



2013

Mining Industry Doing Business in Peru



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Executive Summary

Peru has an enormous economic strength in the form of multiple mineral deposits and is currently ranked 4th in the world¹. It currently occupies 7th place among the Top 10 leading mineral - producing countries, with an estimated production value of US\$ 27,063 million².

The primary competitive advantage for Peruvian mining is its diversification of minerals being produced: copper, gold, silver, lead, zinc, tin, molybdenum, iron, cadmium, mercury, selenium, indium and other metals. It is the region's top producer of zinc, tin, lead and gold, and occupies second place in the production of copper, silver, molybdenum, mercury, selenium, cadmium and phosphoric rock. Currently, Peru has a sufficient reserve of minerals to generate a constant flow of metal production for several decades, according to the United States Geological Service.

The ready availability of hydro - electric and thermal energy resources, such as gas, within Peru, makes the cost of energy a competitive advantage for mining activity. Together with other factors such as the system of land registry, granting of mining concessions, which is one of the most modern and practical in the world, as well having a Risk Capital Segment (Junior Stock Exchange) inside the Lima Stock Exchange. Mining companies can find the political and socio-economic environment within Peru very attractive.

Mining activity has been one of the main factors of the development of the Peruvian economy in the last decade. Between 2003 and 2012, investment in mining has grown by more than 2,700%, advancing from US\$ 305 million to US\$ 8,568 million and currently has a 47% share of the total announcements of private investment projects for the period 2013-2015, according to the Banco Central de Reserva (BCRP). At the same time, mining activity contributes 14.7% of the Peru's gross domestic product (GDP). Mining activity generates 10% and 16% of all tax revenues for Peru. The mining industry is Peru's primary export industry and generates more than 210,000 direct jobs per year. Mining also produces 9 indirect jobs in various sectors within the economy.³

Mining's contribution to Peru has gone even further with the need for mining companies to play a social role together with the generation of value for their shareholders. This behavior is consistent with the results of our 2013 global survey of CEOs in which they recognize the importance of strengthening the bridge between industry and society to achieve success.

In 2003, the mining companies undertook work with the government to undertake voluntary activities for Sustainable Development in key mining centers and their regional support areas. In the five-year period 2007-2011, almost 26.1 million people benefited from projects of local development, education, self-employment, infrastructure, nutrition, health and others, which involved investments of US\$460 million.

The Peruvian Government is very aware of the importance of mining for the country. For that reason, it provides its support to the sector in a framework of legal stability, economic freedom and investment promotion. The principal objective of Peruvian mining policy is to develop mineral resources rationally, respecting the environment, and creating conditions for the mining companies and society in which they live and work to come together in harmony.

This document is the first in a series of Doing Business, which exclusively covers the mining sector. It provides a description of the key aspects of the sector to help you to make investment decisions in Peru. We feel that our 89 years of experience in Peru gives us a clear understanding of this great industry and, together with the professionalism, objectivity and financial acumen for which we are known, we hope we can be of service to you as you explore Peru.

¹Fraser Institute, 2009.

²Wood Mackenzie / Gerens

³MINEM, IPE and SNMPE



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Introduction

The Top 10 mining producers of 2012 (In millions of US\$)

	Production value	Part. %
China	168,958	25.8
Australia	76,795	11.7
Chile	47,963	7.3
Brazil	38,138	5.8
Russia	34,929	5.3
USA	31,304	4.8
Peru	27,063	4.1
South Africa	23,122	3.5
India	22,778	3.5
Canada	19,741	3
Total	654,328	100 %

Source: Wood Mackenzie / Gerens

Ranking of mining production 2012

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

Source: United States Geological Survey and Anuario Minero 2012 MINEM

Cost of energy (In US\$ x kW/hour)

Chile	0.15
Brazil	0.10
Peru	0.5

Source: MINEM

Peru has been synonymous of mineral wealth since the sixteenth century when the silver from its mines, extracted by the Spanish conquest, flooded the Old World markets. Since then, the phrase *Vale un Peru* (English: "Worth a Peru") was coined for the country. The Peruvian nation is home of an enormous mining richness, expressed in numerous copper, gold and polymetallic deposits, the potential of which, measured in terms of volume, has been ranked as the fourth largest in the world by the Fraser Institute (2009).

The ancestral mining tradition of Peru, its private investment promotion policies, the commercial opening of the sector and the potential of its resources; have permitted the country to reach the first positions in the region and in the world as a producer of minerals. According to Wood Mackenzie, Peru occupies the seventh place in the ranking of mineral producing countries, with a production value of US\$27,063 million.

The privileged position of Peru is determined by the production of copper, gold, silver, lead, zinc and tin of its mines; and complemented by the production of other materials such as molybdenum, iron, cadmium, mercury, selenium and indium. The diversification of the supply that the country enjoys is recognized by mining investors and constitutes its main competitive advantage compared to the other countries of the region.

Peru is the world's seventh largest mining producer thanks to the diversification of its supply of commodities, which exceeds that of its mining competitors of the region. In particular, Peru possesses great resources and reserves of the three metals with greatest demand on a global level: iron, copper and gold, in that order. No country of the region possesses this competitive advantage, of which Peruvian mining expects to take advantage in the next 3 to 4 years.

Another of the country's competitive advantages is its low energy cost, 50% of that of Brazil and 67% of that of Chile, its main mining competitors in South America. This is due to the ready availability of hydro-energetic and thermal resources (gas of Camisea) offered by the Peruvian territory, unlike what occurs, for various reasons, in neighboring countries.

Peru also has advantages in terms of production costs. This is the case of the large copper mines, of which average costs in the country total Ctv\$ US\$, 624/t, compared to Ctv\$ US\$, 963/t recorded by the copper mines in Chile, the world's main producer of this commodity.

Another important factor that should be considered is the system of land registry and granting of mining concessions, one of the most modern and functional in the world, which has become a case study for other mining nations.

Finally, Peru has the advantage of having a Risk Capital Segment (Junior Stock Exchange) inside the BVL (Lima Stock Exchange), the only one in Latin America, which has made it possible to attract exploration companies and the financing of some of them in previous months.

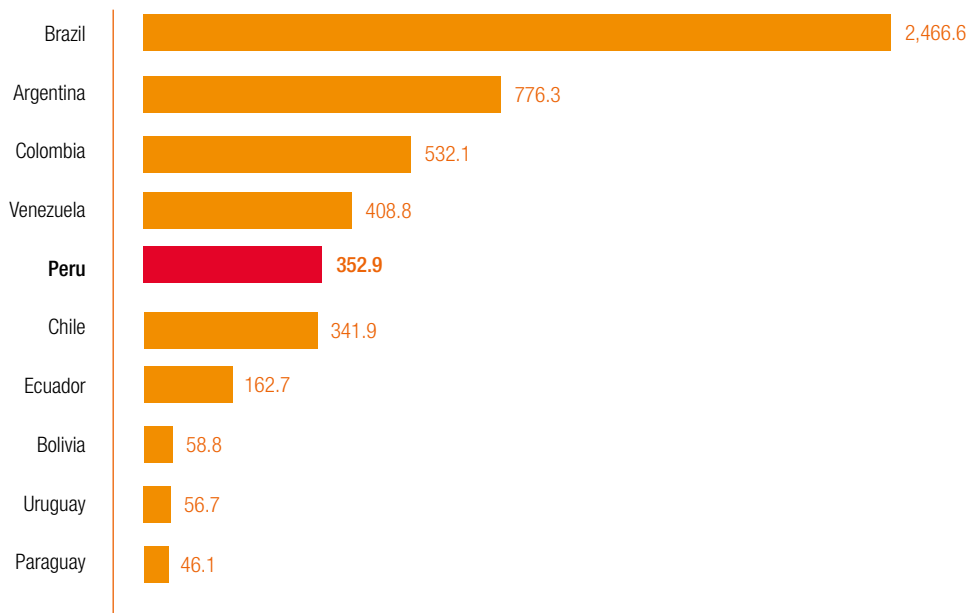
Peruvian economy – an overview

The economy of Peru is a success story, recognized by international organisms such as the International Monetary Fund (IMF) and in the various economic forums. It occupies the fifth position in South America, due to the size of its Gross domestic product based on purchasing-power-parity (PPP) and the fourth place of the 20 best countries and frontier markets in the world to invest in, according to the Bloomberg Markets magazine. The data comes from Bloomberg's own financial-market statistics, IMF forecasts and the World Bank. Countries were also rated on areas of particular interest to foreign investors: the ease of doing business, the perceived level of corruption and economic freedom.

The merit of Peru responds to its solid macroeconomic performance and its economic model based on the market economy, the subsidiary role of the State, the free initiative of private investments, macroeconomic stability, trade liberalization, the promotion of local and foreign investment, the stimulation of free competition, legal stability and social inclusion.

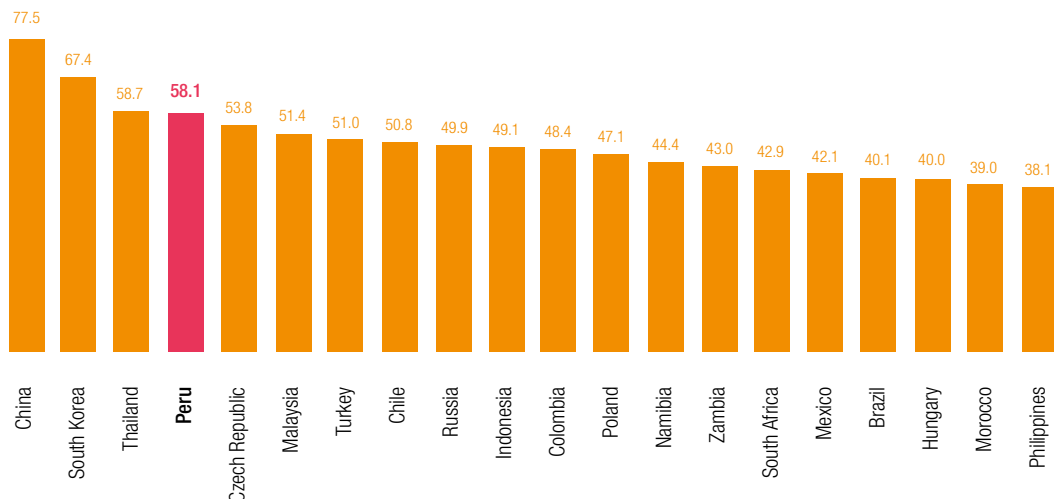
South America: GDP 2013* based on purchasing-power-parity

US\$ Thousand million



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

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



Source: Bloomberg Markets, Emerging Markets, Special Report 2013

For more than a decade, Peru has been the economy with the highest growth and the one with the lowest inflation in the region. Between 2001 and 2011, the Peruvian economy grew at an average rate of 5.8%, compared to the average 3.9% of the region. Likewise, the average inflation rate of Peru totaled 2.5%, while in the region the average rate totaled 7.6%, in the same period, according to the IMF.

The economic performance of Peru and the fiscal responsibility of the Peruvian government motivate the IMF to make very auspicious projections for the country. The multilateral entity estimates that in 2018, the Peruvian economy will displace that of Venezuela and will become the fourth largest economy in South America, with a GDP based on PPP estimated at US\$ 524.1 thousand million dollars.

For its part, the risk rating agencies also support the future of the country. In August of this year, Standard & Poor's elevated Peru's credit rating in recognition of the country's responsibility in having reduced its vulnerability to external impacts and having improved its capacity to record stable economic growth. This is a distinction that positions Peru as the second economy of the most reliable region for investments, with a rating that is above those of Spain, Italy and Portugal.

S&P: Long-term sovereign debt in foreign currency



Source: BCRP

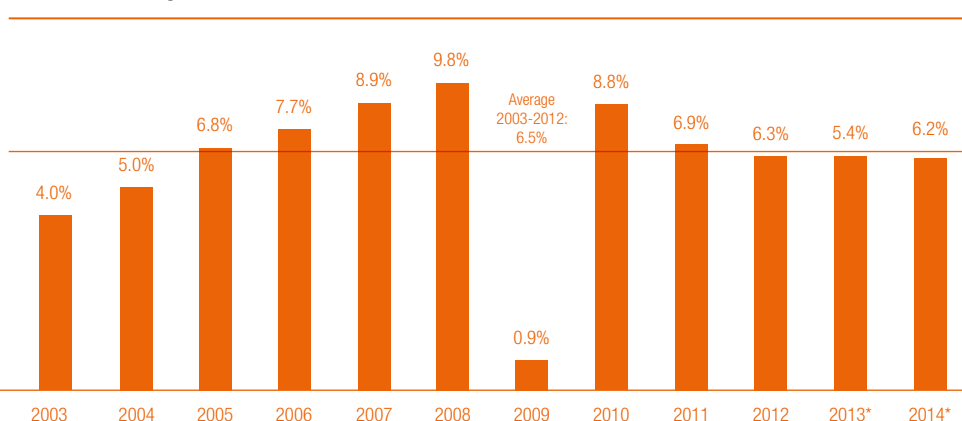
The BCRP projects that the Peruvian economy will grow between 5.4% and 6.0% in 2013 and 6.2% on average in the next three years. This growth, according to the main investment banks surveyed by Latin Focus, will make Peru the second fastest growing economy of the region in 2013 and the first in 2014.

South America: Real GDP (Annual percentage change)

	2013	2014
Paraguay	10.5	4.3
Peru	5.4	6.2
Bolivia	4.8	4.7
Chile	4.3	4.4
Colombia	3.8	4.5
Uruguay	3.8	4.4
Ecuador	3.7	4.0
Argentina	2.8	2.1
Brazil	2.5	3.2
Venezuela	0.1	1.7

Source: Latin Focus and BCRP

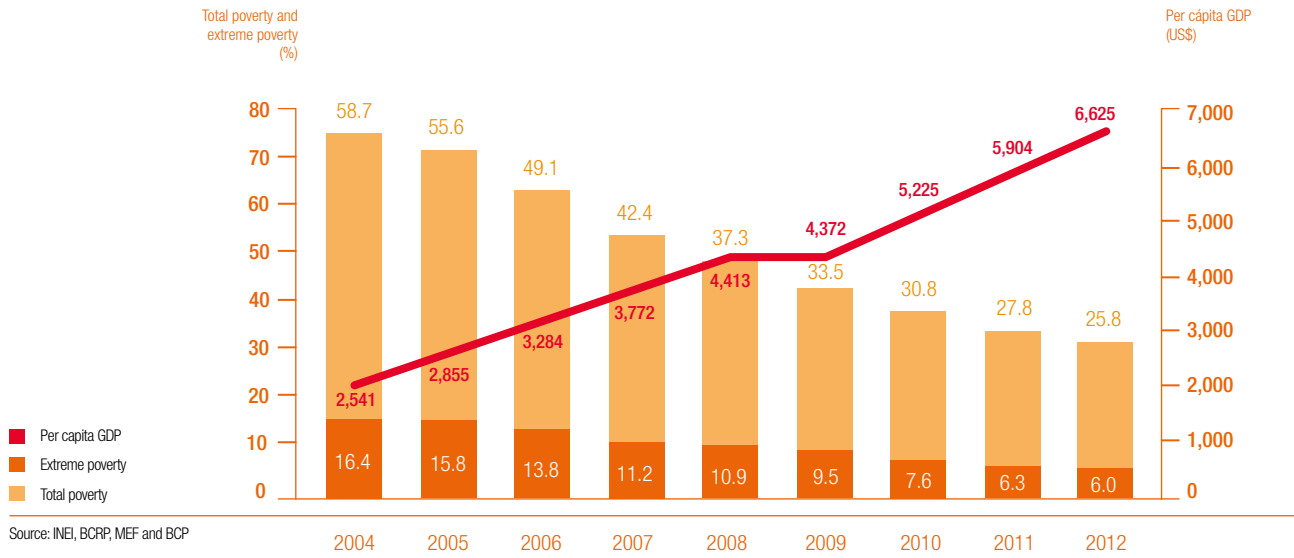
Peru: GDP annual growth 2003-2014



Source: Latin Focus and BCRP
August of 2013
(*) Projected

This robustness of the Peruvian economy has favored the neediest population of the country and has been translated into the drive towards social progress and the reduction of poverty.

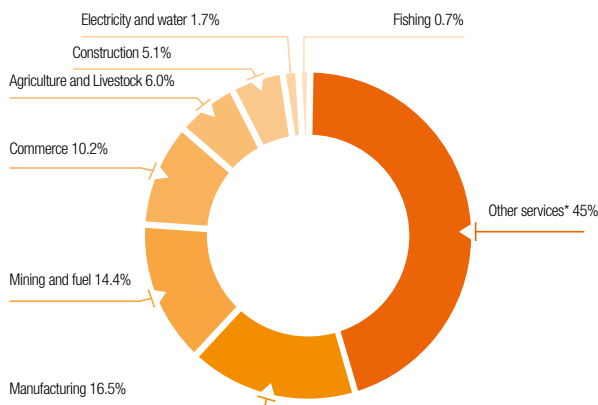
Peru: Poverty and economic growth 2004-2012



The mining industry

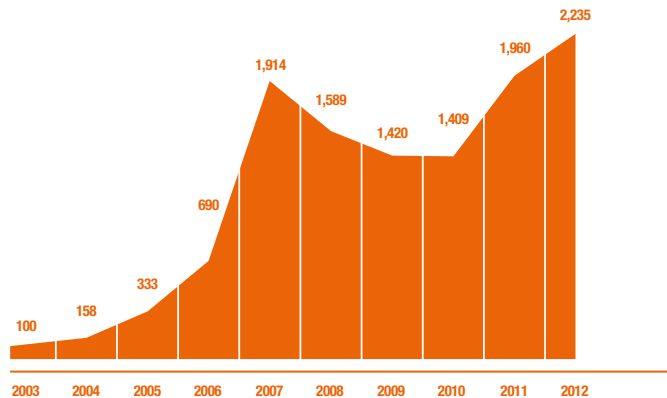
Within this development path of Peru, the mining industry is one of the most predominant mainstays in the generation of wealth. In recent years, the mining sector has generated on average 58% of total exports, 16% of fiscal income and 14.4% of GDP, as a result of the increase in metal prices. Only in 2012, the contribution of the mining sector to the sustainable development of the country's provincial regions totaled US\$2,235 million, according to the Ministry of Energy and Mines (MINEM). This contribution is mainly destined to the execution of infrastructure projects of regional and local impact that contribute to improving the standard of living of the population.

Peru: GDP structure by economic sectors (Basis year 2007)



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

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

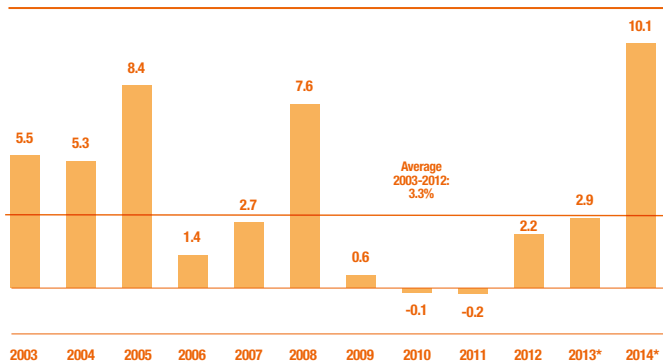


Source: Anuario Minero 2012, MINEM

Between 2003 and 2012, the mining GDP grew at an average annual rate of 2.7% driven by the increase in the production of metallic and non-metallic mining and of the greater flow of mining investments. During this period, the added value of the mining sector multiplied by 1.3 times, passing from S/. 8,579 million to S/. 11,236 million, at 1994 prices, according to the INEI.

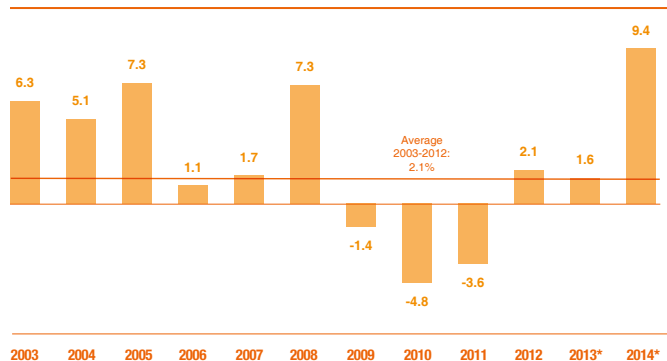
The economic authorities such as the MEF and the BCR have very favorable projections for the mining industry for the next three years. They estimate that in 2013, the mining GDP will grow between 1.3% and 2.0%, expanding in the following three years at a rate exceeding 10%, explained by increased copper production. The authorities forecast that the production of the red metal will double by 2016, as a result of the start-up of operations of important projects such as Toromocho, Constanza and Las Bambas.

Peru: Mining and fuel GDP 2003-2014 (Annual growth rates)



Source: BCRP and MEF. (*) Estimated by MEF, August of 2013.

Peru: Metals GDP 2003-2014 (Annual growth rates)

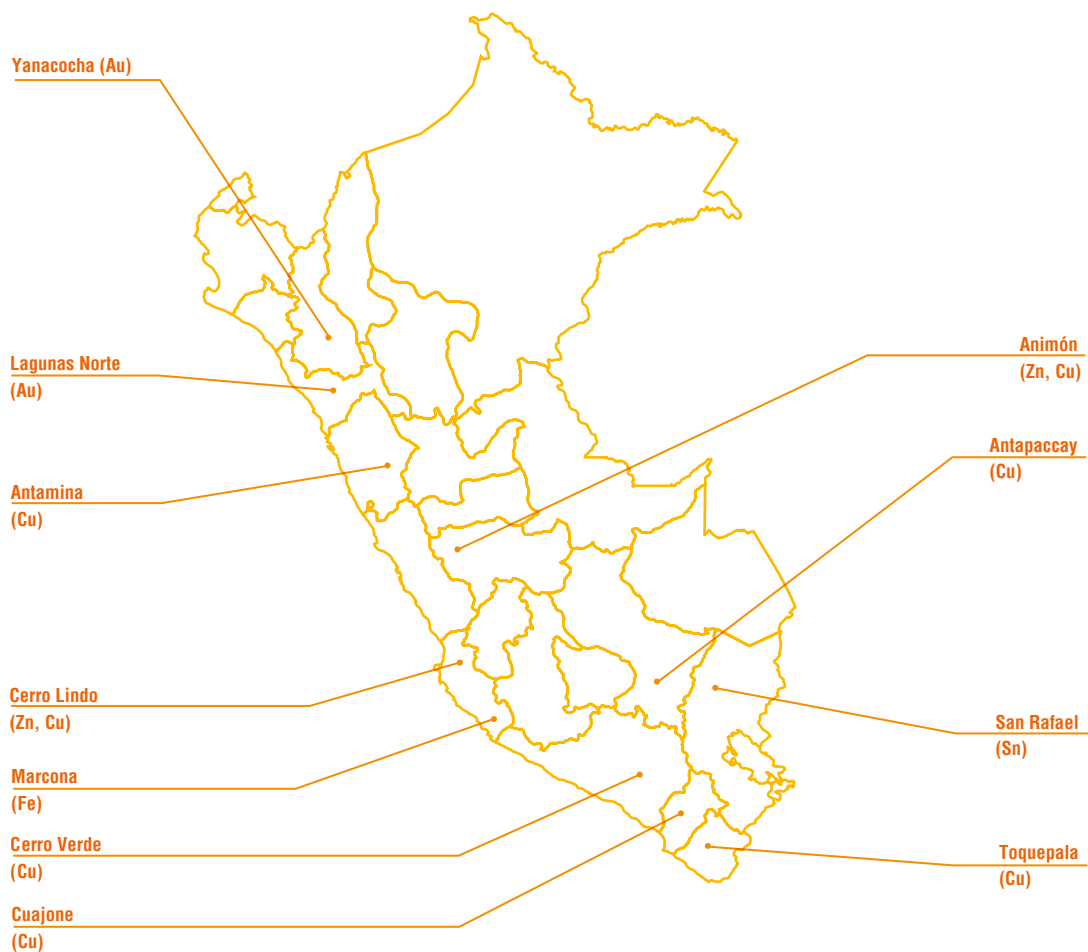


Source: BCRP and MEF. (*) Estimated by MEF, August of 2013.

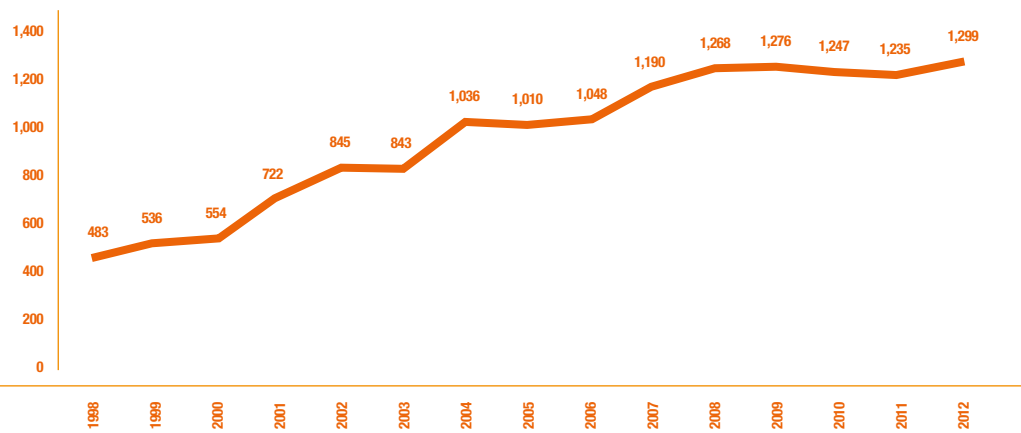
Metallic mineral production

The metal-mining production of Peru has recorded a positive growth in the last 15 years. Between 1998 and 2012, copper production has more than doubled, growing at an average annual rate of 8%; gold production has grown close to 88% at an average rate of 5%; silver production has increased by 89% at an average rate of 5%; zinc production has increased by 47% at an annual rhythm of 3%; and iron production has grown by 107% at an annual rhythm of 6%. The increase in the production of the majority of metals during this period is explained by the start-up of operations of new large and medium mines and the expansion of already existing mines.

Main metallic mineral deposit map

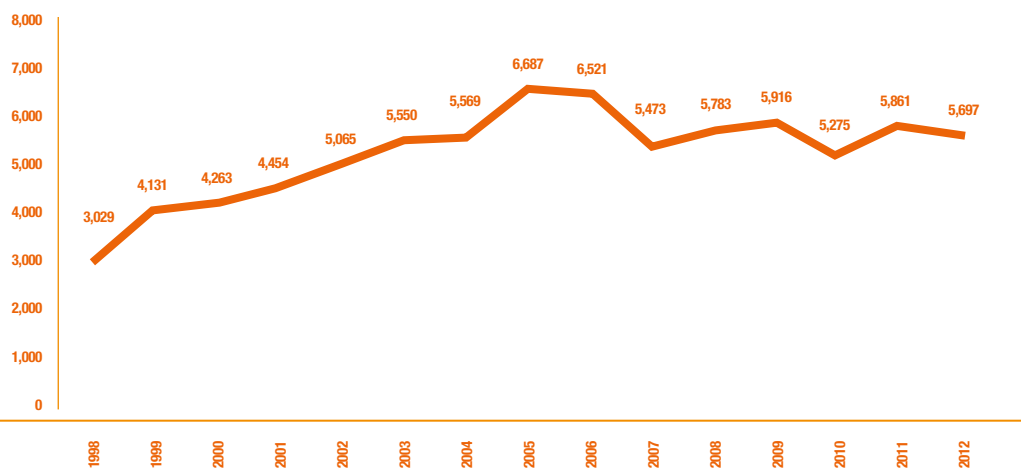


Peru: Copper production 1998-2012 (Thousands of metric tons)



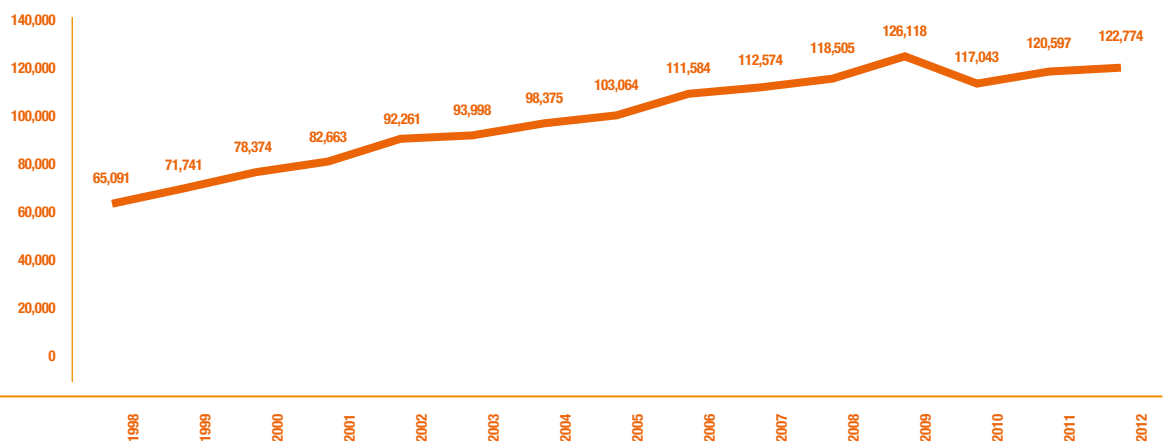
Source: MINEM

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



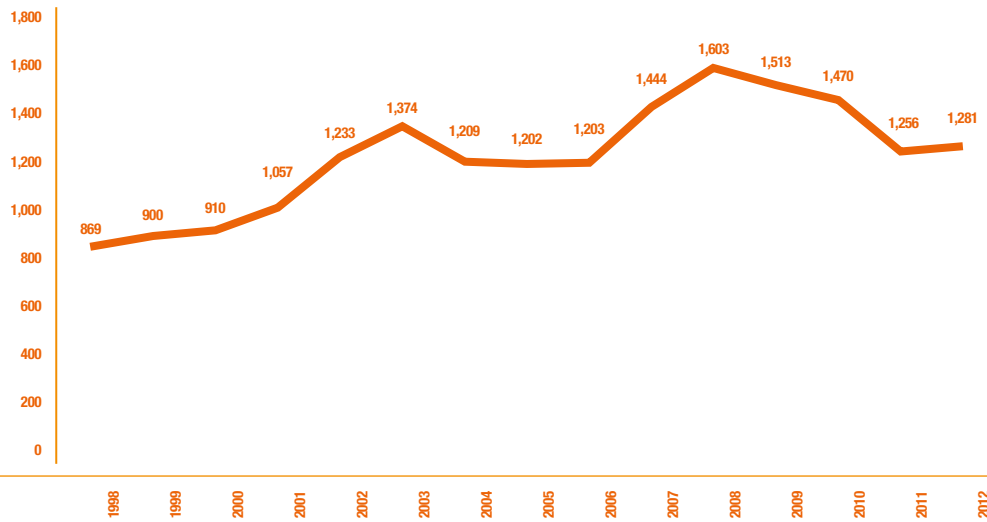
Source: MINEM

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



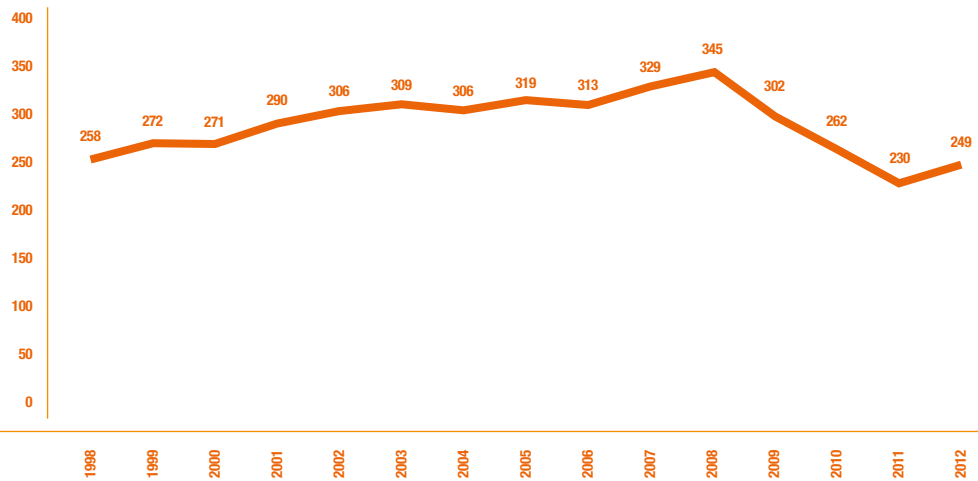
Source: MINEM

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



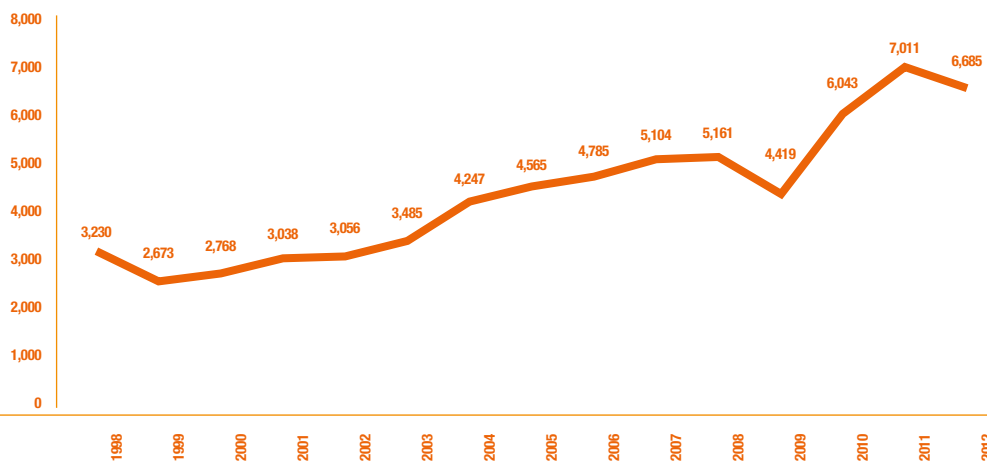
Source: MINEM

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



Source: MINEM

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



Source: MINEM

In 2013, the production of most of the commodities increased as a result of the expansion of the Antamina, Cerro Lindo and Marcona mines during 2012.

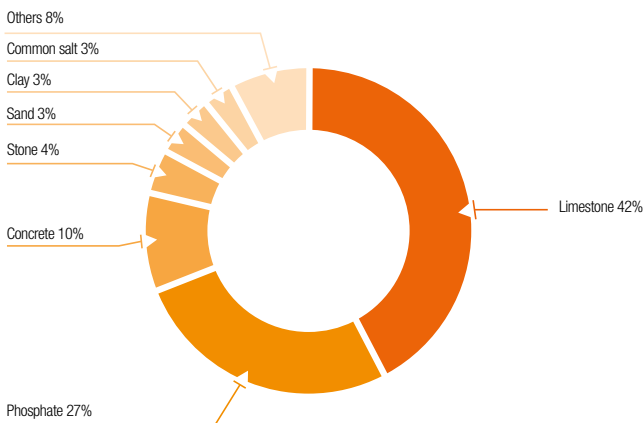
Metallic Production January - June 2013 (In thousands)

	2013	Var. (%)*
Copper (FMT)	625.5	2.6
Gold (F.Oz.)	2,667	-11.7
Zinc (FMT)	696.4	8.0
Silver (Oz.F)	60,830.3	1.3
Lead (FMT)	122.2	4.0
Iron (LFT)	3,808.4	15.6

Source: MINEM (*) Variation compared to the similar period of 2012.

Non-metallic mineral production

Peru: Production of non-metal minerals 2012 (Percentage participation)



Source: MINEM

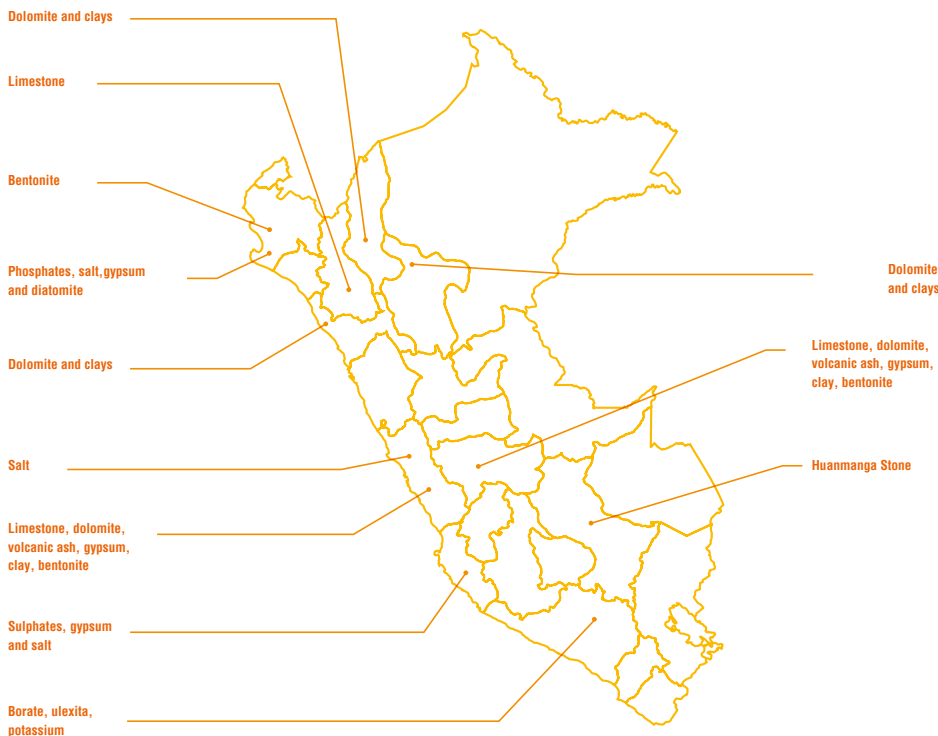
Unlike metal mining, the supply of which is sent abroad, non-metal production supplies internal demand and is directed mainly towards the construction and ceramic sectors. The consumption of non-metal production has grown exponentially in the country, due to the boom of the construction and housing sector. In this group of minerals, the greatest demand, in order of importance, is for: limestone or dolomite, concrete, clay, stone, coarse, fine sand and common salt.

Non-metal minerals include the production of phosphates or phosphoric rock, which has gained relevance since the beginning of operations of the Bayóvar Phosphate Mine (Piura). The success of this mining unit considered the largest of its type in Latin America has motivated an exploration boom for this mineral in various regions of the country.

Various companies such as Hochschild and Mitsubishi have announced large investments for the development of phosphate projects in Bayóvar. This scenario is also repeated in Junín with the participation of the North American company Stonegate Agricom, which has stated that there is a high potential for finding phosphates in this area of the country.

The main producers of non-metal minerals in Peru include: Vale, Unión de Concreteras, Minera Chinalco, Unión Andina de Cementos, Cementos Pacasmayo, Yura, Cemento Andino, among other companies. Additionally, coal has had an exponential growth in the last decade and its production is expected to increase with the tender of the Huayday-Ambara project, in La Libertad, valued at US\$200 million.

Main non-metallic mineral deposits map



Mineral prices

Annual average quotation						
	COPPER	GOLD	ZINC	SILVER	LEAD	TIN
	Ctvs.US\$/lb	US\$/OzTr	Ctvs.US\$/lb	US\$/OzTr	Ctvs.US\$/lb	Ctvs.US\$/lb
1995	133.18	384.52	46.78	5.19	28.62	281.82
1996	104.14	388.25	46.52	5.19	35.12	279.62
1997	103.28	331.56	59.75	4.89	28.32	256.09
1998	75.02	294.48	46.46	5.54	23.98	251.3
1999	71.32	279.17	48.82	5.25	22.8	245.07
2000	82.24	279.37	51.16	5	20.59	246.57
2001	71.6	271.23	40.17	4.39	21.6	203.4
2002	70.74	310.13	35.32	4.63	20.53	184.18
2003	80.7	363.62	37.54	4.91	23.36	222.03
2004	129.99	409.85	47.53	6.69	40.21	383.13
2005	166.87	445.47	62.68	7.34	44.29	334.84
2006	304.91	604.58	148.56	11.57	58.5	398.29
2007	322.93	697.41	147.07	13.42	117.03	659.47
2008	315.51	872.72	85.04	15.01	94.83	839.6
2009	233.52	973.62	75.05	14.68	77.91	615.83
2010	342.28	1,225.29	98.18	20.19	97.61	926.63
2011	400.2	1,569.53	99.5	35.17	108.97	1,183.96
2012	360.55	1,669.87	88.35	31.17	93.54	958.08
July 2013	312.66	1,286.72	83.27	19.71	92.91	888.53

Source: BCRP and MINEM

Main mining units

In Peru there are close to 80 copper producing mining units, 10 of which concentrate 90% of the production of this metal. Additionally, said units are owned by seven mining companies. Thus, the main producers of the red metal include: Compañía Minera Antamina, Compañía Minera Milpo, Gold Fields La Cima, Sociedad Minera Cerro Verde, Sociedad Minera El Brocal, Southern Peru Copper Corp. y XstrataTintaya.

Main copper producing units					
January-June 2013/ in TMF					
Name	Owner	Location	Production	Participation %	Accumulated %
Antamina	Compañía Minera Antamina	Ancash	193,888	31.0	31.0
Cerro Verde 1,2,3	Sociedad Minera Cerro Verde	Arequipa	121,202	19.4	50.4
Cuajone 1	Southern Peru Copper Corporation	Moquegua	79,308	12.7	63.1
Antapaccay 1	Xstrata Tintaya	Cusco	67,744	10.8	73.9
Toquepala 1	Southern Peru Copper Corporation	Tacna	23,887	3.8	77.7
Totoral	Southern Peru Copper Corporation	Tacna	23,111	3.7	81.4
Cerro Lindo	Compañía Minera Milpo	Ica	17,571	2.8	84.2
Simarrona	Southern Peru Copper Corporation	Tacna	15,201	2.4	86.6
Carolina N°1	Gold Fields La Cima	Cajamarca	14,589	2.3	89.0
Colquijirca N°1	Sociedad Minera El Brocal	Pasco	9,586	1.5	90.5
Others			59,366	9.5	100.0
Total			625,451	100.0	

In the case of gold, there are close to 480 mining units in the country of which 28 concentrate 90% of production. Likewise, six mining companies and the small producers of the region of Madre de Dios concentrate 62% of the production of this metal. The main producers include: Minera Yanacocha, Minera Barrick Misquichilca, Compañía de Minas Buenaventura, Consorcio Minero Horizonte, Aruntani and Aurífera Retamas.

Main gold producing units					
January-June 2013/ in thousands of Oz.F.					
Name	Owner	Location	Production	Participation %	Accumulated %
Chaupiloma Sur	Minera Yanacocha	Cajamarca	442.1	16.6	16.6
Acumulación Alto Chicama	Minera Barrick Misquichilca	La Libertad	302.7	11.4	27.9
M.D.D.	Madre de Dios	Madre de Dios	235.2	8.8	36.7
Acumulación Chaquicocha	Minera Yanacocha	Cajamarca	174.3	6.5	43.3
Acumulación Parcoy N° 1	Consorcio Minero Horizonte	La Libertad	100.7	3.8	47.1
Acumulación Mariela	Aruntani	Moquegua	99.3	3.7	50.8
Retamas	Minera Aurífera Retamas	La Libertad	97.1	3.6	54.4
Orcopampa	Compañía de Minas Buenaventura	Arequipa	92.7	3.5	57.9
Carolina N°1	Gold Fields La Cima	Cajamarca	88.9	3.3	61.2
Acumulación Tantahuatay	Compañía Minera Coimolache s.a.	Cajamarca	76.5	2.9	64.1
Acumulación La Arena	La Arena	La Libertad	76.3	2.9	67.0
La Zanja	Minera La Zanja	Cajamarca	74.9	2.8	69.8
Santa Rosa - Comarsa	Compañía Minera Aurífera Santa Rosa	La Libertad	70.6	2.6	72.4
Acumulación Andres	Arasi	Puno	55.5	2.1	74.5
Laytaruma	Minera Laytaruma	Ayacucho	54.4	2.0	76.5
Pierina	Minera Barrick Misquichilca	Ancash	50.1	1.9	78.4
Breapampa	Compañía de Minas Buenaventura	Ayacucho	48.3	1.8	80.2
Hda.de Beneficio Metalex	Minera Veta Dorada	Ayacucho	41.5	1.6	81.8
Antapaccay 1	Xstrata Tintaya	Cusco	41.5	1.6	83.3
La Poderosa de Trujillo	Compañía Minera Poderosa	La Libertad	34.0	1.3	84.6
Acumulación Anabi	Anabi	Cusco	26.1	1.0	85.6
Patrick Almendra i	Compañía Minera Minas pampa	La Libertad	22.7	0.9	86.4
Frontera Uno	Minsur	Tacna	20.5	0.8	87.2
Capitana	Compañía Minera Caraveli	Arequipa	20.3	0.8	88.0
Planta de Beneficio Minera Paraiso	Minera Paraiso	Arequipa	18.1	0.7	88.7
Acumulación Pallancata	Minera Suyamarc	Ayacucho	15.5	0.6	89.2
Doble D	Minera Colibri	Arequipa	15.3	0.6	89.8
La Arena	La Arena	La Libertad	15.0	0.6	90.4
Others			256.9	9.6	100.0
Total			2,667.0	100	

In Peruvian zinc production, 24 units concentrate 90% of the production, but only seven mining companies concentrate 75%. The main companies include: Compañía Minera Antamina, Compañía Minera Milpo, Volcan Compañía Minera, Empresa Minera Los Quenuales, Empresa Administradora Chungar, Compañía Minera Atacocha and Catalina Huanca.

Main zinc producing units					
January-June 2013/ in TMF					
Name	Owner	Location	Production	Participation %	Accumulated %
Antamina	Compañía Minera Antamina	Ancash	183,719	26.4	26.4
Cerro Lindo	Compañía Minera Milpo	Ica	79,609	11.4	37.8
Animon	Empresa Administradora Chungar	Pasco	47,925	6.9	44.7
Acumulación Iscaycruz	Empresa Minera los Quenuales	Lima	41,469	6.0	50.7
San Cristobal	Volcan Compañía Minera	Junín	39,696	5.7	56.4
Milpo N°1	Compañía Minera Milpo	Pasco	30,085	4.3	60.7
Atacocha	Compañía Minera Atacocha	Pasco	22,506	3.2	63.9
Catalina Huanca	Catalina Huanca Sociedad Minera	Ayacucho	21,061	3.0	66.9
Colquijirca N° 2	Sociedad Minera El Brocal	Pasco	18,746	2.7	69.6
Andaychagua	Volcan Compañía Minera	Junín	18,470	2.7	72.3
Americana	Compañía Minera Casapalca	Lima	16,846	2.4	74.7
Casapalca-6	Empresa Minera Los Quenuales	Lima	12,793	1.8	76.5
Acumulación Yauricocha	Sociedad Minera Corona	Lima	12,527	1.8	78.3
Acumulación Raura	Compañía Minera Raura	Huánuco	11,423	1.6	80.0
San Vicente	Compañía Minera San Ignacio de Morococha	Junín	11,352	1.6	81.6
Carahuacra	Volcan Compañía Minera	Junín	10,985	1.6	83.2
María Teresa	Minera Colquisiri	Lima	9,429	1.4	84.5
Cerro de Pasco	Empresa Administradora Cerro	Pasco	9,207	1.3	85.8
Berlin	Compañía Minera Santa Luisa	Ancash	8,773	1.3	87.1
Huaron	Pan American Silver Huaron	Pasco	7,698	1.1	88.2
Palmapata	Compañía Minera San Ignacio de Morococha	Junín	7,622	1.1	89.3
Santa Luisa	Compañía Minera Santa Luisa	Ancash	7,571	1.1	90.4
Others			66,875	9.6	100.0
Total			696,388	100	

There are some 170 silver producing mining units and only 29 concentrate 82% of the production. Likewise, there are seven mining companies that concentrate 43% of the production. These companies include: Minera Antamina, Compañía de Minas Buenaventura, Volcan, Minera Suyamarca, Administradora Chungar, Compañía Minera Milpo and Minera Ares.

Main silver producing units					
January-June 2013/ in thousands of Oz. F.					
Name	Owner	Location	Production	Participation %	Accumulated %
Antamina	Compañía Minera Antamina	Ancash	8,669.2	14.3	14.3
Uchucchacua	Compañía de Minas Buenaventura	Pasco	5,784.5	9.5	23.8
Acumulación Pallancata	Minera Suyamarca	Ayacucho	3,812.8	6.3	30.0
Animon	Empresa Administradora Chungar	Pasco	3,738.2	6.1	36.2
San Cristobal	Volcan Compañía Minera	Junín	2,560.7	4.2	40.4
Acumulación Arcata	Compañía Minera Ares	Arequipa	2,493.3	4.1	44.5
Andaychagua	Volcan Compañía Minera	Junín	2,123.8	3.5	48.0
Cerro Lindo	Compañía Minera Milpo	Ica	1,835.8	3.0	51.0
Huaron	Pan American Silver Huaron	Pasco	1,731.9	2.8	53.8
Casapalca-6	Empresa Minera Los Quenuales	Lima	1,476.2	2.4	56.3
Cerro De Pasco	Empresa Administradora Cerro	Pasco	1,370.2	2.3	58.5
Julcani	Compañía de Minas Buenaventura	Huancavelica	1,269.2	2.1	60.6
San Cristobal	Minera Bateas	Arequipa	1,123.6	1.8	62.5
Milpo N°1	Compañía Minera Milpo	Pasco	1,057.0	1.7	64.2
Acumulación Yauricocha	Sociedad Minera Corona	Lima	1,047.9	1.7	65.9
Cuajone 1	Southern Peru Copper Corporation	Moquegua	1,031.5	1.7	67.6
Acumulación Raura	Compañía Minera Raura	Huánuco	1,000.6	1.6	69.3
Acumulación Mariela	Aruntani	Moquegua	924.2	1.5	70.8
Americana	Compañía Minera Casapalca	Lima	889.0	1.5	72.2
Atacocha	Compañía Minera Atacocha	Pasco	869.9	1.4	73.7
Colquijirca N° 2	Sociedad Minera El Brocal	Pasco	792.6	1.3	75.0
Mallay	Compañía de Minas Buenaventura	Lima	652.4	1.1	76.0
San Genaro	Castrovirreyna Compañía Minera	Huancavelica	577.8	0.9	77.0
N 1 Reliquias	Corporación Minera Castrovirreyna	Huancavelica	571.8	0.9	77.9
María Teresa	Minera Colquisiri	Lima	569.0	0.9	78.9
Anticona	Compañía Minera Argentum	Junín	564.7	0.9	79.8
Carahuacra	Volcan Compañía Minera	Junín	562.4	0.9	80.7
Quiruvilca	Compañía Minera Quiruvilca	La Libertad	556.2	0.9	81.6
Others			11,173.7	18.4	100.0
Total			60,830.2	100	

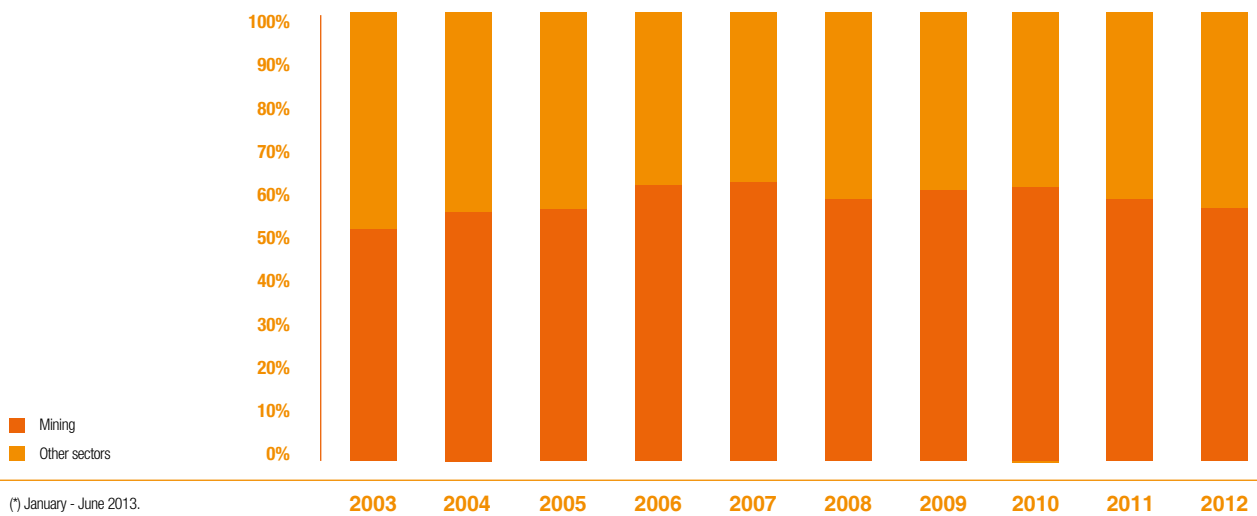
Finally, there are approximately 65 lead mining units, but 24 concentrate 85% of the production and seven mining companies concentrate 60%. The most important mining companies are Volcan, Administradora Chungar, Minera Milpo, Buenaventura, Sociedad Minera Corona, el Brocal and Los Quenuales.

Main lead producing units					
January-June 2013/ in TMF					
Name	Owner	Location	Production	Participation %	Accumulated %
Animon	Empresa Administradora Chungar	Pasco	14,124	11.1	11.1
San Cristobal	Volcan Compañía Minera	Junín	10,077	7.9	19.0
Acumulación Yauricocha	Sociedad Minera Corona	Lima	8,368	6.6	25.6
Colquijirca N° 2	Sociedad Minera El Brocal	Pasco	7,556	5.9	31.6
Cerro Lindo	Compañía Minera Milpo	Ica	7,314	5.8	37.3
Milpo N°1	Compañía Minera Milpo	Pasco	6,221	4.9	42.2
Acumulación Raura	Compañía Minera Raura	Huánuco	5,121	4.0	46.2
Atacocha	Compañía Minera Atacocha	Pasco	4,871	3.8	50.1
Casapalca-6	Empresa Minera Los Quenuales	Lima	4,679	3.7	53.7
Catalina Huanca	Catalina Huanca Sociedad Minera	Ayacucho	4,245	3.3	57.1
San Cristobal	Minera Bateas	Arequipa	4,236	3.3	60.4
Uchucchacua	Compañía de Minas Buenaventura	Pasco	4,235	3.3	63.7
Cerro de Pasco	Empresa Administradora Cerro	Pasco	4,075	3.2	66.9
Andaychagua	Volcan Compañía Minera	Junín	3,615	2.8	69.8
Mallay	Compañía de Minas Buenaventura	Lima	3,594	2.8	72.6
Huaron	Pan American Silver Huaron	Pasco	3,591	2.8	75.4
Santa Luisa	Compañía Minera Santa Luisa	Ancash	2,299	1.8	77.2
Ticlio	Volcan Compañía Minera	Junín	1,907	1.5	78.7
Americana	Compañía Minera Casapalca	Lima	1,864	1.5	80.2
Antamina	Compañía Minera Antamina	Ancash	1,732	1.4	81.6
María Teresa	Minera Colquisiri	Lima	1,651	1.3	82.9
Recuperada	Compañía de Minas Buenaventura	Huancavelica	1,630	1.3	84.1
Acumulación Iscaycruz	Empresa Minera Los Quenuales	Lima	1,623	1.3	85.4
Others			18,539	14.6	100.0
Total			127,166	100	

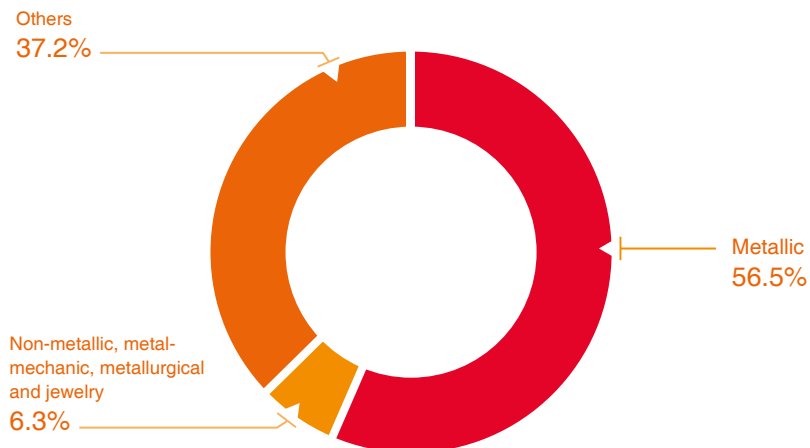
Exports

Mineral concentrates are Peru's main export product. In the last 10 years, mineral shipments have represented on average 58% of total exports, as a result of high commodity prices and the sector's competitiveness. The exportable mining portfolio is mainly represented by metals such as copper, gold, lead, zinc and iron. These products represented 95% of mining exports in 2012.

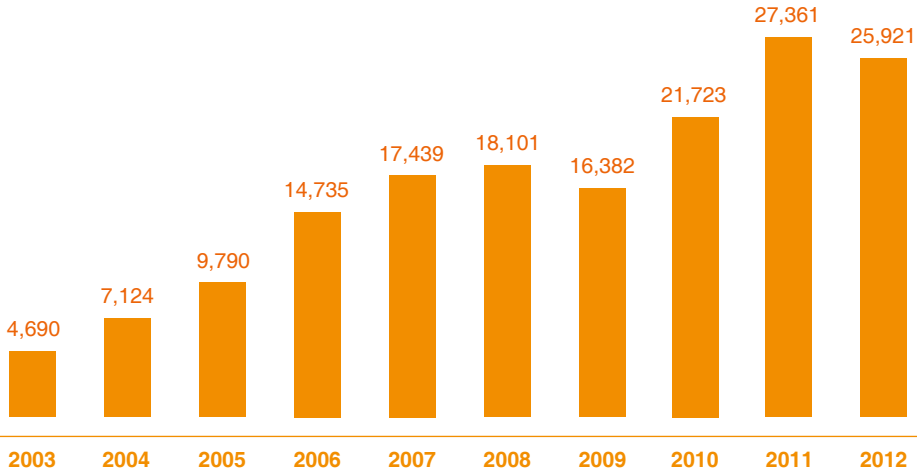
Peru: Participation of mining in total exports 2003 - 2012 (In percentages)



Peru: Participation of mining in total exports 2013* (In percentages)

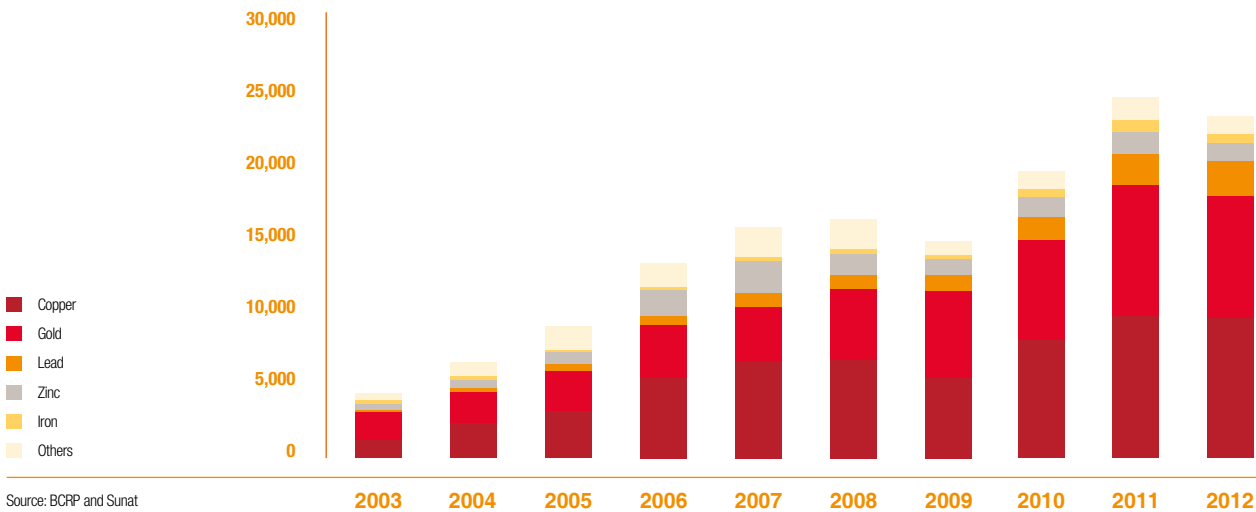


Peru: Mineral exports 2003-2012 (US\$ Millions)



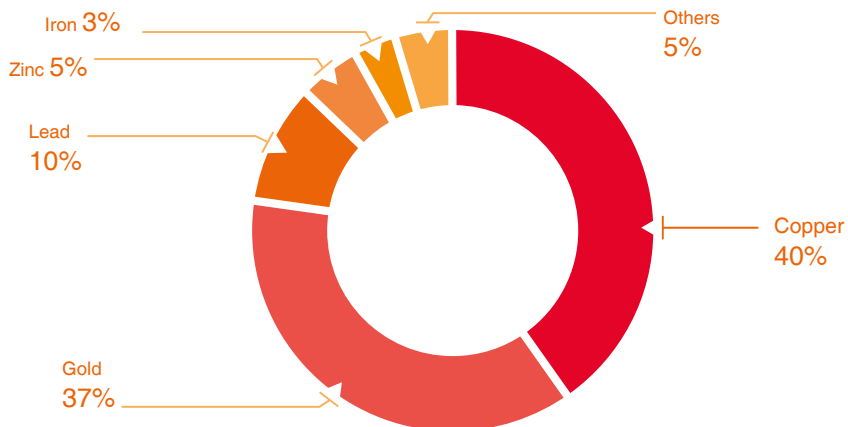
Source: MINEM

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



Source: BCRP and Sunat

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



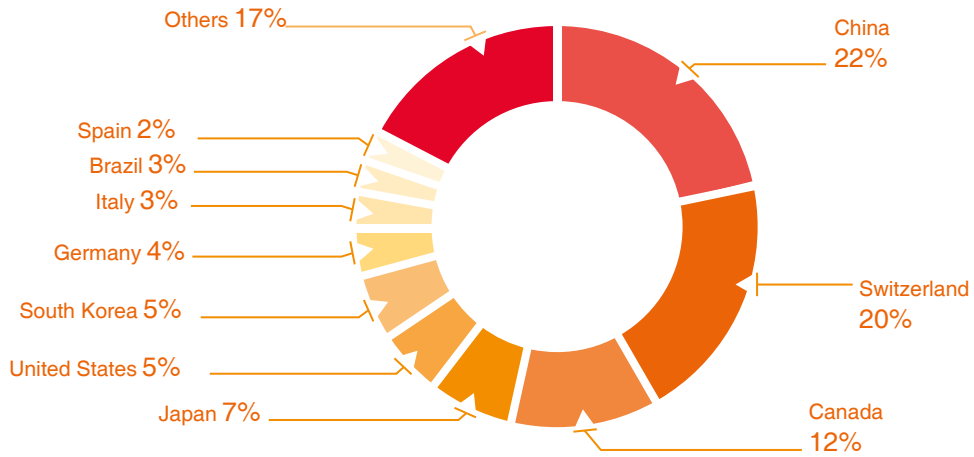
Source: BCRP and Sunat

Peru: Mining exports 2007 -2013									
			2007	2008	2009	2010	2011	2012	2013*
Copper	Value	US\$ millions	7,205	7,277	5,934	8,870	10,711	10,483	4,592
	Volume	Thousands Mt.	1,121	1,243	1,246	1,254	1,257	1,372	631
	Price	Cts US\$/Lb.	290	272	214	321	387	347	332
Gold	Value	US\$ millions	4,181	5,586	6,805	7,756	10,104	9,558	4,043
	Volume	Thousands Tr.Oz.	5,958	6,418	6,987	6,346	6,415	5,711	2,653
	Price	US\$/Tr.Oz	697	873	974	1,225	1,570	1,672	1,522
Zinc	Value	US\$ millions	2,539	1,468	1,233	1,691	1,522	1,331	715
	Volume	Thousands Mt.	1,273	1,457	1,373	1,310	1,007	999	537
	Price	Cts US\$/Lb.	91	47	39	59	69	61	61
Silver	Value	US\$ millions	538	595	214	118	219	209	187
	Volume	Millions Tr.Oz.	40	40	16	6	7	7	7
	Price	US\$/Tr.Oz.	13	15	14	19	34	30	27
Lead	Value	US\$ millions	1,033	1,136	1,116	1,579	2,424	2,501	862
	Volume	Thousands Mt.	417	525	681	770	986	1,139	402
	Price	Cts US\$/Lb.	115	100	72	92	113	100	99
Tin	Value	US\$ millions	423	663	479	663	755	526	257
	Volume	Thousands Mt.	29	38	38	34	29	25	11
	Price	Cts US\$/Lb.	656	815	553	902	1,183	948	1,019
Iron	Value	US\$ millions	286	385	298	523	1,023	856	428
	Volume	Thousands Mt.	7	7	7	8	9	10	5.2
	Price	US\$/Mt	39	56	44	68	113	88	82
Molybdenum	Value	US\$ millions	982	943	276	492	571	435	154
	Volume	Thousands Mt.	16	18	12	17	19	18	7
	Price	Cts US\$/Lb.	2,742	2,341	1,021	1,337	1,342	1,100	956
Others	Value	US\$ millions	51	48	28	29	31	21	12
Total			17,238	18,101	16,383	21,721	27,360	25,920	11,250

(*) Accumulated from January to June, 2013.
Source: MINEM

With regard to the destination of Peru's mining exports, China concentrates 22% of the demand for Peruvian mineral exports, followed by Switzerland, Canada, Japan, United States and South Korea. These countries represent 71% of the destinations of minerals.

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



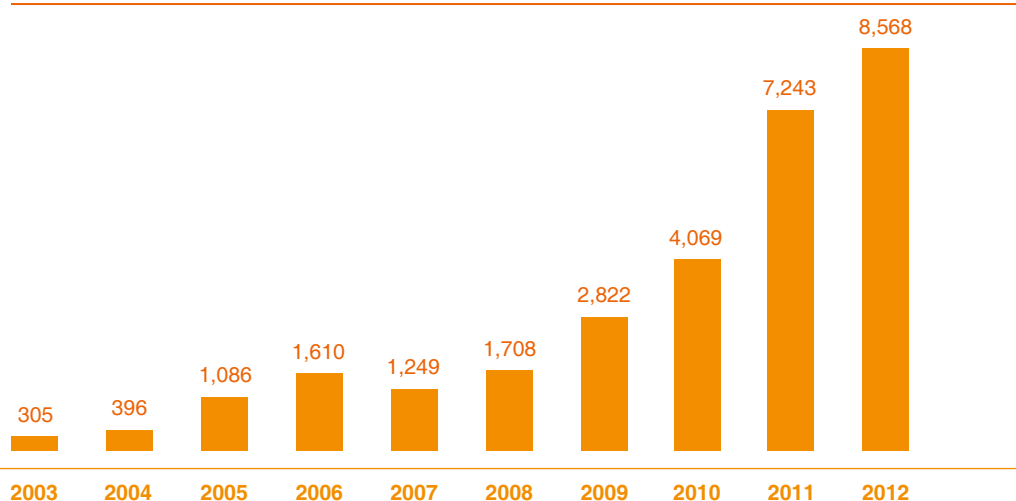
Source: Sunat, BCRP and MINEM
(* Calculated based on exports of copper, gold, zinc, silver and lead.

Mining investments

In the last few years, the mineral wealth and the high levels of metal prices have led the mining companies to increase their investments in exploration and exploitation in the country. Between 2003 and 2012, mining investments have increased 28 times. Said investment was carried out in a decentralized manner, which enabled the economy of almost all of the regions to be energized.

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

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



Source: MINEM

Announcements of major investment projects: 2013 - 2014

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

Fuente: BCRP

The government also expects that in 2013, mining GDP will increase 3.5%, based on the estimate of higher copper production (approximately 12%) –originating from the expansion of the Antamina mine and the operation of Antapaccay, which would be close to their production potential (175 thousand and 160 thousand MT, respectively)- and increased iron production towards the end of the year due to the expansion of Marcona. Thus, this additional copper and iron production would offset the lower gold production expected for the year (-5,5%), explained by the natural exhaustion of deposits such as those of Yanacocha.

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

Peru: Estimated copper production by 2016 (Thousands of fine tons, includes lixiviation)

Project	Starting date	2011	2012	2013	2014	2015	2016
Expansions							
Antamina	4Q2012			120	175	175	175
Cerro Verde	2Q2016						175
New							
Antapaccay	4Q2012			100	160	160	160
Toromocho	3Q2014				180	275	275
Constancia	2Q2015					50	80
Las Bambas	1Q2015					245	310
Production of expansions and new projects				220	515	905	1,175
Total		1,235	1,299	1,519	1,814	2,204	2,474

Source: BCRP and MINEM
(*) Estimated for MEF

According to Metals Economics Group, Peru occupied sixth place in the ranking of countries that captured the most investment oriented towards mining exploration in 2012, with US\$1,025 million. This dynamism has been maintained in the first semester of 2013, according to the latest statistics of the MINEM which show an increase of 9.8% in the exploration activity during said period.

Reserves

Peru has an inventory of mineral reserves sufficient to generate a constant flow of metal production during several decades, according to the Geological Service of the United States. For example, in the hypothetical case that Peru decided not to increase its silver reserves, it could replicate the production recorded of this precious metal in 2012 during another 31 years. It could also do the same with copper for another 58 years, and with zinc for 14 years.

Reserves of main metals (In thousands of tons)

	Peru	World	Ranking
Silver	120	540	1°
Copper	76,000	680,000	3°
Zinc	18,000	250,000	3°
Lead	7,900	89,000	4°
Molybdenum	450	11,000	4°
Tin	310,000	4'900,000	6°
Gold	2,2	52,000	7°

Source: Anuario Minero August 2013
MINEM

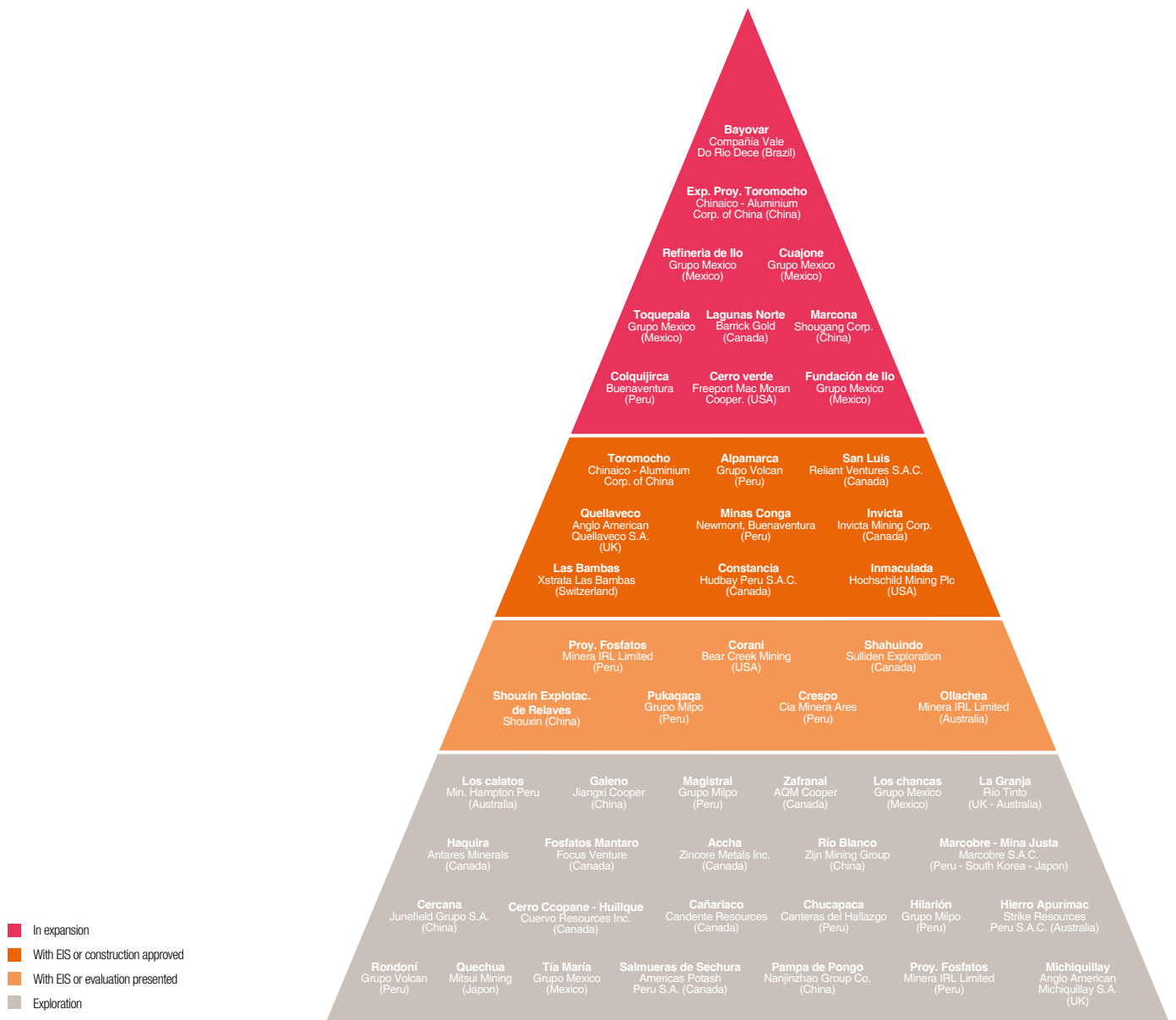
However, the dynamics of the supply and demand of minerals obligates mining companies to permanently replace reserves through brownfield exploration, in areas close to the mines in operation and green field mines, in virgin areas where the exploration risk is greater.

Portfolio of mining projects

According to the MINEM, the portfolio of mining projects in Peru totals US\$57,523 million, one of the highest figures in the region. However, the real investment would be close to US\$70,000 million, due to the increase in costs experienced by the mining sector in the world and the inclusion of new projects that the mining industry continuously develops, according to the Institute of Mining Engineers of Peru.

There are 50 projects that comprise the investment portfolio of the MINEM at 2020. Of these there are six that are currently in construction with a total investment of US\$16,361 million: Toromocho (US\$4,820 million), Las Bambas (US\$5,200 million), the expansion of Cerro Verde (US\$4,400 million), Constanca (US\$1,546 millions), the expansion of Colquijirca (US\$305 million) and Alpamarca (US\$90 million). There are other pending mine expansions, projects in the process of commencing construction (with approved Environmental Impact Study - EIS) and many more in exploration and development for a joint investment of US\$41,162 million.

Expansions; With Approved EIS; With EIS under Evaluation; Exploration



Source: MINEM

It should also be noted that this investment will generate a positive impact on the regions, mainly, through the generation of jobs, generation of development hubs and transfers in respect of canon, royalties and validity rights. According to the MINEM, the regions that will benefit the most, in order of importance, will be Apurímac, Arequipa, Cajamarca, Moquegua, Junín and Cusco.



Source: MINEM

Mining investments by regions

Location	US\$ MM	%
Apurímac	11,860	20.66%
Arequipa	10,200	17.77%
Cajamarca	9,132	15.91%
Moquegua	6,120	10.66%
Junín	5,760	10.03%
Cusco	2,736	4.77%
Piura	2,645	4.61%
Ica	2,463	4.29%
Lambayeque	1,599	2.79%
Ancash	1,220	2.13%
Puno	920	1.60%
Huancavelica	630	1.10%
Tacna	600	1.05%
La Libertad	400	0.70%
Ayacucho	370	0.64%
Huánuco	350	0.61%
Pasco	305	0.53%
Lima	93	0.16%
Total US\$ MM	57,403	100%

Source: MINEM

The majority of these investments are oriented towards the exploitation of copper, gold and iron, the three metals with greatest world demand at present. The main foreign investors in Peru are Chinese companies, which are looking for copper and iron; followed by companies from USA, Canada and Switzerland, which are looking for copper and gold.

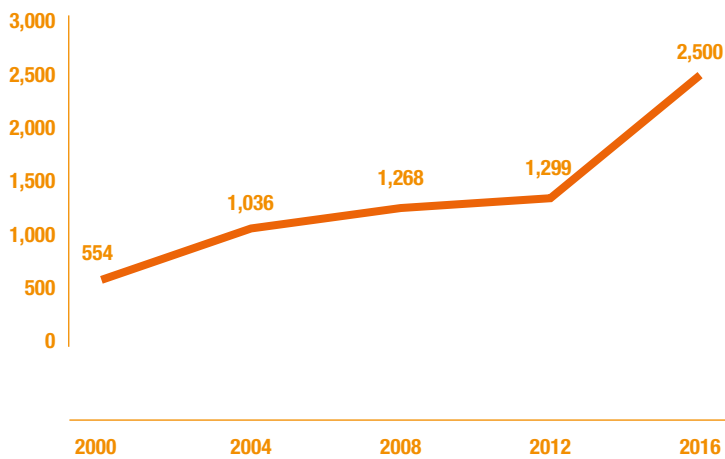
Investment portafolio by mineral

	US\$ MM	%
Copper	36,373	63.36%
Gold	7,182	12.51%
Iron	7,060	12.30%
Polymetallic	3,227	5.62%
Phosphates	1,870	3.26%
Zinc	816	1.42%
Silver	750	1.31%
Potassium	125	0.22%
Total US\$ MM	57,403	100%

Source: MINEM

Mining potential

Estimated copper production at 2016 (Thousands of tons)



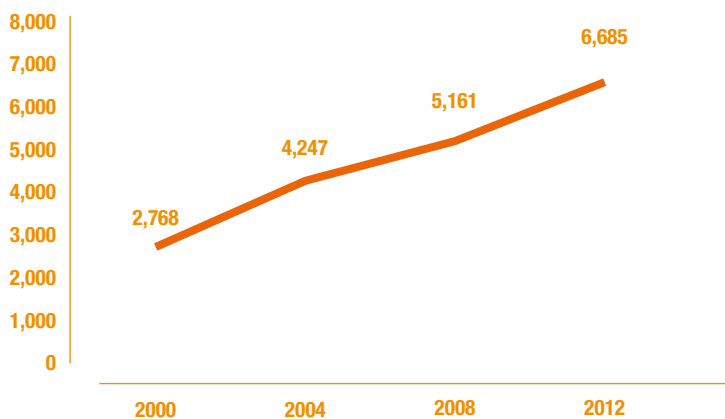
Source: Anuario Minero August 2013 MINEM

The projections for a substantial increase in the mining production of Peru are flattering for the country's millionaire portfolio of projects. The metals with the best growth perspectives, according to the MINEM, are copper and iron. But there are also high expectations for zinc and uranium.

In the case of copper, the MINEM projects that the country can double its production by 2016, thanks to the start of production of four projects currently under construction: Toromocho (Junín), Las Bambas, (Apurímac), the expansion of Cerro Verde (Arequipa) and Constanca (Cusco). It also estimates that if all the copper projects in the portfolio are carried out, the production of the red metal could be multiplied fivefold by 2021.

With regard to iron, the MINEM estimates that its production could be multiplied fourfold by 2016, with the start of production of three projects: the expansion of Marcona (Ica), Pampa del Pongo (Arequipa) and Apurímac Ferrum (Apurímac). There is also great expectation with regard to zinc, since it is expected that its price will increase towards 2016, which will motivate the development of new mines. And in the case of uranium, it is foreseen that in the course of the next two to three years the first mine of this mineral could begin operations in Puno.

Estimated iron production at 2016 (Thousands of TLF)



Source: Anuario Minero August 2013 MINEM

Mining Policy

The regulations of the energy and Mining Sector in Peru fall within a global framework of complete legal stability, economic freedom, guarantees, investment promotion and pacification of the country.

Within these policy guidelines, investments and operations are the responsibility of the private sector. The State is responsible for the areas of concessions, regulations and promotion.

The primary objective of Peruvian mining policy is the rational exploitation of mineral resources, respecting the environment and creating conditions for the progress of the sector in a stable and harmonious framework for companies and society.

State regulation seeks to achieve a balance between the rights and obligations of mining companies, emphasizing the environmental issue, in accordance with international standards and the commitments assumed by Peru. Additionally, it focuses on the aspects of corporate social responsibility, which provides safety to workers and achieves friendly relations with the local communities and their culture, as well as with the national community.

Guidelines of Mining Policy

- To maintain a legal framework which fosters the sustainable and equitable development of the mining sector.
- To update mining regulations so as to optimize the legal stability of investments, improve conditions for private investment in the exploration and exploitation of mineral resources, as well as those of the transport, general operations, processing and marketing of these resources.
- To develop the new concept of mining which prioritizes and favors the availability of and access to water resources before the start of mining activities with a policy of social inclusion and sustainable development of the neighboring communities.
- To encourage mining activities to be carried out in better safety conditions for workers and society, preserving the environment and maintaining harmonious relations with the community.
- To develop and promote the investigation of geological studies and the inventory-taking and evaluation of mineral resources.
- To mitigate the social, environmental and safety effects of small and artisanal mining.
- To promote the generation of greater value added in the mining sector
- To strengthen the institutional environment of the mining sector and promote the functioning of the One-Stop Window.

In this sense, the State promotes the growth of mining and energy activities, encouraging the prevention and mitigation of environmental and social impacts, so as to achieve the sustainable development of the country. A basic objective of the Mining Law is the investment in exploration and development of the areas under concession. For this reason it discourages speculative holding by means of the introduction of penalties for the validity of non-productive mining rights, which provides opportunities to new prospects.

Social and Environmental Impacts

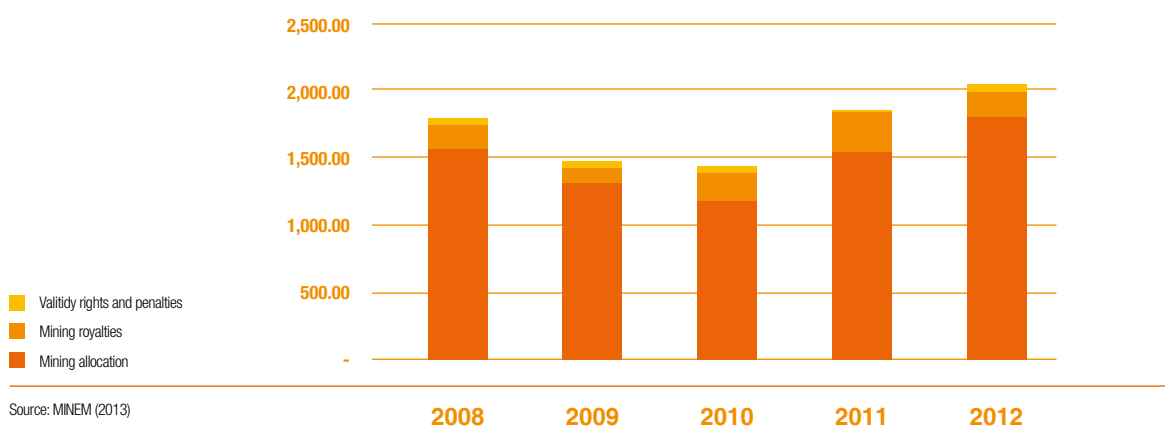
Economic impact

In recent years, world mining activity has grown significantly and Peru has become an important player, contributing to its expansion. The mining sector in Peru accounts for nearly 5% of GDP, 4.4% of formal employment and about 59% of country exports. Its macro-economic impact is mainly relevant to Peru's exports; nonetheless, its contribution to regional governments reaches other levels of impact.

The mining sector's contribution to Peru's Regional Governments in 2012 was S/.5,700 million. Mining allocations (canon minero) represent the most important contribution to Regional Governments where mining activities take place. According to Peruvian laws, this contribution is required to fund infrastructure projects at regional and local levels, and scientific research and technological development in universities. In some regions, these contributions represent nearly 20% of the annual budget.

Other contributions that are transferred to the regions are mining royalties, validity rights and penalties. Mining royalties are required by the Peruvian Government for exploiting the country's national mineral resources. Validity rights and penalties are payments required to maintain the mining concession and keep its validity.

Mining allocation, royalties and validity rights and penalties (US\$ millions)



Source: MINEM (2013)

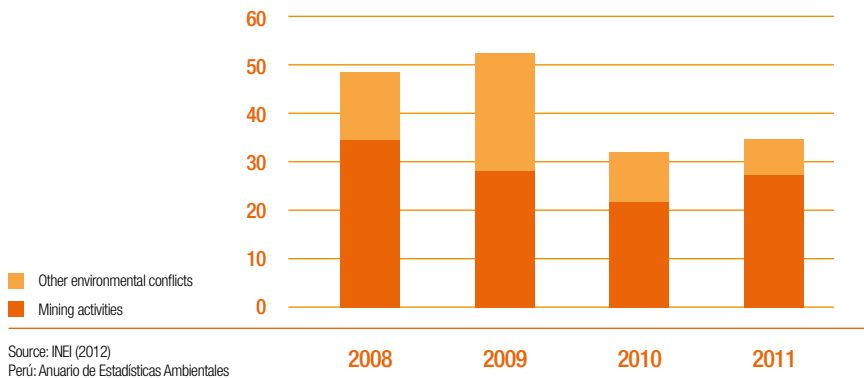
Social impact on regional governments

Many social conflicts that revolve around mining activities emerge every year, although many mechanisms exist to mitigate the negative impacts of mining activities and promote sustainable development in the regions.

The instability generated by these conflicts leads to serious problems of governance, economic and social consequences that may seriously impair the prospects for sustainable development of the country.

Most environmental conflicts that arise in Peru are related to mining activities. In 2011, 75% of the environmental conflicts were related to mining activities.

Number of Environmental Conflicts in Peru



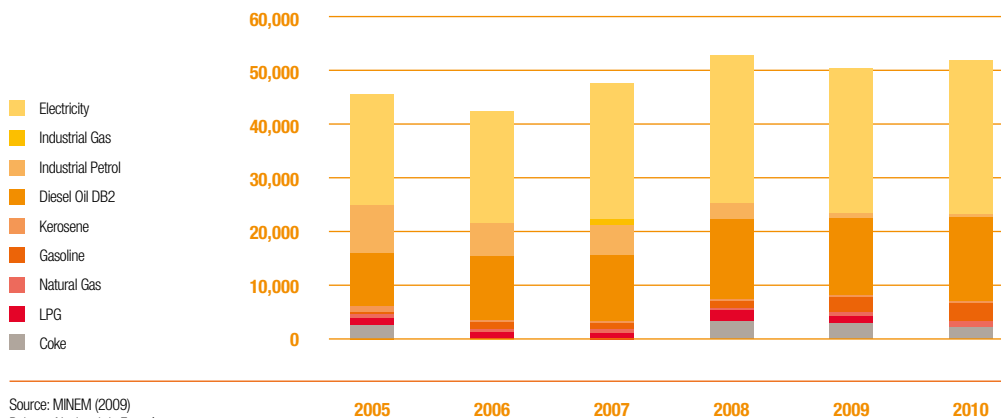
Environmental impact and energy consumption

Historically, the mining industry has operated without assuming the negative environmental impact of its operations, which have caused the deterioration of environmental quality in different regions and the accrual of environmental liabilities. Since the mid-90s, the industry has increasingly assumed environmental responsibilities in terms of damage reduction and other preventive measures. Many efforts are currently being made to contribute to local development.

Climate Change

Gas emissions in the mining sector have two origins: the burning of fuels and fugitive emissions from the extraction process or during handling. In order to determine to what extent this activity emits air pollutants and greenhouse gases, it is necessary to determine the level of consumption, quality and type of fuel used. In 2010, the most important energy source in the mining sector in Peru was electricity. This corresponds to almost 56% of the total energy demand, which accounts for 26% of the national electricity demand. The second most important energy source is diesel oil, which represents nearly 30% of the sector's energy demand.

Energy consumption in the mining and metallurgical sector (TJ per year)



Source: MINEM (2009)
Balance Nacional de Energía.

Greenhouse gas emissions from mining activities only account for 5.4% of Peruvian emissions, according to the Second National Communication to the United Nations Framework Convention on Climate Change (UNFCCC). Yet this runs against the general perception. According to a perceptions study, when asked about those activities considered responsible for climate change, 79% of respondents mentioned different productive sectors (in which mining accounts for 66% of the total), followed by 29% who blamed people and 5% other businesses.

Mining legislation

Investing in mining

Peru is one of the most attractive destinations for mining investment due to the high level of its reserves and the legal framework that promotes private investment, availability of cadastral and geological information, as well as the presence of leading global mining companies.

In order to provide guidance to investors in the mining sector, the most usual and important legal procedures involved are described below:

1. Mining concessions

The current General Mining Law in Peru regulates 4 types of concession titles:

(i) The mining concession, which grants to its holder the right to explore and exploit mineral resources located within a determined area. The mining concession is a different and separate property of the real estate property in which it is located, and grants to its holder a property right for the resources extracted from the subsoil.

(ii) The processing concession, which grants to its holder the right to remove or concentrate the valuable part of a mineral aggregate extracted and / or melt, purify or refine metals.

(iii) The general labor concession, which grants to its holder the right to provide ancillary services such as ventilation, drainage, lifting or extracting for two or more mining concessions.

(iv) The mining transport concession, which grants to its holder the right to install and operate a continuous massive transport of mining products between one or more mining centers and port or processing plant, or a refinery or in one or more sections of these routes.

2. Foreign investment

The Peruvian government has established certain stability rules to give economic stability to new private investors. This stability rules will protect the private investor from any arbitrary changes in the legal framework and conditions, reducing government interference in the market.

It is important to notice that no Peruvian law or regulations distinguish between national and foreign investors. Accordingly, foreign investors receive exactly the same treatment as national investors.

3. Permits for the acquisition of real property

In order to apply for a mining concession, at first the company should execute a search or exploration (cateo or prospeccion) of the area in which it wants to make a deeper exploration; to make this search the company does not require any kind of authorization.

Once the searches are completed, the company should file an application before the Geological, Mining and Metallurgy Institute (INGEMMET), with the payment for the sub-surface fee and/or administrative fee. Afterwards, announcements have to be published according to law. The adjudication of the mining concession is given through a Resolution issued by the President of INGEMMET. Finally, the concession title can be registered in the Mining Register of the Public Records.

It should be noted that before starting operations in the area, the holder must apply for an authorization of initiation of activities from the Ministry of Energy and Mines (MEM), a procedure which requires the holder to include a document stating that prior consultation was requested. Prior consultation is a procedure requested from the Ministry of Culture (MC) and consists of obtaining an opinion from indigenous communities considered as such by the MC regarding the activities that it is intended to perform. This opinion is not a compulsory requirement for obtaining authorization as this may be issued at the discretion of the MEM.

According to the Peruvian Constitution, foreign companies are not allowed to acquire or possess by any title, directly or indirectly, mines, land, waters, fuels or any energy source, that are located within 50 kilometers of the national borders.

It should also be noted that, as mentioned above, the concession does not grant the right of ownership over the land surface. This right can be acquired through the purchase of the land from the owner or through a right of easement.

4. Environmental procedures

The MEM and the Ministry of the Environment (MINAM) have established certain regulations regarding environmental standards for the mining industry. In order to obtain an authorization to commence operations, concession holders are required to file and obtain the approval of an Environmental Impact Study (DIA), or a Semi-detailed Environmental Impact Study (IEAsd), depending on the number of drilling platforms, the size of the disturbed area and the construction of tunnels. It is important to mention that these studies will contain technical, social and environmental issues, and the actions that will be taken to prevent possible contingencies through an Environmental Management Plan.

The Environmental Evaluation and Oversight Agency (OEFA) is in charge of monitoring all environmental compliances and has the authority to carry out audits and set fines on mining companies.

All mining companies must prepare a Closure Plan, which has to be submitted and executed for the closing of mines. In addition to that, the company must grant environmental guarantees to secure compliance with the Closure Plan during the concession. The amount of the guarantee must cover the estimated amount of the Closure Plan, and could be any guarantee contained in the Banking Law.

5. Land-use rights

The Peruvian government maintains the ownership of the land and all the mineral resources in that area, but the ownership of the extracted mineral resources corresponds to the mining concession holder. It is important to note that there is a differentiation between the ownership of surface land and that of the natural resources that are located in that area.

The mining concession gives the titleholder a real right, meaning the right to explore in a specific area and exploit all the mineral resources located there. It is important to note that the concession holders are not the owners of the surface land.

The concession holder has the right to ask for an easement on the lands of third parties, with prior compensation, in order to execute any other necessary activities.

6. Water usage

Water rights are independent from concession rights and are granted by the Water Authority. To use water for mining activities the Peruvian legal framework determines that the company must have an authorization for water usage. In the event that the company wants to drill boreholes, there are other procedures that must be followed, as well as in the case of the discovery of water as a result of the drilling boreholes.

Once the water right is granted, the holder has certain obligations to fulfill, for example, to consume only the amount of water permitted and make payments to the Water Authority according to the volume of water provided, among others.

It's important to notice that there are certain standards for mineral residue deposits contained in the General Water Law that must be observed.

7. Use of explosives

The use of explosives in Peru is regulated, controlled and supervised by the DISCAMEC; Explosive Regulations establish that the companies that use explosives in their mining activities must observe specific regulations during the placement and transport of these goods.

It is important to note that each type of transportation has a specific treatment in the Explosives Regulations, so that, depending on the type of explosives the company uses, a specific regulation will be applied.

There are safety requirements that are mandatory for every mining company that makes use of explosives. The administration requires specific technical specifications of every type of explosives that the company will be using during the mining activities.

8. Exploitation of gas in coal mines

The exploitation of gas in coal mines is regulated by the Organism for Investment Control in Energy and Mining – OSINERGMIN.

According to the Peruvian legal framework, any gas resource belongs to PERUPETRO S.A., so that any company that wants to exploit gas must subscribe a License Contract, as detailed in the Organic Hydrocarbons Law. This contract has a fixed time frame.

Once the company has signed this License Contract, it has free availability of this resource, and can commercialize and export it.

The company must pay royalties for every License Contract entered into with PERUPETRO S.A., these royalties will be paid in accordance with the production, international prices and valuation mechanisms.

9. Company incorporation

The most common legal structure used by national or foreign investors for conducting business in Peru is the private corporation (sociedad anónima).

The corporation may be incorporated by at least two or more individuals or legal entities, being able any of them to be represented by a third party. The parties must sign an incorporation minute and later on grant an incorporation public deed at the Notary Public in order to register the agreement at the Public Registry.

10. Registration for tax purposes

Entities incorporated in Peru must be registered at the Tax Administration in order to obtain a Taxpayer's Registration number. For such purpose, the company's legal representative must submit a legalized copy of the following documents: (i) Identification Document, (ii) Document supporting the company's domicile (e.g. utilities receipts or a lease agreement) and (iii) Incorporation certificate issued by the Public Registry.

If a third party requests the registration, in addition to the abovementioned documents, he must show the original and submit photocopy of his Identification Document, as well as submit a power of attorney (certified by a public notary or the Tax Administration), and submit the following forms: (i) Form No. 2119: "Request for the Registration or Communication of the Application of Taxes", (ii) Form No. 2046: "Additional Establishments" (only when there is an additional establishment to the one indicated as fiscal domicile); and (iii) Form No. 2054 and Appendix: "Legal Representatives, Directors, Board Members and Related Persons".

11. Social security

The healthcare and social security system is managed in Peru by ESSALUD, which is the governmental entity in charge of providing medical care to workers and their families. Employer's contributions are based on a 9% rate of the workers' total monthly compensation (this contribution is only paid by the employer).

According to Peruvian laws, workers can decide to contribute either to the Private Pension Fund System (administered by AFPs) where the contribution equals approximately 13.09%, or to the National Pension Fund System (managed by the ONP) where the contribution equals 13%. This amount is collected by the employer and paid on behalf of the worker (i.e. employers with hold the corresponding percentage and pay it to the Pension Fund on behalf of each worker).

There is a Supplementary Fund for retirement of mining, metallurgical and steel workers, in order to grant an additional amount in favor of workers, affiliated to the National Pension System (SNP) and Private Pension System (PPS), who have retired pursuant to the Law of retirement of mining employees and in accordance with the Law that governs early retirement applicable to workers affiliated to the PPS who perform tasks that involve risk to their life or health.

This Fund is formed by contributions of employees and the employer which are distributed according to the following detail:

Employers will contribute 0.5 of their annual income before taxes
Employees will contribute 0.5 of their gross monthly salary

The employer's contributions are paid before tax and, therefore, are deductible expenses in the respective fiscal year.

12. Labor procedures

Entities that develop mining activities are obliged to take out Professional Risk Insurance and assume the cost of the premium and/or contributions. This Insurance covers risks presented by risky activities, because of the increased risk of developing diseases or accidents.

The mining entity can take out professional risk insurance with EsSalud or a private health entity (EPS).

Furthermore, with regard to economic benefits, the employer can choose between affiliation with the national pension fund system (ONP) or a private insurance company for the following benefits: (i) survivor pension, (ii) disability pension and (iii) burial expenses.

Mining taxation in Peru

Corporate Income Tax (CIT)	Mineral Taxes	Value Added Tax (VAT)
<p>Rate: 30%</p>	<ol style="list-style-type: none"> 1. Mining Royalty (Regional Government) 2. Special Mining Tax (Central Government) 3. Special Mining Contribution (Central Government) 	<p>Rate: 18%</p>
<p>Rates of depreciation:</p> <ul style="list-style-type: none"> •Buildings and constructions: 5% •Machinery and equipment used in mining activities: 20% •Other fixed assets: 10% <p>Special allowances/contracts:</p> <ul style="list-style-type: none"> •YES (depreciation rates: up to 5% buildings and 20% other fixed assets) 	<ul style="list-style-type: none"> •Basis: operating profits •Rates: <ol style="list-style-type: none"> 1.Mining Royalty: 1% - 12% (minimum 1% of sales) 2.Special Mining Tax: 2% - 8.4% 3.Special Mining Contribution: 4% - 13.1% •Deductible in CIT calculation: YES 	<p>Transactions subject to VAT:</p> <ul style="list-style-type: none"> •Sales of movable goods within Peru; •Rendering or use of services within Peru; •Import of goods; •Construction agreements; •The first sale of real estate performed by constructors.
<p>Restriction on uses of tax losses: 4 years or indefinite but up to 50% of net taxable income</p>	<p>Other payments: License Fee (mining right fee)</p>	<p>VAT charged on exports:</p> <ul style="list-style-type: none"> •0%
<p>Withholding taxes</p> <ul style="list-style-type: none"> •Dividends: 4.1% •Interest: 4.99% or 30% •Royalties: 30% •Service fees: 15% or 30% 	<p>Tax Stability Agreements:</p> <ul style="list-style-type: none"> •Juridical •Mining 	<p>VAT Refund:</p> <ul style="list-style-type: none"> •Early Recovery of VAT •Definitive Refund of VAT •Exported VAT reimbursement

Income Tax (IT)

Companies incorporated in Peru are considered domiciled for IT purposes and, therefore, subject to IT at a 30% rate on net income determined on a worldwide basis, whereas branches of foreign companies are only subject to Peruvian IT on their Peru source income.

In order to determine their taxable income, domiciled companies are allowed to deduct expenses, to the extent that these are necessary to produce taxable income or to maintain its source. In addition, 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, and gifts, among others.

However, certain expenses are not tax deductible, such as those derived from transactions with entities domiciled in the “tax havens,” which are listed in the Peruvian IT Law Regulations, permanent establishments located in tax havens, or with entities that obtain revenues or income through tax havens. Notwithstanding, expenses derived from interest on loans, insurance premiums, among others, are excluded from this limitation.

Depreciation is applied under the straight line method. The maximum depreciation deduction allowed for a given period is the one recorded for accounting purposes; however, IT Law establishes maximum tax depreciation rates which may not be exceeded in any case.

Peruvian IT Law also allows different payments to be credited against IT, such as advance payments, amounts paid for certain other taxes and income tax paid in foreign tax jurisdictions provided that the foreign country's tax rate is not higher than the Peruvian corporate tax rate.

Dividends and any other kind of profit distributions are taxed at a 4.1% rate, upon distribution in favor of domiciled individuals or non domiciled beneficiaries (either individuals or legal entities). The entity distributing dividends or profits is liable for applying the 4.1% withholding. Nevertheless, legal entities are subject to an additional tax rate of 4.1% on every amount or payment in kind that, as result of a tax audit, is construed as taxable income, to the extent that it is an indirect distribution of such income which is not subject to further tax control, including income that has not been declared.

In general, corporate taxpayers must meet their year-end tax liability by making monthly advance payments. An Annual IT Return must be filed no later than the first three months of the following tax year. There are no local income taxes in Peru.

These are the main considerations to take into account in determining Peruvian Corporate IT:

(i) Deductible expenses

The general deduction rule is that an expense is deductible against gross income if it was necessary to produce said income, produce capital gains or maintain the source of income. For such purpose, expenses must be a normal part of the economic activity of the company and fulfill other requirements such as being general and reasonable, as the case may be. Even though Peruvian IT Law establishes specific deduction rules for certain expenses, this does not mean that these expenses are the only ones that may be deducted, due to the fact that Peruvian IT Law allows the deduction of any expense that complies with the causality principle (including mining taxes).

On the other hand, if the company is not yet producing any operating revenues, it will not be allowed to deduct any expenses until the date on which operations commence.

In light of the above, the rules on deductibility set forth below are subject to the existence of revenues during the fiscal period.

● Start-up costs

As a general rule, article 37g) of Peruvian IT Law establishes that organization expenses, pre-operating expenses -including initial operations and further expansion of operations, and interest accrued during the pre-operating period may be deducted in the first period of operation or amortized using the straight-line method over a maximum period of 10 years. It should be noted that once the company has elected the amortization period, it may only be varied provided that the approval of the Tax Authority is granted. The total period may not exceed 10 years.

● Special mining law deduction rules

The Peruvian General Mining Law includes special provisions related to the amortization of acquisitions of mining rights and deduction of prospecting and exploration expenditures.

- Acquisition of mining rights

Amortization of the acquisition costs of mining rights starts after the period granted to the owner of the mining right to comply with the minimum production. The amortization period must be established based on the probable life of the ore, calculated by taking into account the proven and probable reserves and legal minimum production.

- Exploration expenditures

Exploration costs accumulated up to the year when minimum production has to be achieved must be added to the acquisition cost and amortized as part of it. However, mining companies may choose to expense said costs when incurred, provided, as mentioned above, that the company has earned revenues.

The exploration costs incurred after minimum production is achieved may be deducted in the fiscal period or amortized during the probable life of the mine.

Both the acquisition and exploration costs may be written-off if, prior to achieving minimum production, the mining right is abandoned or revoked. In the event that the mining right is abandoned or revoked, or the mining deposit is depleted after minimum production is achieved, the company may choose to write-off the acquisition and exploration costs or continue the amortization thereof.

- Development costs

Development costs may be expensed in the year. The mining company may choose to amortize these costs over a maximum period of three years, provided the development allows a production period comprising at least two fiscal periods. The development cost may be written off if the mine is depleted or the mine right is abandoned or revoked.

● Production costs

The General Mining Law does not include any regulations regarding the allocation of production costs, neither for accounting nor tax purposes. However, Peruvian IT Law states that production costs have to be allocated to the products sold, and therefore, a deduction for them takes place upon the sale of the products.

● Depreciation rates

The Peruvian IT Law depreciation regime establishes that buildings will be depreciated under the straight line method, at a rate of 5%. While other assets, pursuant to the Peruvian IT Law, must be depreciated applying the following percentages: (i) Vehicles (except railroads) and any kind of ovens: 20%; (ii) Machinery and equipment used for mining, oil and construction activities, except furniture, household and office goods: 20%; (iii) Equipment for data processing: 25%; (iv) Other fixed asset items: 10%.

In order to accept depreciation for tax purposes, such depreciation must: (i) be recorded in the company's accounting records, in the current fiscal year; (ii) not exceed financial depreciation; (iii) not exceed the depreciation rates previously mentioned. Differences between financial and tax depreciation may also be deducted, provided that a temporary account is recorded until the assets are fully depreciated for tax purposes.

● Infrastructure expenses

Mining companies may deduct investment in infrastructure that qualifies as a "public service" (i.e. roads, electricity, water supply, etc.), provided the corresponding administrative authority approves the investment project.

Rulings have not clarified whether the above deduction is also applicable for other statutory investments in infrastructure, like housing, health services, schooling, social assistance parks, which are also subject to approval by the administrative authority.

● Mine closing provision

This provision is non deductible. However, actual disbursements in connection with mine closure plans may be deducted when incurred.

● Labor costs

Employee's retributions of a certain fiscal year may be deducted in said year, provided they are paid by the employer before the term for filing its Annual IT Return expires. Likewise, health insurance premiums for employees, their spouses and children are deductible.

● Expenses derived from transactions entered into with entities domiciled in tax havens

The deduction of expenses derived from (i) transactions entered into with entities domiciled in tax havens included in the list annexed to the Peruvian IT Law regulations, (ii) permanent establishments located in tax havens, or (iii) with entities that obtain revenues or income through tax havens; is not allowed for IT purposes. However, the expenses derived from the following transactions are excluded from the mentioned limitation: (i) interest on loans, (ii) insurance premiums, (iii) use of aircrafts and ships, (iv) maritime freight, and (v) toll for passing through the Panama Canal.

(ii) Tax losses carry-forward

Tax losses may be offset according to either of the following systems:

- a. By offsetting them against net income obtained within the next 4 fiscal years following the year in which the loss was generated. The amount that is not offset within said period cannot be offset later; or,
- b. By offsetting them against 50% of the net income obtained in the following fiscal years. Under this system there is no time limit to offset the losses.

After choosing one of the aforementioned systems, the taxpayers cannot change it until the accumulated tax losses from prior fiscal years are exhausted.

(iii) Withholding taxes

Peru source income paid to non domiciled entities is subject to withholding tax, in accordance with the following rates:

Peru source income	Rate
Interest paid on loans with non-related parties, provided certain requirements are met	4.99%
Interest paid on loans with related parties	30%
Dividends and any other profit distributions	4.1%
Royalties	30%
Technical assistance, to the extent certain formal requirements are met	15%
Digital services	30%
Lease of vessels or aircraft	10%
Other income	30%

Value Added Tax (VAT)

VAT is levied at a rate of 18% on the following transactions:

- a. Sale of movable goods within Peru,
- b. Services rendered within Peru,
- c. Importation of services (services economically used within Peru by a domiciled entity),
- d. Importation of goods,
- e. Construction agreements, and
- f. The first sale of real estate performed by constructors.

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

Peru has three different withholding tax regimes with rates that fluctuate between 0.5% - 12%. These withholding regimes apply to specific transactions or when the Tax Authorities appoint persons liable to VAT as withholding agents.

- **VAT withholding regime**

This system is applicable to recipients of goods or services subject to VAT. Purchasers of goods and users of services must withhold 6% of the price or fees invoiced where the price of the supply exceeds approximately USD 270. Withheld amounts can be recovered either as a credit or refund. Recipients of goods or services have to be expressly appointed as withholding agents by the Tax Authority.

- **VAT perception system**

This system is applied to the sale of certain goods within the country, such as mixed oil gas, carbon dioxide, among others. For this purpose, perception agents, which are previously appointed by the Tax Administration, have to withhold in advance an amount of the VAT that will be generated by its customers in future transactions with the goods. The perception rates are 0.5%, 1% and 2%.

This system is also applicable to the import of goods, where the Tax Administration acts as the perception agent. In this case, the withholding rates range between 3.5%, 5% and 10%. Amounts subject to this perception regime can be recovered either as a credit or refund.

- **Obligatory Tax Payment System (SPOT)**

This system is applicable to the sale of certain goods, construction contracts and the rendering of services subject to VAT (with some exceptions).

Sales of certain movable goods are subject to this system at rates ranging from 4% to 10%, depending on the goods. As from February 2013, the first sale of real estate property performed by the builder is also subject to SPOT at a 4% rate. In case of construction contracts, the withholding rate is 5%*, whereas in the case of services the rates are 9% or 12%, depending on the service.

The recipient of goods or services must withhold the corresponding percentage from the price of the transaction when its consideration exceeds USD 270, approximately, and deposit it in the National Bank (Banco de la Nación) account of the supplier. Withheld amounts can be recovered either as a credit or refund, provided certain specific rules are met.

Other taxes

- **Excise Tax**

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

- **Customs duties**

Customs duties are imposed on the CIF value of the imported goods, at rates of 0%, 6% and 11%. There are no restrictions on imports and exports, although there is a limited list of products, which cannot be imported or exported. Exports are not subject to any taxes. Imports of most capital goods are subject to the 0% rate.

- **Temporary Net Assets Tax**

Companies subject to corporate IT are obliged to pay the Temporary Net Assets Tax. The taxable basis is the value of the net assets set forth in the taxpayer's balance sheet as of December 31 of the year prior to the one that corresponds to the tax payment, adjusted with the deductions and amortizations accepted by the Peruvian IT Law. Thus, the amount of the Temporary Net Assets Tax is determined by the application of the following rates on the taxable basis:

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

The amount paid for the Temporary Net Assets Tax by the taxpayer is a credit to be offset against the monthly IT advance payments or the annual IT regularization payment. If not totally offset, the remaining Temporary Net Assets Tax may be refunded by the Tax Administration.

*As from November 1, 2013, the withholding rate for construction contracts will be 4%.

● Financial Transactions Tax

Obligations that are fulfilled through cash payments, the amount of which exceeds S/.3,500 or USD1,000, must be performed through a bank account or deposit, wire transfers, payment orders, credit cards, non-negotiable checks, among other means of payment provided by the entities of the Peruvian financial system.

Any obligation that is not performed using such methods does not permit the deduction of the expense or recognition of the cost for tax purposes, nor recognition of tax credits (i.e. input VAT).

Moreover, the Financial Transactions Tax is levied, among other transactions, on all debits and/or credits on bank accounts held by the taxpayers. The tax rate in force as from April 1, 2011 is 0.005%.

Certain operations are exempt from the Financial Transactions Tax, such as, operations between accounts of the same holder, credits or debits made in bank accounts opened at the employer's request exclusively in order to deposit their employees' salaries, credits or debits in bank accounts of severance indemnities.

The Financial Transactions Tax is deductible as an expense for IT purposes.

Statute of limitations

Pursuant to Peruvian tax legislation, the Tax Administration is entitled to audit taxpayers in order to assess their tax liabilities, request the payment of any due tax and assess any applicable penalty, for up to (a) a 4 year term from January 1st of the year following the date the corresponding tax return had to be filed; (b) 6 years to the extent that the corresponding tax return was not filed, and (c) 10 years when the tax withheld by the taxpayer has not been paid to the Tax Administration.

Formal liabilities

Peruvian corporations must comply with the following formal liabilities: (i) register before the Tax Administration and obtain a Taxpayer's Registration number; (ii) file monthly and annual tax returns; (iii) issue invoices and other receipts, in accordance with the Invoice's Regulations; (iv) keep accounting books and records; (v) allow the Tax Administration to perform tax audits; (vi) comply with the transfer pricing formal liabilities (annual informative statement and transfer pricing study), when applicable.

Employees' profit sharing

Pursuant to article 2 of Legislative Decree No.892, employees of mining companies are entitled to a statutory profit sharing of 8% of the employer's taxable income, which is deductible by the employer for tax purposes (the profit sharing is mandatory for entities with a minimum of 20 employees). There is a maximum limit of 18 salaries per employee; however, the difference is destined to a special training fund. The profit sharing is distributed among all employees according to their salaries and the actual days worked during the year.

It should be noted that failure to pay the excess generates interest, at the maximum rate set by the Peruvian Central Reserve Bank.

According to the above, the basis for calculating the employees' profit sharing is the company's net income. In that sense, in the event that the company has no taxable income, no profit sharing obligation will arise.

International treaties

Peru has entered into Double Taxation Treaties with Canada, Chile and Brazil which are currently in force and follow the OECD Model. Likewise, Peru has entered into a Double Taxation Treaty with Mexico, which also follows the OECD Model, but is not yet in force.

In addition, Peru is a member of the Andean Community of Nations - ACN in which Bolivia, Colombia and Ecuador are also current members. These countries have a Tax Treaty in force (Decision 578) which follows the United Nations Model.

Tax Incentives

Stability Agreements

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

● Juridical Stability Agreements

Under the general regime, investors may enter into Juridical Stability Agreements that guarantee the following advantages for a ten-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 prior authorization.
- Right of non-discrimination between foreign and local investors.

● Mining Tax Stability Agreements

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. In case of the IT regime, the stabilized rate in force shall be increased by 2 %.
- Stability of the overall administrative regime.
- Free disposal of funds (foreign currency) arising from export operations.
- No exchange rate discrimination.
- Free trade of products.
- Stability of special regimes for tax refunds, temporary imports, etc.

VAT Recovery Regimes

In order to promote investment in the mining industry, a VAT recovery regime is in force for holders of mining concessions who have not started operations and are at the exploration stage. In addition to this regime, exclusively applicable to the mining industry, there is a VAT early recovery regime which can be applicable to any industry (including the mining industry) for companies at the pre-operative stage (e.g. construction stage).

Therefore, the following regimes are applicable to mining companies at the exploration and pre-operative stage:

● VAT recovery regime for mining companies at the exploration stage

Pursuant to article 1 of Law No.27623, holders of mining concessions have the right to recover the VAT paid in connection with their activities during the exploration stage.

In order to access this regime, mining companies must comply with certain conditions, such as being entirely at the pre-operative stage and performing mineral exploration activities within the country, and entering into an Exploration Investment Contract with the Government for a minimum investment of the equivalent amount in national currency to US\$ 500,000.00.

It is understood that the beneficiaries of this regime start operations when they perform the first sale of minerals extracted from the area subject to the Investment Program or any other concession. At such time, the company will no longer be entitled to apply the regime and will have to offset the input VAT against the output VAT.

Once such a contract is signed, concession holders will benefit from the stability of the Early Recovery of VAT Regime, meaning that any subsequent changes to said regime will not apply to them.

Regarding VAT reimbursement, this comprises VAT applicable to all imports or acquisition of goods, services hired or used within the national territory and construction contracts linked to mineral exploration activities in the country. Such VAT may be requested on a monthly basis as from the month following the registration of the mentioned transactions in the purchase ledger of the concession holders and for a minimum amount equal to 4 tax units, that is, approximately US\$ 5,280 (currently, the tax unit amounts to approximately US\$ 1,320).

It is worth mentioning that the implementation of this regime does not require that the mining company starts the operative stage. Therefore, if the holder of the mining concession does not start operations for any reason, the VAT recovered in application of the regime does not have to be reimbursed to the Tax Administration.

Finally, it should be noted that this regime will be in force until December 31, 2015.

- **VAT early recovery Regime for companies at the pre-operative stage**

Article 2 of Legislative Decree No. 973 provides that companies at the pre-operative stage (which includes mining companies at the construction stage) may recover the VAT for the import and/or local acquisition of new capital goods, new intermediate goods, services and construction contracts, in the pre-operative stage, to be used directly in implementing projects.

For such purposes, among other requirements, companies must enter into an Investment Contract with the Government for a minimum investment of US\$ 5'000,000 (VAT not included) in any economic activity area that generates business income, and the company must have at least one project at the pre-operative stage with a period of no less than 2 years as of the start date of the investments schedule contained in the Investment Contract.

It is understood that the beneficiaries of this Regime are at the pre-operative stage when they are in the stage prior to project exploitation, understanding the start of the exploitation, when the first sale, taxable and non taxable with VAT, related to that exploitation is performed.

Additionally, a Supreme Resolution signed by the Ministry of Economy and Finance and by the Mining Ministry is required (in which the persons or entities are prequalified to be subject to the benefits of the Regime, as well as the goods, services and construction contracts which will grant the early recovery of the VAT for each Investment Contract).

It should be noted, that the Regime states that goods, services and construction contracts, acquisition of which will lead to the early recovery of VAT are only those acquired as from the date of signing the Investment Contract. In that sense, any purchase made before the signing of that Investment Contract that has generated tax credit, cannot be included in the Regime.

The VAT reimbursement may be requested on a monthly basis as from the month following the registration of the mentioned transactions in the purchase ledger of the concession holders and for a minimum amount equal to 36 tax units, that is, approximately US\$ 48,000.

Finally, the implementation of this regime requires that the company starts the operative stage; otherwise, the VAT recovered in application of the regime will have to be reimbursed to the Tax Administration applying the corresponding interest. Furthermore, fines may apply.

Public Private Partnership (PPP)

As of 2008 the PPP entered in force.

Companies have the option of paying part of their tax bill in the form of regional infrastructure works in some of the country's poorest regions. For such purposes, the companies must comply with certain conditions, such as entering into agreements with the Regional and Local Governments and obtaining an authorization from Pro-Inversión (Peru's investment promotion agency) for listed projects or new projects.

The amount invested by the company may be used as a tax credit against up to 50% of its income tax of the previous fiscal year.

This Regime generates benefits for private companies and also for the Government, such as:

For the Company	For the Government
Total investment refund (with a 2% annual indexation).	Sustain or increase the local economy.
Associate their image with social work, carried out in areas of interest.	Accelerate the implementation of works.
Improve the efficiency of their corporate social responsibility programs.	Efficiencies in the execution and simplification of procedures.
For construction companies, it is an additional way to compete for public works.	Releasing technical and financial resources.

Mining Taxes

As from October 2011, the Mining Royalty was modified and two new mining taxes entered in force: Special Mining Tax (SMT) and the Special Mining Contribution (SMC).

The Mining Royalty, the SMT and the SMC are economic considerations paid to the Peruvian Government for the exploitation of mineral resources. Note that the Mining Royalty includes metallic and non metallic mineral resources, while SMT and SMC only include metallic mineral resources.

The SMC is only applicable to mining companies with projects with Tax Stability Agreements in force. Such companies will voluntarily enter into agreements with the Peruvian Government for the purpose of paying this contribution. This special contribution shall be determined for each Stability Agreement entered into.

- **Basis of calculation**

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

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

- **Sales revenues**

Regarding sales revenues, the adjustments from the final liquidations, as well as from discounts, returns and other items of a similar nature that correspond to the practice of the market place, will affect the calculation basis for the calendar quarter in which they are made or granted.

These sales revenues will be allocated to the calendar quarter in which they are delivered or made available to the customer, while in the case of foreign trade, the INCOTERM agreed in the contract will be considered as the delivery date.

- **Cost of sales**

The cost of sales comprises direct materials used, direct labor and indirect costs of the production sold.

The cost of sales and the expenses will be determined according to the accounting standards, except in the case of exploration expenses, which, in order to calculate the Mining Royalty, SMT and SMC, must be amortized over the life of the mine, determined according to the confirmed and probable reserves and actual production.

The higher depreciation or amortization generated from revaluations or capitalized interest will not be considered in the cost of sales or operating expenses.

- **Operating expenses**

Operating expenses include administration and selling expenses. The Mining royalties, the SMT, the SMC and the employee's profit sharing are excluded from this item.

Costs will be allocated to the calendar quarter in which sales revenues are generated, while operating expenses related to sales revenues shall be allocated to the calendar quarter in which they are imputed, and common expenses shall be proportionally allocated as they accrue.

- **Effective rate**

An effective tax rate will apply on the operating profit, which will be calculated according to the operating margin for the quarter, by applying a cumulative progressive scale.

The operating margin shall be calculated by dividing the quarterly operating profit from the income generated by the sales of said quarter.

In the case of Mining Royalty, the amount payable will be the higher amount obtained from comparing the application of the effective rate to the operating profit, with 1% of the revenue generated by the sales of the calendar quarter. The higher amount will be the liability for the quarter.

- **Tax return and payment**

A quarterly tax return (January-March; April-June; July-September and October-December) must be filed within the last twelve working days of the second month following the month in which the Mining Royalty, SMT or SMC liability arises. Such tax return must determine the basis for calculating the contributions.

The amounts actually paid for Mining Royalty, SMT and SMC will be considered as deductible expenses for Income Tax purposes. These expenses shall be applied in the year in which they are paid.

Industry institutions

State institutions linked to the Mining Sector

- **Ministry of Energy and Mines (Ministerio de Energía y Minas - MINEM)**
Central and governing body of the Energy and Mines sector, which forms part of the Executive Power. Its objective is the promotion of the comprehensive development of mining – energy activities, overseeing the rational use of natural resources in harmony with the environment.
<http://www.minem.gob.pe>
- **Geological, Mining and Metallurgical Institute (Instituto Geológico, Minero y Metalúrgico - INGEMMET)**
INGEMMET is a public decentralized technical body of the Energy and Mines sector of Peru, which has the objective of the efficient gathering, storage, registration, processing, administration and dissemination of geo-scientific information and that related to basic geology, underground resources, geological risks and the geo-environment. Furthermore, it conducts the ordinary mining process, including the receipt of claims, the granting of mining concessions and their extinction, through the National Mining Land Register. It also administers and applies validity and penalty regulations.
<http://www.ingemmet.gob.pe>
- **Private Investment Promotion Agency (Agencia de Promoción de la Inversión Privada - ProInversión)**
Institution in charge of promoting the non-dependent investment of the Peruvian State in charge of agents under private regime, with the objective of supporting the competitiveness of Peru and its sustainable development to improve the wellbeing of the population. It promotes and adjudicates the mining investment projects that were at some time in State hands.
<http://www.proinversion.gob.pe>
- **National Service of Environmental Certification for Sustainable Investments (Servicio Nacional de Certificación Ambiental para las Inversiones Sostenibles - Senace)**
The National Service of Environmental Certification for Sustainable Investments is a specialized public body, attached to the Ministry of the Environment, which will be responsible for the revision and approval of the Detailed Environmental Impact Assessments (EIA-d) of the public, private or mixed capital investment projects, which contemplate activities, constructions, works and other commercial and service activities that could cause significant environmental impacts.
<http://www.minam.gob.pe/senace/>
- **Supervisory Body of Investment in Mining and Energy (Organismo Supervisor de la Inversión en Minería y Energía- Osinergmin)**
This is the public institution responsible for regulating and supervising that the companies of the electrical, hydrocarbon and mining sector comply with the legal provisions of the activities that they carry out. It performs functions related to the supervision, regulation, control and sanction, rules, solution of complaints in administrative appeals and solution of controversies.
<http://www.osinergmin.gob.pe>
- **National Water Authority (Autoridad Nacional del Agua - ANA)**
The National Water Authority is the regulatory entity and the maximum technical-regulating authority of the National Management System of Water Resources (Sistema Nacional de Gestión de los Recursos Hídricos), attached to the Agriculture Ministry. It is the body in charge of carrying out the necessary actions for the multi-sectorial and sustainable exploitation of water resources by watersheds, in the framework of the comprehensive management of natural resources and management of the national environmental quality establishing strategic alliances with regional governments. It grants water use permits for mining operations.
<http://www.ana.gob.pe>
- **Organism of Environmental Evaluation and Control (Organismo de Evaluación y Fiscalización Ambiental - OEFA)**
OEFA is a public technical specialized body, attached to the Ministry of the Environment. It is the regulating entity of the National System of Environmental Evaluation and Control (Sistema Nacional de Evaluación y Fiscalización Ambiental– SINEFA). It is responsible for verifying compliance with the environmental legislation by all individuals and legal entities, among them, mining. Furthermore, it is responsible for planning, directing, coordinating, agreeing and executing oversight and monitoring activities of environmental quality that permit the identification of the state of the quality of the environment and natural resources, as well as the environmental impacts and potential effects of projects, plans or programs.
<http://www.oefa.gob.pe>

- **Ministry of Culture**
The Ministry of Culture is a body of the Executive Power responsible for all the cultural aspects of the country and it exercises exclusive and excluding competency, with regard to other management levels in the entire national territory. It is in charge of the issue of Certificates of Inexistence of Archeological Remains (Certificados de Inexistencia de Restos Arqueológicos - CIRA), a fundamental permit for mining companies to be able to begin their exploration campaigns.
<http://www.cultura.gob.pe>
- **National Service of Natural Areas Protected by the State (Servicio Nacional de Áreas Naturales Protegidas por el Estado)**
SERNANP is a public technical specialized body, attached to the Ministry of the Environment, responsible for directing and establishing the technical and administrative criteria for the conservation of Protected Natural Areas (Áreas Naturales Protegidas – ANP) – and for safeguarding the maintenance of biological diversity. In its position of technical-regulating authority it carries out its work in coordination with regional, local governments and owners of properties recognized as private conservation areas. It specifies the geographical areas where mining cannot be carried out.
<http://www.sernanp.gob.pe>
- **Activos Mineros S.A.C.**
Carries out environmental remediation activities to reestablish the ecological balance affected by contaminants derived from previous exploitations of State companies. Furthermore, it provides support to the promotion of private investment in aspects related to the follow-up and audit of investment commitments established in the transfer contracts of State mining projects.
<http://www.activosmineros.com.pe>
- **Peruvian Institute of Nuclear Energy (Instituto Peruano de Energía Nuclear - IPEN)**
IPEN is a public decentralized institution of the Energy and Mines sector whose fundamental mission is to regulate, promote, supervise and develop the implementing activities of nuclear energy, so that they efficiently contribute to national development.
<http://www.ipen.gob.pe>

Private institutions related to the Mining Sector

- **National Society of Mining, Petroleum and Energy (Sociedad Nacional de Minería, Petróleo y Energía - SNMPE)**
Private association that represents the main mining, hydrocarbon and electricity companies that perform economic activity in Peru. In the case of the mining sector, it represents the interests of 59 companies of national and foreign capital.
<http://www.snmpe.org.pe>
- **Society of Engineers of Peru (Sociedad de Ingenieros del Perú)**
The Society of Engineers of Peru is a flagship institution in the field of engineering and the development of the Nation. Founded 115 years ago, it is the alma mater of prestigious institutions such as the Association of Engineers of Peru (Colegio de Ingenieros del Perú) and the National Society of Mining, Petroleum and Energy (Sociedad Nacional de Minería, Petróleo y Energía).
http://apelimaperu.com/plantilla_de_sociedad_de_ingenieros/
- **Geological Society of Peru (Sociedad Geológica del Perú)**
It is an association that represents the geologists of Peru. Has the objective of: disseminating general geological knowledge, propitiating the best geological knowledge of the national territory, supporting geological investigations inside and outside of the country and collaborating with universities, public and private entities (national and foreign) in all matters related to geological investigation.
<http://www.sgp.org.pe>
- **Institute of Mining Engineers of Peru (Instituto de Ingenieros de Minas del Perú- IMP)**
The Institute of Mining Engineers of Peru is a non-profit private association that represents professionals, technicians, individuals and legal entities which develop activities related to the country's mining industry.
<http://www.iimp.org.pe>
- **Association of Engineers of Peru (Colegio de Ingenieros del Perú - CIP)**
A non-profit institution that represents and brings together the professional engineers of Peru of all specialties. The mining sector is represented in the CIP by: the Mine Engineering Chapter, the Geological Engineering Chapter and the Metallurgical Engineering Chapter.
CIP- National Council
<http://www.cip.org.pe>
CIP – Departmental Council of Lima
<http://www.cdlima.org.pe>

- **Institute of Mining Safety (Instituto de Seguridad Minera- ISEM)**
The ISEM is a private non-profit association, formed by the mining companies and professionals. Its main objective is to contribute to improving the safety level in Peruvian mines through the training, coaching and dissemination of the best available practices in mining activity, which permit the preservation of the health and life of all those who work in the mining sector.
<http://www.isem.org.pe>
- **Association of mining contracting companies of Peru (Asociación de empresas contratistas mineras del Perú - Acomipe)**
ACOMIPE is a non-profit private institution that represents the interests and expectations of the contracting companies that account for 70% of the work force in the mining industry.
<http://www.acomiperu.com/>
- **Association of Mine Suppliers (Asociación de Proveedores de Minas - Appromin)**
The Peruvian Association of Mine Suppliers, is the institution that brings together the supplying companies of the mining sector of Peru. It is a non-profit legal entity of private law with no party political affiliation.
<http://www.appromin.org>
- **National Institute of Mining, Petroleum and Energy Law (Instituto Nacional de Derecho de Minería, Petróleo y Energía)**
The National Institute of Mining, Petroleum and Energy Law was conceived as a result of the enactment of the Mining Code of 1950 for the purpose of advocating the development and working for the promotion and legal orientation of mining and energy activities.
<http://www.cetemin.com>
- **Association of Explorers of Peru (Asociación de Exploradores del Perú - AEPE)**
AEPE is a non-profit institution that groups the exploring companies, contractors, engineers and geologists interested in the exploration of natural resources and the economic development of the country.
<http://www.aepe.org.pe/>
- **The Women's Auxiliary Association to the American Institute of Mining, Metallurgical and Petroleum Engineers (WAAIME) – Peru Section**
Institution that groups women related to the American Institute of Mining, Metallurgical and Petroleum Engineers (AAIME) in Peru. It is oriented towards providing help in the educational and service areas in the branches of geology, mining engineering and metallurgy.
<http://www.waaimeperu.org>
- **Mining Technological Center (Centro Tecnológico Minero - Cetemin)**
The Mining Technological Center provides specialized formation and training for the Peruvian mining industry through five technical careers: Environment, exploitation of mines, processing of minerals, maintenance of heavy equipment, electrical maintenance and automation.
<http://www.cetemin.com>

PwC capabilities

Our professionals have a combination of financial and operational experience, knowledge of business processes, and industry insight. Our practice actively recruits seasoned, multi-disciplined leaders with proven industry experience, a demonstrated ability to solve the most difficult business problems and a history of leading successful and sustainable improvement initiatives from start to finish. We believe it is critical that our professionals are able to quickly understand a client's challenges and their culture to help provide focus and effectively design and implement the right solution.

PwC's mining teams are comprised of more than 1,500 mining professionals across the globe located in all significant mining territories. We actively involve ourselves with industry players of all sizes and contribute to the discussion on key trends and developments. This enables us to address the challenges our clients face and recommend the best possible solutions.



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Acronyms

BCP	Banco de Crédito del Perú (Peru's leading comercial bank)
BCRP	Banco Central de Reserva del Perú (Peruvian Central Bank)
BVL	Bolsa de Valores de Lima (Lima Stock Exchange)
CCL	Cámara de Comercio de Lima (Lima Chamber of Commerce)
IEDEP	Instituto de Economía y Desarrollo Empresarial (Institute of Economics and Business Development)
IMF	Fondo Monetario Internacional (International Monetary Fund)
INEI	Instituto Nacional de Estadística e Informática (National Institute of Statistics and Information Technology)
MEF	Ministerio de Economía y Finanzas (Ministry of Economy and Finance)
MINAM	Ministerio del Ambiente (Ministry of the Environment)
MINCETUR	Ministerio de Comercio Exterior y Turismo (Ministry of Foreign Trade and Tourism)
MINCU	Ministerio de Cultura (Ministry of Culture)
MINEM	Ministerio de Energía y Minas (Ministry of Energy and Mines)
PROINVERSIÓN	Agencia de Promoción de la Inversión Privada (Private Investment Promotion Agency)
SNMPE	Sociedad Nacional de Minería, Petróleo y Energía (National Society of Mining, Petroleum and Energy)
SUNAT	Superintendencia Nacional de Aduanas y Administración Tributaria (Peruvian Tax Authority)

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