

Doing Deals in Peru

August 2008



PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 146,000 people in 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

Foreword



You have decided to explore the possibility of doing business in Peru at an unprecedented time in the country's economic history. At the end of 2008 we will have completed 17 years implementing consistent economic policies that have created a favorable environment for foreign investment and which continue to foster macroeconomic stability with a single aim: become a globalized market economy.

Furthermore, the signature of a Free Trade Agreement with the United States, the granting of investment grade by Fitch Ratings and Standard & Poor's and the adherence to the OECD Declaration on International Investment and Multinational Enterprises, are important milestones that have consolidated the Country as an attractive investment destination and have earned Peru a key position on the agenda and business conversations of the economic capitals of the world.

It is PricewaterhouseCoopers' mission to guide companies in their journey to conduct business in an increasingly global and interconnected, as well as complex, world. It is with this in mind that we have created "Doing Deals in Peru"; to offer an investor like you a closer look at key issues to consider to successfully establish and carry out business in our country. Based on our 84 year experience helping companies conduct business in Peru, we present in the following pages economic, financial, accounting, tax, legal and regulatory topics that we are certain will be of interest to you.

Our team of professionals at PricewaterhouseCoopers are ready to work with you to create and protect the value of your business and will be glad to assist you should you have further inquires.

A large, stylized handwritten signature in blue ink, which appears to read "Miguel Mur Valdivia". The signature is fluid and cursive, with a long horizontal stroke at the end.

Miguel Mur Valdivia
Senior Partner

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Part I : Macroeconomic Analysis

Economic Performance

Economic Performance

Highlights of Peru

- Country risk below the Latin American average.
- Inflation remains above the target as a result of external pressures rather than domestic price rises. It is one of the lowest rates of inflation in Latin America, however.
- Increasing Net International Reserves: in 2007, this variable grew by 60%, reaching US\$ 27,686 million.
- Changes in interest rates favor local currency appreciation; the Central Reserve Bank of Peru (BCRP) funds rate exceeds the FED rate.

Source: Semana Económica

Peru has attained Investment Grade

- Peru's risk rating was upgraded to BBB- in 2008 by Fitch Ratings and Standard & Poor's.
- Peru has become the 41st adherent to the OECD Declaration on International Investment and Multinational Enterprises in recognition on its impressive progress in pursuing investment policy reforms to improve the country's business climate and reduce poverty.

	S&P /Fitch	Moody's	Characteristic
Investment Grade	AAA	Aaa	Risk Free
	AA+	Aa1	Superior
	AA	Aa2	
	AA-	Aa3	
	A+	A1	High capacity of repayment
	A	A2	
	A-	A3	
	BBB+	Baa1	Moderate capacity of repayment
	BBB	Baa2	
	BBB-	Baa3	
	BB+	Ba1	Some capacity of repayment
	BB	Ba2	
	BB-	Ba3	
	B+	B1	High uncertainty of the capacity of repayment
	B	B2	
B-	B3		
CCC+	Caa1	Highly vulnerable of default	
CCC	Caa2		
CCC-	Caa3		
D	Ca	Default	

Latin American Ranking

Country	S&P	Fitch	Moody's
Chile	A+	A	A2
Mexico	BBB+	BBB+	Baa1
Peru	BBB-	BBB-	Ba2
Colombia	BBB-	BB+	Ba2
Brazil	BBB-	BBB-	Ba1
Venezuela	BB-	BB-	B2
Argentina	B+	B	B3
Bolivia	B-	B-	B3
Ecuador	CCC+	B-	Caa2

Source: Bloomberg, Standard & Poor's, Fitch Ratings and Moody's

GDP Growth

Economic Sector	2007	2008	2009	2010	2011
Agriculture and livestock	3,2	3,7	4,1	4,0	3,5
Fishing	6,9	2,4	3,2	3,5	2,0
Mining and petroleum	2,1	5,8	5,0	6,5	7,0
Manufacturing	10,6	8,1	6,5	6,5	6,8
Primary	0,2	5,0	3,8	3,9	3,2
Secondary	12,9	8,8	7,0	7,0	7,5
Construction	16,5	15,4	10,0	11,0	11,0
Commerce	10,5	8,7	6,8	6,8	6,7
Services/1	9,3	6,1	6,2	6,5	6,5
Gross Value Added (GVA)	9,1	7,2	6,3	6,6	6,7
Taxes on products and import duties	8,3	5,0	8,1	10,6	11,9
GDP	9,0	7,0	6,5	7,0	7,2
Primary sector GVA	2,4	4,6	4,3	4,9	4,7
Non-primary sector GVA	10,7	7,8	6,8	7,0	7,1

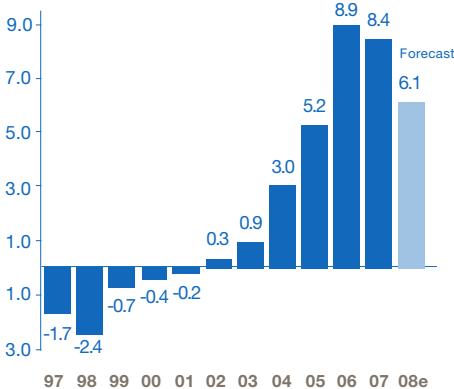
1/ Includes GDP of electricity and water sector

Source: INEI. Proyecciones MEF.

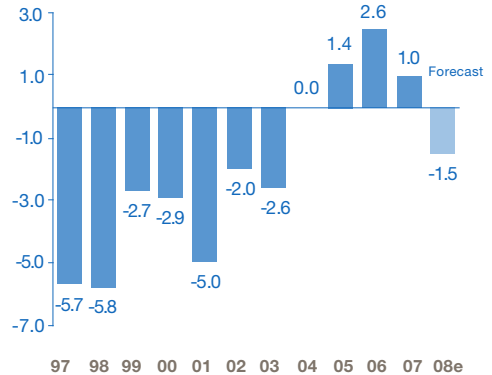
Strong External Sector

The increase in exports is affected by mineral prices

Trade Balance
(US\$ billions)



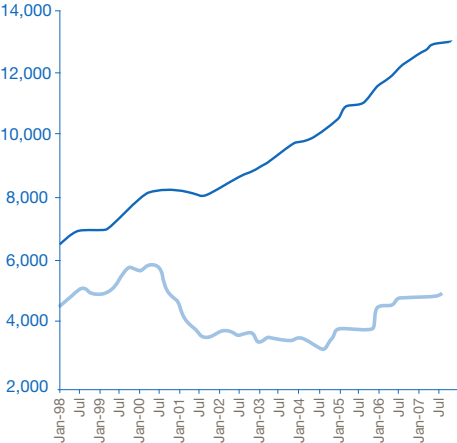
Current Account Balance
(as% GDP)



Source: BCRP, Peruvian Institute of Economy (IPE)

Public expenditure grows, but quality deteriorates

Current and capital expenditures
(millions of soles, accumulated 12 months)

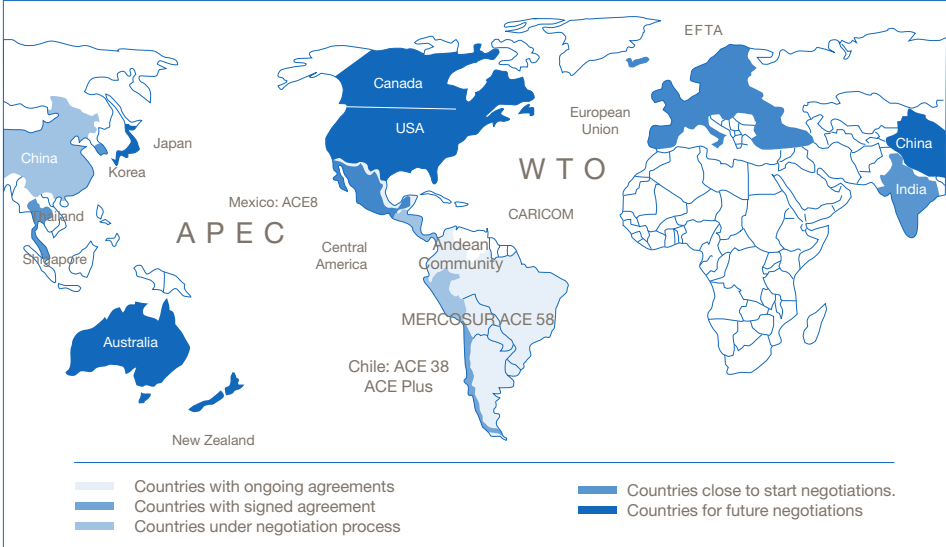


Infrastructure investment gap
(US\$ million)

Sector	Lima Metro.	Regions	Total
Transport	680	7,004	7,684
Roads	54	6,771	6,829
Ports	560	135	695
Airports	63	80	143
Railroads	-	17	17
Water & sewerage	2,389	2,250	4,619
Electricity	207	5,316	5,523
Natural gas	100	320	420
Telecom	2,745	1,888	4,633
Total	6,102	16,778	22,879
Distribution	26.7%	73.3%	

Source: BCRP, IPE

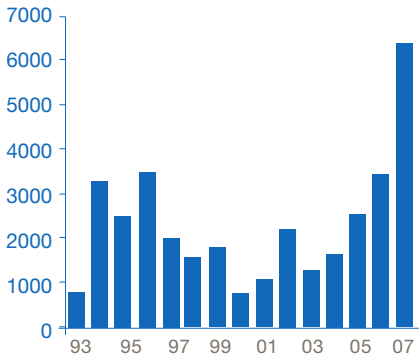
Access to Various Markets



Source: ProInversión

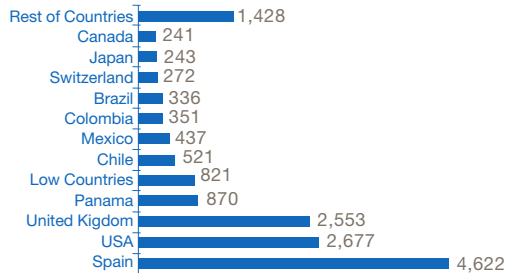
Foreign Investment

Foreign direct investment
(US\$ million)

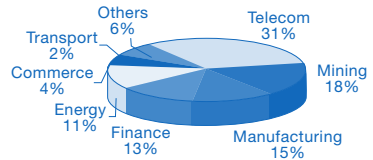


Source: BCRP, ProInversión

Stock of FDI, by country of origin -
June 2007
(US\$ million)



Percent of total FDI In major sectors
- June 2007

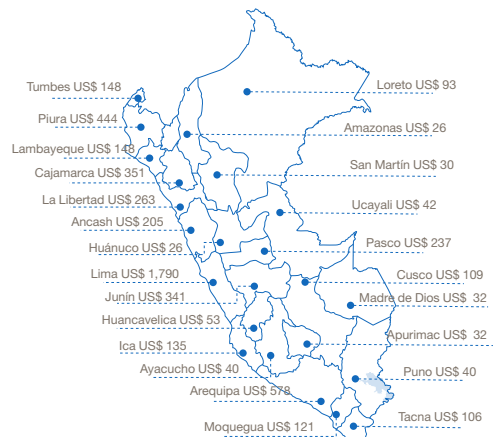


Growth of private investment will continue in 2008

Central Bank survey of 274 large
companies, 2007-2008
(US\$ millions)

Sector	2007	2008e
Agriculture and livestock	160	238
Fishing	224	149
Mining and fuel	1,146	1,411
Manufacturing	1,142	1,570
Electricity, water and gas	310	457
Construction	96	122
Commerce	476	679
Transport and Telecom.	636	811
Services	28	55
Total	4,218	5,492

Source: BCRP, IPE



Investment Projects, 2007 - 2010

Projects	Firm	Investment (millions of dollars)
Mining		
Toromocho	Perú Copper S.A.	1,500
Rio Blanco	Zijin Mining Group	1,400
Los Chancas	Southern Copper Corp.	1,100
Ampliaciones	Southern Copper Corp.	980
Minas Conga	Minera Yanacocha	935
Las Bambas	Xstrata	930
Tía María	Southern Copper Corp.	750
Oil		
Camisea II	Perú LNG	2,200
Lote 67	Barret Resources	1,600
Petroquimic Plant	Petrobras-PetroPerú	800
Industrial		
Cajamarquilla Zinc Refinery	Votorantim Metais	500
Fosfatos de Bayovar	Vale	450
Cement Plant	Camargo-Correa	200
Plant Enlargement	SAB Miller	250
Oil Refinery	Refinería la Pampilla	350
Modernization		
Investment Projects, 2007 - 2010		
Projects	Firm	Investment (millions of dollars)
Infrastructure		
Muelles Sur-Callao	Dubai Ports	617
Ports	Concession	558
Electric Train	Concession	280
Majes-Siguas II	Concession	280
Ancón Harbor	G. Romero	200
Amazonas-Center Axis	Concession	160
Regional Airports	Concession	157
Red Vial N°4	Concession	150
Plantas de Tratamiento	Concession	407
Energy		
Other Projects	Endesa	500
Termoelectrica	Egechilca	500
Transmission Lines	Concession	922
Kallpa Enlargement	Kallpa	90
Chica Uno Enlargement	Enersur	80
Telecommunications		
Mobile networking and broadband	Telefónica del Perú	1,000
Mobile networking	América Móvil (Claro)	560
Wi-Max Project	To adjudicate	110

Source: BCRP

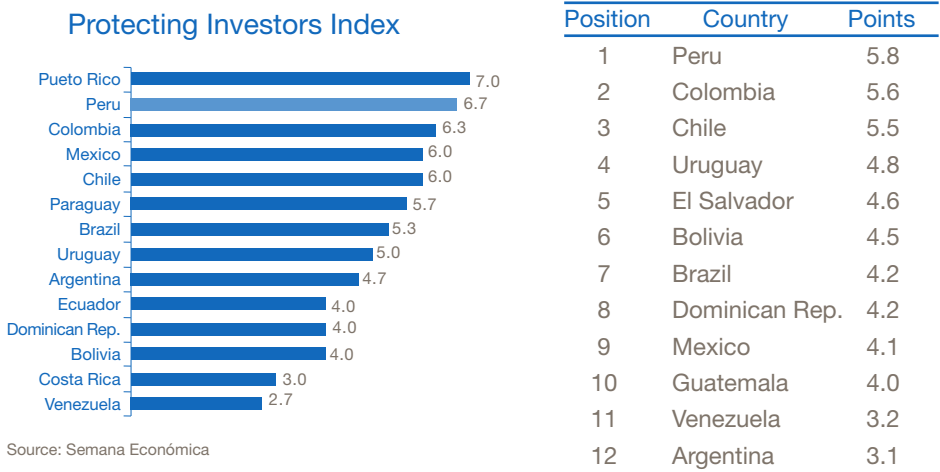
Peru offers a favorable legal framework for foreign investment.

- Non-discriminatory treatment.
- Unrestrictive access to most economic sectors.
- No performance requirements.
- Free transfer of capital.
- Free competition.
- Guarantee for private property.
- Freedom to purchase stocks from locals.
- Freedom to access internal and external credit.
- Freedom to pay royalties.
- Network of investment agreements and member of ICSID and MIGA.

Source: ProInversión

According to a World Bank survey and World Economic Forum:

- Peru stands second in the Latin America region in protecting investors, and 15th in the world.
- Peru is first in the region in government readiness for private investment.



Part I :

Macroeconomic Analysis

Other Issues: Tax Issues

Other Issues: Tax Issues

Accounting

- The accounting books and records must be kept in Spanish and recorded in local currency. Nevertheless, there is an exemption whereby taxpayers are allowed (but not obliged) to keep their accounting books and records in US dollars, provided certain requirements are met. The aforementioned exemption applies to taxpayers which receive and/or perform direct foreign investment in foreign currency and that for such purposes, enter into a contract with the Peruvian Government.

For these purposes, taxpayers must apply International Accounting Standards and Accounting Principles accepted in Peru.

Corporate Income Tax

- Companies incorporated in Peru are considered domiciled in Peru for tax purposes and are thus subject to Income Tax at a 30% rate on their worldwide net income. Branches, agencies and permanent establishments of non-domiciled companies or entities incorporated in Peru are subject to Income Tax at a 30% rate on their Peruvian source income only.
- In order to fulfill their annual Income Tax liability, the afore mentioned entities must make monthly advance payments by applying a coefficient to their monthly net revenues. The coefficient is determined by dividing the previous year's income tax by total taxable income of that year. New companies or companies with tax losses meet their monthly advance obligations by paying 2% of monthly net revenues. It is possible to reduce the coefficient or even suspend the monthly advance payments under certain conditions. Any unpaid balance or excess payment is paid or credited, respectively, upon the filing of the annual Income Tax return, which must be filed no later than 4 months into the tax year following that corresponding to the Income Tax liability (e.g., 2007 annual Income Tax return must be filed no later than April 2008). The Fiscal year corresponds to the calendar year.

Source: MMM 2008-2010

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

- Certain expenses are not tax deductible, however, such as those derived from transactions with (i) entities domiciled in tax havens on the list attached to the Peruvian Income Tax Law regulations, (ii) permanent establishments located in tax havens, or (iii) entities that obtain revenues or income through tax havens. Nonetheless, expenses derived from the following transactions are excluded from the above-mentioned limitations: (i) interest on loans, (ii) insurance premiums, (iii) leases of aircraft and ships, (iv) maritime freight, and (v) fees for passing through the Panama channel.
- Depreciation is applied using the straight line method. The depreciation allowed for tax purposes is the same as that registered for financial purposes. However, tax depreciation cannot exceed the following rates:

Buildings	3%
Cattle (both labor and reproduction), and fishing nets	25%
Vehicles (except trains) and any kind of ovens	20%
Machines and equipment used for mining, oil and construction activities, except furniture, household and office goods	20%
Equipment for data processing	25%
Machines and Equipment acquired as of January 1st, 1991	10%
Other fixed assets	10%

- For purposes of determining its 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, inter-alia.

Withholding tax

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

Interest on non-related party loans, provided certain requirements are fulfilled	4.99%
Interest on related party loans	30%
Interest paid by Peruvian financial entities or banks to foreign beneficiaries, for credit lines used in Peru	1%
Royalties	30%
Digital services	30%
Technical assistance, provided that certain requirements are met (otherwise 30%)	15%
Lease of vessels or aircraft	10%
Dividends or profit distributions	4.1%
Other income	30%

- 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 that the debtor has contractually assumed the obligation of bearing the withholding tax.
- In the case of the services mentioned below that entail the execution of activities both in Peru and abroad, it is deemed that non-domiciled entities obtain net income at the following rates:

Insurance	7%
Lease of vessels	80%
Lease of aircraft	60%
Air transport	1%
Maritime transport	2%
Telecom services	5%
International news services	10%
Distribution of movies, records and similar products	20%
Supply of containers	15%
Rights for broadcasting live foreign TV shows within Peru	20%

Transfer pricing rules

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

Individual Income Tax

- Individual Income Tax in Peru is determined by the domicile rather than by residence. Foreign individuals are deemed to be domiciled in Peru for tax purposes if they have resided or been 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 the residence.
- The condition of being domiciled is determined at the beginning of the fiscal year. Changes regarding this condition during the fiscal year shall enter into force as of the next fiscal year. This means that non-domiciled individuals who obtain residency after June 30th must wait until the next year to apply the domiciled tax treatment, and the change will be effective in the following year.
- Domiciled individuals are subject to Income Tax on their worldwide income, whereas non-domiciled individuals are only taxed for their Peru source income. Non-domiciled individuals are 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, up to a limit of the amount of tax actually paid abroad.
- Income tax on domiciled individuals is imposed on a scale of brackets on their income, as shown below:

Bracket	Reference in tax units (UIT)	Tax rate
1st	Up to 7 UIT	0%
2nd	From 7 to 34 UIT	15%
3rd	From 34 to 61 UIT	21%
4th	Over 61 UIT	30%

- Income tax on non-domiciled employees is imposed at a flat rate of 30% on their gross Peruvian source income. No deductions or credits apply to non-domiciled individuals.
- A tax unit is equivalent to S/. 3,500. The exchange rate as of March 2008 is S/. 2.76 per US \$ 1.

Tax Treaties

- Tax treaties with Canada and Chile to avoid double taxation, they both are currently in force.
- Our country has also entered into tax treaties with Spain and Brazil (both of which follow the OECD Model Tax Convention). The tax treaty with Brazil has already been approved by the Peruvian Congress but it needs to be ratified by the Brazilian counterpart. However the treaty with Spain has not been approved by the Peruvian Congress yet.
- Peru is also subscribed to the Tax Treaty of the Andean Community of Nations, to which Bolivia, Colombia and Ecuador are also signatories.
- Tax treaties with France, Italy, UK, Sweden, Switzerland and Thailand are currently being negotiated.

Payroll taxes

Health contributions

- Employers make monthly payments equal to 9% of the total compensation paid to the employee.
- Employees must choose affiliation with either the National Health System ("EsSalud") or the Private Health System ("EPS" or "Entidades Prestadoras de Salud"). 25% of the amount paid to the EPS may be used as a credit against EsSalud contributions.

Complementary insurance for risky work

- Law No. 26790 establishes that employees who perform high-risk activities, such as mineral extraction, iron and steel smelting, and others must have a complementary insurance for risky work, the coverage of which includes health care, temporary or permanent disability pensions and burial expenses as a consequence of a job-related accident or disease. This insurance is compulsory and must be paid by the employer.
- Employees hired through workers' cooperatives; special, temporary or complementary service companies; contractors and subcontractors or

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.

- In addition, employers that hire labor services through the above-mentioned companies are obliged to verify that all the employees assigned to its offices have been duly insured according to the corresponding legal provisions. Otherwise, they will have to contract the insurance on their own in order to guarantee coverage of the referred employees, under penalty of being jointly liable with such companies and the National Health System, for the obligations to said employees established by Law.

Pension fund contributions

- Employers must apply monthly with holdings for pension fund contributions equal to 13% of the compensation received by the employee, in case he/she is affiliated to National Pension System, or about 12.7%, in case he/she is affiliated to the Private Pension System (in this case, 10% corresponds to his/her personal pension account and almost 3%, to insurance and commissions for managing the fund).
- Should a foreign individual's labor contract end and he/she leaves Peru, the pension funds deposited in the Private Pension System (the aforementioned 10%) may be transferred to his/her pension fund abroad or wired to an account of the employee in a foreign bank, if no individual pension fund abroad is available.
- Below we summarize the payroll contributions:

Payroll tax	Employer	Employee	Rate
Health Contribution	X		9%
Complementary Insurance for Risky Work	X		1.30%
National Pension Fund		X	13%
Private Pension Fund		X	12.4 % approx.

Financial transactions tax (FTT)

- Pursuant to Law No. 28194, obligations that are fulfilled through cash payments exceeding S/.3,500 or US\$1,000, must be made via bank account deposits, wire transfers, payment orders, credit cards, non-negotiable checks, or other means of payment provided by entities of the Peruvian financial system.

- If obligations that are fulfilled through cash payments are not made via such means, they may not be deducted by the debtor as an expense or be used as a credit for tax purposes.

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

- A) Credits or debits paid in bank accounts owned by the taxpayer. Credits, debits or transfers made between accounts of the same account holder are not subject to FTT, however.
- B) Purchase of certified checks, bank certificates, traveler's 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.

In 2007, the FTT rate is 0.08%, which, in the case of the transactions mentioned in item A), is applied on the value of such transactions. In case of the transactions mentioned in item B), it is applied on the face value of the certified check, bank certificate, traveler's check or the corresponding financial instrument. The FTT may be considered an expense for Income Tax purposes, according to rules applicable to this tax.

The following transactions among others, are exempt from the FTT:

- A) Credits or debits made in bank accounts opened at the employer's request in order to deposit exclusively the salaries of their employees.
 - B) Credits or debits in bank accounts of severance indemnity (compensation for time of service of the employee).
- Companies subject to corporate Income Tax are obliged to pay the Temporary Net Asset Tax (TNAT), except those that are in pre-operative stages or that began on January 1 of the fiscal year in which the TNAT must be paid.
 - The taxable basis is the value of the assets set forth in the taxpayer's balance sheet as of December 31 of the year prior to that of the tax payment, adjusted with the deductions and amortizations accepted by the Peruvian Income Tax law. Thus, the amount of the temporary net assets tax is determined by applying the following rates on the taxable basis:

Rates	Net Assets
0%	Up to S/. 1'000,000
0.5%	Excess of S/. 1'000,000

- As of January 1, 2009, the following rates will be applicable:

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

The amount paid for the TNAT can be credited against the taxpayer's corporate Income Tax.

Value added tax (VAT)

The following transactions are subject to VAT at a 19% rate:

- Sales of moveable goods made within Peru;
- Services rendered within Peru;
- Services rendered abroad but economically used within Peru by a domiciled user;
- Importation of goods;
- Construction agreements; and,
- The first sale of real estate made by construction firms.

In all transactions the vendor is subject to VAT, except for the case of importation of goods and services rendered abroad but economically used within Peru, for which VAT is self-assessed by the importers and users, respectively.

The VAT Law follows a debit/credit system, and input VAT may be offset by output VAT. Should excess input VAT be obtained in a particular month, it shall be offset by output VAT obtained during the following months until it is exhausted. Cash refunds of excess input VAT may only be made if it is not possible to offset the excess input VAT related to the exportation of goods and services, as explained below, but not to domestic transactions.

Early recovery of VAT

- Companies in a pre-operative stage with large projects may apply for the early recovery of VAT prior to starting operations. An investment agreement with the government (the Ministry of its sector) is required.

Positive VAT export balance

- The export of moveable goods (including the sale of goods in the international zone of ports and airports) are not subject to VAT, nor is the exportation of certain services. Thus, VAT paid upon the acquisition of goods, performance of services, construction agreements and the importation of goods related to exported goods or services creates a positive VAT export balance.
- The positive balance may be offset by (i) output VAT, (ii) income tax, (iii) any other outstanding tax debt in favor of the central government. In case the positive balance is not completely offset, as the amount of the aforementioned tax obligations is insufficient, the taxpayer may apply for a refund (which may be made in cash or by check).

Excise tax

- The sale of specific goods, including fuel, cigarettes, beer, liquor, and vehicles, is subject to excise tax.
- Tax rates are 0%, 2%, 10%, 17%, 20%, 30% and 125%, depending on the type of good or service.

Customs Duties

- Customs duties are imposed on the CIF value of the imported goods, at rates of 0%, 9%, 17% and 20%. There are no restrictions on imports and exports, although there is a limited list of products that cannot be imported or exported. Exports are not subject to any taxes. The importation of most capital goods is subject to the 0% rate.
- Peru is a member of the World Trade Organization (WTO) and various bilateral agreements that provide most-favored-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 to temporarily suspend 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 under the Harmonized System for customs duty purposes.

Drawback regime

- Pursuant to the drawback regime, the exporter may apply for the refund of customs duties that it paid on (i) the importation of goods contained or goods that are subsequently exported, or (ii) the importation of goods that are consumed during the production of exported goods.
- The refund rate is 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 to each kind of good exported by the exporter and for the first US\$ 20 million worth of goods exported per year (the excess will not be subject to refund).
- Article 1 of Supreme Decree No. 104-95-EF establishes that the beneficiaries of the drawback regime are the manufacturer -exporter companies whose cost of production has been increased by the customs duties paid upon the importation of (i) raw materials; (ii) intermediate products, or (iii) pieces incorporated or consumed in the production of the exported good. Fuel or any other energy source to generate heat or energy for purposes of obtaining the exported good is not considered a raw material.

Stability agreement

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

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

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

Under the mining regime, local mining companies may enter into stability agreements of guarantees and investment promotion measures that guarantee the following for 10 or 15 years:

- Stability of the overall tax regime.
- Stability of the overall administrative regime.
- Free disposition of funds (foreign currency) arising from export operations.

- No exchange rate discrimination.
- Free trade of products.
- Stability of special regimes for tax refunds, temporary importation, etc.

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

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

Part I : Macroeconomic Analysis

Other Issues: Corporate Issues

Other Issues: Corporate Issues

Business entity issues

Guide to doing business

- Choice of entity
The corporation is the most commonly used entity 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.
- 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.
- Founders' requirements
There is no minimum number of Peruvian shareholders required. There is no general requirement stating that directors or managers must be Peruvian residents or nationals. In some cases, however, Peruvian residence of the legal representative is recommended for practical reasons.
- Repatriation of funds
Repatriation of funds is 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 on 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 on Companies regulates the incorporation and conduct of business entities in general. Special laws affect the conduct of industrial, mining, telecommunications, banking and insurance activities to varying degrees, however, as well as companies operating under special conditions.

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

1. Sociedad Anonima (S.A.) - Corporation:

- Private corporation (S.A.):
The corporation is the most common by used business entity, and constitutes the grounds for the other forms of S.A.(below). Contributions to capital are represented by shares. Liability is limited to the amount of the contribution.
- Private corporation (Sociedad Anonima Cerrada - S.A.C.):
No more than twenty shareholders are allowed; its shares may not be registered with the stock exchange, and the transfer of shares may be subject to restrictions.
- Public corporation (Sociedad Anonima 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 consist of more than 750 shareholders;
 - iii. Over 35 percent of the capital belongs to 175 or more shareholders.
 - iv. The corporation is incorporated as an open corporation; and
 - 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 (Comisión Nacional Supervisor de Empresas y Valores - CONASEV).

2. Sociedad Comercial de Responsabilidad Limitada (S.R.L.)

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

3. Sucursal - Branch

Permanent establishment of a local or foreign company outside its domicile, dedicated to one or some of the activities that 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.

Entities indicated in paragraphs 1 through 3 above must be registered in the Public Registry that corresponds to its domicile. The issuance, transfer or cancellation of shares must be reported to National Tax Administration Superintendency - SUNAT, within the first ten days of the month following such operations.

4. Joint Ventures - Contrato de Consorcio

Unincorporated joint ventures and collaboration agreements are not registered in the Public registry. They may either be considered as independent tax payers or pass through entities.

Government supervision

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

- Analysis of accounting records in connection with taxes imposed by the SUNAT.
- Supervision of insurance, financial and banking operations, as well as examination of financial statements of the companies under the control of the Banking, Insurance and AFP Superintendency-SBS and the CONASEV.
- Supervision and inspection of establishments where certain goods, such as drugs or chemicals, are produced.

Corporation

The most common form used by national or foreign investors to conduct business in Peru is a corporation (sociedad anónima).

Incorporation procedures:

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

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 at the Public Registry. The deed must contain the following:

- The Articles of Association and By laws and the personal data of the signatories of the deed.
- The express intention to incorporate a corporation.
- The amount of share capital.
- The number of shares in which it is divided.
- The form of payment for share capital.
- The contribution of each shareholder, either monetary or in-kind (which includes a corresponding value report).
- The appointment and personal data of the first board of directors of the corporation, if applicable.

The by-laws 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 paid-in amount for each share.
- Class 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, whenever applicable.
- Regime of the shareholders' meetings, its faculties, quorum, conditions, and periodicity of shareholders' meetings, conditions for the validity of its resolutions, timing of meetings and the 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 corporate management.
- Form and timing for submitting the company's performance and annual results to the shareholders 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 registration fee amounts to 1.08 percent of the Peruvian Tax Unit (S/. 3,500 for the year 2008) plus 0.003 percent of the registered capital. Notary Public fees are determined on the basis of the length and complexity of the Public Deed.

Capital structure

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

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

Relationship of shareholders, directors and officers

Conduct 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, in which the existence of a board of directors is not mandatory. Powers of each body are defined in the General Law on Companies and in the by-laws of the corporation.

Directors and Managers are not required to hold shares. Minutes of all shareholders' and directors' meetings must be kept in legalized books of minutes 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 with respect to the company's shares must be registered. At the end of the fiscal year, 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 end of each year. At this meeting, shareholders approve, among other matters, the management, the financial statements of the past year, the profit distribution (if any), and the membership of the board of directors.

Other meetings are held when required by the corporation, with the agenda stating the reason for calling the meeting

Increase or decrease of share capital and modification to the by-laws

The increase or decrease of share capital and the modification to the by-laws 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 valid resolution may be agreed 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 by-laws, with 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 by-laws.

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

Dividends

Unless otherwise stated in the by-laws, the shareholders at the annual general meeting decide the distribution of profits. The rules for profit distribution are as follows:

- Dividends are only to be paid on the basis of profits obtained or from free reserves, and provided that the company's net worth is not lower than the paid-up share capital.

- Unless otherwise stated in the by-laws 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 and exclusively responsible for the payment.
- Directors may be empowered to decide on the distribution of dividends in advance. The distribution of dividends for up to half the value of the distributable profits for each period is mandatory when requested by shareholders who represent at least 20 percent of the company's subscribed shares with voting rights.

Dissolution and liquidation

Dissolution must be agreed to at the general shareholders' meeting. Such a resolution must be published three consecutive days within ten days of the agreement. The registration of the dissolution before the Public Registry must be performed within ten days following the last publication.

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

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

Books and records

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

Statutory audit

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

- When established by the company's by-laws.
- When specifically requested by shareholders representing not less than 10 percent of the company's subscribed shares with voting rights.
- In a closed corporation, when it is requested by shareholders representing at least 50 percent of subscribed shares with voting rights.
- When the corporation qualifies as a public corporation.
- When established by special legislation.

Limited Liability Company (S.R.L.)

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

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

Limited Liability Company (S.R.L.)

S.R.L.S 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 company's managers.
- 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 by-laws, for the extension of the company's duration and for its transformation, merger, spin-off, dissolution, liquidation or extinction.

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

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

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

Branch of a foreign corporation

Under Peruvian legislation, a branch is every secondary establishment through which a company performs certain activities included in its corporate purpose in 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 By-laws (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(s) of the person(s) designated as 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 in the Public Registry.

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 that certain powers, such as the signing of checks, be delegated. There is no regulation requiring filing of the financial statements of the parent company in Peru.

Participation Agreement

Two or more parties may 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 active partner who agrees to share in the results or profits of one of his businesses with another person, who is the silent partner (or partners), in consideration of the contribution of goods or services to the business.

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

Consortium Contract/Joint Venture

Under this form of collaboration agreement, two or more parties associate to actively and directly participate in a certain business with 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. The agreement sets the extent of participation; otherwise it is deemed to be equal for all the parties. For tax purposes, they are considered separate taxable entities if independent accounting records are kept.

Part I : Macroeconomic Analysis

Other Issues: Work Force and
Labor Charges

Other Issues: Work Force and Labor Charges

Labor Relations

Labor and management relations

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

Once the labor relationship is initiated, employees have a trial period of three months, during which they may be dismissed without indemnity for unjustified dismissal. The trial period can be extended to six months or one year for skilled employees, or those appointed to management and positions of trust. There are special additional rights for women and minors.

Current labor legislation grants the same treatment to all types of employees. The following types of employees are excluded from the labor regime applicable to the private sector:

- Employees hired by the public sector (i.e., government employees)
- Professionals who render services independently through service agreements that are ruled under the Civil Code.
- Those working for commissions in the retail sector who simultaneously render services for several employers.
- Travel agents and traders in the wholesale business.
- Independent insurance brokers.

Payroll

As of January 2008, every employer must substitute their payroll books for the new electronic payroll system, supervised by the Tax Administration (SUNAT).

The closing of the aforementioned books is postponed until January 2009.

Labor Unions

Presently, the labor union movement in Peru is not very strong. Employees in construction, transportation and industrial companies commonly form the strongest unions, with the most important being the Confederacion General de Trabajadores del Peru (C.G.T.P.) and the Central de Trabajadores del Perú (C.T.P.).

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 if they are not members of the union.

Fringe Benefits

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

Background information on labor practices and main social costs in Peru.

Employer 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 levied with statutory social contributions and employee's taxes.

The employer may also agree with employees whose monthly compensation is not less than two tax units (equivalent to S/.7,000 or approximately US\$2,300) that their compensation be computed paid 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 that perform activities generating third category 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 employees.

Employees share the profits of the company through the distribution by the company of a percentage of its net income before taxes. This percentage varies from 5% to 10%, depending on the employer's business.

Overtime

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

Normal working hours should not exceed 8 hours per day or 48 hours per week. This 48-hour work week applies to all employees, with exception of those appointed to management and trust positions.

Night Shift Additional Payment

Employers whose employees work between 10:00 p.m. and 6:00 a.m. are obliged to make an additional payment of at least 35% of the daytime working hour. Night Shift Additional Payment.

Vacations

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

The employer and the employee may agree to allow up to two years of 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 vacation to the employee, a payment equivalent to double compensation must be made (corresponding to the work performed plus indemnity for not having taken vacation).

Termination of employment

An employer may not dismiss an employee for reasons of behavior or lack of qualification without granting the employee a term of not less than six calendar days to defend him/herself in writing against such charges, unless they are for serious crime, or a term of thirty calendar days to prove his/her qualification or correct the behavior. Should the employee be terminated without cause or grounds, the employee has 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.

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 and one-sixth month's salary for each year of service.

Employers are obliged to deposit the CTS on a semi-annually basis in a bank or finance institution and in the currency (national or foreign) elected by the employee. These deposits must be carried out within the first fifteen (15) days of May and November each year, consisting of 1/12 of the monthly salary received for each whole month worked during the corresponding semester.

Social Security Administration for Health Services (ESSALUD)

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

In general, all dependant 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. Payments are 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 percent of compensation.

National Pension Fund

The National Pension Fund, managed by the Oficina de Normalizacion Previsional-ONP, provides pensions to retired employees of either sex who have reached the age of 65, provided they have fulfilled with their contribution for a minimum of 20 years.

The amount of the pension is determined by the remuneration earned by the employee and the number of contributions paid into the system.

Private Pension System

Private pension fund administrators, locally known as AFPs, manage an alternative pension system. AFPs guarantee pensions for retirement, handicap and survivorship pensions, and burial expenses.

Contributions go into an individual private fund. Employee contributions and earned interest finances exclusively pensions.

For these purposes employees must contribute 10 percent of their monthly compensation, plus commissions for the AFP and insurance premiums for handicap and burial coverage, making a total contribution of approximately 12.4 percent of the compensation.

Labor Administration System

The Ministry of Labor is in charge of ensuring that employers fulfill labor laws and regulations. This entity is also in charge of providing technical assistance to employers as well as employees to protect their corresponding rights.

The Ministry of Labor is entitled to impose fines on employers that do not comply with labor law.

Foreign personnel

Foreign personnel must sign a labor contract, which should be approved by the local labor authorities.

The initial contract cannot exceed three years but is renewable for similar periods. A work or residence visa is also required once the agreement is signed, which must be guaranteed by a letter of the employer filed with the immigration authorities. The visa is granted for a one-year term and is renewable during the term of the contract. Once the visa is obtained, the contract is fully in force.

Most foreign nationals who enter Peru need a valid passport and a Peruvian consul visa. Foreign nationals with tourist visas cannot engage in commercial or professional activities in Peru.

The tourist visa is granted for a period not longer than three months, with the possibility of being renewable, under certain circumstances, for three additional months.

Part I : Macroeconomic Analysis

Other Issues: Financial Accounting
& Reporting

Other Issues: Financial Accounting & Reporting

The IFRS and accounting practices in Peru

Accounting practices in Peru have developed significantly when compared to other countries in the region. In fact, Peruvian accounting practices are now getting closer to the International Financial Reporting Standards (IFRS), its being one of the first countries in the region to adopt the International Accounting Standards (IAS) as a basis for its national accounting framework.

As is widely known, IFRS gather together the IFRS and IAS issued by the International Accounting Standards Committee (IASC) and the SIC and IFRIC interpretations.

According to the Peruvian General Corporate Law, the financial statements of Peruvian companies must be prepared according to accounting principles generally accepted in Peru (Peruvian GAAP), which comprise:

- a) The legal and regulatory requirements on accounting matters, and
- b) The IFRS made official through resolutions issued by the Peruvian standard-setter, the Consejo Normativo de Contabilidad (CNC).

Currently, after the most recent approval of certain standards and pronouncements by the CNC, the major differences between IFRS and Peruvian GAAP are:

- a) Under Peruvian GAAP until December 31, 2004, it was required that financial statements be adjusted to reflect the effects of inflation based on a methodology approved by the CNC. The balances restated for inflation were considered to be the historical opening balances to prepare the financial statements for 2005. Under IFRS, Peru did not qualify as a hyperinflationary country after 1992; therefore the financial statements starting from that date should not be restated for inflation according to IAS 29 -Financial Reporting in Hyperinflationary Economies.
- b) For Peruvian GAAP purposes, the CNC approved maintaining the application of the equity method of accountig to investments in subsidiaries presented in separate financial statements of an entity that issues consolidated financial statements. Under IFRS, IAS 27 (modified) - Consolidated and Separate Financial Statements, only permits investments, in subsidiaries presented in separate financial statements, to be accounted for at cost or at fair value, as is indicated in IAS 39.

At December 31, 2007 the Consejo Normativo de Contabilidad has approved IAS 1 to 41, IFRS 1 to 6 and SIC 1 to 33. On March 19, 2008, the Consejo Normativo de Contabilidad under Resolutions No.040-2008-EF/94, made official the application, effective January 1, 2008, of the revised version of IAS 32 and IFRS 7 and IFRS 8 (effective 2009), all amendments of the interpretations committee IFRIC (effective 2008), except from IFRIC 13 and 14 to be effective starting 2009).

Finally, common practice in Peru is that the adoption of new standards approved by the CNC is accounted for prospectively rather than as established by IAS 8 (retrospectively in most cases).

This publication is not intended for specific industries and may not cover differences for companies operating in these industries. This publication mainly covers the differences applicable to companies in general. Users and preparers of financial statements must consult all the relevant accounting standards, interpretations and pronouncements issued by the regulators for a detailed knowledge of the accounting treatment and financial information reporting requirements.

This summary takes all the standards and interpretations issued up to April 30, 2008 into account.

Part I : Macroeconomic Analysis

Other Issues: Environmental and Social
Aspects

Other Issues: Environmental and Social Aspects

Current Peruvian environmental legislation indicates that all public or private investment projects in Peru must go through the National Environmental Impact Evaluation System¹, charged with the identification, prevention, supervision, control, and the correction of negative environmental impact generated by investment projects.

The environmental impact study must evaluate not only the obvious environmental effects of the activity, but also the participation of the local community, to achieve the approval process by the appropriate government bodies. In other words, it embeds a sort of "social contract" in the assessment. This is of particular interest to extractive industries, such as mining, energy, fishing, etc. due to the nature of their activities.

Despite the local environmental legislation, the latest Social Conflicts Report published by the Office of the Ombudsman² (a government institution dedicated to protecting citizens' constitutional rights and supervising the obligations of the public sector), a total of 104 social conflicts were registered as of April 2008 in Peru. Close to half of these conflicts stem from an environmental problem and 45 are related to mining activities. 59% of all active conflicts are concentrated in 6 regions. The social and environmental conflicts have also been increasing steadily over the last twelve months, and reached a peak in April 2008.

From a regulatory framework perspective, there are three elements that specialists believe contribute to the current situation:

1. Lack of an integrated environmental policy with sufficient power across sectors (ministries), which contributes in turn to the lack of high-level macro-environmental strategies.
2. Lack of specific cross-sector strategies for the control of emissions and effluents.
3. Weak environmental enforcement.

Despite these issues, there seems to be a willingness by the current government to amend this situation with several social assistance programs in place and

¹Sistema Nacional de Evaluación de Efectos Ambientales.

²Defensoría del Pueblo.

recently the creation of a Ministry of the Environment. In our view, this sends a loud and clear message of the need for institutional improvements as part of the formula to advance in this arena. There are several matters driving this situation:

Protecting the environment

The General Environmental Law, Peru's main law in this matter, establishes the implementation of the National Environmental Management System. Each pertinent sector or Ministry (i.e., Ministry of Energy and Mines, Ministry of Agriculture, etc.) must establish its environmental policies under a criteria of protection, with environmental management instruments, environmental boundaries as well as incentives and economic instruments.

Currently, the most important environmental national authority is CONAM (National Environmental Council). As a result of the Trade Promotion Agreement signed with the U.S., local authorities have been forced to rethink Peru's environmental strategies, and are planning to strengthen environmental control capabilities. A Ministry of the Environment is currently being designed. The new Minister is a recognized ecologist. Peru's most pressing environmental issues include deforestation, soil and water pollution, adequate watershed management, and vulnerability to climate change.

International Environmental Agreements

Peru has signed 63 international commitments on environmental matters and natural resource management. 40 of these are global agreements, 19 are regional and 4 are bilateral. The most important commitments include the United Nations Framework Convention on Climate Change (UNFCCC); the Kyoto Protocol; the Montreal Protocol; the Convention on Biological Diversity; The United Nations Convention to Combat Desertification; the Ramsar Convention on Wetlands; the Convention on International Trade in Endangered Species of Wild Fauna and Flora and the Convention on the Conservation of Migratory Species of Wild Animals.

Chapter 18 of the Trade Promotion Agreement with the U.S., on the environment), encourages companies to abide to the local legislation and to access incentive-based flexible and voluntary mechanisms that contribute to diminishing the impact of human activity on the environment (i.e., Clean Development Mechanism).

The Addenda to the Agreement points to the strengthening of capabilities in the forestry sector. This requires governmental bodies to improve their ability to track and record each stage of the wood fibre processing (chain of custody) -from the forest to the end user -including harvesting, transportation, manufacturing and distribution. Likewise, corruption by forestry officials will be highly penalized. Furthermore, Congress is currently exploring a law that will impose jail sentences and treatment equal to that applied to narcotics trafficking to anyone who deals inappropriately in forest resources.

The upcoming Free Trade Agreement with Canada will include a chapter on Corporate Social Responsibility and it is believed that the FreeTrade Agreement with China may include a chapter on Climate Change.

Major legislation and regulations

Every government ministry (or sector) establishes its own environmental and social rules and procedures in their own environmental departments. The most advanced ministry in this respect is the Ministry of Energy and Mines, which has an Environmental Regulation as well as Guidelines and Maximum Permissible Limits. In addition to environmental impact assessments, Mine Closure Plans are also regulated.

The Ministry of Production, with its Vice Ministries of Industry and Fishing, has established Environmental Quality Standards and Maximum Permissible Limits in the following sub-sectors: cement, paper, beer, tanneries and recently (April 30th, 2008) fish meal and fish oil.

Other Ministries (sectors) are gradually establishing their own Environmental Quality Standards and Maximum Permissible Limits.

Pollution Control

Peru has several control entities that establish control and mitigation policies to which each sector must subscribe. The Supervisory Organism of Energy and Mines (OSINERGMIN) is the entity in charge of all energy and mine projects, Supervisory Organism of Transport (OSITRAN) also exists for the transport sector and Supervisory Organism of Telecommunications (OSIPTEL) for the telecommunications sector. Other Ministries (sectors) implement inspections through their environmental departments.

Peru has a Solid Waste Management Law and Regulation. All industrial companies must dispose of waste according to the current legislation. For example, a dangerous solid waste manifest, establishing the quantity to be disposed, must be presented during the first half of each month.

Conclusion

Peru has many standing social and environmental issues that need to be addressed. The regulatory role played by government agents is key, and they are gradually aiming to comply with best practices. Likewise, the private sector also plays a key role, not only abiding by existing rules and regulations, but also trying to improve their return on investment and diminishing risks by implementing social and environmental best practices.

Businesses that demonstrate environmental and social leadership, and share the principles and practices they adopt with their stakeholders, build public trust and strengthen their reputations and brands. While these intangibles are sometimes hard to quantify, forward thinkers understand their value. They recognize that a company's approach to sustainability and corporate responsibility mirrors its approach to business. Companies that postpone dealing with the challenges of sustainable business practices, or minimize the attention they give such issues, put themselves at risk while losing opportunities.

Part II : Industry Analysis

Financial Industry

Financial Industry

Banking deposits and loans increasing

Today, the banking system has greatest proportion of deposits (93.4%) and loans (89.8%). In a distant second place are the Municipal Savings and Loans (4.88% and 6%, respectively).

Evolution of Deposits (Millions of US\$)

	2005	2006	2007	Variation 2007/2006
Banks	17,639	18,988	23,204	22.20%
Financials	199	245	201	-18.09%
Municipal Savings and Loans	869	1,014	1,213	19.70%
Rural Savings and Loans	154	189	238	26.02%
Total	18,861	20,436	24,856	21.63%

Source: Banking, Insurance and AFP Superintendency (SBS)

Evolution of Loans (Millions of US\$)

	2005	2006	2007	Variation 2007/2006
Banks	13,963	15,882	21,509	35.43%
Financials	235	518	325	-37.21%
Municipal Savings and Loans (1)	946	1,166	1,432	22.76%
Rural Savings and Loans (2)	179	212	271	27.56%
Microfinance Institutions (3)	179	266	397	49.17%
Total	15,502	18,045	23,935	32.64%

- (1) Municipal Savings and Loans captures resources from the public and specializes in financing operations, primarily to small and micro-enterprises that have been unable to access traditional banking.
- (2) Rural Savings and Loans specialize in grant funding, primarily to medium, small and micro-enterprise in rural areas.
- (3) Microfinance Institutions (MFI) specialize in funding business persons of small and micro enterprises, and do not capture resources from the public.

Source: SBS

Banking System

Full-Service Banking Companies	Deposits 2006 (Millions of US\$)	Deposits 2007 (Millions of US\$)	Variation 2007/2006
Banco de Crédito del Perú	6,881	8,405	22.15%
Banco Continental	4,651	5,619	20.81%
Scotiabank Perú	3,220	3,979	23.57%
Interbank	1,861	2,326	24.97%
B. Interamericano de Finanzas	635	744	17.16%
Citibank	542	489	-9.77%
Banco Financiero	463	459	-0.80%
Banco de Trabajo	290	326	12.38%
Mibanco	231	307	32.87%
Banco de Comercio	189	224	18.33%
Falabella Perú S.A	-	173	100.00%
HSBC Bank Perú	25	153	511.24%
Total	18,988	23,204	22.20%

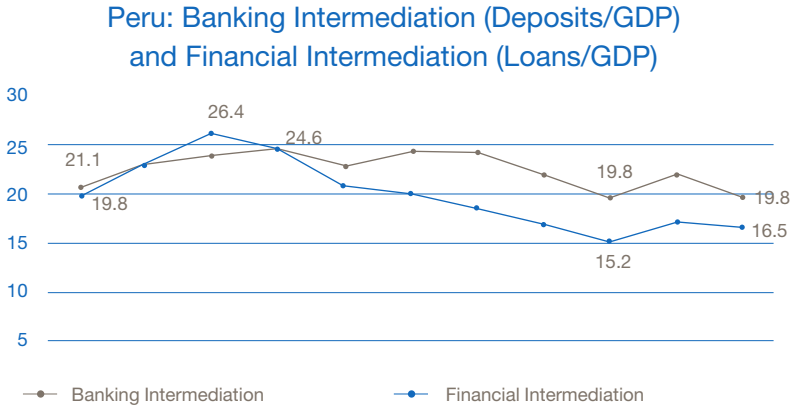
Source: SBS

Full-Service Banking Companies	Loans 2006 (Millions of US\$)	Loans 2007 (Millions of US\$)	Variation 2007/2006
Banco de Crédito del Perú	4,850	7,004	44.42%
Banco Continental	4,318	5,665	31.19%
Scotiabank Perú	2,585	3,286	27.10%
Interbank	1,473	2,084	41.48%
B. Interamericano de Finanzas	614	727	18.46%
Citibank	659	659	0.07%
Banco Financiero	494	537	8.72%
Mibanco	341	499	46.34%
Banco de Trabajo	368	344	-6.61%
Falabella Perú S.A	-	315	100.00%
Banco de Comercio	166	204	23.18%
HSBC Bank Perú	15	152	918.70%
Santander Perú S.A.	-	34	100.00%
Total	15,882	21,509	35.43%

Source: Semana Económica

Banking and Financial Intermediation

Neither variable has increased over the past 10 years in Peru; rather, they have decreased slightly. This is because GDP has grown faster than either banking deposits or loans.

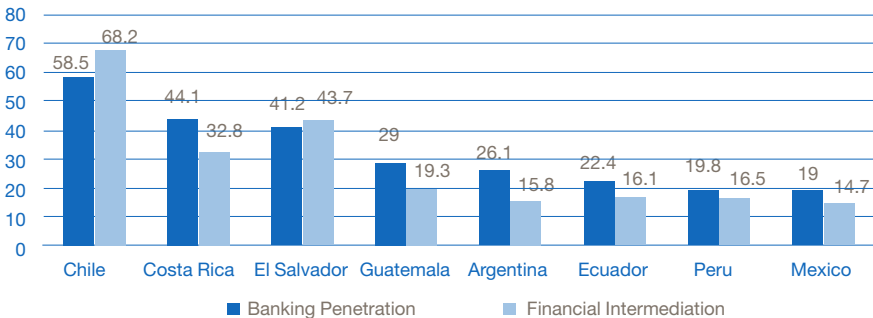


Source: Semana Económica

Banking Penetration and Financial Intermediation

While GDP growth may distort the increase in banking and financial intermediation in Peru, this should also occur in other countries. However, the level of banking penetration in Peru is low when compared with other countries in the region.

Banking Penetration and Banking Intermediation in the Region



Source: Semana Económica

Direct Loans according to credit type

During 2007, the types of loans with the greatest demand were Commercial (58.6%) followed by Consumer loans (19.4%).

Commercial Loans (Millions of US\$)

	2007	Var. 2007/06
Full-Service Banks	13,472	36.42 %
Municipal Savings and Loans	284	24.03 %
Rural Savings and Loans	34	-7.55 %
Edpymes	23	38.66 %
Total	13,814	35.98 %

Microenterprise Loans (Millions of US\$)

	2007	Var. 2007/06
Full-Service Banks	1,234	38.53 %
Municipal Savings and Loans	720	23.91 %
Rural Savings and Loans	145	41.17 %
Edpymes	309	47.59 %
Total	2,408	34.98 %

Consumer Loans (Millions of US\$)

	2007	Var. 2007/06
Full-Service Banks	4,065	47.26 %
Municipal Savings and Loans	374	21.32 %
Rural Savings and Loans	82	33.25 %
Edpymes	52	98.12 %
Total	4,572	44.87 %

Mortgage Loans (Millions of US\$)

	2007	Var. 2007/06
Full-Service Banks	2,738	16.29 %
Municipal Savings and Loans	53	11.96 %
Rural Savings and Loans	10	-10.31 %
Edpymes	13	-6.01 %
Total	2,815	15.95 %

Source: SBS

Latest Developments

- In 2007, two entities converted from financial companies to banks: Falabella Bank (formerly WRC Financial) and Ripley Bank (formerly Cordillera Financial).
- The HSBC Group (from England) began to operate in Peru in 2006 in business banking and later in personal banking. There are expectations that the HSBC will buy a bank.
- The Banco Azteca (Mexico) received permission to operate in Peru at the end of 2007. At first, it will be dedicated to administering claims granted by Elektrafin (Electra Group).
- Deutsche Bank received permission to operate in Peru in 2008.
- The Banco Santander received permission to operate in Peru in 2007, and has begun with business banking. This bank operated in Peru until early this decade, when it sold its operations to the Banco de Crédito del Perú.
- Near the end of the 2005, Scotiabank (from Canada) purchased the Banco Wiese Sudameris. Then, the Banco Wiese Sudameris merged with the Banco Sudamericano (which already belonged to Scotiabank). Now, both operate as a single entity under the name of Scotiabank Peru.

- Scotiabank has recently acquired 100% of the shares of Banco del Trabajo de Perú.

Source: Semana Económica

Insurance System

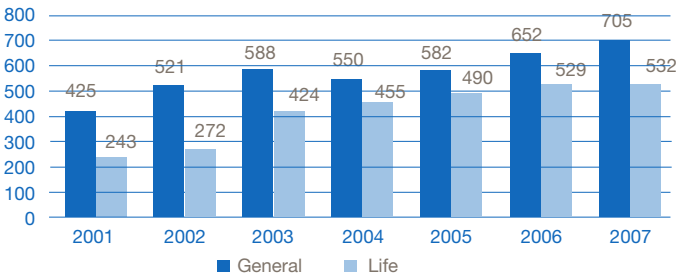
Total Insurance Premiums (Millions of US\$)

Insurance Company	Premiums 2007	Variation 2007/2006
Rímac	422	-0.65 %
El Pacífico Peruano Suiza	245	29.35 %
El Pacífico Vida	141	10.58 %
InVita	101	-2.54 %
Interseguro	79	-22.76 %
La Positiva	70	5.61 %
Mapfre Perú	48	13.62 %
Mapfre Perú Vida	41	3.38 %
Latina	40	-12.34 %
La Positiva Vida	27	27.70 %
Ace	14	16.95 %
Secrex	7	24.43 %
Cardif	1	206.18 %
Total	1,236	4.73 %

Source: SBS

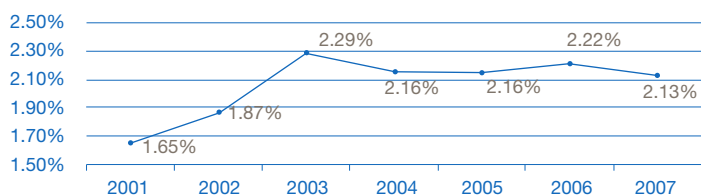
Insurance Premiums: Types and Market Penetration

Evolution of Premiums by Type (Millions of US\$)



Source: SBS

Market Penetration % (Total Premiums/GDP)



Source: SBS

Latest Acquisitions

- In January 2007, ACE Limited (member of the U.S.-based ACE Group, acquired the Peruvian life insurance company Altas Cumbres, a subsidiary of Chilean Altas Cumbres Group, at a price of approximately \$ 24.3 million dollars.
- In 2004, the insurance company Cardif S.A. began operations in Peru from scratch.
- At the end of 2007, Mapfre paid approximately US\$ 14 billion for 98.55% of Latina Seguros, company with less than four years in the local market and that was formed from the merger of Generali and Sul América.

Source: Semana Económica

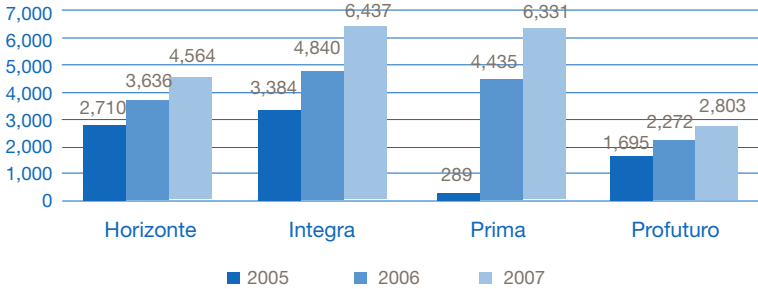
Pension System: Private Pension Funds (PPF)

Assets Managed by Company (Millions of US\$)

Company	Total Fund –Dec. '07	Variation 2007/2006
Horizonte	4,564	25.54%
Integra	6,437	33.00%
Prima	6,331	42.74%
Profuturo	2,803	23.40%
Total	20,135	32.62%

Source: SBS

Evolution of Assets Managed (Millions of US\$)



Source: SBS

Latest Events

- In early 2008, the Interbank group obtained authorization to organize a Private Pension Fund.
- In 2005, the Credicorp group entered the Peruvian PPF market with the PPF Prima. The following year, Credicorp purchased PPF Union Vida for \$ 142 million dollars. With this merger, the largest financial holding company in Peru strengthened its position in the pension fund market.
- Currently, three new Private Pension Funds are assessing the possibility of entering the Peruvian market.
- Potential target: PPF Profuturo. There have been rumours about a possible sale for the past couple of years, but nothing has yet materialized.

Source: Semana Económica, Diario El Comercio

Part II : Industry Analysis

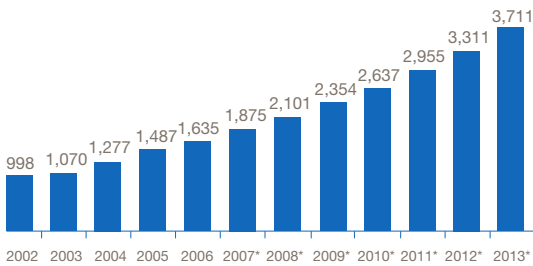
Tourism

Tourism

International Arrivals

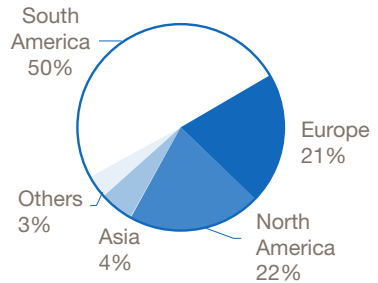
- The arrival of foreign tourists to Peru has grown at an annual average rate of 12% over the past 10 years.
- In Peru, the largest percentage of tourists (27%) are from South America, followed by North America (United States and Canada) with 17.7%.

International arrivals

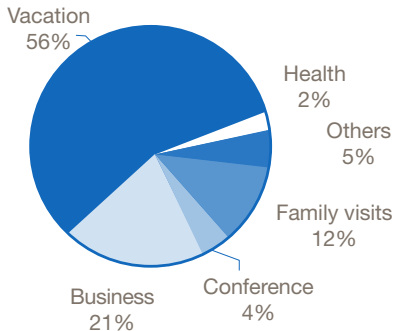


Source: Mincetur, Prom Perú, Apoyo

International arrivals by place of residence



Reason for Visit of Foreign Tourists and their Level of Satisfaction



Source: Mincetur, Prom Perú, MAXIMIXE

- Peru currently has 7,646 lodging establishments.
- 26 5-star hotels, 26 4-star and 487 3-star establishments.
- 927 2-star, 411 1-star and 42 hostels.

- In general, tourists who visited Lima felt satisfied with the tourist services received. (Peru receives a score of 4.2 out of a possible 5).
- Being host of the Summit of Heads of State and Government of America and the Caribbean-European Union in May and the forum of Asia Pacific Economic Cooperation (APEC) will produce an increase in the tourism sector.

Source: Mincetur, Prom Perú, MAXIMIXE

NextSteps

Accor	<ul style="list-style-type: none"> • Opening a Novotel in San Isidro with an investment of US\$ 15 million. • Opening a 3-star hotel under the Ibis brand in the Miraflores district, with an investment of US\$ 10 million.
Blue Marlin	<ul style="list-style-type: none"> • Acquisition of two hotels in Lima (which operated under the Radisson brand). • Acquisition of land in Cusco, Ollantaytambo and Tumbes with an investment of US\$ 50 million.
Casa Andina	<ul style="list-style-type: none"> • Opened two hotels in January and February - the hotel "Casa Andina Private Collection" in the city of Arequipa, and the other in the district of Miraflores in Lima. It plans to open a lodge in Tambopata and a sixth hotel in Cusco.
Cable Andina	<ul style="list-style-type: none"> • Long-term plans to open 4 or 5 five-star hotels in the southern circuit (in Arequipa, Puno and Urubamba).
Doubletree El Prado	<ul style="list-style-type: none"> • The Doubletree Guest Suites by Hilton will be opened in Paracas in July.
Hoteles El Libertador	<ul style="list-style-type: none"> • 4 new hotels to be opened between 2007 and 2010, with an investment of US \$ 160 million.
JW Marriott Lima	<ul style="list-style-type: none"> • Renovation of its 300 rooms and lounges are planned, as well as investments in the city of Cusco.
Meliá Lima Swissotel	<ul style="list-style-type: none"> • Begin construction of a convention center. • Construction of a second tower of rooms planned, together with a fitness club and five levels of parking.
Thunderbird Hotel Las Américas	<ul style="list-style-type: none"> • Plans to remodel the facade of the 5-star hotel in Miraflores and the events area at the Hotel El Pueblo.

Source: Prom Perú

Part II : Industry Analysis

Mining

Mining

Current market

Peru: 1st producer of gold, silver, zinc, tin, and lead in Latin America.

Peru: 2nd producer of copper and molybdenum.

Almost all the large multinational mining companies operate in Peru.

Current market Exports 2007

Mineral	Exports (US\$MM)		Var. %
	2006	2007	
Copper	5,986	7,241	21.0
Gold	4,004	4,113	2.7
Zinc	1,991	2,535	27.3
Lead	713	1,033	44.9
Molybdenum	835	982	17.6
Silver	480	537	11.9
Iron	256	285	11.3
Tin	349	254	-27.2
Others	24	51	112.5
Total	14,638	17,031	16.3

Current market Exports 2007

Company	Exports (US\$MM)		Var. %
	2006	2007	
Antamina	2,795,793	3,013,282	7.78
Southern	2,764,479	2,983,586	7.93
Cerro Verde	524,519	1,628,747	200.22
Doe Run	1,019,473	1,258,547	23.45
Yanacocha	1,614,556	1,114,473	-30.97
Barrick	974,154	1,041,608	6.92
Cormin	422,214	605,662	43.45
Xstrata	553,633	509,298	-8.01
P. Sudam.	359,220	456,930	27.20
Quenuales	356,553	370,541	3.92
Total	14,710,609	16,915,913	14.99

Recent developments

- In 2007, exports exceeded US\$ 17 billion.
- Investments announced for the coming years will reach almost US\$15 billion. Important Chinese investments.
- High potential in the non-metallic mining industry in borates, diatomite, bentonite, phosphoric rock and travertine, among others.
- A risk capital or "Projects Bank" segment, concentrating in mining exploration, has been developed in the Lima Stock Exchange.
- Only 10% of Peru's territory with mining potential has been explored.
- Mining refining processes are taking place in Peru.
- Local mining companies are growing and in a process of consolidation.
- Exploration Investment reached almost US\$ 475 million in 2007.

Next steps

- Proinversión continuing to grant concessions.
- Government supporting major mining projects.
- Society will continue monitoring community affairs and sustainability.
- Mining projects supporting private-public partnerships.

Main Mining Projects (2007-2010)

Project	Firm	Investment (US\$ million)
Toromocho	Chinalco	2,152
Rio Blanco	Zijin Mining Group	1,400
Los Chancas & others	Southern Copper Corp.	2,830
Minas Congas	Yanacocha	935
Las Bambas	Xstrata	930
La Granja	Rio Tinto	700
Quellaveco	AngloAmerican	1,000
Michiquillay	AngloAmerican	700
Total		14,927

Source: BCRP, Newspapers, Companies' Webs

- The Peruvian Government has declared 20 mining mega projects as “projects of national interest”. In this connection, last year the Ministry of Energy and Mines simplified the mining concessions procedures. In addition, the Ministry of Agriculture limited the local governments’ ability to limit areas for mining exploration under ecology protection arguments.

Part II : Industry Analysis

Telecommunications

Telecommunications

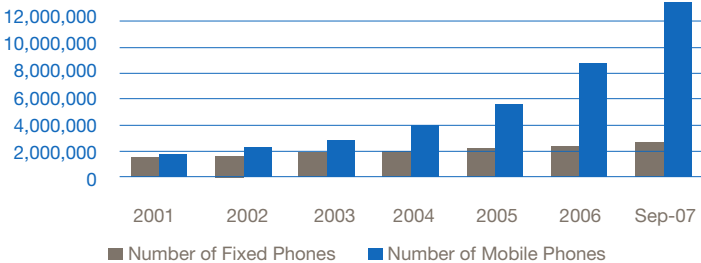
Top 10 Companies - 2006 Sales Year (US\$ Million)

Ranking	Company	2006
1	Telefónica del Perú S.A.A.	2,190
2	Telefónica Móviles S.A.	644
3	América Móvil Perú S.A.C.	473
4	Brightstar Perú S.R.L.	182
5	Nextel del Perú S.A.	156
6	Telefónica Multimedia S.A.C.	134
7	Telmex Perú S.A.	74
8	Americatel Perú S.A.	37
9	Telefónica Empresas Perú S.A.A.	28
10	Telefónica International Wholesale Services Perú S.A.C.	25

Source: Perú: The Top 10000 Companies 2007

Telephone Services

Evolution of Telephone Services



Source: MTC

Fixed Telephone Services by Company

Company	Sep-2007
Telefónica del Perú S.A.A.	2,331,428
Telmex Perú S.A.	32,710
Telefónica Móviles (1)	252,027
Americatel Perú S.A.	8,109
Impsat Perú S.A.	5,094
Gilat to Home Perú S.A.	797
Rural Telecom S.A.C.	625
Nextel del Perú (2)	27
Infoductos y Telecomunic. Perú S.A	1,344
Total	2,632,161

Mobile Telephone Services by Company

Company	Sep-2007
Telefónica Móviles S.A.	2,331,428
Comunicaciones Móviles del Perú	32,710
Nextel Perú S.A.	252,027
America Móvil Perú	8,109
Total	2,632,161

(1) Information recorded beginning in 2005, following the merger between Telefonica Moviles and Comunicaciones Moviles (formerly Bellsouth).

(2) Formerly Millicom.

Source: MTC

Investment Opportunities

Project	Estimated Investment US\$ Million)	Award
Rural Broadband Implementation	13	2008 II QT
Rural Telecommunication Implementation Program -Rural Internet	11.5	2008 II QT
Satellite Broadband	45	2008 II QT
Wi-max Project	110	2008 IV QT
Total Estimated Investment (US\$ Million)	179.5	

Source: Proinversión

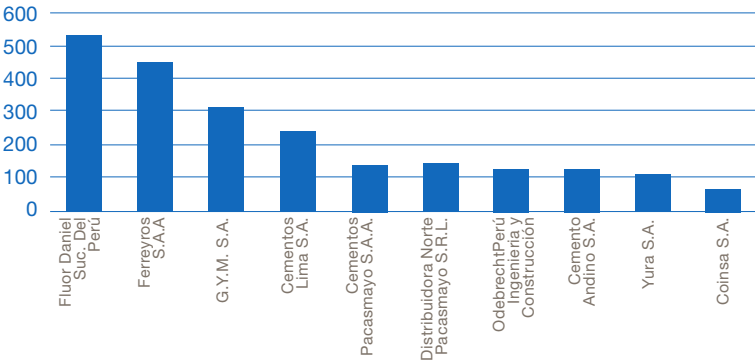
Part II : Industry Analysis

Manufacturing

Manufacturing

Top 10 in Sales - Engineering & Construction (Million US\$ -2006)

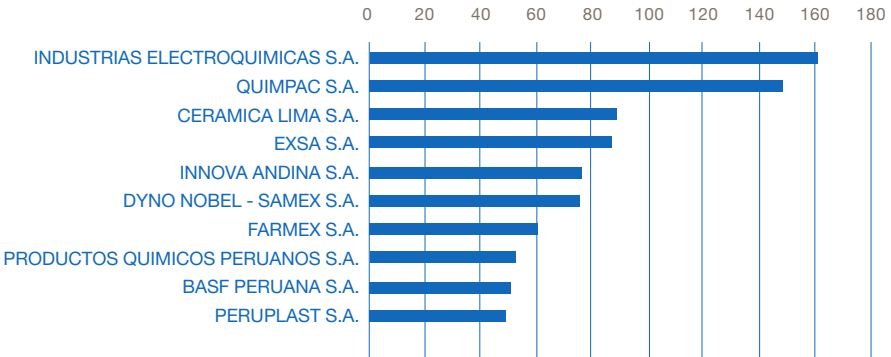
Growth in mining and construction have enabled these companies to grow.



Source: Perú: The Top 10000 Companies 2007

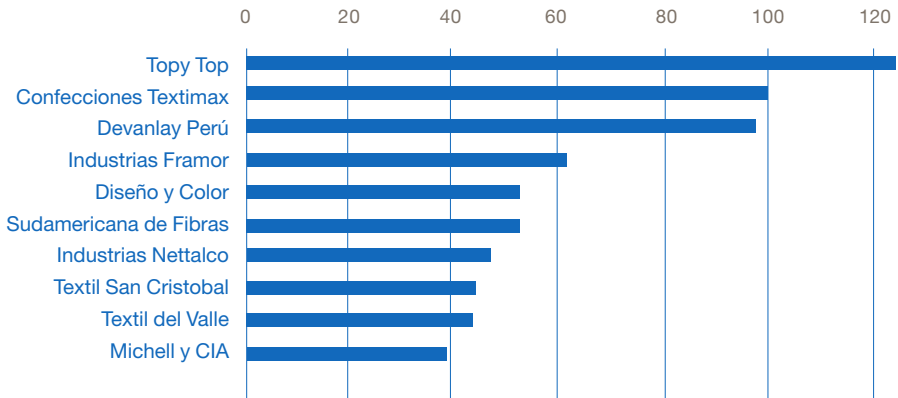
Top 10 in Sales - Chemicals (Million US\$ -2006)

Growth in mining and construction is also reflected here



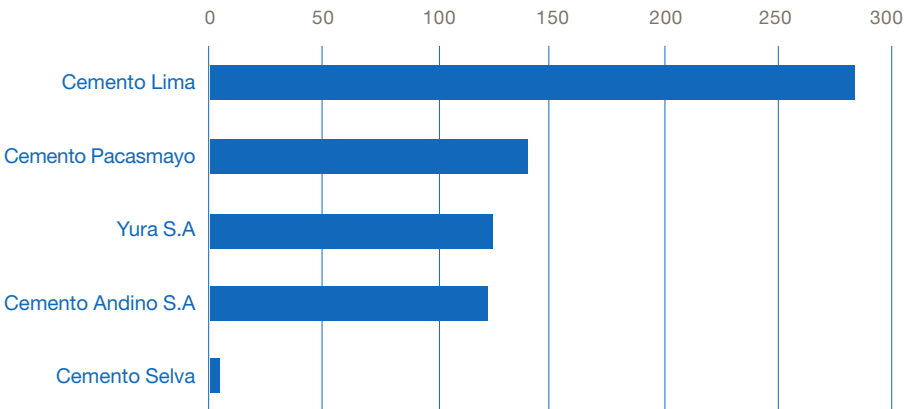
Source: Perú: The Top 10000 Companies 2007

Top 10 in Sales - Textiles (Million US\$ -2006)



Source: Peruvian Society of Foreign trade (Comex)

Sales of Cement (Million US\$ -2007)



Source: National Supervisory Commission of Companies and Securities (Conasev)

Part II : Industry Analysis

Fishery

Fishery

Top 20 fishery exports (FOB US\$ 000)

Ranking	Company	2006	2007	Variation 2007/2006
1	Tasa	152,812	316,861	107.35%
2	Austral Group	150,160	160,437	6.84%
3	Pesquera Hayduk	129,338	144,734	11.90%
4	Pesquera Diamante	88,897	101,198	13.84%
5	CFG Investment	4,709	83,232	1667.32%
6	Corp. Pesquera Inca	76,409	66,704	-12.70%
7	Pesquera Exalmar	66,325	66,632	0.46%
8	Cía. Pesq. Del Pacífico Centro	35,421	51,328	44.91%
9	Pesquera Industrial El Ángel	27,283	38,568	41.36%
10	Conservera Garrido	32,345	34,047	5.26%
11	Colpex International	26,674	33,843	26.88%
12	Pesquera Ribaudó	23,386	28,422	21.53%
13	Corp. Refrigerados INY	27,657	26,398	-4.55%
14	Corp. Fish Protein	40,492	25,830	-36.21%
15	Marvesa	19,376	24,751	27.74%
16	Corp. Pesquera Coishco	27,512	23,534	-14.46%
17	Corp. del Mar	17,200	22,845	32.82%
18	Epesca	24,410	22,586	-7.47%
19	Pesquera Rubí	24,859	21,025	-15.42%
20	Pesca Perú Chimbote Norte	15,361	20,670	34.56%
Subtotal		1,010,625	1,313,646	29.98%
Total Exports		1,774,442	1,946,237	9.68%

Source: Comex

Fishery and Aquaculture Advantages

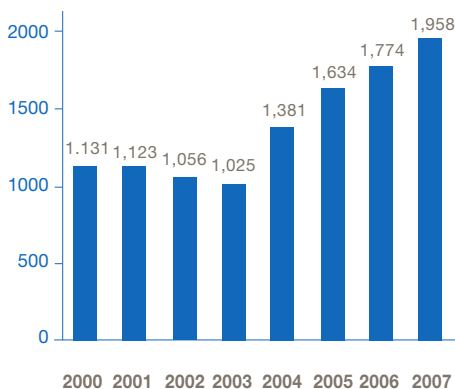
- First world producer and exporter of fish meal and fish oil, it contributes to the development of a vast range of fishing products.
- Great hydro biological richness: Annual average unload of 7,5 million MTB between 2005-2007 (mainly anchovy).
- Multiple species not yet entirely exploited.
- Fast growth of development and exportation of direct human consumption products: Frozen, canned and processed fish products.

- Long coastline (over 2500 km.) and many Peruvian lakes and lagoons are solid proof of the great marine and continental aquaculture development potential.
- Expansion of exportation of fishing products such as king prawn, shrimp, scallops, trout and ornamental fishes.

Source: Proinversión

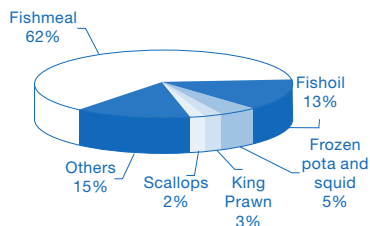
Fishery and Aquaculture Advantages

Fishery Exportation Evolution
(US\$ Million)

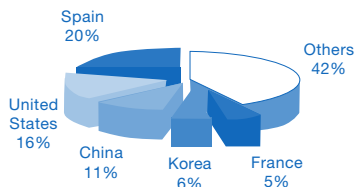


Source: Proinversión, Prompex, Adex and Central Bank of Peru

Fishery exports by product, 2007



Exports by country, 2007



Latest Acquisitions

- Over the past two years this industry has consolidated.
- Currently, fishery firms are looking for consolidation and to diversify their products and markets.

Buyer	Acquisition (US\$MM)	Amount	Date
Copeinca	Shares and assets	n.d	Jan-05
Pecsa	Distribution operation	11.9	Apr-05
Epesca	Plant	5	Apr-05
Pacific Fishing Businessy Pesquera Centinela	Plant	5.7	May-05
Pesquera Diamante	Fleet	n.d	Aug-05
Copeinca	Delmar	8	Sep-05
Pesquera Alexandra	Shares and assets	n.d	Oct-05
Tasa	Plant	n.d	Dec-05
Tasa	Shares and assets	130	Apr-06
Pesquera Exalmar	Shares and assets	14	Apr-06
Cope Inca	Shares and assets	29	Jun-06
Grupo Orlic	Shares	8	Aug-06
Exalmar	14 small fishing firms	n.d	2006-07
Copeinca	Shares and assets	39	Feb-07
Copeinca	Shares and assets	100	Feb-07

Source: Semana Económica

Part II : Industry Analysis

Agribusiness

Agribusiness

Top 20 agro exporters (FOB US\$ 000)

Ranking	Razón Social	2006	2007	Variación 2007/2006
1	Camposol	98,199	110,583	12.61 %
2	Perales Huancaruna	119,828	98,325	-17.95 %
3	Sociedad Agrícola Virú	71,672	85,618	19.46 %
4	Alicorp	55,750	66,938	20.07 %
5	Gloria	43,357	57,839	33.40 %
6	Danper Trujillo	41,682	57,679	38.38 %
7	Comercio & Cía.	39,918	57,249	43.42 %
8	Sociedad Agrícola Drokasa	42,494	44,705	5.20 %
9	Cía. Internacional del Café	58,076	33,857	-41.70 %
10	Machu Picchu Coffee Trading	36,375	32,589	-10.41 %
11	Central de Coop. Agrar. Cocola	29,755	30,386	2.12 %
12	Agroindustrias AIB	27,559	28,762	4.37 %
13	IQF del Perú	24,567	26,569	8.15 %
14	Complejo Agroindustrial Beta	15,792	23,491	48.75 %
15	Corp. Miski	18,424	21,782	18.22 %
16	Kraft Foods Perú	20,524	21,767	6.05 %
17	Romero Trading	30,983	21,540	-30.48 %
18	Consorcio de Prod. de Fruta	13,686	21,195	54.87 %
19	Gandules Inc.	13,622	20,349	49.38 %
20	Outspan Perú	8,876	20,094	126.40 %
Subtotal		811,140	881,316	8.65 %
Total Exports		1,789,570	1,939,727	8.39 %

Source: Comex

Agribusiness Advantages

- First world exporter of asparagus and paprika. 2nd exporter of organic coffee worldwide.
- Important exporter of organic bananas, citrus fruits, white onion and beans, among other fruits and vegetables.
- 5 million hectares of land, many of them with possibility to schedule crop periods due to optimum climatic conditions.
- Due to our geographical location, near to the equatorial line, we receive vertical sun radiation, which allows an improvement in most crops productivity.
- We have 84 of the 108 existing climates in the world, we produce during seasons when most of important markets do not (such as the United States and China) and have long harvest seasons.

Source: Proinversión

- Peru has clear comparative advantages in gourmet products regarding foreign competition due to their high quality, yields per hectare and other features such as weather.
- Access to “Seasonal windows” in the most important markets permitting a rise in prices (U.S., Europe and Asia).
- Skilled workforce availability.
- Organic crops are increasingly gaining more ground in the Peruvian export supply thanks to a growing demand, especially among the countries of Europe and Asia.

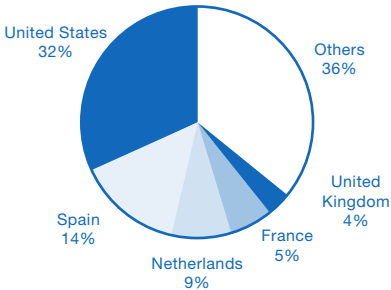
Latest Acquisitions

Buyer	Acquisition	Amount(US\$MM)	Date
Agrokasa	Shares and assets	15.2	Nov-05
Gloria	Shares	30	Ene-06

Source: Proinversión

Agribusiness Products

Agribusiness exports by markets, 2007



Source: Proinversión, Prompex, Adex Data Trade and Costum

Productivity of Peruvian Agribusiness worldwide

Product	Ranking by product	
	Worldwide	Latin American
Mangos	1	1
Asparagus	1	1
Sugarcane	1	1
Grapes	3	1
Avocados	5	4
Coffee	6	4
Pepper	10	3

Part II : Industry Analysis

Energy

Energy

Electrical Generation

- Electrical generation in Peru is provided by several companies belonging to different economic groups. The largest is Edegel (Endesa), followed by Electroperú (state-owned company).

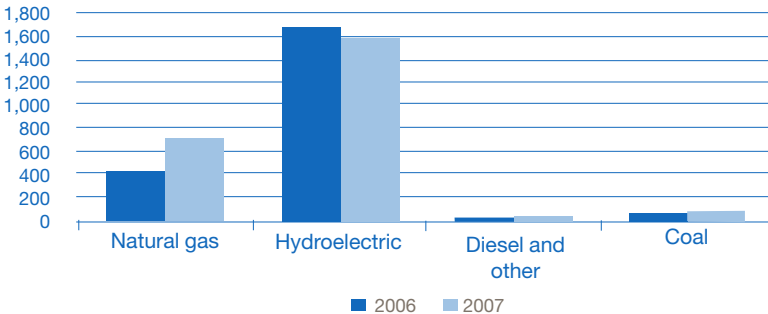
Electrical Generation by Company (MW.h)

Company	2007 %	Var. 2007/2006
Edegel	7,787,858.5	38%
Electroperú	7,143,293.2	-3%
Energía del Sur	3,823,271.9	70%
Duke Energy - Egenor	2,185,648.8	3%
Termoselva	1,141,549.3	-1%
Empresa de Generación Eléctrica de Arequipa	986,742.5	-9%
Empresa de Electricidad de los Andes	941,105.0	-15%
Empresa Eléctrica de Piura	600,996.4	2%
Empresa de Generación Eléctrica Machupicchu	750,467.5	1%
Empresa de Generación Eléctrica San Gabán	767,421.2	-1%
Empresa de Generación Eléctrica Cahua	527,374.5	5%
Others	1,478,290.3	-36%
Total	28,134,019.1	10%

Source: Minem

- The main variety of electrical generation in Peru is hydroelectric, although natural gas is being used increasingly in recent years.
- This is because, since 2004, natural gas from Camisea is available in Lima.

Energy production for electricity market by power source (GW.h)

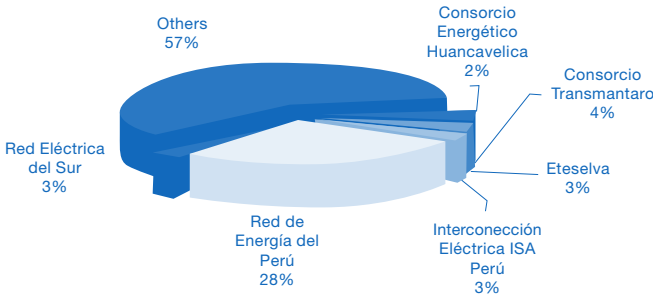


Source: Minem

Electrical Transmission

- In Peru there are about 15,000 km of transmission lines, between primary (17%) and secondary (83%) networks, which carry electricity to the north, center and the south of the country.

Market Share per company of total transmission lines in Peru (15,273 km) -2006

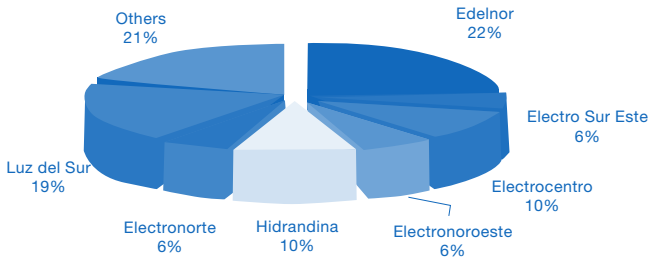


Source: Minem

Electricity Distribution

- In Peru there are 22 distribution companies, with nearly 4 million customers, between the regulated market and the free market.
- The largest companies are Edelnor and Luz del Sur, which operate in Lima.

Market Share of total number of customers (3,977,020) by company -2006



Source: Minem

Part II : Industry Analysis

Real Estate

Real Estate

Current Market

- Living standards have begun to improve.
- Increase in number of families that can acquire property from income.
- Unmet housing demand. Dissatisfaction with present housing and interest in buying.

Urban Housing Profile in Peru

	Greater Lima (1)				Biggest cities outside Lima			
	SES AB	SES C	SES D	SES E	SES AB	SES C	SES D	SES E
Supply of drinking water	98	97	76	44	99	96	85	65
FLOOR TYPE (%)								
Soil	0	0	9	65	0	1	18	79
Cement	9	61	86	34	19	72	78	21
Covered	91	39	5	1	81	27	4	0
OVERCROWDING LEVEL (Average)								
Number of rooms	7	4.8	3.8	2.9	6.9	5	4.1	3.4
Number of bedrooms	3	2.3	2	1.6	3.2	2.5	2.1	1.8
Number of people per bedroom	1.4	2.2	2.4	3.1	1.4	1.9	2.5	3.1
Number of bathrooms	2.4	1.3	0.8	0.4	2.2	1.3	0.9	0.4
Number of people per bathroom	2.1	3.5	3.1	1.8	2.2	3.4	3.4	2.3

1) SES: Socio-economic Status

Source: Ipsos APOYO Opinión y Mercado

Recent Development

A shift in housing demand is inevitable

What is driving the housing market

<ul style="list-style-type: none"> • Growth of dependent employment. • Increase in household income. 	Families are better off	} Housing Demand
<ul style="list-style-type: none"> • Inclusion of lower income segments. (price range US\$) <ul style="list-style-type: none"> - Mivivienda(60K +) - Mi Hogar(30K-12K) - TechoPropio(6K-11k) 	Government programs	
<ul style="list-style-type: none"> • Lower interest rates • Longer terms • New products • Trends: Securitization and Mortgage Managers 	Better conditions in the financial system	

Recent Development

The major players	Housing units	Offices
GyM	X	X
Besco (Besalco)	X	X
Urbi (Interbank)	X	X
AESA (Grupo Brescia)	X	X
Imagina	X	
Lider (Wiese)	X	
Inv. Centenario	X	X
DHMont	X	

The retail investment boom has convinced new investors to finance real estate development outside Lima.

Next steps

- Construction will continue to lead growth in non-primary sectors during the coming years. GDP growth forecasts: 2008 -12%, 2009 -10%
- Dependent employment, related to the concept of “formality”, will grow an average of 5.4% per year between 2008 and 2010.
- The growth of homebuilding activity will continue to meet the demand of low income segments, with the support of government programs.
- The construction of housing mega projects will grow in importance outside Lima, in line with the increase in households incomes during the last four years.
- The other real estate sectors will continue to grow, boosted by the growth of domestic demand and good macroeconomic fundamentals.
- The growth of residential mortgages will continue at two-digit rates, given the market potential and the new markets being developed in the country.

Nextsteps - Risks

- Construction / Real Estate are very sensitive to economic cycles.
- In the face of an abrupt adjustment in the world economy, growth could be cut in half.
- Risks similar to the ones registered in the 1990s:
 - Too much optimism could result in over-estimating demand for offices and hotel rooms).
 - Currency mismatch (loans in US\$) - families.
 - Equity weakness in the sector persists among developers & construction firms.
- A large number of small-scale housing developers will push margins down.
- Costs: labor(lower flexibility to hire new workers / higher costs to dismiss a worker), new increases in the price of inputs (land, materials).
- Bureaucratic obstacles (urban construction projects take one to two years; construction permits take up to one year), construction requirements.
- Lobbies by neighborhood associations.

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