associations and legal entities representative of all the sectors of economic activity. It has the objectives of contributing to the strengthening of the country's chambers of commerce, supporting the development of small and micro provincial companies, transmitting to the national government the problems and proposals of its members from the different economic sectors, regions and institutions and formulating and presenting technical studies, in order to tackle companies' problems on a national level.

### ***Association of Unions of Agricultural Producers of Peru (AGAP)***

[www.agapperu.org](http://www.agapperu.org)

This is a non-profit civil association. It is an institution that represents the Agro Exporting sector before the Peruvian Government and foreign entities. It promotes the development of the national agricultural sector, seeking to improve its competitiveness.

### ***Automobile Association of Peru (AAP)***

[www.aap.org.pe](http://www.aap.org.pe)

The AAP is a non-profit private business union of the automobile sector that is at the service of its associates in the entire country. It brings together individuals and legal entities related to the automobile sector, to ensure their interests, progress and to represent them before the different authorities.

### ***National Association of Pharmaceutical Laboratories (ALAFARPE)***

[www.alafarpe.com](http://www.alafarpe.com)

This is a union entity of the pharmaceutical industry of products for human use, which associates laboratories of national and foreign capital; it is a non-profit organization and exercises the official representation of its associates.

### ***Peruvian Association of Poultry Farming (APA)***

[www.apa.org.pe](http://www.apa.org.pe)

The Peruvian Association of Poultry Farming is a business guild with common objectives for the development of the country through national poultry farming. Its objectives include propitiating the development and profitability of the sector, besides coordinating with the government the development of the agricultural sector.

### ***National Radio and Television Society (SNRTV)***

[www.snrtv.org.pe](http://www.snrtv.org.pe)

The National Radio and Television Society is the union body in charge of promoting the growth and consolidation of the commercial radio broadcasting services and television and radio production in all of Peru; defending the basic principles of private radio broadcasting, with special attention to the defense of the principles of free and fair competition.

### ***Peruvian Association of Port Operators (ASPPOR)***

[www.asppor.org.pe](http://www.asppor.org.pe)

The Peruvian Association of Port Operators groups the sector companies that provide port, maritime, logistic and storage services. It has the mission of obtaining maximum value for its associates through the strategic promotion and development of the maritime and port operations of Peru in the region, promoting permanent training, encouraging relationships with related associations and representing the interests of the union with public or private entities.

# Acronyms

ABRASCSEM	Brazilian Association of Collective Health, Education and Environment
ACCEP	Peruvian Association of Shopping and Entertainment Centers
ACECOLOMBIA	Colombian Association of Shopping Centers
ARAPER	Peruvian Association of Automobile Representatives
ASOCEM	Association of Cement Producers
BADATUR	Peru's tourism data base (Peru's Tourism Observatory)
BCP	Banco de Crédito del Perú (Peru's leading commercial bank)
BCRP	Central Reserve Bank of Peru
BVL	Lima Stock Exchange
CAPECO	Peruvian Chamber of Construction
CASC	Argentine Chamber of Shopping Centers
CCHCC	Chilean Chamber of Shopping Centers
CCL	Lima Chamber of Commerce
CEPAL (ECLAC)	Economic Commission for Latin America and the Caribbean
COES	Economic Operation Committee of the National Electricity Grid
CPP	Peruvian Political Constitution
IEDEP	Institute of Economics and Business Development
IFC	International Finance Corporation
IFFO	International Fishmeal and Fish Organization
IMF	International Monetary Fund
INEI	National Institute of Statistics and Information Technology
MEF	Ministry of Economy and Finance
MINAG	Ministry of Agriculture
MINAM	Ministry of the Environment
MINCETUR	Ministry of Foreign Trade and Tourism
MINEM	Ministry of Energy and Mines
MTPE	Ministry of Labor and Promotion of Employment
MVCS	Ministry of Housing, Construction and Sewerage
OMT	World Tourism Organization
OSIPTEL	Supervisory Board of Private Investment in Telecommunications
OTP	Peruvian Tourism Observatory
PERUPETRO	State company responsible of contracts for exploration and exploitation of hydrocarbons.
PRODUCE	Ministry of Production.
PRB	Population Reference Bureau
PROINVERSIÓN	Private Investment Promotion Agency
SBS	Superintendent of Banking, Insurance and Pension Funds
SMV	Superintendent of Securities Market
SNI	National Society of Industries
SNMPE	National Society of Mining, Oil and Energy
SUNAT	National Superintendent of Tax Administration
WB	World Bank
WEF	World Economic Forum
WEO	World Economic Outlook



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