



Doing Business in Peru 2022

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Foreword

The global economy has rebounded from the collapse of 2020. However, economies all over the world are facing a slowdown in growth due to new variants of COVID-19, inflation and demographic problems in countries experiencing labor shortages.

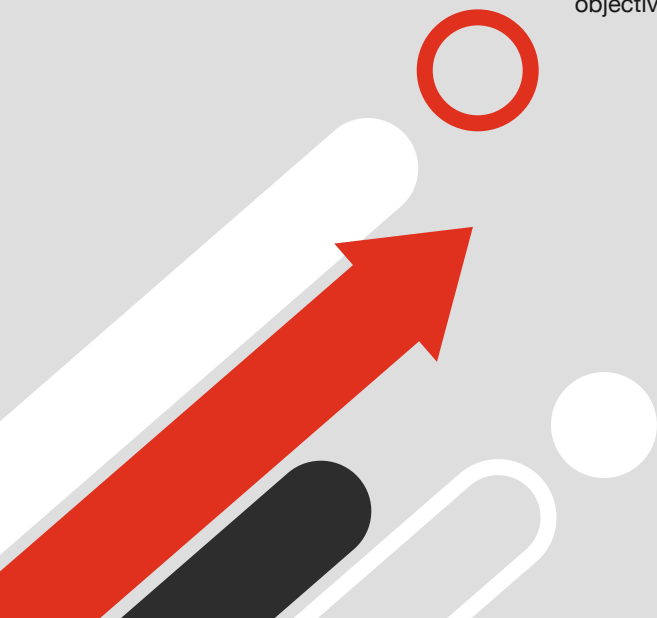
Nevertheless, between political crises that begin to resolve and a pandemic still upon us, the year 2021 ended with relatively optimistic forecasts in the field of economic recovery. The World Bank forecasts a 3.2% growth for the Peruvian economy, one of the best projections in the region, which is expected to see its growth reduced to 2.6%.

Peruvian's GDP was able to rebound because of the gradual recovery of the domestic demand and the improvement in the external environment, since Peru's economy is sustained by the high price of raw materials such as gold, copper and oil. In addition to this, a series of actions taken by the government improve the prospects of recovery of employment, like the long-awaited acceleration of the vaccination process, which would help reduce the shadow COVID-19 casts over growth prospects.

This context, added to the stability offered by current regulations, make Peru an ideal setting for investment and business development.

Doing business in Peru contains detailed and reliable information on the major macroeconomic, tax, corporate, labor and social security matters about Peru. We are confident that this content will be helpful for both investors looking to enter our market and those already present.

PwC has over 95 years of uninterrupted presence in Peru, and significant experience providing audit, tax and advisory services through its multidisciplinary teams and latest technology, which are always at your service to assist your organization to accomplish its business objectives.



Content



Page 4



Page 6



Page 10



Page 16



Page 22



Page 24



Page 38



Page 58



Page 66



1.

Peru in numbers

Over the past few years, Peru has maintained economic stability, welcoming brand new players and businesses. Despite the pandemic, the country remains one of the most attractive markets for new investors.

These are some important facts to be considered by business leaders interested in investing in Peru.



33,350,304

Population



US\$202,014 Bn

GDP *



US\$6,126

Income per capita *



US\$73 M

Foreign debt *



5.66%

Inflation rate



US\$878 M

Foreign direct investment *



1,285,215.60 km²

Total land area



76.5

Life expectancy at birth



5.3%

Unemployment rate



S/197,002,269,014

National budget

Source: World Bank, INEI, BCRP, MEF

* December 2020

2.

Foreign investment considerations

Under Peruvian legislation, foreign and local investors have the same rights over their investments, based on the principle of “national treatment”. No authority has the power to apply differentiated treatment concerning prices, exchange aspects, tariffs, non-custom duties, business information, or any other feature with equivalent effects based on nationality, types of economic activity, or geographic location in the country.

No specific restrictions or requirements apply to foreign investment in the vast majority of economic activities. Furthermore, they do not need prior authorization from the government. Investments that require approval are those involving weapons and/or explosives, private security and surveillance, investments in maritime or air transport, as well as those located within 50 kilometers of Peru’s frontier line or in natural protected areas.

Moreover, the acquisitions of shares belonging to local investors is freely permitted, both through the stock market and over the counter operations. Investors have the right to organize and carry out their business activities in any form envisaged by the law.

The authority responsible for promoting private investment in the country is the Private Investment Promotion Agency (Proinversion). Among its main duties are the proposal and execution of the national policy to promote private investment in infrastructure projects and public services; investor’s guidance in the stages of pre-establishment and post-establishment; the subscription of legal stability agreements and investment agreements; and foreign investment registration. Regional governments also promote private investment projects in their territorial jurisdictions and within the framework of their functions and competencies.

Tax credits and incentives:

Foreign Tax Credit

Taxpayers may deduct the foreign income taxes paid due to the foreign-source income levied by the Peruvian Income Tax Law (PITL), provided that it doesn't exceed the amount which results from applying the average rate of the taxpayer to the income obtained abroad, or to the tax paid abroad. The amount that is not used in the corresponding fiscal year cannot be set off (or compensated) in others fiscal years, nor can it be refunded. It should be taken into account that (i) tax credit will be granted for the entire tax paid abroad that falls upon income taxed by the PITL; (ii) taxes paid abroad –whatever their denomination– shall bear the characteristics of income taxes; and (iii) tax credit will only be granted when the payment of the foreign income tax is supported by reliable documentation.



Special deduction regime for projects related to scientific research, technological development, and technological innovation

As of 2016, a special deduction regime has been established for projects related to scientific research, technological development, and technological innovation. According to this incentive, taxpayers investing in projects of this nature will be able to deduct 150% or 175% of the expenses incurred in them.

In that sense, the taxpayer may have the following deductions:

Domiciled in Peru

175% of the expenses incurred if the project is executed directly by the taxpayer or through centers dedicated to scientific research, technological development, and technological innovation domiciled in Peru.

Non-domiciled in Peru

150% of the expenses incurred if the project is executed by non-domiciled centers dedicated to scientific research, technological development, and technological innovation.

Early recovery of VAT



Companies in a preoperative stage with large projects in process may apply for early recovery of VAT prior to commencing operations. An investment agreement with the government (the Ministry of the sector involved) is required.

Stability agreements

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

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



Under the mining regime, local mining companies may enter into stability agreements of guarantees and investment promotion measures that ensure the following for 10, 12, or 15 years:

- Stability of the overall tax regime.
- Stability of the overall administrative regime.
- Free disposition of funds (foreign currency) arising from export operations.
- No exchange rate discrimination.
- Free trade of products.
- Stability of special regimes for tax refunds, temporary import, etc.



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

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





Investment promotion in the Amazon

Certain tax benefits in relation to VAT and income tax have been established for taxpayers located in the area designated by the law as the 'Amazon', and who engage in the following activities:

- Agriculture and livestock enterprises.
- Aquaculture.
- Fishing.
- Tourism.
- Manufacturing activities linked to the processing, transformation, and commercialization of primary products originated from the aforementioned economic activities, and in forest transformation, provided these products are produced in the area.

Special zones of development (Zonas Especiales de Desarrollo – ZED) – known before as Centers of Export, Transformation, Industry, Commercialization, and Services (CETICOS)

ZED are duly delimited geographical areas with a customs primary zone status and special treatment destined for the generation of development poles through industrial, *maquila*, assembling, or storage activities. ZED are located in Paita (Piura), Ilo (Moquegua), Chimbote (Ancash) and Matarani (Arequipa) cities.

Agribusiness and agro-exporting activities may be performed within a ZED. Agribusiness activity is primarily the transformation of agro-farming products produced in the country. Such transformation must be carried out at ZED.

Until 31 December 2042, companies engaged in industrial, *maquila*, or assembling activities, established or set up in the ZED are exempt from income tax, VAT, excise tax, municipal promotion tax, as well as from any other taxes, fees, contributions levied by the Central Administration, and even taxes that require express exempt regulation.

3.

Corporate considerations

In Peru no specific rules have been established to authorize percentages for foreign or domestic investment participations. However, the Peruvian Companies Act (hereinafter, PCA) establishes various requirements and conditions for the incorporation of a corporation or partnership. Within the main requirements established by the PCA, every corporation or partnership shall have at least two shareholders and/or partners. Such a requirement is not applicable for branches since they are only recognized by their head office corporate development.

It is important to note shareholders, directors and managers do not have to fulfill the condition of being Peruvian nationals or residents of Peru; however, Peruvian regulation notes that all representatives for procedures before the Tax Authority must be Peruvian or have a Foreign Residence Card. In addition, all newly appointed directors shall formally accept their appointment in order to carry out the registration at the Peruvian Public Registry (SUNARP).

Stock capital

When incorporating a company in Peru, it is required for the enterprise to have capital stock, which must be deposited in a bank account before the incorporation of the company. It should be noted that some banks and financial entities usually request a minimum amount of S/1,000 (USD 300) for opening a bank account.

Shares are nominative and different classes are allowed –though bearer shares are prohibited. However, all shares must have the same face value, which cannot be zero. In addition, shares can be issued once they have been fully subscribed and paid-up at least in 25 percent. Depending on the share classes, shares can be issued with or without voting rights or even have a preferential right for obtaining dividends. Bylaws of the company may establish share classes, limitations and conditions on the transfer of shares, but may not prohibit them.



Corporate governance

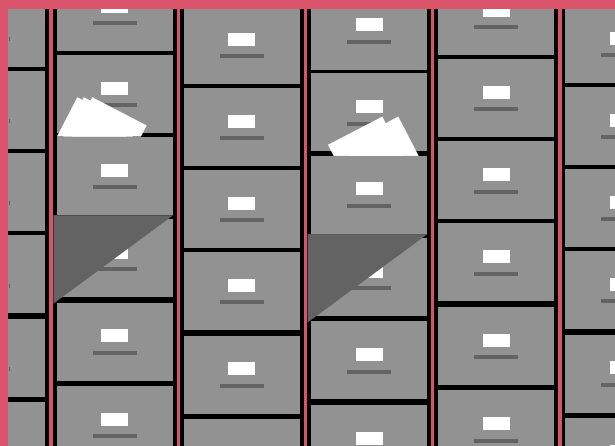
The management of a company is formed by the Board of Directors and General Manager. Both corporate bodies are in charge of the company's day to day operations. Furthermore, shareholders exercise the control of a company through the General Shareholders Meeting and are entitled to take any corporate act such as capital increases, corporate reorganizations, appointment of proxies, or any other action necessary to fulfill the corporate purpose of the company. However, despite at this the most common legal structure is the Closed Corporation. In Closed Corporation having a board of directors is not mandatory.

Within the first three months of the year, shareholders must hold an annual mandatory shareholders meeting, in which matters such as the financial statements of the previous fiscal year, the distribution of dividends and the appointment of the Board of Directors are approved.

Likewise, a shareholders meeting must be held in order to execute an increase or reduction of capital stock and bylaws amendment, which should be decided by majority of shareholders. All shareholders representing no less than two-thirds of the subscribed shares with voting rights must be present or represented by proxy in the first summon, and no less than three-fifths in a second summon, in order to meet the required quorum. No agreed resolution will be valid if the required representation of shareholders is not present at either of these two meetings.

Certain supervised entities, such as banks and insurance companies are required to publish their balance sheets and profit and loss statements in the Peruvian Official Gazette El Peruano, as well as a second daily newspaper.

The PCA establishes that all companies must have corporate books in order to register all the resolutions taken by their governing bodies. The corporate books are used for General Shareholders' Meetings resolutions, Board of Directors resolutions.



Distribution of dividends

The rules for dividend distribution are as follows:

- Dividends are only to be paid based on profits or free reserves, and provided the company's net worth is not lower than the paid-up share capital.
- Unless otherwise stated in the bylaws or agreed on by the General Shareholders Meeting, all shares of the corporation (even if not fully paid-in) have the same right to dividends, regardless of when they were issued or paid.
- Distribution of dividends in advance is valid, except for corporations that have an explicit legal prohibition.

Annual audits

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

- For banks, insurance companies and, in general, entities listed on the Lima Stock Exchange Market.
- When established in the company's bylaws.
- When specifically requested by shareholders representing not less than 10 percent of the company's subscribed shares with voting rights.
- In a closed corporation, when it is requested by shareholders representing at least 50 percent of subscribed shares with voting rights.
- When the company qualifies as an open corporation.



Dissolution and liquidation of a company

In the event of the dissolution of the company, the resolution must be approved by the General Shareholders Meeting and published three consecutive times in the Peruvian Official Gazette El Peruano, as well as a second daily newspaper. The registration of the resolution at the Peruvian Public Registry must be carried out within ten days following the last publication. A liquidator must be appointed in the resolution.

Once the resolution has been registered in the Public Registry, a company will enter into a liquidation process. During this process, the liquidator is in charge of executing the company's assets in order to cancel its liabilities, due to the fact the administrative extinction process will only be possible if the company has no liabilities.

It is important to note a company is obliged to enter into a liquidation process if it incurs in losses that exceed two-thirds of its paid-in capital. In case the company continues to operate, it will be deemed as an "irregular" company, directors and managers assume personal and unlimited responsibility for all obligations incurred.

Bankruptcy System Law is also applicable, provided the creditors or the debtor request the beginning of a bankruptcy process at the Antitrust and Intellectual Property Institute (INDECOP).



Forms of business enterprise



Corporation

This type of legal entity must be incorporated by two or more individuals or legal entities, by means of a public deed by a Notary Public and registered at the Peruvian Public Registry. Registration formalities take 5 working days.

Bylaws of the corporation may establish limitations on the transfer of shares but may not prohibit them.

There are three main types of corporations:

- **Private Corporation:** Contributions to capital are represented by shares and liability is limited to the amount of the contribution. It must have a Board of Directors and a General Manager.
- **Closed Corporation:** No more than twenty shareholders are allowed, its shares are not listed on the stock exchange, and the transfer of shares is subject to restrictions. The Board of Directors is optional, but the corporation must have a General Manager.
- **Public Corporation:** Either (a) an initial public offering of shares or convertible bonds has been carried out, it has more than 750 shareholders, and/or over 35 percent of the share capital has to be distributed among 175 or more shareholders; or (b) all its shares are registered with the Stock Exchange. A Board of Directors and general manager are both mandatory.



Limited Liability Company

This type of company must be incorporated at least two and no more than twenty individuals or legal entities, by means of a public deed by a Notary Public, and registered at the Peruvian Public Registry. The capital of a Limited Liability Company is divided into equal, accumulative and non-divisible participations, which must not be treated as shares, and no title or document is issued to its holder. The partners of the companies are not liable for the company's obligations.

The incorporation public deed must contain the contribution of each partner, ancillary services to which the partners have committed, procedures and summoning partners meetings, requirements and other formalities for the modification of the articles of incorporation and the bylaws, formalities to be followed for the increase or reduction of capital, preparation and approval of financial statements, and other rules and procedures deemed convenient for the organization of the company. The articles of incorporation or bylaws may impose restrictions and conditions for the transfer of the company's participations, but they cannot prohibit transfers altogether.

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



Branch of a Foreign Company

A branch does not have legal independence or a different legal status from its head office. However, it is considered as an independent company for tax purposes. In that sense, a branch must be registered by means of a public deed issued by a legal representative of the head office in Peru. In case the document were to be in a foreign language, it must be translated to Spanish by a Peruvian official translator in order for it to be submitted to the Peruvian Public Registry (SUNARP).

The business of the branch is directed by a permanent legal representative appointed by the head office, whose powers of attorney must be registered at the Peruvian Public Registry. Such powers may be revoked only by the head office company or by the holder of an overriding power of attorney in Peru. The scope of the representative's powers of attorney may vary according to the head office's policy but should be sufficiently extensive to allow adequate representation in Peru. There is no regulation requiring filing of the financial statements of the parent company in Peru.



Participation Account Agreement

Pursuant to this agreement, two or more parties are able to carry out a particular business activity without incorporating a separate legal entity. One of the associates will act as the managing (active) partner, who agrees to share the results or profits of a particular business with another individual or legal entity –who will act as a silent partner (or partners)- in exchange for a contribution of assets or services to such business. The managing partner operates the business and is the sole responsible towards third parties. This agreement does not involve the incorporation of an entity different from the managing partner's.





Consortium or joint venture agreement

Two or more parties may associate to actively and directly participate in a certain business in which each party maintains its independence at all moment. In this type of agreement, each party will be individually liable to third parties for the activities that it carries out. When the consortium enters into agreements with third parties, there is joint liability for the partners if it is so stated in the agreement or when determined by law. The parties should determine the extent of their participation in the results, or otherwise it will be deemed to be equal for all parties. For tax purposes, a consortium or joint venture is considered as a separate taxable entity when independent accounting records are kept (in certain circumstances, one party can keep the accounting of its shares in the agreement).



Law that establishes the prior control of business concentration operations

On June 14, 2021, the Law No. 31112 - "Law that establishes the prior control of business concentration operations" and its regulations, issued by Supreme Decree 039-2021-PCM, came into force.



4.

Labor legislation

There are two main forms of direct labor relation in Peru:

Unlimited Term Agreement	Those signed for an unlimited period of time.
Fixed Term Agreements	Those signed for a limited period of time. They must be formalized in writing and the objective cause must be duly detailed in the contract. According to Legislative Decree 1246, approved on November 11th, 2016, fixed term agreements and trainee agreements do not need to be registered with the Labor Authority. Likewise, according to technical report N° 159 -2019-MTPE / 2 / 14.1, part-time contracts will have to be communicated to the Labor Authority within the first 15 days of their subscription.

Additionally, Peruvian labor legislation establishes two kinds of indirect labor agreements:

Intermediation agreements	They are meant for the rendering of temporary, complementary and highly specialized services. The intermediary entity assigns employees to a company in order to perform services under instructions of the latter, while their labor relationship continues to be responsibility of the intermediary entity.
Outsourcing agreements	Outsourcing companies are hired for the rendering of specialized services of work. Under these agreements, outsourcing companies are held responsible for the financial, technical, material and human resources needed, and the result of the activities. The employees are subordinate to these companies and not to the main company (the one that hires the service).

According to Peruvian legislation, once the labor relationship begins employees undergo a trial period of three months, during which they can be dismissed for any cause without the payment of the compensation for arbitrary dismissal. The trial period can be extended to six months or up to twelve months for skilled employees, positions of trust or those appointed for management positions.

Peruvian employers are obliged to use the Electronic Payroll System to register employees and comply with their monthly payments. This system is formed by T-Registro, which contains information on employees, professional services agreements, trainees, outsourced personnel, etc., and PLAME, which contains the monthly payments. Both registries must be submitted monthly to the Tax Administration.

With the purpose of simplifying certain formal labor obligations, Legislative Decree 1310, approved on

December 30, 2016, allowed the use of electronic digital signature in labor documents, the delivery of payment certificates through technological tools, and the use of the digital version of labor documents in inspections performed by the Labor Authority. Additionally, it was established that employers must keep labor documents or certificates for five years after the corresponding payments.

Regarding the termination of the employment contract, in case a employee is terminated without fair cause (regulated by law), the employee will have the right to receive a compensation for arbitrary dismissal that equals 1.5 monthly salaries for each year of service, up to a maximum of 12 salaries for indefinite term labor agreements, or 1.5 salaries for each month left in the contract for fixed term agreements. In case the employee does not accept the compensation, they could file a judicial claim in order to request their reinstatement.

Labor benefits and obligations



Salaries:

Compensations are subject to statutory social security contributions and employee's taxes. The current minimum monthly wage is S/ 930 (approximately US\$235). The employer may also agree with employees whose monthly compensation is not less than two Tax Units (equivalent to S/9,200 or approximately US\$2,322) that their compensation be paid as an annual package calculated on an annual basis, including all legal and conventional benefits, except for profit sharing.



Legal bonuses:

Employers must pay a legal bonus equal to one monthly salary on July and December. According to Law 30334, as of 25 June 2015, this bonus is not subject to social or pension fund contributions (EsSalud or AFP/ONP). Instead, the amount of the social security health contribution should be paid to the employees as an extraordinary bonus.



Length of Services Compensation (CTS):

Employees are entitled to a tax-free compensation that equals approximately one month's salary plus one-sixth of the legal bonus, deposited on a semi-annual basis in a banking or financial institution chosen by the employee. Deposits are made in the months of May and November of each year.



Overtime:

Overtime, including work on holidays established by law, is paid with a minimum rate of 25% of the ordinary hourly rate during the first two hours, and 35% for the following. In case of working on holidays, the overtime is 100% of the ordinary hourly rate. The employer and the employee can agree, instead, to compensate for overtime with rest periods. This agreement must be in a written form.



Night shift additional payment:

Employers with employees who earn the minimum monthly legal salary and work between 10:00 p.m. and 6:00 a.m. are obliged to make an additional payment of 35% of the ordinary work hour wage.



Life insurance:

From the beginning of the employment relationship, all employees are entitled to a mandatory life insurance provided by the employer. This life insurance contract must be registered on the digital platform of the Labor Authority.



Annual leave:

Employees are entitled to paid annual leave of one month upon completion of each year of service. Although the use of annual leave days should be agreed between the employer and the employee, if an agreement is not reached, the employer must determine such annual leave period on behalf of the employee.

Employer and employee may agree to split the annual leave days in two periods of 15 days each. The first one must be a period of not less than 7 and 8 days, consecutive. The remaining period can be enjoyed in periods of less than 7 days. However, any agreement must be in written form. In the absence of it, the employer decides the opportunity to enjoy annual leave but not the split of the annual leave.

Regarding compensation, when the employment contract is terminated, the annual leave days enjoyed in advanced will be compensated with the remaining annual leave that date. Likewise, if at the end of the employment relationship, the annual leave days enjoyed are superior to the ones the employee acquired, the worker has no obligation of compensation.

In case employees do not spend their annual leave within the following year they earn this benefit, they are entitled to the annual leave salary plus a compensation that equals a monthly salary. However, management personnel is not entitled to a compensation considering they have the possibility to determine and choose to spend their annual leave or not.

Employer and employee may agree to accumulate up to two annual leave periods, as long as the employee enjoys at least seven days in the first period. A reduction of the annual leave period could also be agreed, up to a maximum of 15 days, with the corresponding payment for those days, and they could be enjoyed in periods of less than 7 consecutive days.



Profit sharing:

Employees of companies which perform activities that generate corporate income are entitled to participate in the profits of the company, provided the company has more than 20 employees and they are subject to the labor regime for private company employees. Employees share the profits of the company through the distribution of a percentage of the company's net income before taxes. The percentage is 10% for fishing, telecommunications and industrial companies; 8% for mining, wholesale, retail and restaurants; and 5% for other activities.

To calculate profit sharing, the employer must consider the days of maternity leave as actually worked, both prenatal and postnatal. Employees in the agricultural sector participate in 5% of the profits of their respective companies during the years 2021 to 2023; 7.5% of profits during the years 2024 to 2026 and 10% of profits from 2027 onwards.

Social Security and Pension Fund Contributions

Social security health contributions (EsSalud):

Employers must make a contribution for all their employees, including foreign employees registered on the payroll, based on the total monthly compensation, including compensation in kind, with certain exceptions such as profit sharing payments and extraordinary bonuses. The rate of this contribution is 9% of the employee's compensation.

National and Private Pension fund contributions (ONP/AFP):

The contribution for the National Pension System is 13% of the employee's compensation, and the contribution for the Private Pension System is 10% of the employee's compensation, plus commission for the pension fund administration and insurance premiums for handicap and burial coverage.

National Service for Training on Industrial Work (SENATI):

Individuals or legal entities that develop industrial activities included in Category D of the "International Standard Industrial Classification of all Economic Activities (CIIU)" are obliged to make contributions to SENATI, paying a percentage of 0.75% over all remunerations paid to the workers dedicated to such activities.

Please, consider that additional contributions may vary depending on the type of industry.



Safety and health regulations at work

- Companies with 20 or more employees must prepare an occupational safety and health at work manual and establish an occupational safety and health committee, with participation of employees and company's representatives. If there is less than 20 employees, a supervisor must be designated.
- Companies must also implement registries for accidents, diseases, trainings, medical examinations, statistics, safety and health equipment, etc., and documentation pursuant to the occupational safety and health management system, through magnetic or physical means. For companies that perform risky activities, or depending on specific industry regulations, examinations need to be scheduled at the beginning, during and at the end of the labor relationship. If not, they are mandatory every two years, and at the end of the labor relationship –only if requested by the employee.
- Employers must ensure the presence of a doctor in the workplace. In any workplace with more than 500 employees, the doctor must remain for at least 6 hours a day, 5 days a week, and in any workplace with less than 500 employees, health supervision is conducted by a doctor, without the requirement of a minimum of hours, as long as the company has an Occupational Health Annual Plan, and an Employee's Health Surveillance Program.
- Every employer must have the "Plan for the surveillance, prevention and control of COVID-19 at work" to restart activities in person.
- In the work centers, the employer receives and verifies the vaccination cards against COVID-19 to realize presential work.

People with disabilities

- The General Law of Disabled People –Law 29973– states that people with disabilities have the right to work in equal conditions to other employees. Hence, private employers with more than 50 workers are obliged to hire people with disabilities at a rate not lower than 3% of their payroll, with certain exemptions.
- The company must make all the necessary and reasonable adjustments during the recruitment process for people with disabilities, such as the implementation of tools, machinery and signage, among others.



Other labor regulations

- The General Law for the Protection of People with Diabetes states that the employer must consider, as part of the company's politics, that diabetes and the consequences it carries should not be causes to prevent the entry or hiring of an employee, neither should they be considered as reasons to terminate a contract or employment relationship.
- Employees in construction, transportation and industrial companies commonly form the strongest unions, the most important being the Confederación General de Trabajadores del Perú (CGTP) and the Central de Trabajadores del Perú (CTP). In order to form a company union, a minimum of 20 workers is required, while other types of unions (activities, professions, specialties) require a minimum of 50. Agreements reached with unions that comprise more than one-half of a company's employees are applicable for all employees, even if they are not members of the union.
- The Law for equality and nondiscrimination in wages states specific obligations that every company must consider within its planning of equality and non-discrimination, such as: i) table of positions and salary bands, ii) training plans and communications to the staff; and iii) career lines and promotions.

Paternity leave

According to the Law 30807, the employer must grant the employee 10 consecutive days of paternity leave. However, the number of days may extend to 20 in case of premature children or multiple birth. In case of a terminal congenital disease, severe disability or serious complications in the mother's health, the employee must be granted 30 days of leave.





Labor Inspection System

Microenterprises										
Number of employees affected	1	2	3	4	5	6	7	8	9	10 or more
Slight infringement	207	230	322	368	414	506	644	736	828	1,058.00
Serious infringement	506	644	736	828	920	1,150.00	1,334.00	1,564.00	1,748.00	2,070.00
Very serious infringement	1,058.00	1,150.00	1,334.00	1,472.00	1,656.00	1,886.00	2,162.00	2,484.00	2,806.00	3,128.00

The labor authority oversees and ensures that employers fulfil labor and social security provisions. It also provides technical assistance to employers and employees, protecting their corresponding rights. The labor authority is entitled to impose fines on employers who infringe the Labor Law. The amount imposed varies according to the type of company and the number of employees affected.

Small enterprises										
Number of employees affected	1 to 5	6 to 10	11 to 20	21 to 30	31 to 40	41 to 50	51 to 60	61 to 70	71 to 99	100 or more
Slight infringement	414	644	828	1,058.00	1,472.00	2,070.00	2,806.00	3,818.00	4,646.00	10,350.00
Serious infringement	2,070.00	2,714.00	3,542.00	4,462.00	5,796.00	7,452.00	9,614.00	11,178.00	12,926.00	20,700.00
Very serious infringement	3,542.00	4,554.00	5,888.00	7,544.00	9,844.00	12,650.00	16,376.00	19,872.00	22,700.00	35,190.00

No microenterprises										
Number of employees affected	1 to 10	11 to 25	26 to 50	51 to 100	101 to 200	201 to 300	301 to 400	401 to 500	501 to 999	1000 or more
Slight infringement	1,196.00	4,094.00	5,796.00	10,718.00	14,260.00	17,158.00	24,380.00	35,006.00	50,002.00	71,392.00
Serious infringement	7,222.00	18,032.00	24,012.00	30,038.00	36,018.00	48,070.00	60,076.00	84,088.00	96,094.00	120,152.00
Very serious infringement	12,098.00	24,150.00	36,248.00	53,176.00	65,228.00	84,594.00	108,744.00	144,992.00	193,338.00	241,638.00



Labor measures caused by COVID 19

On March 15th, 2020 the Peruvian government declares the State of National Emergency through Supreme Decree N°044-2020-PCM by the term of fifteen (15) calendar days and the compulsory social isolation (quarantine) because the serious circumstances that affect the life of the Nation as consequence of the COVID-19 outbreak. The term was extended during the following months and to date they are still valid.

Different laws were given during this period, below we list the current labor situation still valid.

1 Remote work

Remote work was established and, in cases where it could not be implemented a license with payment should be applied. Remote work is effective until December 31, 2022.

The employer must respect and guarantee the employees' right to digital disconnection.

4 Shifts and working hours

Companies may modify and establish (in a staggered manner) the shifts and schedules of their workers as a preventive measure against the risk of spread of COVID-19, respecting the right to mandatory weekly rest.

2 Presential work

According to Supreme Decree 179-2021-PCM, as of December 10, 2021, every person who performs presential work must prove their complete vaccination scheme. If not, they will have to do remote work.

5 Family leaves with COVID-19 and risk group

It applies to workers who work in the company or remotely during the Emergency in health for the care of direct relatives with COVID-19 and Risk group Facilities: (i) Recoverable paid leave, (ii) Reduction of working hours subject to compensation of days, (iii) Reorganization of working hours, shifts or remote work and (iv) Temporary authorization during the working day subject to compensation of work.

3 Health Risk Group

They have a special protection and the remote work is mandatory for them and if it could not be performed a license with payment should be applied.

6 Union Activity

For the acts of union activity, workers are empowered to use information and communication technologies. For those acts that require an assembly, the acts may be replaced by an affidavit from the Secretary General or from the one that the statute designates.



5.

Foreign trade

Peru is a member of the World Trade Organization (WTO) and has several bilateral agreements based on most favored nation treatment on a reciprocal basis.

Trade agreements:

In recent years, Peru's foreign trade policy has promoted an aggressive trade liberalization to successfully insert Peru in the global economy. To that end, Peru has signed several trade agreements that aim to further access to the country's main trading partners:



Peru has also signed trade agreements soon to be effective with Guatemala, Brazil, and Australia. It is currently negotiating agreements with Turkey, El Salvador, India, the Trade in Services Agreement (TISA) and the Doha Development Round.

	Partner	Year of enactment
Multi-lateral agreements	WTO	1995
	APEC	1998
Regional agreements	Andean Community: Bolivia, Colombia, Ecuador	1969
	Mercosur: Argentina, Brazil, Paraguay, Uruguay and Venezuela	2005
	EFTA: Switzerland, Iceland, Liechtenstein and Norway	2011
	European Union	2013
	CPTTP Comprehensive and Progressive Agreement for Trans-Pacific Partnership	2021
	US	2009
	China	2010
	Canada	2009
Bilateral agreements	Japan	2012
	Singapore	2009
	South Korea	2011
	Thailand	2011
	Chile	2009
	Mexico	2012
	Costa Rica	2013
	Panama	2012
	Cuba	2001
	Venezuela	2013
	Pacific Alliance: Colombia, Chile and Mexico	2012
	Honduras	2017
	United Kingdom	2020



Customs duties

Customs duties applied to imports are related to their tariff classification under the Customs Tariff and are determined by the information provided by the importer through the invoice and other complementary information, as well as, the physical recognition performed by the customs authority during customs clearance.

The taxes required are the following:	Depending of the nature of the goods, other taxes may apply, including the following:
<ul style="list-style-type: none"> Ad valorem customs duty (rates of 0%, 6% and 11%). VAT (16%). Municipal promotion tax (2%). 	<ul style="list-style-type: none"> Selective consumption tax. Specific duties. Antidumping and compensatory. VAT perception.

There are no restrictions on imported and exported goods. Notwithstanding, there is a limited list of products that cannot be imported or exported (forbidden and restricted goods). Exports are not subject to any taxes, and the import of most capital goods is subject to the 0% rate.

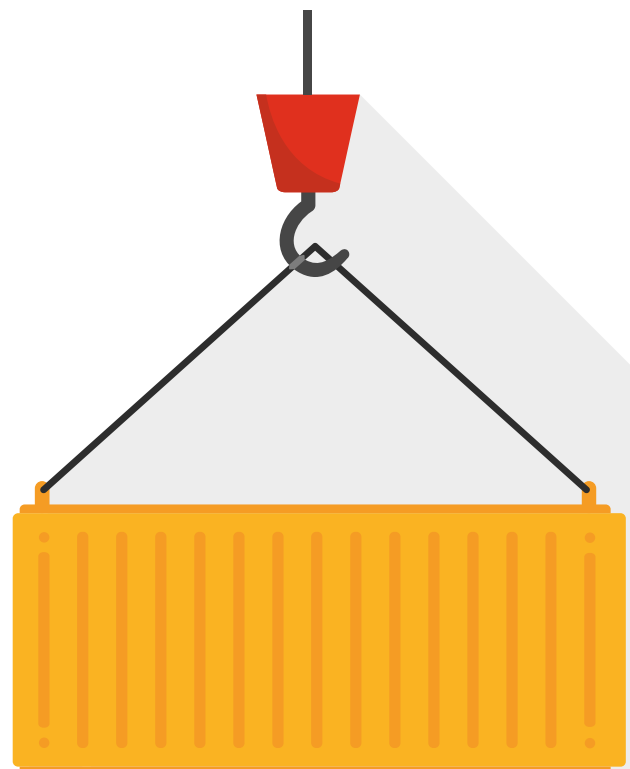
The government is empowered to grant duty exemptions under certain circumstances, as well as to temporarily suspend the assessment of duties on certain products. Customs duties are imposed on an ad valorem basis (the FOB value of imported goods, insurance, and freight - CIF value of the imported goods). Goods are classified for customs duty purposes under the Harmonized System.

Pursuant to the drawback regime, an exporter may apply for a refund of customs duties paid upon: (i) the import of goods contained in exported goods, or (ii) the import of goods consumed during the production of exported goods.

The refund rate is currently 3% of the freight on board (FOB) value of the exported good, provided such amount does not exceed 50% of the good's production cost (CIF value). The refund will proceed for each type of good exported and for the first USD 20 million worth of goods exported per year (the excess will not be subject to refund).

For such purposes, the beneficiaries of the drawback regime are the manufacturer and exporter companies whose cost of production is increased by the customs duties paid upon the import of: (i) raw material, (ii) intermediate products, or (iii) pieces incorporated or consumed in the production of exported goods. Note that fuel or any other energy source used to generate heat or energy for the purpose of obtaining the exported good is not considered as raw material.

From the approval of the Legislative Decree 1433 on September 2018, the Peruvian customs legislation complies with the international standards.



6.

Tax system

Main taxes

Corporate Income Tax

Pursuant to the Peruvian Income Tax Law (PITL), domiciled taxpayers are subject to said tax on a worldwide basis; whereas branches, agencies, and permanent establishments (PE) of non-resident entities incorporated in Peru, are subject to income tax on their Peruvian-source income. Peruvian income tax applies on an annual and accrual basis.

The coefficient is determined dividing the income tax calculated the previous year by the total taxable income for the same period. On the other hand, new companies or companies with tax losses determine their monthly advance obligations by paying 1.5% of their monthly net revenues. However, it is possible to reduce the coefficient or even suspend the monthly advance payments under certain conditions.

To establish taxable income, entities are allowed to deduct expenses to the necessary extent in order to generate or maintain the source of taxable income. Requirements, limitations, and/or caps may apply to the deduction of certain expenses (thin capitalization rules, bad debt provisions, salaries, travel expenses, gifts, donations, penalties, and others).

The PITL allows crediting for various payments against income tax, including income taxes paid in advance, amounts paid for certain other taxes, and income taxes paid in foreign tax jurisdictions, provided that the foreign country's tax rate is not higher than the Peruvian Corporate Income Tax (CIT) rate and the taxable income qualifies as foreign-source income for Peruvian income tax purposes.

Dividends and any other type of profit distribution paid by a domiciled taxpayer to a non-domiciled entity will be subject to a 5% withholding tax. If the dividends correspond to earnings of the fiscal year 2014 the withholding will be 4.1%, and for earnings from the fiscal years 2015-2016, the rate will be 6.8%.

The entity distributing dividends or profits is liable for withholding tax (WHT) at the aforementioned rates. Resident legal entities are not subject to WHT over dividends received from other Peruvian corporations; on the contrary, the distribution of dividends in favor of domiciled individuals is subject to a 5% of WHT.

Enterprises are subject to an additional tax rate of 5% on every amount or payment in kind that, as a result of a tax audit, is construed as taxable income, to the extent that it is an indirect distribution of such income which escapes further control from the Tax Administration, including income that has not been declared.

Companies incorporated abroad are considered as non-domiciled in Peru for tax purposes and thus, are in most cases subject to an income tax rate of 30% over their gross Peruvian-source income. As a general rule, foreign companies are not allowed to deduct expenses and are taxed on their gross income.

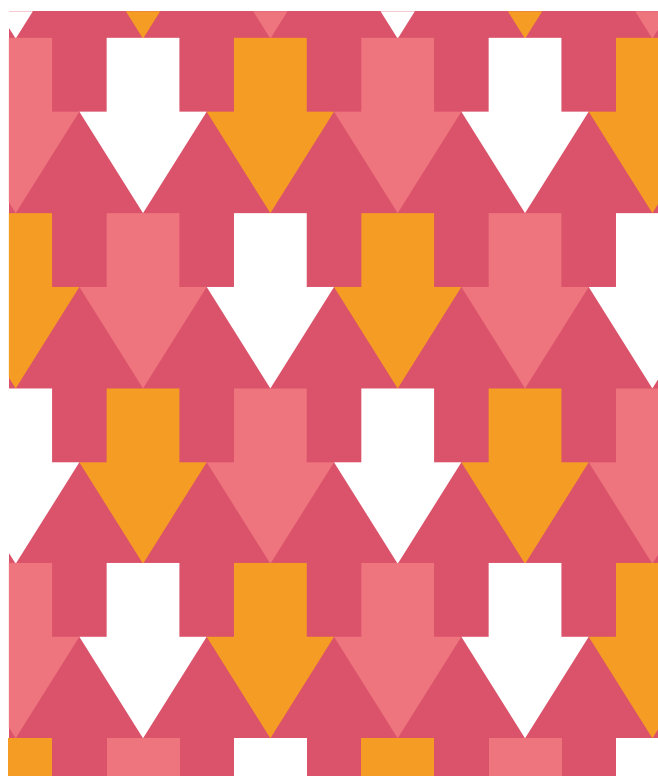
Deductions

Obligations that are fulfilled through cash payments exceeding PEN 3,500 must be made via bank deposits, wire transfers, payment orders, credit cards, non-negotiable checks, or other means of payment authorized by Law 28194, provided by entities of the Peruvian financial system. Failure to use one of these payment methods when such an obligation exists will result in the disallowance of deductions for any expenses or costs for income tax purposes and the disallowance of a credit for the corresponding VAT.

Certain expenses are not tax-deductible, including expenses related to transactions entered into with (i) entities resident in tax havens or non-cooperating territories, (ii) PEs located in tax havens or non-cooperating territories, or (iii) entities that generate revenues or income through tax havens or non-cooperating territories.

Nonetheless, expenses incurred from the following transactions are excluded from the aforementioned limitations, provided that the retribution paid is at market value according to the tax rules on the matter:

- Interest on loans.
- Insurance premiums.
- Leases of aircraft or ships.
- Maritime freight.
- Fees for passing through the Panama Channel.



Depreciation

Assets may be depreciated for tax purposes via the straight-line method, capped at the following rates –without exceeding the amount of the financial depreciation:

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

Buildings are subject to a flat 5% rate of depreciation, regardless of the financial depreciation. Notwithstanding, Legislative Decree No. 1488 established a special and temporary depreciation regime due to the State of Emergency. This regulation will come into force on January 1, 2021.

Assets may be depreciated for tax purposes via the straight-line method, capped at the following rates –without exceeding the amount of the financial depreciation:

Assets	Depreciation rate (%)	
	Before	Now
Equipment for data processing	25	50
Machines and equipment	10	20
Vehicles (except trains) with EURO IV, Tier II and EPA 2007 technology	20	33.3
Vehicles (except trains) hybrid or electric	20	50

Buildings and constructions are subject to a flat 20% rate of depreciation, provided that:

- The assets are totally affected by the Income Tax
- Building would have started on January 1, 2020.
- By December 31, 2022, the construction would be at least 80% complete.

Amortization of intangible assets

The amortization of property rights, trademarks, patents, and manufacturing procedures, as well as other similar intangible assets are not deductible for income tax purposes. However, the price paid for intangible assets of a limited duration –at the taxpayer’s choice– may be considered as an expense, and applied to the results in a single year or amortized proportionally over a ten-year term. The Peruvian Tax Administration –prior to an opinion from the corresponding technical organism– may determine the real value of intangible assets when the prices do not reflect the real ones.

Organizational and start-up expenses

Organization expenses, pre-operating expenses (including initial operations and further expansion of operations), and interest accrued during the pre-operating period may be amortized in the first period of operation or using the straight-line method over a maximum of ten years. However, once a company has elected to recover start-up costs via the straight-line method, it may revoke such election only upon receiving approval of the tax authorities.

Interest expenses

According to the PITL, since the 2021 fiscal year, the net interest of indebtedness contracted with related parties and third parties (regardless of the date the loan was granted) will be deductible in the part that does not exceed 30% of the EBITDA as the end of the previous fiscal year.

For purposes of this new rule, net interest is defined as the amount of interest expense that exceed the amount of interest income, while EBITDA is defined as the net income after setting off net operating losses, plus net interest, depreciation and amortization. Non-deductible interest exceeding the aforementioned limit may be carried forward to the following 4 years.

Only the amount of interest that proportionally corresponds to the maximum amount of debt permitted after applying such coefficient is deductible.

The thin capitalization rule, will not apply to:

- a. Insurance and Banking companies.
- b. Taxpayers whose net income is equal to or less than 2500 tax units (approximately USD 2.8 MM).
- c. Taxpayers who develop public infrastructure projects, public services, services related to public services, applied investigation and/or technological innovation through Public-Private Entrepreneurship Associations.
- d. Interest arising from loans required to finance the activities mentioned in the previous point.
- e. Indebtedness arising from the issuance of debt securities, subject to certain requirements.



Bad debts

Write-offs of bad debts and equitable provisions are deductible, provided that the accounts to which they belong are determined. For the provisions of bad debts, there must be a debt due and a taxpayer who is able to provide evidence of the financial difficulties of the debtor that could indicate a risk in the collection of the debt. Additionally, the provision must be registered separately in the inventory and balance book at the fiscal year closing. In this sense, generic bad debt provision will not be deductible in the assessment of the net taxable income, nor will bad debts whose terms have not yet elapsed.

Charitable contributions

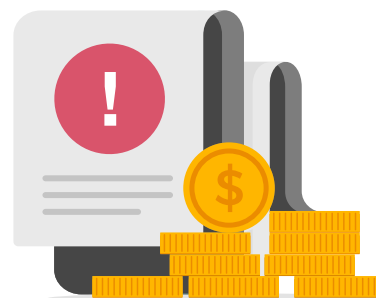
Donations made to entities of the public sector, except companies, and to non-profit associations with certain purposes are deductible, provided that the receiver of the donation is duly qualified by the Tax Administration to perceive donations (with certain exceptions). The deduction will be limited to 10% of the net income of the donor, and only during the fiscal year in which it is granted (carryforward of the donation is disallowed). This means that if the donor does not obtain taxable income in the fiscal year in which the donation is made, no deduction will be available.

Profit sharing

Entities with more than 20 employees, provided they obtain taxable income during the fiscal year, must distribute a percentage of their profits among their employees (5%, 8%, or 10% depending on the industry). The basis is the tax profit of the fiscal year. The amount of distribution for each employee depends on the employee's effective working days during the year and annual retribution paid.

Employee's retributions and health insurance premiums

Employee's retributions paid during a fiscal year may be deducted in such year, provided that the payments are made by the employer before the term to file its annual income tax return expires. Likewise, health insurance premiums for employees, their spouses/husbands, and children are deductible.



Vehicle expenses deductions

Vehicle expenses may be deducted, provided that the vehicles are essential to a company's business activities and are continuously used for such purposes. There is a limitation on the tax deductibility of vehicle expenses used for administrative representation purposes, depending on the amount of income generated by the company. The number of company cars assigned to directors, managers, and representatives of a company may not exceed of five under any circumstances.

Taxes

Other taxes assessable on properties and activities generating taxable income are deductible for income tax purposes.

Net operating losses (NOLs)

Tax losses may be offset according to either one of the following systems: (i) against net income generated within the following four fiscal years after the year in which the loss was incurred (any losses that are not offset within such period may not be carried forward to any future year); or (ii) against 50% of the net income generated in the following fiscal years after the year in which the loss was generated (under this system, there is no time limit for carrying the losses forward). As an exception, Legislative Decree No. 1481 has extended the term from four to five years in system for losses generated in fiscal year 2020.

Payments to foreign entities

Payments in favor of non-domiciled beneficiaries may be deducted as a cost or expense in the fiscal year in which they correspond to the extent that they have been effectively paid or credited within the term established to file the annual tax return (for the year in which they were incurred). Expenses that are not deducted in fiscal year to which they correspond will be deductible in the fiscal year in which they are effectively paid, even if they have been registered in a previous fiscal year.

Group taxation

Group taxation is not permitted in Peru.

Transfer pricing rules

Transactions between related parties and those entered into with parties domiciled in tax havens are subject to transfer pricing rules.

The existence of the transactions between related parties determine the application of specific valuation methods, which are established in the Income Tax law.

The rules related to market value and transfer pricing establish that, in any kind of transaction, the value assigned to the goods and services must be the fair market value (FMV) for tax purposes. If such value differs from the FMV, either by overvaluation or sub valuation, the Tax Administration will proceed to adjust it for both the purchaser and the seller, even when one of them is a non-domiciled entity, provided that the agreed value results in a lower tax than the one that would have applied if transfer pricing rules would have been used. The adjustment will be imposed in the taxable period in which the operations with related parties were performed.

In case of transactions between related parties or those entered into with tax havens or non-cooperating territories, the FMV will be equivalent to the value agreed with independent parties in similar transactions; in which case, a supporting transfer pricing study would be mandatory.

The law states that transfer pricing rules will not apply for VAT purposes.



Formal obligations

Companies must submit to the Tax Administration the following informative tax returns, if applicable:

- **Informative tax return – Local report:**
Mandatory for taxpayers whose accrued income in the taxable year exceeded 2,300 Tax Units. They must provide information of transactions which generate taxable income and deductible costs/expenses.
- **Informative tax return – Master report:**
Mandatory for companies that are part of a group with profits higher than 20,000 Tax Units, and companies that would have performed transactions within the scope of transfer pricing rules, whose amount of operations is equal or higher than 400 Tax Units. They must give information regarding the organizational structure of the group, description of their business, their transfer pricing policies for intangibles and financing, and their financial and tax status.
- **Informative tax return – Country by country report:** Mandatory for domiciled companies within a multinational group. They must provide information of the global distribution of profits, and the taxes paid and business activities performed by each entity of the group in any country.

Benefit test requirement

The benefit test must be accomplished when a domiciled entity receives a service rendered by any of its related parties. Such test is considered complied when the rendered service provides economic or commercial value to the recipient of the service, improving or maintaining its commercial position, which occurs if independent parties have satisfied the need for the service. The providers' cost structure must be proved.

If the domiciled entity complies successfully with the benefit requirement test, then the deduction of the cost or expense incurred for the services rendered would be accepted. Low value services must not exceed the margin of 5%.



Tax price adjustments

Adjustments to prices are only required whenever the price paid generates a higher tax deduction or a lower income tax in Peru. Consequently, the existence of a tax prejudice will be required for an adjustment to be requested. Adjustments are performed individually (on each operation) and not in an overall or global manner.

The adjustment of the value assigned by the Tax Administration or the taxpayer will be effective for both the transferor and the purchaser or transferee, without any constraints. In the case of non-domiciled parties, the bilateral adjustment will only proceed on transactions that could trigger taxable income in Peru and/or deductions for determining the income tax in Peru.

The adjustments are attributed to the corresponding tax period, according to the attribution rules depicted in the PITL (accrual regime for corporate taxpayers). However, when under such rules the adjustment cannot be attributed to a particular period, the adjustment will be allocated among all tax periods where income or expense has been allocated, in proportion.

Operations where no consideration has been paid are subject to transfer pricing rules. In this kind of transaction, the adjustment shall be allocated to the period or periods in which revenue would have accrued if consideration had been paid and the income was to be acknowledged by a domiciled taxpayer. On the other hand, if the income was to be recognized by a non-domiciled taxpayer, it would be attributed to the period or periods where the expenses accrued, even if it was a non-deductible expense, and the domiciled taxpayer would be responsible of payment.

Advance Transfer Pricing Agreements (APAs)

Peruvian tax law allows taxpayers to enter into APAs before the Tax Administration, in order to determine the price, retribution and/or the profit margin. In addition, it can be agreed the methodology which will support the values to be used by taxpayers in setting the prices of the transactions which may be agreed with related parties, tax havens or non-cooperating territories.

The Peruvian Tax Administration may also enter into APAs with other tax administration of countries that Peru has signed a double tax treaty.

Corporate residence

For income tax purposes, the following entities –among others- are considered as resident entities in Peru:

- Corporations duly incorporated in Peru.
- Partnerships and limited liability companies.
- Branches, agencies, and PE in Peru of non-resident individuals or entities.

According to the PITL, a foreign company is considered a PE if:

- i. It has a fixed place of business through which it carries out business activities in whole or in part
- ii. An individual has a power of attorney of a foreign entity and uses it on a regular basis to sign agreements on behalf of the foreign entity
- iii. The person with power of attorney of the foreign entity keeps within the country inventory and/or goods to be negotiated in Peru on behalf of the foreign entity
- iv. Works or construction projects, installation or assembly, as well as the supervision activities related to them, when their duration exceeds 183 days, unless a lower term has been established through a Double Tax Treaty, in which case, that would be the applicable term
- v. Services, when they are performed in the country for a same project, service or for a related one, for a period or periods that in total exceed 183 days within any given 12 month period, unless a lower term has been established through a Double Tax Treaty, in which case, that would be the applicable term.

PEs must comply with all the formal and substantial tax obligations of any domiciled taxpayer. If a PE presence is determined, then the tax contingency will have to be quantified by calculating the taxes, fines, and interest accrued as from the moment in which the PE presence can be deemed, except for the period barred by statute of limitations.

Withholding taxes

Domestic corporations are required to withhold income tax regarding the retribution paid to non-resident entities at the following rates:

Type of payment	WHT (%)
Dividends or profit distributions	5
Interest on non-related party loans, provided certain requirements are fulfilled	4.99
Interest on related party loans	30
Interest paid by Peruvian financial entities or banks to foreign beneficiaries for credit lines used in Peru	4.99
Royalties	30
Digital services	30
Technical assistance	15
Lease of vessels or aircraft	10
Other income	30
Sale of securities within Peru (Lima Stock Exchange)	5 or 0
Sale of securities outside Peru	30

Note that resident taxpayers may not deduct the WHT of a third party, except in the case of loans provided by non-resident creditors, to the extent that the debtor has contractually assumed the obligation of bearing the WHT cost.

If the retribution for technical assistance exceeds 140 Tax Units, a report issued by an audit firm will be required, in which case it must be stated that the technical assistance has been effectively rendered for the 15% WHT rate to apply; otherwise, a WHT rate of 30% will be applicable. In the case of the services that entail the execution of activities partly in Peru and partly abroad, non-resident entities are subject to a 30% WHT (except for the lease of vessels and aircrafts, subject to a 10% WHT) on deemed Peru-source income determined by applying the following percentages to gross income:

Type of payment	Deemed Peruvian-source income (%)
Insurance	7
Lease of vessels	80
Lease of aircraft	60
Air transport	1
Maritime transport	2
Telecom services	5
International news services	10
Distribution of movies, records, and similar products	20
Supply of containers	15
Demurrage of containers	80
Rights for broadcasting live foreign TV shows within Peru	20
Sale of highly migratory hydrobiological resources determined by the Ministry of Production which were extracted inside and outside the maritime domain of Peru to companies domiciled in Peru	9

For branches, the WHT on profit for distribution is applied on the date the annual income tax return is submitted. Subsidiaries are subject to the WHT on the date in which the corresponding shareholders agreement took place or the date when the beneficiary receives the dividends, whichever occurs first. For non-domiciled shareholders, the withholding will be applicable whenever the dividend is actually paid, without considering the moment in which the shareholder agreement is executed.

General anti-avoidance rule (GAAR)

The Legislative Decree N° 1422, published on September 13, 2018, offers additional guidance on the application of the Peruvian GAAR (the so-called “Norm XVI”), which has been suspended since its introduction in 2012. The GAAR allows the Peruvian tax authorities to determine the true nature of any transaction and recharacterize it if deemed necessary.

Norm XVI is applicable in tax audits carried out in order to analyze cases, facts, or situations occurring on or after July 19, 2012, provided that the Peruvian tax inspector has obtained a favorable opinion from the review committee. This committee consists of three Tax Administration officials that are accountants or lawyers by profession, and that have previous experience in tax audits or in the interpretation of Peruvian tax legislation performed in the public sector. The tax inspector must provide the committee with the tax audit records and a memorandum that must be shared with the taxpayer. Before issuing its opinion, the review committee must schedule a hearing with the taxpayer to explain the case and information included in the memorandum. Opinions, that must be issued within 30 working days of that hearing, are binding on the tax inspector and must be notified to the taxpayer.

Foreign tax relief

Tax credits are permitted, within certain limits, for taxes paid abroad on foreign-source income.

Since January 1, 2019, domiciled taxpayers are entitled to deduct the corporate income tax paid by non-domiciled companies of first and second level that distributed them dividends.

Regarding paid Income tax deduction by first level non-domiciled companies, the domiciled entity must have direct participation on at least 10% of the total shares with voting rights of the first level non-domiciled company. In this context, there are two forms of deductible income tax: (i) The one paid or withheld abroad for distributed dividends or; (ii) the corporate income tax according to the amount of the dividends abovementioned.

In terms of paid Income tax deduction by second level companies, the domiciled entity must have direct participation on at least 10% of the total shares with voting rights of the second level non-domiciled company. For this, the second level non-domiciled company needs to be: (i) resident of a country that has celebrated an information exchange treaty with Peru or, (ii) resident of the same country as the first level non-domiciled company.

Other taxes

Value-Added Tax (VAT)

Peruvian VAT law establishes that the following transactions will be subject to VAT at a rate of 18%.

- Sale of goods within the country.
- Render or use of services within the country.
- Construction contracts.
- The first sale of real estate made by constructors.
- Import of goods.

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

The VAT law follows a debit/credit system, and input VAT may be offset by output VAT. Should excess input VAT be obtained in a particular month, it shall offset output VAT obtained during the following months, until it is exhausted.

The export of movable goods (including the sale of goods in the international zone of ports and airports) is not subject to VAT, nor is the export of services provided that certain conditions are met. Thus, VAT paid upon the acquisition of goods, rendering of services, construction agreements, and the importation of goods related to exported goods or services creates a positive VAT export balance. The positive balance may be offset against output VAT, income tax, or any other outstanding tax debt in favor of the central government. If the positive balance is not completely offset –as the amount of the tax obligations is insufficient– the taxpayer may apply for a refund.

Tax Obligatory Payment System (SPOT)

The SPOT is applicable to the sale of certain goods and the rendering of services subject to Peruvian VAT. The main purpose of the SPOT is to generate funds to enable the payment of tax obligations by the VAT payer.

According to the SPOT, the sale of goods and services listed in the appendices of the Resolution that are levied with VAT will be subject to withholding, applying the rates established for each kind of good or service (1.5%, 4%, 9%, 10%, or 15%). Any service subject to VAT, except expressly excluded, will be subject to the SPOT with a withholding rate of 10%. The following services are subject

to a withholding rate of 12%: (i) labor intermediation, (ii) maintenance and repair of movable goods, (iii) other corporate services, and (iv) other services levied with VAT.

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

The amount deposited is applied towards the payment of the seller's or service provider's Peruvian tax obligations (not just VAT). If after three consecutive months such amount is not used, the seller or service provider may request a refund or use the amount to pay withholdings applicable to purchasers or services recipients.

VAT withholding regime

This system is applicable to recipients, appointed as VAT withholding agents, of goods or services subject to VAT. Purchasers of goods and users of services must withhold 3% of the price or fees invoiced where the price of the supply exceeds PEN 700 (approximately USD 170).

Recipients of goods or services must be expressly appointed as a VAT withholding agent by the Tax Administration. The designation of withholding agents, as well as the exclusion of any of them, is determined by Supreme Decree endorsed by the Ministry of Economy and Finance (MEF), with the technical opinion of the Tax Administration.

The provider may deduct the withheld amounts from the gross tax (this is, the total amount of VAT on sales or services performed in the period) until the last day of the period for which the return corresponds. The amount not applied would be carried forward to the next periods until they are exhausted, without any time limit.

Also, the provider would be entitled to request the refund of the withheld amounts that were not applied (as a VAT credit), to the extent such amounts are not applied over a term of 3 months.

VAT perception regime

This system is applicable 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, must withhold in advance an amount of the VAT that will be generated by its customers in future transactions with the goods. Perception regime is not applicable to the rendering of services.

The sale of goods listed in Superintendency Resolution 058-2006/SUNAT, in which the perception agent would have to withhold a perception amount that the customer would be obliged to pay for the acquisition of such goods; and, in the import of goods, with some specific exemptions established by the Tax Administration.

In the import of goods, the Tax Administration acts as the perception agent. In this case, the withholding rates range between 3.5%, 5% and 10%.

The regime would be applicable to the definitive import of goods subject to VAT, except for the import of goods subject to temporary importation regimes and the goods listed in the annex 1 of the Superintendency Resolution 203-2003.

Amounts subject to the perception regime can be recovered either as a credit or as a refund.

The taxpayer may offset as input VAT the amount withheld from it. If no VAT levied transactions were to be performed or if these would not be enough to absorb the perceptions applied in a certain month, the surplus amounts may be used in the next months until it is exhausted.

VAT special recovery regime for investments

This regime allows companies at pre-operative stage to recover the input VAT on the import and/or local acquisition of new capital goods, new intermediate goods, services and construction contracts, that were acquired in the pre-operative stage, to be used directly in the execution of a project investment commitment and which are destined to the performance of operations levied with VAT or exportations.

For purposes of be benefited with this regime, the applicants must comply with the following requirements:

- The implementation of a project in any economic sector that generates corporate income, committing to invest not less than USD 5'000,000.00 (Five Million Dollars), not including VAT.
- Have a project that requires a pre-operative stage equal or more than 2 years, counted as from the date of initiation of the investment schedule.
- Obtain the Ministerial Resolution of the corresponding sector, approving the subjects who would be benefited with the regime; as well as the list of goods, services and construction contracts approved for the early recovery of the VAT.

Excise Tax

The sale of specific goods, including fuel, cigarettes, beer, liquor, and vehicles is subject to excise tax. Excise tax rates, and the manner on which the tax is applied, depend on the type of goods or services.

Real Estate Property Tax

The real estate property tax is levied on the value of urban and rural real estate property. Individuals and legal entities owners of real estate properties are considered taxpayers for such purposes. The taxable base is calculated considering the value of all the properties owned in a specific local district, as reflected in the internal records of the corresponding local authorities.

The tax is calculated and paid on an annual basis applying the following progressive cumulative scale:

Real estate's value	Real estate property tax rate (%)
Up to 15 Tax Units	0.2
Over 15 and up to 60 Tax Units	0.6
Over 60 Tax Units	1.0

Real Estate Transfer Tax

The real estate transfer tax is levied on all transfers of urban and rural real estate property. The taxpayer is the purchaser of the property. The taxable base is equivalent to the retribution agreed by the parties involved in the transaction, provided it is higher than the property's value (in the relevant year for purposes of the real estate property tax), as reflected in the internal records of the corresponding local authorities.

The tax rate is 3% and must be assumed exclusively by the buyer, regardless of what the parties have agreed. The first ten Tax Units (PEN 46,000) of the tax basis are exempt from this tax.

Tax on Vehicular Assets

This is an annual tax which levies the ownership of vehicles, cars, trucks, station wagons, and buses, among others in kind, which have no more than 3 years old. This term will be considered as from the first inscription in the Registry of Vehicular Property (SUNARP).

The applicable tax rate is 1%, applicable on the value of the vehicle. In any case, the amount to be paid shall not be less than 1.5% of the effective applicable Tax Unit as of January 1 of the year in which the tax corresponds.

Financial Transactions Tax (FTT)

FTT is applied at a rate of 0.005% on all debits and/or credits on bank accounts held by the taxpayers. Payments of FTT are deductible as expenses for income tax purposes.

The following operations –among others– are exempted from the FTT:

- Operations made between accounts of the same holder.
- Credits to bank accounts for the payment of salaries.
- Credits and debits to bank accounts of diplomatic representations and international organizations recognized in Peru.

Temporary Net Assets Tax (TNAT)

Companies subject to CIT are required to pay TNAT, except for companies which are in preoperative stages or that commenced business as from January 1 of the fiscal year in which TNAT must be paid. The tax basis is the value of the assets set forth in the taxpayer's balance sheet as of 31 December of the year prior to the one in which corresponds the tax payment, adjusted for deductions and amortizations accepted by the Peruvian law.

The amount paid for TNAT may be credited against the taxpayer's income tax. If not totally used, the remaining TNAT may be refunded by the Tax Administration.

The amount of TNAT is determined by applying the following rates on the taxable basis:

- Up to PEN 1'000,000: 0%.
- More than PEN 1'000,000: 0.4%.

The TNAT Law indicates that the following items, among others, shall not be considered for the tax basis of ITAN:

- The shares, participations or rights of capital of companies subject to the tax, except that they were exempted from the tax.
- The value of the machinery and equipment with no more than 3 years of use.
- The goods delivered in concession by the Government, according to the Supreme Decree 059-96-PCM, and which are affected to the provision of public services, as well as the constructions carried out on them.

Special Taxation on Mining Industry

The new mining royalty (NMR) regime, special mining tax (SMT), and special mining contribution (SMC) are economic considerations paid to the Peruvian government for the exploitation of mineral resources. The NMR applies to metallic and non-metallic mineral resources, while the SMT and SMC only apply to metallic mineral resources.

The SMC is only applicable for mining companies with projects with tax stability agreements in force. Such companies have voluntarily entered into agreements with the Peruvian government with the purpose of paying this contribution. This special contribution is determined for each stability agreement entered.

The amounts paid will be deductible for income tax purposes as long as they are actually paid during the fiscal year.

In all three cases, the tax basis is the operating profit of the company, and the special rates and considerations are explained below:



	New mining royalty (NMR)	Special mining tax (SMT)	Special mining contribution (SMC)
Concept	No tax stability	No tax stability	With tax stability
Regime	Previous mining royalty modified	New	New
Accumulative progressive scale based on operating margin	1% to 12%	2% to 8.4%	4% to 13.2%
Minimum payment	1% of the sales revenue	N/A	N/A

Mining Investment Regulatory Agency (OSINERGMIN) contribution

The basis for calculating the OSINERGMIN contribution is the monthly invoicing of activities directly related to OSINERGMIN's regulatory scope (mining activities), after deducting the VAT. The applicable rate is 0.14% in 2020-2022.

Agency for Environmental Assessment and Enforcement (OEFA) contribution

The basis for calculating the OEFA contribution is the monthly invoicing of activities directly related to OEFA's regulatory scope (mining activities), after deducting the VAT. The applicable rate is 0.11% in 2020-2022.



Controlled Foreign Companies (CFC)

CFC rules are in force in order to avoid the deferral of income tax on passive income obtained from CFCs (defined as at least 50% of ownership, voting rights, or gains) by domiciled taxpayers, provided such companies are situated in tax havens or jurisdictions with nil or reduced tax rates.

Taxation of indirect disposal of shares in Peruvian entities

According to PITL, domiciled taxpayers are levied on their worldwide income, whereas non-domiciled taxpayers are levied only on their Peruvian-source income. Income obtained from the indirect transfer of shares issued by entities incorporated in Peru is deemed Peruvian-sourced. For such purposes, an indirect transfer of shares is deemed to exist when the shares of a non-domiciled entity, which in turn owns – directly or indirectly through other entities – shares issued by a domiciled entity, are transferred, provided the following two conditions are jointly met:

- i. During the 12 months prior to transfer, the fair market value (FMV) of the shares of the Peruvian entity owned by the foreign entity equals 50% or more of the FMV of the shares of the foreign entity (hereinafter the “50% test”); and,
- ii. During any given 12-month period, shares representing 10% or more of the foreign entity’s share capital are transferred (the minimum rule).

Pursuant to the recent changes to PITL, an additional scenario for indirect transfer has been included. An indirect transfer is considered when the total value of the shares of the domiciled entity being indirectly transferred is equal to or greater than 40,000 tax units (Approx. USD46MM). Such amount will be determined by applying the percentage obtained for the 50% test (above) on the total value agreed for the sale of the shares transferred by the taxpayer and its related parties.

The Regulations established the methods by which the FMV of the shares will be calculated for purposes of the 50% test referred above. Such methods consider the discounted cash flow method, the equity participation value adjusted by the average active market rate, the value of equity participation based on audited balance sheets, even before 12 months preceding the transfer of shares, among others.

Other issues

Foreign Account Tax Compliance Act (FATCA)

A Model 1 Intergovernmental agreement (IGA) is treated as ‘in effect’ by the United States (US) Treasury as of 1 May 2014. The US and Peruvian governments have reached an agreement in substance, and Peru has consented to disclose this status. In accordance with this status, the text of such IGA has not been released and financial institutions in Peru are allowed to register on the FATCA registration website consistent with the treatment of having an IGA in effect, provided that the jurisdiction continues to demonstrate firm resolve to sign the IGA as soon as possible.

Mutual administrative assistance procedure

The mutual administrative assistance procedure has been established in the Peruvian Tax Code. According to this procedure, the Tax Administration can solicit financial institutions for taxpayers’ financial information. Additionally, this mechanism provides assistance on information exchange and tax collection with authorities of countries with whom Peru has treaties that include information exchange and mutual assistance.

Common Reporting Standard

Common Reporting Standard (“CRS”) is the global reporting standard for the automatic exchange of financial information approved by the Organization for Economic Co-operation and Development (OECD) in 2014. CRS establishes the financial information to be exchanged, the financial institutions required to transmit the information, the accounts to be reported, the taxpayers involved, as well as the due diligence procedures to be followed by the financial institutions. The financial entity is responsible of submitting the above-mentioned information to the Tax Administration.



Ultimate Beneficiary informative affidavit

Legal persons and legal entities are required to identify, obtain, update, declare, retain and provide information about their ultimate beneficiaries and, in this regard, they have to submit the Ultimate Beneficiary informative affidavit. The identification of these beneficiaries is based on the following criteria: (a) The natural person who directly or indirectly owns at least ten percent (10%) of the legal entity's shares, (b) A natural person who, acting individually or with others as a decision unit, has power to designate or remove the majority of the administrative, management or supervisory bodies, or has decision-making power in the financial, operational and/or commercial agreements that are adopted. When there is no possibility to identify a person by criteria (a) and (b), the ultimate beneficiary of the legal entity that should be reported is the person within the company with the highest administrative position.

Tax treaties

Peru has entered treaties with Brazil, Canada, Chile, Japan, Korea, Mexico, Portugal, and Switzerland regarding double taxation on income tax under the OECD model. In addition, Peru, as a member of the Andean Community, which also includes Bolivia, Colombia, and Ecuador, is subject to a double-taxation standard (based on source income; not on the OECD model).

Please see the chart below for the reduced WHT rates that apply under DTTs in force.



Recipient	Dividends (%)	Interest (%)	Royalties (%)	Technical assistance (%)	Digital services (%)
Non-treaty	5%	4.99/30	30	15	30
Treaty					
Brazil	10/15 (1)	15	15	15	15
Canada	10/15 (1)	15	15	N/A	N/A
Chile	10/15 (1)	15	15	N/A	N/A
Japan	10	10	15	N/A	N/A
Korea	10	15	15	10	N/A
Mexico	10/15 (1)	15	15	N/A	N/A
Portugal	10/15 (1)	10/15 (2)	15	10 (3)	N/A
Switzerland	10/15 (1)	10/15 (2)	15	10	10

1. The lower rate applies in case the beneficial owner is a company that controls at least 20% (Brazil), 10% (Canada, Portugal, and Switzerland), or 25% (Chile and Mexico) of the voting power in the company paying the dividends.
2. The lower rate applies to loans from banks (Portugal and Switzerland) and sale on credit of industrial, commercial, and scientific equipment (Switzerland).
3. The treaty rate applies to technical assistance in connection to copyrights, goods, or rights that generate royalties.

7.

Mining chapter

Peruvian mining industry in numbers

The Peruvian mining sector stands out for its geological potential and low production costs, which makes it attractive for new companies and higher investments. However, 2021 was a challenging year for the sector. Despite this, Peru maintains second and third place as a world producer of copper and zinc, respectively; and continues to be the main producer of gold, zinc, lead and tin in Latin America. The Peruvian mining sector currently represents almost 10% of the GDP, as a consequence of a 60% contribution to national exports. (Source: Gestión (2021); Contribución de la Minería a la Economía Nacional, issued by Instituto Peruano de Economía -IPE and Instituto de ingenieros de minas del Perú), being the main generator of foreign exchange in Peruvian foreign trade. In the last decade (2011-2020), mining investments in the country totaled US\$60.3 billion, allowing the entry of US\$250.3 billion in foreign currency.

46

Portfolio of mining construction projects

141

Mining activity units (production and exploration)*

15%

Percentage of territory granted to mining*

US\$25.8 Bn

Mining exports*

US\$12 Bn

Mining GDP* (exchange rate at year-end 2020)

US\$3.6 Bn

Estimated portfolio of projects*

3.17%

Growth of mining investments between 2020 to 2021

Source: BCRP, INEI, MINEM
* Year 2020

Mining legislation

Peru is one of the most attractive destinations for mining investments due to the high level of its reserves and the legal framework that promotes private investment, the easily available land registry and geological information, as well as the presence of the main global mining companies. In order to provide orientation to investors in the mining sector, we describe the most common and important legal procedures:

The Consolidated Text of the current General Mining Law in Peru regulates four types of concessions:

- i. The mining concession, which grants the holder the right to explore and exploit the mineral resources located within a determined area. It is a different and separate property from the real estate in which it is located, and it grants its holder a property right over the resources extracted from the subsoil;
- ii. The beneficiation concession, which grants the holder the right to remove or concentrate the valuable part of an aggregate of uprooted minerals and/or smelt, purify or refine metals;
- iii. The general works concession, which grants the holder the right to provide auxiliary services such as ventilation, sewage, lifting or extraction to two or more mining concessions;
- iv. The mining transport concession, which grants the holder the right to install and operate continuous mass transport of mineral products between one or more mining centers and beneficiation port or plant, to a refinery in one or more sections of these routes.

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

It is important to highlight that no Peruvian law or regulation distinguishes between national and foreign investors. As a result, foreign investors receive exactly the same treatment as national investors, except for what is indicated in article 71 of the Political Constitution of Peru, which states that foreigners cannot acquire or possess by any title mines, lands, forests, waters, energy sources, among others, within 50 km of the Peruvian borders.

In order to apply for ownership of a mining concession, the company must execute, in the first place, the search or survey of the area where it wants to carry out a greater exploration. The company does not need any type of authorization in order to carry out this search. Once the search has been completed, the company must present an application to the Geological, Mining and Metallurgical Institute (Instituto Geológico Minero y Metalúrgico - Ingemmet), and the payment of the subsoil fee and/or administrative fee. Subsequently, the notices must be published as required by law. The adjudication of the mining concession is granted through a resolution issued by the president of the Ingemmet. Finally, the concession title can be registered in the Mining Registry of the Public Registry Office.

It must be taken into account that before beginning the operations in the area, the holder must request an authorization for the initiation of activities from the Minem, a procedure that requires the holder to include a document indicating that prior consultation has been carried out. Prior consultation is a procedure requested from the Ministry of Culture (Ministerio de Cultura - Mincul) and it consists in obtaining an opinion of the indigenous communities considered as such by the Mincul with regard to the activities that have been announced. This opinion is not an obligatory requirement to obtain the authorization since it can be issued at the discretion of the Minem. It must also be considered that, as mentioned above, the concession does not grant the property right over the surface of the land. This right can be acquired through the purchase of the land from the owner or through an easement right.



The Minem and the Ministry of the Environment (Ministerio del Medio Ambiente - Minam) have established certain regulations related to the environmental norms for the mining industry. To obtain an authorization to initiate operations, concession holders must present and obtain the approval of an Environmental Impact Declaration (Declaración de Impacto Ambiental - DIA), or a Semi-detailed Environmental Impact Assessment (Estudio de Impacto Ambiental Semidetallado - EIA-sd), depending on the amount of drilling platforms, the size of the interrupted area and the construction of tunnels. It is important to mention that these studies must include technical, social and environmental aspects, as well as the actions that will be carried out to prevent possible contingencies through an Environmental Management Plan.

The Organism for Environmental Evaluation and Control (Organismo de Evaluación y Fiscalización Ambiental - OEFA) is in charge of monitoring all the environmental obligations and has the authority to carry out audits and establish fines for mining companies.

All the mining companies must prepare a Closure Plan, which must be delivered and executed for the closure of mines. Additionally, the company must issue environmental guarantees to ensure the compliance of the Closure Plan during the concession. The amount of the guarantee must cover the estimated amount of the Closure Plan. It should be noted that the Closure Plan should estimate all costs and expenses arising from closure measures for mine workings, facilities and auxiliary areas during progressive closure, final closure, maintenance and post-closure status. As the estimate will need to be reviewed and adjusted periodically, the Closure Plan should also be updated as those operations proceed.

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 belongs to the holder of the mining concession. It is important to highlight that there is a difference between the ownership of the surface and that of the natural resources located in said area.

The mining concession grants the holder a real right, which is the right to explore a specific area and exploit all the mineral resources located therein. Furthermore, it should be noted that the mining concession is limited because the minerals in each deposit are exhaustible resources and that the concession holders are not the owners of the surface of the land. The holder of the concession has the right to request an easement over the land of third parties, with prior compensation, so as to be able to carry out any other necessary activity.

The water rights are independent from the concession rights and are granted by the National Water Authority (Autoridad Nacional del Agua - ANA). To be able to use the water for mining activities, the Peruvian legal framework determines that the company must have an authorization for the use of the water. In the event that the company intends to drill wells, there are other procedures to be followed, as well as in the case of the discovery of water as a result of the drilling of wells.

Once the surface right is granted, the holder has certain obligations that must be fulfilled; for example, to only consume the amount of water that is permitted and make payments to the ANA according to the water volume granted, among others. It is important to highlight that there are certain standards for the deposits of mineral residues included in the Law of Water Resources that must be observed.

The use of explosives in Peru is regulated, controlled and supervised by the National Superintendence of Control of Safety Services, Weapons, Ammunitions and Explosives for Civil Use (Superintendencia Nacional de Control de Servicios de Seguridad, Armas, Municiones y Explosivos de Uso Civil - Sucamec). The Explosives Regulation establishes that companies which use explosives in their mining activities must observe specific rules during the placement and transport of these goods.

It is important to consider that each type of transport is specifically addressed in the Explosives Regulation, and that, depending on the type of explosive that the company uses, a specific rule will be applied.




There are safety requirements that are obligatory for all mining companies which use explosives. The administration requires technical specifications of every type of explosive that the company will use during the mining activities.

The form commonly employed by the national or international investors to carry out business in Peru is the limited liability company.

The formation of a local company is relatively simple and is regulated, basically, by the General Company Law. The Company can be formed through a shareholders' agreement (privately). The company can be incorporated by two or more persons, directly or through representatives or legal entities, which must sign a public deed of formation before a Public Notary and registered in the Public Registry Office.

Companies incorporated in Peru must be registered before the Tax Administration and obtain a Taxpayer's Registration.

The health and social security system in Peru are administered by EsSalud, the governmental entity responsible for providing medical attention to workers and their families. The employers' contribution is based on a rate of 9% of the total monthly remuneration of the worker.



Labor legislation

According to the “Mining Employment Report 2020” prepared with information available from the Consolidated Annual Declaration (DAC) as of 2019 by Ministry of Energy and Mines, it was established that, for each job directly generated in the mining activity, 6.25 jobs are also generated in the rest of the economy: 1 due to indirect effect, 3.25 due to the effect induced in consumption and 2 due to the effect induced in investment.

On the other hand, according to the document entitled “Formalization Policies in Latin America and the Caribbean” of the International Labor Organization (ILO) published in 2018, the average percentage rate of informality in the region is 53%. In the Peruvian case, labor informality exceeds this average with 72% of the Economically Active Population (EAP), according to figures from the National Institute of Statistics and Informatics (INEI).

Likewise, the current mining legislation, by means of the Supreme Decree. N° 042-2003-EM preferably promotes the hiring of personnel from the localities near the mining operations. Additionally, it is noteworthy that 99.8% of the total collaborators of the mining activity are Peruvians, and only 0.2% of the total employment are foreigners. Thus, in 2018, personnel from the same region of the mining operation constituted 52.2%, while personnel from other regions accounted for the remaining 47.8 %.

In addition, according to the document “Peru: Evolution of Employment and Income Indicators by Department 2007-2018” published by the INEI in August 2019, the average monthly income from work in Peru is S / 1,443, meaning an income annual of S / 17,316. However, the average annual salary in the mining sector is S / 55,400, an amount that rises to S / 100,056 if we only consider direct workers of mining companies that are in the General Regime.

It is established that this income may not be less than the amount resulting from applying an additional 25% to the minimum vital wage (MVW) in force at the time of payment. Currently, Peru has an MVW of PEN 930. In that sense, the mining worker must earn at least PEN 1,162.5.

Labor administration



The health and social security system in Peru is administered by EsSalud, the governmental entity responsible for providing medical attention to workers and their families. The employers' contribution is based on a rate of 9% of the total monthly remuneration of the worker.

According to Peruvian law, workers can decide to contribute to the Private Pension Fund System, administered by the Pension Fund Administrators (Administradoras de Fondo de Pensiones - AFP), a system in which the contribution is equivalent to approximately 13.32% of the remuneration; or to the National Pension Fund System (managed by the Office of Pension Normalization – ONP⁽¹⁰⁾), a system in which the contribution is equivalent to 13%. This amount is collected by the employer and paid to the fund selected in the name of the employee.

There is a Complementary Mining, Metallurgical and Steel Retirement Fund, which has the objective of granting an additional amount in favor of the workers, affiliated to the National Pension System (Sistema Nacional de Pensiones – SNP 2) or to the Private Pension System (Sistema Privado de Pensiones - SPP), who have retired in accordance with the Retirement Law of mining employees and the Law that governs the early retirement applicable to workers affiliated to the SPP who perform tasks that cause risks to their life or health.



This Fund is formed with contributions from both employees and employers, which are distributed as follows:

- Employers will contribute 0.5% of the annual income before taxes; and
- The employees will contribute 0.5% of their monthly gross remuneration. The employer's contributions are paid before taxes and, therefore, are expenses deductible in the respective fiscal year.

The entities that develop mining activities are obligated to contract a Complementary Insurance for Hazardous Work (Seguro Complementario de Trabajo de Riesgo - SCTR) and assume the cost of the premium and/or contributions. This insurance covers the risks presented by hazardous activities, since there is a greater risk of suffering illnesses or accidents.

The mining company can contract a professional hazard insurance with EsSalud¹ or a Health Maintenance Organization (Entidad Prestadora de Salud - EPS).

Furthermore, with regard to economic benefits, the employer can choose between affiliation with the ONP² or with a private insurance company for the following benefits: (i) survivors' pension, (ii) disability pension and (iii) funeral expenses.

¹ Seguro Social de Salud - EsSalud: institution of social security in health, committed to the integral attention of the needs of the insured population.

² Oficina de Normalización Previsional - ONP: public technical and specialized organization of the economy and finance Sector, which is responsible for the administration of the National Pension System.

Foreign trade

General Procedure “Temporary admission for re exportation in the same condition” version 6

The version 6 of the Temporary admission regime was published in October 2020. The following, among other topics, were include and modified:

Inclusion of electronic notifications and communications: the utilization for foreign trade operators and intervenient operators of the Customs Corporate Electronic Box (CECA) through the Electronic User Box (CEU) to send electronic documents to the Customs Administration. Also, the creation of the SUNAT Virtual Front Desk, thus, the foreign trade operator and intervenient operator can submit documents to the Customs Administration and be notified in the same channel.

Version 6 has modified the term of the regularization in cases of early clearance now is before the arrival of the transport and in deferred clearance is after the arrival of the transport, also in case of deferred clearance is possible to request an extension within 15 calendar days following the date of completion of the unloading of goods.

The Procedure for the Extraction and Analysis of samples of metallic mineral concentrates

According the Superintendence Resolution No. 202-2020/SUNAT, published in November 2020, it has been modified the procedure. The following, among other topics, were stated:

- Sample extraction during customs clearance.
- Issuance of chemical bulletins in 72 hours.
- Certificate of receipt of samples and counter samples.
- Acceptance of suggestions by SUNAT

Amendment to the Specific Procedure Physical Examination: Extraction and Analysis of samples

According to the Superintendence Resolution No. 202-2020/SUNAT, published in November 2020, the procedure has been modified. The following, among other topics, were stated:

It has established that the owner, consignee or the customs dispatcher can perform the physical examination of the goods prior the Customs Declaration is file, taking into consideration the provision stated in the General Procedure of “Cargo Manifest” and in the aforementioned procedure.

Additionally, the Customs Official may adopt the necessary actions, such as taking photographs or videos, withdrawal of catalogs and documents with technical information, extraction of samples, among others, leaving a record of these actions in the “act of physical examination of official letter”, noting that said act is not applicable to the import regime for consumption.



Legislative Decree No. 1492

As part of the provisions introduced by the legal regulation in order to respond to the COVID-19 crisis, the aforementioned Legislative Decree stated the 100% digitalization of foreign trade process. Also, this 100% digital foreign trade process is not only for the Customs Administration and related administrations, but for the foreign trade operators and intervenient operators.



Tax System

Mining taxation in Peru		
Corporate income tax	Mining taxes	Value Added Tax (VAT)
Rate: 29.5%	<ol style="list-style-type: none"> 1. Mining Royalty (Regional Government). 2. Special Mining Tax (Central Government). 3. Special Mining Contribution (for companies with tax stability) 4. Contribution to OSINERGMIN: 0.14% 5. Contribution to OEFA: 0.10%. 	Rate: 18%
Rates of Depreciation: <ul style="list-style-type: none"> Buildings and constructions: 5% or 20% Machinery and equipment used in mining activities: 20%. Other fixed assets: 10% 	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% - 13.12% Deductible in CIT calculations: YES	Transactions subject to VAT: <ul style="list-style-type: none"> Sales of movables goods within Peru; Rendering or use of services within Peru; Import of goods; Construction agreements; The first sale of a construction performed by constructors.
Restriction on use of tax losses: 4 years (or 5 years for losses generated in 2020) or indefinite but up to 50% of net taxable income.	Other payments: License Fee (mining right fee).	VAT charged in exports: 0% rated
Employee Profit Sharing: <ul style="list-style-type: none"> 8% of the employer's taxable income. Deductible for CIT purposes: YES. 	Tax stability Agreements: <ul style="list-style-type: none"> Juridical Mining 	VAT Refund <ul style="list-style-type: none"> Early VAT Recovery Definitive VAT recovery. Exported VAT reimbursement.

Income Tax (IT)

Companies incorporated in Peru are considered domiciled for IT purposes and, therefore, subject to IT at a 29.5% 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,” 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. For this purpose, the Peruvian IT Law has provided a list of countries or territories considered as “tax havens”, as well as guidelines to determine whether a territory can be considered as a tax haven even if they are not mentioned in said list.

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 crediting different payments against IT, such as the amounts paid in advance, 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 5% rate, upon distribution in benefit of domiciled individuals or non-domiciled beneficiaries (either individuals or legal entities). The entity distributing dividends or profits is liable for applying the 5% 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 advanced 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 the 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 to maintain the source of income.

For such purpose, expenses must be ordinary to the economic activity of the company and meet other requirements such as being general and reasonable, as the case may be. Even though the 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 the Peruvian IT Law allows the deduction of any expense that complies with the causality principle (including mining taxes).

Start Up Costs	<p>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.</p> <p>The amortization period may be varied provided that the approval of the Tax Authority is granted. The total period may not exceed 10 years.</p>
Acquisition of mining rights	<p>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 proved and probable reserves and legal minimum production.</p>
Exploration expenditures	<p>Exploration costs accumulated up to the year when minimum production is 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.</p> <p>The exploration costs incurred after minimum production is achieved may be deducted in the fiscal period in which it is accrued or amortized during the probable life of the mine.</p> <p>Both the acquisition and explorations 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, 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.</p>
Development costs	<p>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.</p>
Production costs	<p>The General Mining Law does not include any regulations regarding the allocation of production costs, neither for accounting purposes nor for tax purposes. The Peruvian IT Law, however, states that production costs have to be allocated to the products sold, and thus, a deduction for them takes place upon the sale of the products.</p>



Depreciation rates

Assets	Maximum annual tax depreciation rate
Work and reproduction livestock; fishing nets	25%
Land transportation vehicles (except railways); furnaces in general	20%
Machinery and equipment used for mining, oil, construction; except furniture and office equipment	20%
Data processing equipment	25%
Machinery and equipment acquired after January 1 st 1991	10%
Other fixed assets	10%

Additionally, the following depreciation rates will apply in these scenarios:

Assets	Maximum annual tax depreciation rate
Data processing equipment acquired in 2020 and 2021.	50%
Machinery and equipment acquired in 2020 and 2021.	20%
Land transportation vehicles (except railways) with hybrid or electric engines, acquired in 2020 and 2021.	25%

In order to accept depreciation for tax purposes, such depreciation must:

- be recorded in the company's accounting records, in the current fiscal year;
- not exceed financial depreciation;
- 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.

Buildings are depreciated at a 5% yearly rate. However, a 20% yearly depreciation rate will apply since 2021, provided the following conditions are met:

- Construction began after January 1st, 2020 (construction begins for this purpose when obtaining the construction license).
- The work progress for the construction must be at 80% or more by December 31st, 2022. Incomplete constructions by said date will be considered to be at a lower work progress, unless the taxpayer can substantiate the contrary.

These rules will be also applicable for taxpayers that acquire properties that comply with the above-mentioned requirements during fiscal years 2020, 2021, and 2022. Nevertheless, it would not be applicable when such property has been built totally or partially before January 1, 2020.



i. Withholding taxes

Peru source income paid to non domiciled entities is subject to withholding tax, in accordance to 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%
Dividend and any other profit distributions	5%
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%



Mining Taxes

In addition to the corporate income tax, mining companies must pay, on a quarterly basis, mining taxes for exploitation of mineral resources based on operational profit.

- i. **Royalty:** Under the 2004 Mining Royalty Law, revised in 2011, the royalty is applied to the quarterly operational profit of the mining companies, at an effective rate varying from 1% to 12%, depending on the operational margin identified within 16 separate brackets. A minimum royalty payment equivalent to 1% of the sales is always required. The law defines the distribution of royalties among Local Governments, Province Governments, Regional Governments and National Universities.
- ii. **Special Mining Tax:** Mining companies without tax stability agreements with the government (further explained below) are subject to this tax. It applies to the quarterly operational profit at an effective rate varying from 2% to 8.4%, depending on the operational margin identified within 17 separate brackets.
- iii. **Special Mining Contribution:** Mining companies that have taxation stability agreements previously signed with the government are subject to this contribution in the form of a levy. It applies to the quarterly operational profit at an effective rate varying from 4% to 13.12%, depending on the operational margin identified within 17 separate brackets.

Value Added Tax (VAT)

VAT levies at an 18% rate 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 constructions 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 pre-operative stage, provided certain conditions are met.

Peru has three different VAT withholding regimes with rates that fluctuate between 0.5% - 12%. These withholding regimes apply to specific transactions or when the Tax Authorities appoints 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 the user of services must withhold 3% of the price or fees invoiced where the price of the supply exceeds PEN 700.

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. 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 2% and 5%. Exceptionally, a 10% perception rate may apply. Amounts subject to this perception regime can be recovered either as a credit or refund.



Tax Obligatory 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 whereas in case of services the rates are 10% 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 PEN 700, 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.

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 advanced payments or to the annual IT regularization payment. If not totally offset, the remaining Temporary Net Assets Tax may be refunded by the Tax Administration.

Financial Transfer Tax

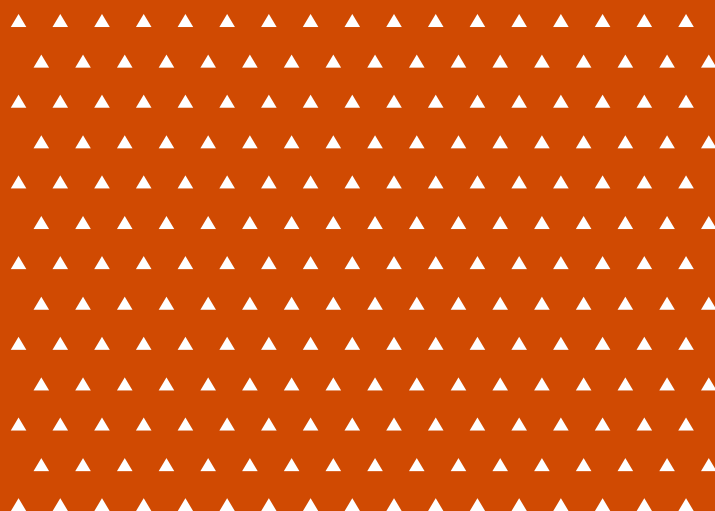
Obligations that are fulfilled through cash payments, the amount of which exceeds S/.3,500 or USD1,000, must be performed through a bank account or deposit, wire transfers, payment orders, credit cards, non-negotiable checks, among other means of payment provided by the Peruvian financial system entities.

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

Moreover, Financial Transactions Tax levies, among other transactions, 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%.

There are certain operations exempted 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.

Financial Transactions Tax is deductible as expense for IT purposes



Statute of limitations

Pursuant to the 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 Registry 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

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.

The applicable percentage, among others, for mining companies is 8%.

Basis for calculating the employees' profit sharing is the company's net income. In that sense, in case the company has no taxable income, no profit sharing obligation will arise.

Note that this obligation is only applicable for companies which count with more than 20 workers.



Complementary Mining Pension Fund

Law No. 29741 created the Complementary Mining Pension Fund (CMPF), whose beneficiaries are the employees of mining companies.

Employers are required to contribute 0,5% of their annual income before tax to the CMPF, while mining workers contribute 0,5% of their monthly gross salaries during their employment in order to receive defined benefits upon retirement.

Contributions made by the employing company are deductible for IT purposes.

International treaties

Peru has entered into Double Taxation Treaties (DTT) with Canada, Chile and Brazil, Mexico, Portugal, South Korean and Switzerland which are currently in force and follow the OECD Model. Furthermore, Peru has entered into a DTT with Japan, which also follows the OECD model, and is in force beginning 2022.

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

Statute 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 previous 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, 12 or 15 years:

- Stability of the overall tax regime. (IT rate +2 points)
- Stability of the overall administrative regime.
- Free disposition of funds (foreign currency) arising from export operations.
- Keep accounting in foreign currency (for 12 and 15 year projects).
- For 15-year projects, the benefits of the regime also apply to activities not initially considered in the investment project, provided certain conditions are met.
- For 15-year projects, it could extend the annual rate of depreciation of machinery, industrial equipment and other fixed assets up to the maximum limit of 20% per annum as a global rate according to the characteristics of each project, with the exception of buildings and constructions whose maximum limit will be 5% per annum.
- No exchange rate discrimination.
- Free trade of products.
- Stability of special regimes for tax refunds, temporary importation, etc.

The tax stability regime will enter into force upon the date in which the Mining Tax Stability Agreement is subscribed, or at the date of approval of the Technical-Economic Feasibility Study (in some scenarios).



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 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 mining industry) for companies at pre-operative stage (e.g. construction stage).

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

VAT recovery regime for mining companies in exploration stage

Holders of mining concessions have the right to recover the VAT paid in connection to their activities during the exploration stage.

In order to access this regime, mining companies must comply with certain conditions, such as being entirely at pre-operative stage and performing exploration activities of minerals within the country, and entering into an Exploration Investment Contract with the Government for a minimum investment of the equivalent amount in national currency to USD500,000.00.

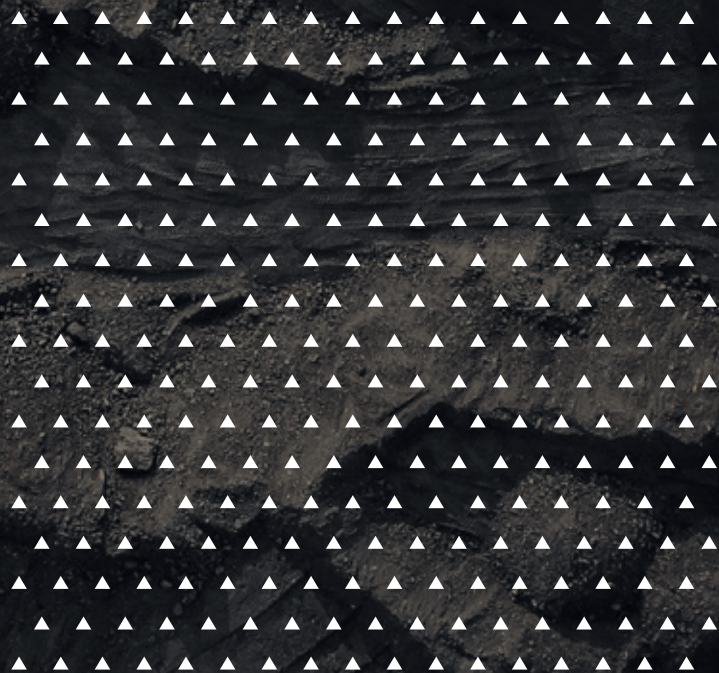
Regarding the VAT reimbursement, this comprises VAT applicable to all imports or acquisition of goods, services hired or used within national territory and construction contracts linked to mineral exploration activities in the country. Such VAT may be requested on a monthly basis as from the month following the registration of the mentioned transactions in the purchase ledger of the concession holders and for a minimum amount equal to 4 tax units, this is, approximately USD4,400 (currently, the tax unit approximately amounts to USD1,100).

VAT early recovery Regime for companies at pre-operative stage

Companies at pre-operative stage (which includes mining companies at 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 USD5'000,000 (VAT not included) in any economic activity area that generates business income, and the company must have at least one project at pre-operative stage with a period not lower than 2 years as of the start date of the investments schedule contained in the Investment Contract.

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, this is, approximately USD39,600.



Public Private Partnership (PPP)

Companies have the option of paying part of their tax bill in the form of regional infrastructure works in some of the countries' poorest regions. For such purposes, the companies must comply with certain conditions, such as enter into agreements with the Regional and Local Governments and obtain an authorization from Proinversion (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 the private companies and also for the Governments, such as:

For the Company



- Total investment refund (with a 2% annual indexation).
- Associate their image with social work, carried out in areas of interest.
- Improve the efficiency of their corporate social responsibility programs.
- For construction companies, is an additional way to compete for public works.

For the Government



- Sustain or increase the local economy.
- Accelerate the implementation of works.
- Efficiencies in the execution and simplify procedures.
- Releasing its technical and financial resources.
- Increase its current investment budget.

COVID-19 Safety Measures



Regulatory authorities require mining companies to fulfill the public health safety requirements established in order to avoid contagion of the COVID-19 disease. As such, they must implement the protocols established through Ministry Resolutions 128-2020-MINEM/DM and 135-2020-MINEM/DM. These protocols include plans to test for the COVID-19 disease as well as to include observation, control and mitigation procedures.

In addition, the Government has recently issued the Ministry Resolution 1275-2021-MINSA in which establishes the new COVID-19 protocols that will be implemented to monitor and prevent COVID-19 in any workplace. Notice that, as one of these new protocols, the Government has also issued the Supreme Decree N° 179-2021-PCM which establishes the mandatory entire vaccination of employees to enter the workplace from December 10th. Indeed, the employees must prove this requirement with their vaccination card.



8.

ESG (Environmental, Social and Governance)

The term ESG (Environmental, Social and Governance) suggests ideas of investors pursuing positive stories of sustainability, diversity and ethics. However, given the increased interest of several stakeholders, the ESG vision is much more comprehensive.

ESG represents risks and opportunities that will affect a company's ability to generate long-term value. It includes environmental issues such as climate change and the shortage of natural resources. It covers social issues such as labor practices, product and data security. In addition, it comprises governance issues including board diversity, executive compensation, and tax transparency.

It is reflected in some insights generated from the PwC's 2021 Global Investor survey:

For ESG issues to be managed effectively, investors expect ESG to be a core a part of company's strategy.

Companies should embed ESG directly into their corporates strategy



82%
agree

I'm more confident that companies are on top of ESG risk and opportunities if someone in the C-suite is accountable



66%
agree

ESG performance measures and targets should be included in the executive pay arrangements



68%
agree

Board directors are sufficiently knowledgeable about ESG issues facing the company



54%
agree

Company's stakeholders, among which the following stand out: customers, employees, communities and suppliers, generally seek that the organization management promotes the creation of value, while balancing the broader obligations that affect the final results, but they also have a significant importance. For example,

ESG impact is reflected in purchasing decisions. Half of the growth in consumer-packaged goods between years 2013 and 2018 came from sustainably marketed products, which grew 5.6 times faster than those that were not¹. And if the company wants to attract and retain the best talent of next generations, it is worth

mentioning that Generation Z and Millennials (who will constitute 72% of the global workforce in 2029)² are applying their values to work and showing a greater concern for the position of their employers on environmental and social issues.

¹ NYU Stern Center for Sustainable Business, Sustainable Share Index. Research on IRI Purchasing Data (2013 - 2018) March 2019.

² GreenBiz, "Workforce strategy in the time of coronavirus. The role of ESG". June 22, 2020.

Prioritize all stakeholders

59% of directors agree that companies should prioritize a broader group of stakeholders in company decision-making (rather than just shareholders)³.

The challenge of reporting ESG

Companies generally fall into one of three stages of maturity in relation to ESG reporting.



1. Laggards

Companies that don't have anything documented on corporate social responsibility, either in a report, on the website, or anywhere else. They haven't identified material ESG topics. In addition, they have not taken into consideration insights from investors or other stakeholders and their views on ESG topics. Essentially, ESG efforts of companies in this stage of maturity may still be anchored in philanthropy efforts rather than incorporating a strategic business focus.



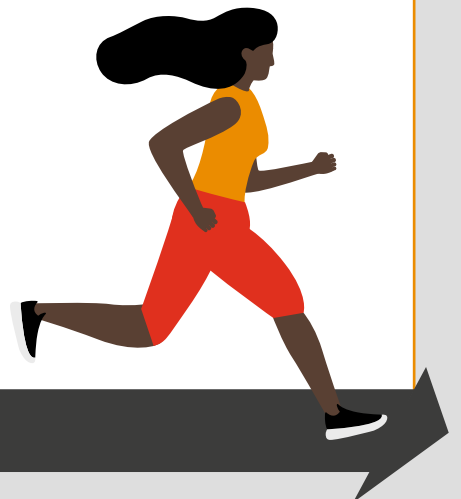
2. Middle of the pack

Companies that may be publishing a sustainability or corporate responsibility report or disclosing information on a webpage, but do not have a cohesive ESG strategy that is linked to their business purpose and embedded in their core operations. They likely do not have standardized metrics to measure progress or the data gathering processes and controls required to do ESG reporting consistently and on a timely basis. Board oversight is scant at best.



3. Front runners

ESG strategy is regularly reviewed by board/committees and embedded in core operations. The company has adopted commonly accepted ESG/sustainability standards and reporting frameworks to guide their ESG disclosures. Robust processes, controls, and governance are in place to ensure disclosures are "investor grade".



³ PwC, 2021 Annual Corporate Directors Survey, October 2021.

In addition, one of the most important challenges that companies face is selecting from a variety of reporting frameworks and standards that have been developed in recent years that looks as an alphabet soup. A general mapping carried out by PwC that allows us to identify some relevant components of this alphabet soup is shown below:

A brief overview of the standards most used and/or with the greatest potential in the future is shown below:

The reporting landscape today is an 'alphabet soup' of choice and it is evolving fast - there are significant moves towards a common set of standards...

Umbrella reporting standards/frameworks

Covering a breadth of ESG topics

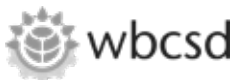


Single issue standards/frameworks/

measurement protocols



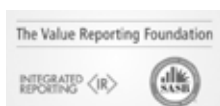
ESG principles & guidelines



Sustainability ratings & rankings



Other enabling initiatives



+ many more



A brief overview of the standards most used and/or with the greatest potential in the future is shown below:

- **Global Reporting Initiative (GRI):**

GRI provides ESG standards that address the disclosure of socially significant issues that affect a company's stakeholders. It also requires companies to determine significant issues with the advice of stakeholders.

- **Sustainability Accounting Standards Board (SASB):**

SASB recommends themes and metrics for 77 different industries across the three ESG pillars. These standards provide guidance on how organizations can align their reports with the needs of investors and how companies collect standardized data.

- **Carbon Disclosure Project (CDP):**

CDP supports several users to measure their risks and opportunities on climate change, deforestation, and water security. CDP is a framework that focuses investors, businesses, and cities on taking urgent action to build a truly sustainable economy by measuring and understanding their environmental impact. CDP has created a system that has resulted in an unmatched commitment to environmental issues around the world.

- **Task Force on Climate-related Financial Disclosures (TCFD):**

TCFD provides 11 recommendations on four pillars: governance, strategy, risk management and metrics, and objectives. TCFD aims to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit and insurance underwriting decisions and, in turn, enable stakeholders to better understand concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

Different associations have also developed recommendations to help companies standardize ESG disclosures within their industries so that this alphabet soup can be more easily processed. For example, the National Association of Real Estate Investment Trusts (NAREIT) produced a guide designed to help companies better understand and navigate ESG reporting frameworks, and the Edison Electric Institute (EEI) launched an ESG template to help electric companies provide consistent information on ESG or sustainability. Separately, the World Economic Forum's (WEF) International Business Council (IBC) issued a whitepaper describing a common set of metrics to enable consistent reporting. Finally, the IFRS foundation helped the globalization of sustainability standards by announcing the creation of the International Sustainability Standard Board (ISSB) that will create general ESG disclosure requirements.

These efforts are critical elements toward consolidating a global standard for ESG information in the coming years.

The assurance role in ESG

As investors increasingly look to ESG information to inform capital allocation decisions, and regulators seek to ensure ESG reporting is accurate, consistent, comparable, relevant and transparent, companies now have the opportunity to share more information about their impact on the world than ever before.

Assuming that some companies may be under pressure to paint a positive picture about their performance, a key question for their stakeholders is, 'Can I trust this information?' The answer to that question is essential on matters of critical importance, like employee health and safety, compliance with the law, managing and making investments, addressing climate change, and ensuring reliable company financials, to name just a few. Assurance over that information is intended to form an opinion on whether the information presented represents what it says that it represents, including whether it is in line with a particular reporting framework.

So, it shouldn't be a surprise that in PwC's September 2021 survey of 325 investors globally, nearly 80% said they trust reported ESG information more when it's been assured. And 70% said that companies should be required to obtain assurance on all material ESG information, not simply on a subset that the company chooses. Bluntly, it's been reported widely in the media that some companies report only on what they want to share, in part because of the alphabet soup of non-financial reporting standards to choose from. Investors are clearly telling us they see the existing reporting-landscape, and absence of widespread assurance, creating the potential for greenwashing and cherry picking.

Although financial reporting is a mature process in most companies, assurance isn't a guarantee of infallibility. But assurance gives stakeholders a reason to trust the data they see. The role of the assurer is to form an opinion on the judgments made by companies – that they are reasonable, objective, and in line with a particular reporting framework.

The benefits of external assurance apply to disclosures beyond financial reporting – and are just as important for the complex and heterogeneous types of data included in ESG disclosures. The more that ESG reporting is integrated into the decision-making processes of companies, boards and investors, the more important it is that the information is trustworthy.



Context in Peru

For many years, our country has developed and implemented initiatives that have helped to increase concern about ESG management in companies. These initiatives will allow us to leverage a stronger ESG culture in the coming years. Among them, the following stand out:

General Environmental Law⁴:

Law No. 28611, approved in 2005, is the rule ordering of the legal regulatory framework for environmental management in Peru.

Framework Law for Environmental Management⁵:

It is aimed to ensure the most effective fulfillment of the environmental objectives of public entities; strengthen cross-sectoral mechanisms in environmental management. This role corresponds to the Ministry of the Environment, and the sectoral, regional and local entities in the exercise of their environmental powers to guarantee that they fulfill their functions and ensure that overlaps, omissions, duplication, gaps or conflicts are avoided in the exercise of these functions.

⁴ <https://www.minam.gob.pe/wp-content/uploads/2017/04/Ley-NC2%B0-28611.pdf>

⁵ <https://sinia.minam.gob.pe/normas/ley-marco-sistema-nacional-gestion-ambiental#:~:text=La%20presente%20Ley%20Marco%20del,Ministerio%20del%20Ambiente%2C%20y%20a%20las>

⁶ <https://sinia.minam.gob.pe/documentos/compendio-legislacion-ambiental-peruana-vol-i-marco-normativo-general>

⁷ Source: <https://huellacarbonoperu.minam.gob.pe/huellaperu/#/inicio>

Compendium of Peruvian Environmental Legislation⁶

The General Directorate of Policies, Standards and Instruments of Environmental Management of MINAM, with the assistance of professional consultants in systematization of legal standards, has developed a compilation of current environmental standards of a national, sectoral, regional and local nature, disseminated and published in the country until June 30, 2010. The nine volumes have been compiled, systematized, summed up and agreed based on their objective, scope, effectiveness, and applicability.

“Huella de Carbono Perú” Program (2018)⁷

“Huella de Carbono Perú” is a program developed by the Ministry of the Environment that allows public and private organizations to recognize their level of Greenhouse Gas (GHG) emissions management through a tool that quantifies emissions. Also, recognition is based on the level of maturity of GHG management through the following levels:

- Calculate footprint
- Verify footprint
- Reduce footprint
- Neutralize footprint

Corporate Sustainability Report (2015-2020)⁸

Since 2015, companies listed on the Lima Stock Exchange have reported a Corporate Sustainability Report (as an exhibit to the Annual Report) that reflects the ESG performance of the company based on a questionnaire aligned with ESG issues.

In February 2020, the Environmental, Social and Governance working group prepared a proposal to improve the Corporate Sustainability Report, which is the result of coordinated work between permanent members and guests from the private sector at said working group and which also had the support of the Principles for Responsible Investment (PRI). As a result, the questionnaire was improved, and companies began to report it from fiscal year 2020 onwards.

Benefit and Collective Interest (BIC) Law (2020)⁹

The BIC Law was enacted on November 24, 2020. It recognizes companies that, on their own, generate a positive impact, integrating their economic activity with a scope of social and environmental purposes. This legislative process has been developed in different countries such as Chile and Colombia. For a company to take advantage of this category, it must include in its by-laws a detailed description of its purpose (including social and environmental objectives) and add to its corporate name the expression "benefit and collective interest" or the acronym "BIC".

In addition, the BIC law establishes that organizational transparency practices must be introduced and an independent third party must be commissioned to prepare a management report on the impact they generate, according to their purpose of social and environmental benefit¹⁰. The BIC law does not establish any tax benefits. However, it is expected that benefits will be generated from the greater recognition and valuation of the market, through the preference of consumers and in the hiring of the Peruvian Government.

Green Finance Roadmap (2021)¹¹

The Green Finance Roadmap (HRFV, for its acronym in Spanish) encouraged by the Ministry of the Environment (MINAM, for its acronym in Spanish) in the country promotes and accompanies the financial sector in the implementation of actions that include the environmental component within economic and productive activities.

This management tool also establishes lines of action and participation of people involved, as well as deadlines and means of implementation necessary to carry out environmentally friendly investments.

In addition, it involves intermediary financial institutions, insurance companies and pension funds (regulated and supervised by the Peruvian securities regulator "Superintendencia del Mercado de Valores - SMV"). It also includes local development banks and unsupervised financial institutions that seek to improve their social, environmental and economic impacts.

ESG Index (2021)¹²

S&P Dow Jones Indices ("S&P DJI"), the world's leading supplier of indices, and the Lima Stock Exchange ("BVL", for its acronym in Spanish) announced, on November 8, 2021, the launch of the S&P/BVL Peru General ESG Index, which is the latest addition to S&P DJI's growing global family of ESG indices, which are based on some of the world's most followed country and regional benchmarks.

S&P/BVL Peru General ESG index has been designed to reflect the performance of the shares of those companies that belong to the S&P/BVL Peru General index and that meet environmental, social and good corporate governance criteria (defined by S&P in its Business Sustainability Assessment). The current portfolio includes fifteen companies: AENZA (AENZAC1), BBVA (BBVAC1), Cementos Pacasmayo (CPACASC1), Buenaventura (BVN), Aceros Arequipa (CORAREI1), Credicorp (BAP), Engie (ENGIEC1), Ferreycorp (FERREYC1), Inretail (INRETC1), Nexa Resources (NEXAPEC1), Rimac Seguros (RIMSEGC1), Southern Peru (SCCO), Trevali (TV), Backus (BACKUSI1) and UNACEM (UNACEMC1).

⁸ <https://busquedas.elperuano.pe/normaslegales/sustituyen-el-reporte-de-sostenibilidad-corporativa-aprob-resolucion-n-018-2020-smv02-1853548-1/>

⁹ <https://busquedas.elperuano.pe/download/url/ley-de-la-sociedad-de-beneficio-e-interes-colectivo-sociedad-ley-n-31072-1905747-1>

¹⁰ <https://busquedas.elperuano.pe/download/url/decreto-supremo-que-aprueba-el-reglamento-de-la-ley-n-31072-decreto-supremo-n-004-2021-produce-1929774-4>

¹¹ <https://lexlatin.com/entrevistas/detalles-nueva-ley-sociedades-bic-peru>

¹² <https://www.gob.pe/institucion/minam/noticias/343020-conoce-la-hoja-de-ruta-de-las-finanzas-verdes-en-nuestro-pais>

¹³ <https://www.spglobal.com/spdji/en/indices/esg/sp-bvl-peru-general-esg-index/#overview>

¹⁴ <https://www.bvl.com.pe/quienes-somos/quienes-somos-bvl/sostenibilidad-corporativa/sostenibilidad-en-la-bvl>



Additional information

PIR: Responsible investment program

Initiative to promote responsible investment proposed in 2014 by SURA Peru, Lima Stock Exchange (BVL, for its acronym in Spanish) and COFIDE for the Peruvian securities regulator. This initiative stems from an even greater effort promoted by the United Nations, the Inter-American Development Bank (IDB) and the United Nations Initiative for Sustainable Stock Exchanges. It is a long-term program that joins and empowers institutions of the financial system to promote responsible investment practices in the Pacific Alliance. Its principles are integration, involvement, transparency, promotion, cooperation, and reporting.

¹³ <https://www.minam.gob.pe/semanaclimatica/wp-content/uploads/sites/104/2015/09/7Presentacion-del-Programa-de-Inversion-Responsable.-PIR.pdf>



9.

PwC's global network and services

One network

We are part of the largest international professional services network, carrying out multidisciplinary work to offer effective and innovative solutions to our clients.

We build value relationships that are sustainable over time, generating confidence and solving complex problems.

We are one of the most powerful brands in the world, leaders in digital consultancy and gender equality, and one of the most attractive places to work.

Our employees

90,273

New employees around the world



11,897

Partners



22%

are women



295,371

employees around the world



156

countries

742

offices

PwC Peru

We have more than 95 years and 1,000 professionals helping organizations create the value they seek.

We work with all of Peru's leading economic groups and companies.

1,000

professionals

56%

are women

For more information, visit pwc.com/annualreview
Figures as of June 2021



In 2020, PwC joined forces with UNICEF in support of Generation Unlimited, to help improve skills of millions of young people around the world.

Our revenues



US\$11 MM

Tax & Legal Services



US\$17.1 MM

Assurance

Our clients

PwC firms provide services to:

84%

Fortune Global 500 companies

US\$
45.1 MM
Global

5%



Net Zero

We are committed to meeting our zero emissions target by 2030.

432,372 tons of carbon emissions in FY20

599,258 tons of carbon emissions in FY19



US\$17 MM

Advisory



Corporate responsibility

39,000

volunteers

754,000

volunteering hours



In 2019, PwC joined the Partnership for Global LGBTI Equality, a coalition of organisations working in collaboration with the World Economic Forum to advance LGBT+ inclusion.



HeForShe

We are part of the UN's HeForShe initiative, a global movement for gender equality.



A community of solvers coming together in unexpected ways. We are bringing the strength of our people, capabilities and technology together to support our clients in building trust and delivering outcomes for their businesses.

It all add up to
The New Equation

[Learn more](#)



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