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**THE PROINVERSION COMMITTEE FOR
SANITATION AND IRRIGATION PROJECTS -
PRO AGUA**

MAJES – SIGUAS PROJECT II STAGE

**MODIFICATION OF THE PRIVATE
INVESTMENT PROMOTION PLAN**

May 2009

**MAJES – SIGUAS PROJECT II STAGE
PROMOTION PLAN**

1. LEGAL BASE AND BACKGROUND

- 1.1 The Private Investment Promotion for State Owned Companies was declared of National Interest by means of Legislative Decree 674 published on September 27, 1991 and the Private Investment Promotion Committee (COPRI) was created as the head office for the process.
- 1.2 The Law for Private Investment Promotion in Infrastructure and Utilities Public Works was enacted by Legislative Decree 839 published on August 20, 1996; the Private Concessions Promotion Commission (PROMCEPRI) was created as the entity in charge.
- 1.3 The Single Uniform Text of the Regulations with Force of Law governing the granting in concession of infrastructure and utilities public works to the private sector was approved by Supreme Decree 059-96-PCM published on December 27, 1996.
- 1.4 The Single Uniform Text of the Regulations with Force of Law governing the granting in concession of infrastructure and utilities public works to the private sector was enacted by Supreme Decree 060-96-PCM published on December 28, 1996.
- 1.5 By means of Law 27111 enacted April 19, 1999, all PROMCEPRI's functions, attributions and competencies were transferred to COPRI.
- 1.6 Supreme Resolution 444-2001-EF published on September 15, 2001 set forth the Special Private Investment Committee in infrastructure and utilities public works.
- 1.7 COPRI, the National Commission on Foreign Investment and Technologies – CONITE, and the Office of Economic Promotion Commission of Peru were merged by Supreme Decree 027-2002-PCM published on April 25, 2002 into the FOPRI Executive Office which in turn changed its name into the Investment Promotion Agency (PROINVERSIÓN).
- 1.8 Supreme Resolution 228-2002-EF published on September 26, 2002 changed the name of the Special Committee for Private Investment Promotion in Infrastructure and Utilities Public Works for PROINVERSION Committee in Infrastructure and Utilities Public Works Projects.

- 1.9 Supreme Resolution 009-2003-EF published on January 18, 2003 changed the number of members of the PROINVERSION Committee in Infrastructure and Utilities Public Works Projects, which now shall be made up of three permanent members.
- 1.10 The 2003 Schedule for Transfer of funds, projects and social programs to Regional and Local Governments, among which is the Majes – Siguas Project was approved by Supreme Decree 036-2003-PCM published on April 2, 2003.
- 1.11 Law 28029 was published on July 18, 2003 – Said law governs the use of water in the Special Projects granted in Concession; this norm is regulated by Supreme Decree 018-2005-AG published on April 15, 2005.
- 1.12 The Majes–Siguas Special Project was transferred to the Arequipa Regional Government by Supreme Decree 020-2003-VIVIENDA published on August 16, 2003. .
- 1.13 Regional Ordinance 026-2003-AREQUIPA published on January 30, 2004, declared the total execution of Second Stage of the Majes–Siguas Project to be of public need and use and of regional interest.
- 1.14 The PROINVERSION Committee in Infrastructure and Utilities Public Works Projects was modified by Supreme Resolution 044-2004-EF published on May 11, 2004.
- 1.15 The Multisector Commission for assessment of conditions for private investment promotion in the Majes–Siguas Project was created by Supreme Resolution 115-2005-EF published on September 10, 2005.
- 1.16 The results of the work of Multisectorial Commission and its Technical Office can be found in its Final Technical Report and the Final Official Documents of the Commission, where the description of the promotion scheme which was used as the base for assessment is emphasized, as well as the outlines and economic-financial conditions for its implementation.
- 1.17 With Official Letter 012-2006-AG-DM dated January 6, 2006, addressed to the president of the Council of Ministers, the president of the Multisectorial Commission submitted the commission’s conclusions and recommendations, complying with Supreme Resolution 115-2005-EF.

- 1.18 Pursuant to Article 34 of Organic Law of Regional Governments - Law 27867, Regional Governments may grant concessions within the frame of their competencies and enter into any other contractual agreement, provided it contributes to local and regional sustainable development. Regional Governments may enter into consulting and financial support agreements with national investment promotion entities.
- 1.19 Pursuant to Article 18 of the Decentralized Investment Promotion Framework Law - Law 28059, PROINVERSION shall give technical assistance to those Regional Governments requesting such assistance to design and carry out private investment promotion processes under their competency.
- 1.20 According to Article 38 of the Regulations of Law 28059, approved by Supreme Decree 015-2004-PCM, said technical assistance may be carried out through: a) consulting services in the development of private investment promotion processes and/or in complying with the investment promotion current regulations in force; and, b) undertaking the private investment promotion processes under the competence of the Regional Governments when so requested by its authorities. In order to provide the required technical assistance, PROINVERSION shall enter into the necessary agreements with the local or Regional Governments, upon approval of its Steering Council.
- 1.21 Pursuant to the abovementioned legal framework and by means of Official Letter 009-2006-GRA/PR dated January 20, 2006, the President of the Regional Government of Arequipa requested from PROINVERSION technical assistance under the modality of funded assignment to carry out the private investment promotion process for the Majes–Siguas Project.
- 1.22 Likewise, with Official Letter 123-2006-GRA/PR-GGR dated January 23, 2006 addressed to the Executive Director of PROINVERSION, the General Manager of the Regional Government of Arequipa makes public Regional Agreement 002-2006-GRA/CR- AREQUIPA, adopted by the Board of Directors in Extraordinary Session held on January 23rd, 2006, where the following was approved:
- a) Incorporation of the Majes–Siguas Project to the private investment promotion process within the framework of Law 28059, under the mechanisms and benefits established in the complementary laws and regulations in this matter currently in force.

- b) Request technical assistance from PROINVERSION with funded assignment modality in order to be able to carry out the private investment promotion process for the Majes - Sigvas project.
- c) The Technical Assistance Agreement shall be under the modality of funded assignment in order to carry out the private investment promotion process of the Majes – Sigvas Project.
- d) Empower the Regional President of Arequipa to enter into the foregoing Agreement.

1.23 Several investment projects were declared of public necessity and national interest through Law 28670 published January 26, 2006, among which is the Angostura Dam, main component of the Majes - Sigvas Project Second Stage.

1.24 The Steering Council of PROINVERSIÓN, on February 2, decided:

- a) Undertake the promotion process of the Majes – Sigvas private investment project, competency of the Regional Government of Arequipa, under the mechanisms, procedures and benefits established in the regulations with force of law, regulatory and current complementary provisions for private investment promotion pursuant to subsection e) of Article 4 of Supreme Decree 015-2004-PCM, Regulations of Law 28059.
- b) Approve the terms and conditions under which the Regional Government of Arequipa shall enter into a Technical Assistance Agreement under the modality of funded assignment with PROINVERSION. The Executive Director of PROINVERSION shall sign said agreement once the ratifying Supreme Resolution is issued.

1.25 By means of Supreme Resolution 006-2006-EF published on February 7, 2006, the following has been established:

- a) Ratify the agreement adopted by the Steering Committee of PROINVERSIÓN in their session held on February 2, 2006, where it was decided to undertake the promotion process of the Majes-Sigvas private investment project, competence of the Arequipa Regional Government.
- b) Commission the PROINVERSION Committee for Private Investment Promotion in Infrastructure and Utilities Public Works to carry out said process taking into consideration the conclusions and

recommendations established by the Multisectorial Commission through Supreme Resolution 115-2005-EF.

- c) The Majes-Siguas Project must have a National Public Investment System (SNIP) viability certificate and the public funds shall be jointly co-financed by the National Government and the Regional Government of Arequipa.

1.26 On February 7, 2006, the Regional Government of Arequipa entered into a technical assistance agreement under the modality funded assignment with PROINVERSION.

1.27 Therefore, the Arequipa Regional Government included the Majes-Siguas Project in the private investment promotion process under the modalities established in Article 6 of the Framework Law for Promotion of Decentralized Investment – Law 28059. Likewise, in accordance to what is established in the Technical Assistance Agreement, the specific modality to be applied to the various components of the Majes – Siguas Project shall be defined by PROINVERSIÓN in coordination with the Arequipa Regional Government, taking into consideration the Final Report of the Multisectorial Commission appointed by Supreme Resolution 115-2005-EF.

1.28 By Regional Decision 022-2006-GRA/CR-AREQUIPA on March 22, 2006, the Arequipa Regional Government approved the Majes – Siguas Project 2nd Stage Private Investment Promotion Plan.

1.29 The Steering Council of PROINVERSION in session on March 23, 2006 approved the Majes – Siguas Project 2nd Stage Private Investment Promotion Plan.

1.30 The abovementioned PROINVERSION Steering Council's decision was ratified by Supreme Resolution 012-2006-EF published on March 24, 2006.

1.31 The PROINVERSION Steering Council in session on April 27, 2006, approved modification of the Promotion Plan by which the Tender Document for the Comprehensive Projects Tender for the Concession of Larger Water Consolidation Works and Infrastructure for Irrigation of Pampas Siguas Schedule of activities is incorporated, stating that prior to the ratification of said document by corresponding Supreme Resolution a conformity shall be obtained from the Regional Government of Arequipa.

By means of Regional Decision 036-2006-GRA/CR-AREQUIPA dated May 16, 2006, the Regional Council of Arequipa granted conformity to the Schedule approved by the PROINVERSION Steering Council.

The abovementioned Decision of the PROINVERSION Steering Council was approved by means of Supreme Resolution 018-2006-AG, published on May 19, 2006.

- 1.32 By means of Regional Ordinance 007-2006-GRA/CR-AREQUIPA published on May 3, 2006, the Regional Council of Arequipa declared a priority matter construction of the Angostura Dam, a component of the Majes – Sigvas Project Second Stage.
- 1.33 The Bases of Tender Document for the Comprehensive Projects Tender for the Concession of Larger Water Consolidation Works and Infrastructure for Irrigation of Pampas Sigvas were approved by agreement of the Steering Council of PROINVERSION held on May 16, 2006.
- 1.34 By means of Supreme Decree 065-2006-PCM published on October 7, 2006, the Regional Government of Arequipa approved a commitment to contribute in the co-financing and guaranty of the concession.
- 1.35 By means of Regional Agreement 031-2007-GRA/CR-AREQUIPA published on May 12, 2007, the Regional Government of Arequipa declared execution of Special Project Majes-Sigvas Second Stage to be of regional public use and necessity.
- 1.36 By means of Regional Ordinance 014-AREQUIPA published on June 10, 2007, the Presidency of the Regional Government of Arequipa was authorized to use and invest the revenues from the mining royalties and other sources of income of the Regional Government to complete the co-finance amount and guarantees for the Concession for the Concession of Larger Water Consolidation Works and Infrastructure for Irrigation of Pampas Sigvas.
- 1.37 The Regional Government of Arequipa, by means of Official Letter 1605-2008-GRA/PR received on April 9, 2008, submitted a proposal to commence the land tender process considering 1,000 ha with guaranteed water and other 1,000 ha as purchase option without commitment of water supply, located in sector Pampa Baja of Majes Irrigation.
- 1.38 The Framework Law for Public – Private Partnerships to create productive employment was approved by Legislative Decree 1012

published on May 13, 2008; regulations for streamlining private investment promotion are established; said regulations are regulated by Supreme Decree 146-2008-EF published on December 9, 2008.

- 1.39 Proceedings for private investment initiatives are suspended by Regional Ordinance 048-AREQUIPA published on May 29, 2008; also mining exploration and exploitation within the scope of the Majes – Sigwas II Special Project and the first requirement is established to participate in the tender of hectares destined to great agriculture modules for agro-export.
- 1.40 Supreme Decree 015-2008-AG published on June 25, 2008, declared the water reserve which had been extended by Supreme Decree 028-2006-AG, renewed in favor of Special Project Majes – Sigwas.
- 1.41 The Steering Council of PROINVERSION resolved on July 22, 2008, to approve the Tender Conditions for Public Tender of Idle lands of the Majes Irrigation Project - Pampa Baja Section.
- 1.42 Extraordinary Rulings were established with Urgency Decree 047-2008 published on December 18, 2008, to facilitate Private Public Partnerships promoted by the National Government within context of the international crisis; declaring private investment promotion processes relevant to concession of several projects among which is the Majes – Sigwas Project to be of national need and of priority execution by PROINVERSION.
- 1.43 The PROINVERSION Committee on Projects of Infrastructure and Public Utilities was instructed by the Steering Council on January 9, 2009, to set forth the private investment promotion processes of the Majes - Sigwas Project relevant to sale through public tender of the 38,500 hectares of the Pampas de Sigwas and of the public tender for assignment of rights of non consumptive use of water for power generation in the Majes – Sigwas Project., within the framework of Supreme Decree 005-2006-AG, as per the Private Investment Promotion Plan and Urgency Decree 047-2008.
- 1.44 The PROINVERSION Committee for Sanitation and Irrigation Projects – PRO AGUA, was constituted, among other committees, by Supreme Resolution 036-2009-EF published on March 22, 2009.
- 1.45 The permanent members of the PROINVERSION Special Committees were appointed by means of Supreme Resolution 047-2009-EF published on April 30, 2009.

- 1.46 On May 6, 2009, the Steering Council of PROINVERSION entrusted the PROINVERSION Committee for Sanitation and Irrigation Projects – PRO AGUA with the Majes – Sigwas Project.
- 1.47 By means of Regional Agreement 061-2009-GRA/CR-AREQUIPA dated June 09, 2009, the Regional Council of Arequipa gave its consent to the present Majes – Sigwas Project Private Investment Promotion Plan.
- 1.48 The Steering Council of PROINVERSION approved in session on June 10, 2009, the modification of the Private Investment Promotion Plan of the Majes - Sigwas Project, Second Stage.

2. GENERAL ASPECTS AND BASIC REQUIREMENTS

2.1 BRIEF DESCRIPTION OF THE MAJES SIGUAS PROJECT WORKS

The Majes-Sigwas Project was conceived as regional development Project of multiple purposes based on the regulation and diversion of water resources from the high basins of the Colca and Apurimac rivers, to be rationally used in the irrigation of approximately 60,000 hectares of new cropland in the Pampas Majes and Sigwas. Additionally, the project has foreseen the non consumptive use of water in power generation in great scale.

The Majes – Sigwas Project, within the framework of execution of its first stage and through public investment has performed the following works:

- The Condorama Dam (285 Hm³)
- Tuti water intake (34 m³/sec discharge capacity)
- Colca-Sigwas adduction system (88 km of tunnels, 13 km of channels)
- Pitay water intake
- Sigwas diversion towards Pampa Majes (15 km nad Q= 20 m³/s)
- Distribution net and irrigation infrastructure (15,000 ha, expandable to a 22,000 ha)
- Roads and utilities

The development of the second stage of the project through the promotion of private investment foresees to maximize and optimize the use of the greater existing hydraulic infrastructure and its complementation with the following works:

- Angostura Dam (1140' Hm3)
- Angostura-Colca Diversion (18 km y Q=30m3/s)
- Lluclla water intake
- Lluclla diversion to the Pampas Sigwas (16 km and 23 m3/s)
- Mother channel (14.5 km)
- Irrigation distribution and infrastructure to enable 38,500 ha in the Pampas Sigwas
- Lluta Power Plant (216 MW)
- Lluclla Power Plant (314 MW)
- Roads and Utilities

2.2 COMPREHENSIVE SCHEME OF THE PRIVATE INVESTMENT PROMOTION

2.2.1 General Aspects

One of the reasons why hydraulic project investments on the coast have not generated the benefits expected in the development plans is the prioritization of infrastructure works without adequately developing certain institutional factors that would make possible value generation focused under the criteria of the services offered.

Therefore, it is important that the Majes – Sigwas Project, II Stage properly internalizes the need to develop aspects as follows:

a) Institutional framework for water administration.

The increase of water offer must have a corresponding scheme for the administration of water resources that prioritizes two aspects:

- Due to the scarcity of water, to optimize the amount to be granted in such a way as to maximize its use avoiding water intensive crops and using more efficient irrigation techniques.
- Design a payment scheme for water distribution to make possible investment return and covers the operation expenses and maintenance which make possible the availability of the resource.

b) Agro-industrial Investments

The development of a modern agriculture oriented to foreign markets requires large investments per hectare and investors with big tracts of land compatible with the development of scale economies.

This strategy will be the foundation from which multiplying effects shall stem to positively affect productive linkages with the small farmers already settled on the Majes irrigations, Santa Rita Sigwas, La Joya among others; since experience has shown us that smallholdings by themselves, i.e. without said linkages, have some serious development limitations and in practice a strong and permanent demand of State financial resources.

The experience obtained from investments in irrigation projects with land awards in smallholdings (5 or 10 hectares) has not had the expected results, instead they have implied excessive and expensive use of water, drainage problems and salinization, more expenses for the State in operation and maintenance of the irrigation systems, production only slightly oriented towards export, use of crops that need a lot of water, extension of a no-payment-for-water culture that is unreal due to the scarcity of this resource nor with the major investments needed for its diversion and/or channeling.

One of the few experiences where an irrigation project implied the awarding of large tracts of land to the private sector was CHAVIMOCHIC (from 1997 to 2001 more than 25,000 hectares were awarded.) Although the scope of the private investment process in CHAVIMOCHIC has not yet been assessed with accuracy, the results in terms of employment (in excess of 25,000) and exports (US\$300 million were estimated in 2008) allow us to infer that we have treaded through the right path.

Therefore, the execution of Majes – Sigwas Project, II Stage implies the development of works and strategies limited not only to building the Angostura dam and the water diversion works. This is why it is essential to consider the Project as the sum of several execution stages or components, interrelated with each other. Definitely, the water consolidation works concentrate the State's major investments and financial commitments. Paradoxically, creating an economic space where investment, employment and generation of economic value are promoted is one of the most difficult tasks to execute.

2.2.2 Majes – Sigwas Project, II Stage Components

In accordance with the conclusions and recommendations of the Multisectorial Commission appointed by Supreme Resolution 115-2005-EF, with the criteria adopted in the Technical Assistance Agreement entered into between the Regional Government of Arequipa and PROINVERSION and the results of the technical and economic assessments performed by the technical and transaction consultants hired by PROINVERSION, the private investment promotion process in

the second stage of the Majes-Siguas Project is feasible based on the differentiation of the following components of the comprehensive project:

a) Construction of the major water consolidation works and infrastructure to irrigate 38,500 hectares in the Pampas Sigwas

The main and initial package of the process that includes the construction, operation and maintenance of new water consolidation works (Angostura dam and Angostura-Colca diversion); diversion works at Lluclla-Cabecera of the irrigation zone in the Pampas Sigwas; and headrace, regulation and distribution works at irrigation module units level in the Pampas Sigwas. This component includes additionally, the operation and maintenance obligation of the major infrastructure works built as part of the first stage, including the Pitay intake; irrigation water supply service to buyers of new farm land in the Pampas Majes as well as in the Pampas Sigwas; water supply service to the hydroelectric plant; and the water supply as a whole to the current users in the Pampas de Majes in accordance to the annual amount currently committed.

b) Optimization of water use and tender of new farmland in the Pampas de Majes

Production reconversion aimed at agro-export and the adoption of technologies that will enable irrigation optimization in the 15,000 ha in production in the Majes Irrigation, shall allow a substantial improvement in the income level of the existing farmers and the creation of a water surplus big enough to incorporate up to 7,000 ha of new farmland into irrigation which will enable to reach up to 22,000 ha under irrigation as per initially planned for the Pampas Majes.

As an instrument to achieve this, the component has provisioned the auction and private investment promotion in agriculture in the abovementioned 7,000 ha; starting with an initial stage of 1,000 ha in the Pampa Baja sector.

c) Auction of new farmland in the Pampas Sigwas

It shall encompass the auction and private investment promotion in the 38,500 ha in the Pampas Sigwas, upon the base of water increase to be delivered with the water consolidation works to be given in concession.

It is essential that within the framework of the Majes – Sigwas promotion process, the sale of new farmland in the Pampas Sigwas as in the Pampas Majes, is, as a priority, aimed towards an

agriculture based on the exploitation of major agriculture production modules with the mandatory use of technified irrigation methods to optimize water usage.

d) Water supply service for hydroelectric energy purposes

Includes selection of one or more investors willing to enter into an agreement of water provision for hydro-energy purposes so that concession for hydroelectric power generation may be viable to make use of available water levels ground falls, as established in Supreme Decree 005-2006-AG.

2.3 INTERRELATION OF THE MAJES – SIGUAS PROJECT, II STAGE COMPONENTS

As mentioned before, the various components of the Majes – Siguas Project, II Stage are all interrelated, thus the success of each one of them is essential to the success of the comprehensive project.

2.3.1 Execution of the water consolidation works must enable and guarantee having a water volume sufficient enough to irrigate 38,500 hectares in Siguas. This implies that aside from the current volume available, the project must ensure the diversion of a mass of water equal to 530 MMC per year calculated over the base of a 87.5%¹ persistence and that land shall be auctioned offering investors an annual water supply per hectare of approximately 13,500 m³/ha.

To divert less water would imply selling less land and evidently a lesser water supply. In both events the effect on the profitability of the “works construction” component would imply the increase of co-financing and/or the increase of the price of water to be sold to the land buyers.

With this in mind, PROINVERSION commissioned a thorough assessment of the water balance as part of the technical studies contracted to substantiate the concession scheme.

2.3.2 Optimization of water use in the Pampas Majes, by means of reconversion from forage to less water demanding crops and the adoption of technified irrigation systems implies to substantially

¹ An 87.5% persistence means that the water measuring statistics allow to ensure that of each 100 months, in only 12.5 months there shall be less amounts of water than expected.

reduce the existing water supply of approximately 30,000 m³/ha/year in the 15,000 hectares of the Pampas Majes, and the transfer of the resulting volumes to the incorporation of new lands.

It is calculated that through this mechanism 7000 additional hectares could be enabled and auctioned in the Pampas Majes.

In terms of income from the State's point of view, the Majes – Sigwas Project, II Stage implies the sale of the 38,500 ha in the Pampas Sigwas. However, the profitability of the project in incorporating into this flow of income the sales product of the new farmland in the Pampas Majes should be taken into consideration.

On the other hand there would be positive effects in enticing private investment for these 7,000 hectares from two approaches:

- a) The reconversion of the Pampas Majes towards agro-export crops would be a much faster process if several companies with managerial, financial and commercial capacity would incorporate themselves and expedite the agricultural development not only on the lands they would purchase, but also by creating production linkages with the actual farmers with five hectares that already exist in the Pampas Majes.
- b) The sale of an initial part of these lands in the short term would imply a successful example of what could be done with the other potentially saleable 45,500 hectares in the Pampas Majes and Sigwas, with positive effects over land market value. With an aim towards this objective it is recommended to carry out the auction of 1000 ha with batch delivery of water in the Pampa Baja sector of the Majes irrigation, with an option to buy 1000 hectares more if the buyer manages to promote reconversion and production linkage activities among the existing farmers, so that it will result in the liberation of the water volumes needed to exert the option.

This component would require to study and eventually modify legal regulations in such a way as to allow the transfer of batch delivery water to the new lands to be farmed. Additionally, it also requires creating mechanisms to alleviate current farmer's risks of not obtaining anything in exchange for having access to this optimization policy and the risk of investors of purchasing land without a clear guarantee of water supply.

2.3.3 The auction for new lands in the Pampas Sigwas and Majes must be considered "the main business" of the comprehensive project.

Additionally to the effect caused by the 7000 ha of new lands that could be incorporated in the Majes irrigation, we should also add the potential effects in the comprehensive project of incorporating the 38,500 ha in the Pampas Siguanas:

- a) It is essential to sell the lands to users with the experience and financial and commercial capacity to generate agricultural business value. This will enable not only to obtain good prices for the land and big investment commitments but, what is more important, an economic sector that demands and pays for water supply service price in accordance to its scarcity. The possibility that payment for water supply at tariffs in accordance with the size of the investments to be undertaken and that may also enable to cover the real costs of the operation and maintenance of the system is in direct relation to the profitability of the agricultural business.
- b) In view of the foregoing, we have a dynamic and time persistent rural employment generation process. The assessments performed foresee direct employment generation for 80,000 people, considering the agriculture, agro-industrial and logistics service activities. Furthermore, there are estimates for a similar number of indirect jobs to be created, which along with the new jobs as a result of the Majes-Siguanas Project, II Stage, would increase to 160,000.

The importance of the abovementioned emphasizes the following: that in the event a scheme were developed where the 45,500 ha are plotted and sold in small plots of 5 hectares each, the beneficiaries would be only 9,000 people.

2.3.4 The water supply service for power generation is incorporated to the comprehensive project as a component that would bring additional revenues and thus prevent the price of water at the head of the plots from increasing into something unmanageable for agricultural business. However, this must not be confused with not trying to maximize the profitability of the hydro-energy component due to the fact that many times this implies the use of diverted water in volumes not necessarily required by the agricultural business, the sector where the priority of water supply is first and foremost intended.

2.4 BASIC REQUIREMENTS OF THE PRIVATE INVESTMENT PROMOTION PROCESS

The basic requirements for carrying out the process, stated in the final report of the Multisector Commission and in the Technical Assistance Agreement, duly specified by the technical and economic studies commissioned by PROINVERSION and which are adopted in the present Promotion Plan, are:

2.4.1 The water consolidation works and irrigation water supply concession for the Pampas Sigvas (Angostura dam; Head race tunnel; Lluclla-Sigvas diversion; water driving and distribution works in the Pampas Sigvas), constitutes the main component of the process and its final implementation schedule shall be the guideline for scheduling the rest of the components.

2.4.2 The totality of the incremental water resulting from the execution of new head-works shall be used for irrigation of the Pampas Sigvas, whilst the Pampas Majes shall keep the actual water batch being supplied there.

2.4.3 The totality of the 38,500 hectares of land to be incorporated in the Pampas Sigvas and the 7,000 hectares potentially expandable in the Pampas Majes, shall be legally and physically registered, plus its security and protection system against invaders must be implemented since project start-up.

2.4.4 Security systems failure and consolidation of the invasion by squatters of all or part of the lands shall determine the interruption and cancellation of the process in whichever stage it may be. Likewise, during the process of construction and incorporation of lands said failure may be the cause of concession contract economic balance break and may be invoked as a cause for termination of same.

2.4.5 The sale of land in the Pampas Sigvas must be mainly focused towards the creation of an agriculture based on the exploitation of major agriculture production modules with the obligatory use of technified irrigation methods to best optimize the use of water.

2.4.6 Acceptance of proposals and concession award for the water consolidation works and water supply for the Pampas Sigvas shall not be set forth without at least two listed bidders

2.4.7 During the term of effectiveness of the concession contracts, all land sale and water supply for hydropower generation revenues shall be used for payment of the State obligations in the Financial Scheme of the water consolidation and supply to the Pampas Sigvas component.

This Private Investment Promotion Plan is referred to all components in the second stage of the Majes-Sigvas Project.

3. PROMOTION PLAN OBJECTIVES

The Private Investment Promotion Plan of the Majes–Sigvas Project, II Stage, is aimed at the meeting of the following main objectives:

- Define the components that make up comprehensiveness of the project, establishing the mutual existing interrelations.
- Develop the general approach to be adopted for private investment promotion and the need of a proper institutional framework to guarantee the success of this process.

4. PRIVATE INVESTMENT PROMOTION PROCESS MODALITIES

4.1 Construction of greater water consolidation Works and infrastructure for the irrigation of 38,500 hectares in the Pampas Sigvas

Modality: Co-financed Concession with concessionaire selection by means of a Comprehensive Project Tender. The Concession Project shall come under BOT scheme.

Term: from 20 to 25 years with guaranteed fixed minimum income for the Concessionaire, applied to the irrigation water supply service.

Investment: The investment amount shall be established in the project viability report issued by SNIP, to which all additional components of the concession financial scheme shall be added, which guarantee the competitiveness and bankability of the Concession Contract, as presented by the transaction consultant and approved by the Steering Council of PROINVERSION.

Grant Factor: it shall be the payment for the irrigation water supply service and/or the co-finance amount put up by the State.

Process Schedule: the activities pending on the process shall accommodate to the following terms:



Reopening of bidders pre-listing,	On 12.02.2009 ²
Submission of Envelopes 2 and 3,	On III quarter 2009
Award granting	On III quarter 2009
Contract closure date	On IV quarter 2009

4.2 **Auction of new lands in the Pampas Majes**

Modality: Sale of lands by means of public auction. Value assessment of said lands shall be performed by qualified consulting firms.

Investment: Demand of investment commitment to the award winners and establishment of mechanisms to enable productive relations between the new investors and the farmers of the Pampas Majes.

Demand of contracting with concessionaire of water consolidation works water supply service for irrigation.

Grant factor: The Price of the land and/or the investment commitment per hectare.

It commences with a first auction of 1000 ha of new lands in the Pampa Baja sector with an option to buy 1000 more. PROINVERSION hired a consulting company to perform their technical and economic assessment that enabled the appraisal of the lands.

Process Schedule:

Reopening of pre-qualifications	II Quarter 2009
Submittance of Envelope 1,	III Quarter 2009
Submittance of Envelopes 2 & 3,	III Quarter 2009
Award granting	III Quarter 2009
Contract closing date	IV Quarter 2009

4.3 **Auction of new land in the Pampas Sigwas**

Modality: Sale of land by means of a public auction. Likewise, the appraisal of these lands shall be performed by qualified consulting firms.

Investment: Demand of investment commitment to the award winners.

Irrigation water supply: Demand of contracting with Concessionaire of Water Consolidation Works the water supply service for irrigation.

Grant factor: The Price of the land and/or the commitment for investment per hectare.

Process Schedule: It shall depend on the concession terms for the water consolidation works and infrastructure for irrigation of Pampas Sigwas.

² Relevant to the date of Circular Letter 13 announcing the reopening of the pre-listing process for new bidders.

4.4 **Water supply service for hydropower generation**

Modality: Selection of the investor offering the greatest compensation for supply service of diverted water for hydropower purposes.

Grant factor: highest fee to be paid per cubic meter of water used for generating electric power or highest payment per GWh/year generated by use of water for said purpose.

Process schedule: the result of the technical and economic assessment of the power project.