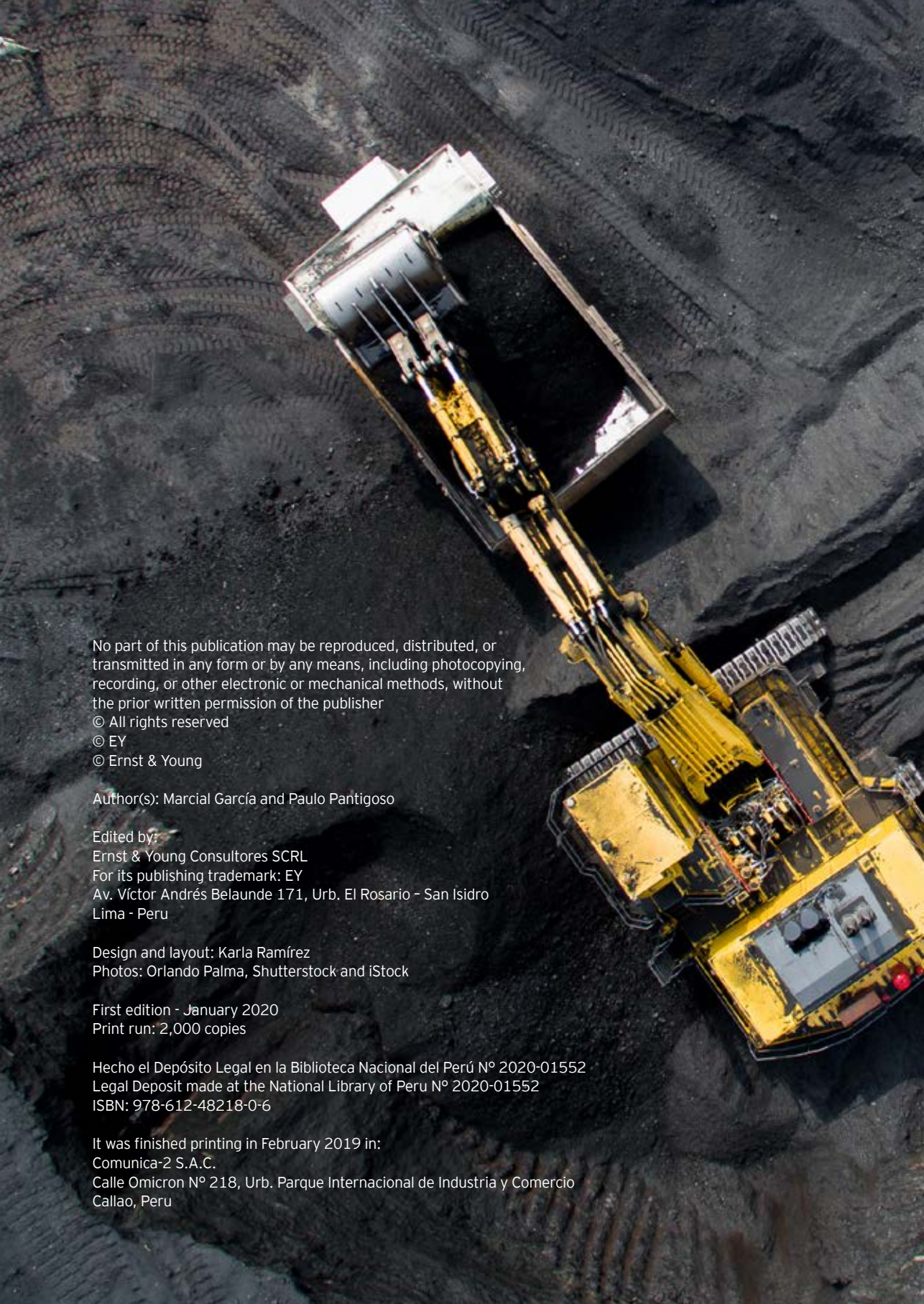


Peru's mining & metals investment guide 2020/2021





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Peru's
mining
& metals
investment
guide
2020/2021



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A note from Martín Vizcarra

President of the Republic of Peru

In a regional context marked by social protest and an international situation defined by trade tensions between the major powers, Peru was one of the fastest growing countries in Latin America in 2019, accruing 125 straight months of sustained expansion and fostering progress and wellbeing for our citizens.

Unlike previous periods in which growth was driven mainly by high metal prices in the international market, today our economy is also bolstered by internal consumption and activities such as commerce, services, and construction, thus exhibiting greater productivity and competitiveness.

The fundamentals of our economy are sound. We are one of the few investment-grade countries in the region that has maintained its credit rating and stable outlook. The most important credit rating agencies have highlighted our fiscal strengths and the historical credibility of our macroeconomic policies.

Today, Peru is a stable country, a democratic nation under the rule of law, with all the fundamental liberties this implies. We are an attractive country for investment, and our public policies ensure the predictability of our development strategy.

It is worth highlighting the macroeconomic strength and toughness of our economy. This year, while the global financial indicators revealed high levels of volatility due to trade tensions between the United States and China, the Peruvian economy remained stable and presented solid figures in its external accounts. As for its international reserves, in December they totaled US\$69.169 billion, which represents

US\$ 9.048 billion more than the level recorded in December 2018. On the other hand, the country risk also improved standing at 105 basis points, decreasing in 63 points the risk presented at the end of December of last year.

Peru offers a favorable environment for investment and doing business. We provide economic operators with all the necessary legal safeguards and guarantees, and strive to establish long-term relationships among the state, investors, and communities. In short, we offer stability and predictability.

The extractive industries play an essential role in our economy, not only because of their connections to other economic activities, but also as a source of job creation, tax revenue, infrastructure in the areas where their activities are located, and development opportunities for the population.

My government is focused on a safe mining sector with consolidated investments and added value. We work with a long-term vision in this and other sectors and promote competitive, formalized, modern, and sustainable mining.

Peru is firmly committed to promoting business and investment in all areas based on clear rules and equal conditions. Today, our territory is more interconnected than ever. In 2019, 1,500 kilometers of roads were paved and 200 bridges were built, facilitating the transport of people and goods.

Alongside our concern for economic development, we are also committed to human development. Perhaps the greatest achievements of our state and its policies has



been to lift nearly 10 million Peruvians out of poverty in recent years. In Peru, we know that the integral development of our citizens is vital to guaranteeing a harmonious coexistence and avoiding crisis scenarios such as those experienced in other countries in the region over the past year.

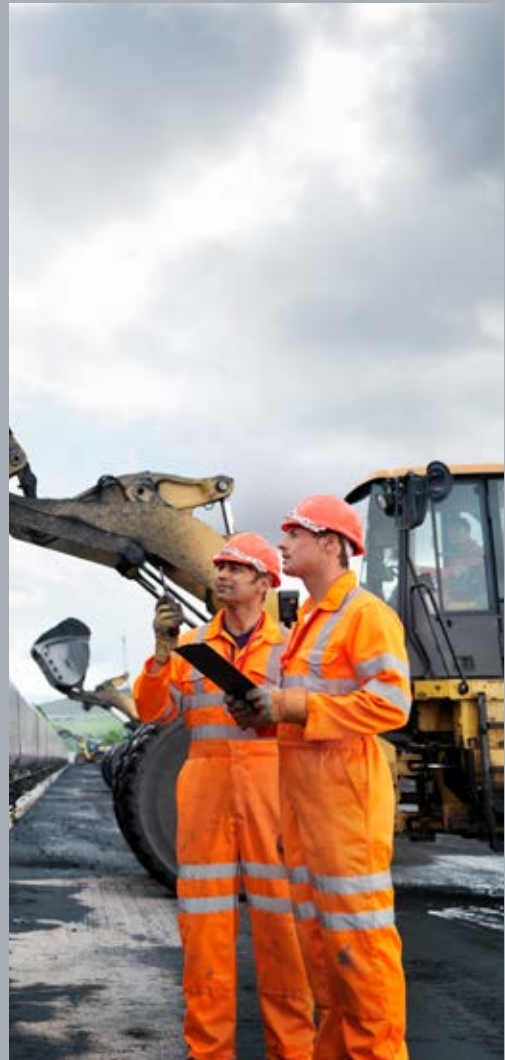
This 2020 will be a year of greater productive and social growth for our country. The Gross Domestic Product (GDP) is forecast to grow by nearly 4%, with inflation remaining within the target range of 1% to 3%. The National Productivity and Competitiveness Plan and the National Infrastructure Plan are already underway, with 52 high-impact works that will help us continue to close our country's social and infrastructure gaps.

Not only is this auspicious scenario a major opportunity for mining investment, it also gives us great confidence in the country's future.

We reaffirm our commitment to a participatory approach involving all the different stakeholders to achieve sustainable, long-term, harmonious relations, thus maximizing our mining potential and that of all of our country's regions.

We invite you to explore Peru's immense mining resources and take full advantage of the favorable environment we offer.

Thank you.



About this mining & metals investment guide

“

Companies that have access to timely, targeted and comprehensive information about Peru's mineral sector investment conditions can prepare to seize opportunities rather than risk falling behind.



Paulo Pantigoso
Country Managing Partner
EY Peru

This mining & investment guide is the first, and still the finest, handbook of its kind. This document has been structured to serve as an initial step in the process of evaluating the mining landscape in Peru. As such, it will be useful to those who contemplate at least the possibility of making long-term investments into the exploration and development of new mines in the country.

This publication has brought together several of the mining industry's leading professionals from EY Peru, with a mix of legal, tax, economic and accounting backgrounds, to share their unique insights and explain the key elements for a successful expansion by international mining and metals companies into Peru.

Within this guide we have examined various aspects usually taken into consideration by miners and investors from around the world before making critical decisions on the development of new mining operations. Included in this guide is an overview of Peru's political structure, business environment, macroeconomic profile, key indicators and outlook for the next years, geological potential, mining and metals sector trends and recent developments. The guide also provides access to essential information to assist foreign investors in understanding the regulations governing investment and in particular the legal, taxation and regulatory requirements to operate in Peru's mining sector.

First published in 2010, this guide has been designed to be easily consulted and to offer a balanced and objective account of areas of potential interest to foreign mining investors. In this seventh edition, we have chosen to leave the general structure of the 2019/2020 edition intact. We have, however, drawn from what we have learned from those who have used this reference booklet and from our own experiences, and included the most recent data available in January 2020 and some additional commentary on a variety of critical topics. The aim is to supply international exploration and mining companies (majors and juniors) with a fact base and critical information to facilitate and support their investment-making discussions and decisions. We hope that this new material will be useful in the efforts to attract greater flows of foreign direct investment and that the flows in turn benefit the country.

We wish to express our appreciation to the President of the Republic of Peru, Martín Vizcarra, the Ministry of Energy and Mines, the Ministry of Foreign Affairs, and the Private Investment Promotion Agency of Peru (PROINVERSIÓN) for their support on this project. Our special thanks are owed to Gustavo Meza-Cuadra, Minister of the Ministry of Foreign Affairs; Ambassador Eduardo Chávarri, General Director of Economic Promotion of the Ministry of Foreign Affairs; Augusto Cauti, Vice Minister of Mines and, Rafael Ugaz, Executive Director of PROINVERSIÓN for mobilizing their respective teams to support and assist us in the production and distribution of this guide across the world.





A note from Marcial García

Mining & Metals Leader
EY Peru

Peru is a global leader in the mining industry, which makes it a natural choice for international investors. It is one of the world's biggest producers of base and precious metals. Currently, it is the second largest producer of copper in the world and stands amongst the top four producers for silver, lead, zinc, tin and molybdenum.

Add to that important deposits of gold and non-metallic resources such as phosphates and uranium and it is unsurprising that Peru's economic fortunes have been tied to the mineralogy of the Andes Mountains for many centuries.

Despite mineral price volatility, uncertain demand and poor market conditions, mining investment continues to flow into the country and is one of the key motors of economic growth. The success of Peru's mining sector stems not only from an abundance of rich natural resources, but also from an attractive legal and tax regime designed to support the industry.

Peru enjoys political and macroeconomic stability. It has a steadily growing economy, which is largely driven by mineral production. The high rates of production have attracted US\$60 billion of inbound investment into Peru's mining sector in the last 10 years. But Peru has much more to offer. There are still an estimated US\$57.8 billion of mining projects waiting to be developed in the country over the next few years.

The mining sector has real potential for growth and further expansion. It holds golden opportunities for investors as much of the country is yet to be subjected to vast exploration, leaving an immense potential for future development. Peru also enjoys the advantage of having one of the lowest operating costs in the world and has a large pool of people trained and qualified as geologists, mining engineers and field technicians.

International investors are a crucial part of the growth and success of Peru's exploration and mining industry. Peru welcomes foreign investment with an open and stable mining regulatory environment. A foreign investment law guarantees the security of foreign and domestic investments. Furthermore, Peru is consistently undertaking measures to improve its business climate to attract more investment.

We invite you to contact us with your questions and we wish you all the best with your mining investment opportunities in Peru.



PERU

Ministry
of Foreign Affairs



A note from Gustavo Meza-Cuadra

Minister,
Ministry of Foreign Affairs

Peru is a country with rich mineral resources, for which it is renowned worldwide. As a result, we are well aware of the major role played by foreign mining investments in bolstering our country's growth and development. This potential poses the challenge of assuring economically, socially, and environmentally responsible mining investment as one of the key factors in our goal to achieve sustainable development.

In 2019, the country's mining sector attracted the most capital, with a growth of approximately 25% over the investment registered in 2018. Estimates show that this trend will continue in 2020, accompanied by a recovery in the price of mining products for export. This has been made possible by shaping and maintaining a legal and tax framework that guarantees investments in the country, earning Peru recognition as one of the best destinations in the world for mining investment. We are firmly convinced that by 2021, we will rank among the top ten destinations in the world, attracting responsible investment as a driver for inclusive growth with a view to the future.

Peru's prestige, gained thanks to its strong performance as an investment destination and the confidence of those companies who have decided to invest in the country, is also explained by internal factors such as the continuity of democratic government, the ability to promote and sustain the rule of law, and economic and social stability throughout a wide range of political developments. This recognition encourages us in our commitment to continue strengthening the country's competitiveness and its image on the international stage, through measures including economic promotion, the publicizing of opportunities, and our active participation

in investment negotiations. There is a reason, after all, that this aspect is among the strategic objectives established by the Ministry of Foreign Affairs in its Strategic Multiannual Sectoral Plan (PESEM).

The companies who partner with us today are well aware of the challenges posed by a circular economy, but also of the opportunities presented by sustainable mining. This trend is especially significant for Peru, given its status as a megadiverse country. For this reason, the government is striving to shape an environmental policy that complies with the country's commitments in the fight against climate change.

The Peruvian government is also steadfastly determined to eradicate poverty, fight inequality, and strive for a more just and inclusive society. This can be seen in the transfer of the benefits from mining activities to the population living in situations of vulnerability and extreme poverty, which take the form of social programs aimed at fighting anemia, a lack of access to quality education, and harsh weather conditions during certain times of year. Note should also be made of the state's joint efforts to fight illegal mining and related crimes, such as money laundering and human trafficking, which affect the lives of hundreds of people.

We are convinced that the roadmap for achieving economic progress must fall within the bounds of the 2030 Agenda for Sustainable Development. We are confident that investment drivers, in coordination with environmental and social policies, are the best way to achieve this objective, thanks to the support and commitment of strategic partners who fully identify with these motivating factors. This will lead us to succeed in putting Peru first.



PERU

Ministry
of Energy and Mines

A note from Augusto Cauti

Peruvian Vice Minister of Mines,
Ministry of Energy and Mines

In recent years, Peru has gained a leading position in the mining industry worldwide, reflecting not only the country's rich geological potential, but also its competitiveness in terms of operating costs, human talent and expertise, and the attractive legal and tax regimes it maintains. This leadership is demonstrated by the following facts: Peru is considered to be the second largest copper, silver and zinc producer worldwide; the largest gold, zinc, lead and tin producer in the region; the country with the largest silver reserves worldwide; and the largest gold, zinc, lead and molybdenum producer in Latin America. Thus, the outlook in the mining subsector remains promising for the coming years, and will bring about great opportunities for investors and a greater benefit for the development of Peru.

Mining remains one of the pillars of Peru's macroeconomic stability, and continues to boost GDP growth through higher tax revenues, better investments and growing exports, working in various activities and processes, and using different methods and technologies where different areas of knowledge and professionals converge. Additionally, mining has a significant impact on the creation of jobs, which are offered in locations over 3,000 meters above sea level, and as a multiplier effect, without any detriment to the quality and formality of labor in our mining sector.

As mining investments are a fundamental part of our economy, whether through the exploration of mineral resources and/or the construction of projects, we seek to encourage a continuous contribution of mining to the economy in a

framework of good governance and sustainable development (that takes into consideration the inherent economic, social and environmental aspects). Thus, we aim to secure the 48 investments made in mining projects, including new mining construction, expansion or mine replacement projects, plus the reuse of tailings, all of which we have presented in the "Mine Construction Project Portfolio 2019," for a total of US\$57.8 billion over the next ten years.

Thus, the mining sector foresees greater expansion and better opportunities for investors in various regions of the country, as well as immense potential for future exploration, based on the fact that our mineral resources (precious and basic) are diversified, that only 1.3% of the subsoil granted is in the exploration (0.3%) and exploitation (1%) stages, that cutting-edge technology is being used and innovation is encouraged. The mining sector also seeks to relate more effectively with its environment (including with other economic activities).

The Ministry of Energy and Mines (MINEM) is constantly taking action and implementing measures to improve the business environment and to attract more investments for the benefit of the country. As Vice Minister of Mines, it is my pleasure to invite you to invest in a country that offers great opportunities, that has excellent human capital and that is actively working on the creation of the tools and consolidation of an appropriate social harmony to meet these ends.

Welcome to Peru, a world leader in the mining industry!



A note from Eduardo Chávarri

General Director of Economic Promotion,
Ministry of Foreign Affairs

Dear friends,

We at the Ministry of Foreign Affairs, acting through the Directorate-General of Economic Promotion and our far-reaching network of 139 missions abroad, seek to publicize opportunities for responsible and sustainable mining investment, as well as Peru's prestige, and certainty as a serious and sound investment destination. Through detailed yet compact publications like the one put together here by EY, we offer a useful tool for those investors interested in establishing a presence in our country on the current outlook for the mining sector nationwide.

Thanks to a range of actions undertaken by Peru over the years, we have achieved notable improvements that have made a positive impact on our internal business environment and guarantee the proper insertion and participation of domestic and foreign investments. These measures helped situate us in 2019 as the second-most-attractive country for mining investment in the region, and 14th worldwide, according to the prestigious survey conducted by The Fraser Institute. All of this hard work is reflected in the continuous efficient management of our macroeconomic policy, as well as the legal and tax benefits offered to strategic sectors such as mining. To cite just a few examples, we have legal stability agreements, investment agreement treaties, and the special regime for early VAT recovery. All of these incentives demonstrate the government's commitment to private business activity.

At the same time, and as part of our consistent commitment to responsible and sustainable development, we believe that business activity must be rooted in a three-pronged results-based strategy that strives to make positive economic, environmental, and social impact. As such, companies looking to do business in Peru must meet certain corporate social responsibility (CSR) requirements, such as the preparation and approval of an environmental impact assessment (EIA) obtaining and renewing a social license, and other requirements widely accepted worldwide.

It is important to note that our country is the world's second-largest producer of copper and silver, and one of the main producers of gold and strategic minerals for the transformation processes industry. Peru also has the highest silver reserves and the third-highest copper, zinc, and molybdenum reserves. It is also worth highlighting the fact that, in 2020, construction is scheduled to begin on six new mining projects (Inmaculada Optimization, Pachapaqui Expansion, Coroccohuayco Integration, Yanacocha Sulfides, Corani, and San Gabriel), representing a total investment of US\$3.959 billion, in addition to the projects that commenced in 2019.

We invite you to learn more about our legal and tax regulations, and to review the social and environmental parameters established to guide the industry's modernization with a view to environmental awareness and social inclusion. All of these features are highly favorable to foreign investment in our country's mining sector, creating economic growth for all actors involved and wellbeing for Peruvian society.



A note from **Rafael Ugaz** | Executive Director, PROINVERSIÓN

Peru is well-known for its geological potential and its significant mineral reserves, in demand around the world for the development of economic sectors such as infrastructure and technology.

Since the 1990s, PROINVERSIÓN—through its predecessor, the Private Investment Promotion Commission (COPRI)—contributes to the development of the mining sector by awarding projects that have marked major milestones in the industry's evolution to internationally respected companies. As of 1991, forty contracts have been awarded for a total transfer price of US\$1.767 billion, not including the investment commitments these companies have assumed. This development never could have been achieved without Peru's favorable economic and legal framework for investment, which has allowed us to consolidate our position as one of the most stable countries in the region in macroeconomic terms, and to guarantee an advantageous investment climate for doing business.

Note should also be made of Peru's efforts to attract high-quality investments that represent a positive contribution to our country's economic, environmental, and social progress, and that allow our citizens to share in the benefits offered by mining activities, not only in economic terms, but through access to a better standard of living.

The challenge ahead for Peru is to implement best practice policies that promote the sustainable development of our activities as a country and to ensure consistency between our social, economic, and environmental objectives and policies.

As an investment promotion agency, we at PROINVERSIÓN encourage mining companies to consider the country as an investment destination, but also, to make use of the mechanisms provided by the government to promote a culture of integration with their stakeholders. Thanks to this focus, the Top 20 companies with the highest investments through the Works for Taxes mechanism includes ten companies from the mining sector with a total investment of US\$2.139 billion over the past decade. These investments have consolidated better relations between the company and the community, greater coverage of public services, the creation of direct and indirect employment, and a higher quality of life and wellbeing for the population.

Additionally, in our capacity as National Contact Point for the Organisation for Economic Co-operation and Development (OECD) in Peru, we also hold events and workshops to promote the OECD Guidelines for Multinational Enterprises. These are voluntary principles and standards established by governments for companies to ensure responsible business conduct in their operations through the implementation of risk-based due diligence so they are able to identify, prevent, or mitigate the impact of their activities.

It is our desire to continue promoting the development of the mining industry, recognizing the contribution of this sector to Peru's sustainable development.

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A large, bold black number '1' is centered on a bright yellow background. The background of the entire page is a dark, moody photograph of a lit cigarette with a glowing orange tip, resting on a dark surface. The cigarette is positioned horizontally, with the lit end on the right. The overall aesthetic is high-contrast and minimalist.

1

Background
information



1.1

Form of government

Peru's political history, like that of most Latin American countries, has swung between civil and military governments, since it gained its independence from Spain in 1821. However, there have been continuous democratic elections since 1980.

The last general elections took place in June 2016, when Pedro Pablo Kuczynski, a former World Bank economist and Wall Street banker, was elected president after a runoff ballot in which he defeated opponent Keiko Fujimori, the eldest daughter of former president Alberto Fujimori, by a narrow 50.1% to 49.9% margin.

Kuczynski's victory was widely applauded by international markets, because it represented the maintenance and improvement of investment-friendly policies. After less than two years in office, however, Kuczynski offered his resignation in the face of an impeachment vote.

Peru's first vice president and former regional governor, Martín Vizcarra, was sworn as president on March 23, 2018, after Congress voted to accept the resignation of President Kuczynski. After taking the oath of office before Peru's Congress, President Vizcarra promised that his government would fight corruption "head on". Vizcarra is expected to hold the post of president until July 2021.

According to the Political Constitution of 1993, the Peruvian government consists of an executive branch, an autonomous single chamber congress of 130 members and a judicial branch. The president and congress members are directly elected by popular vote every five years. A constitutional amendment passed in 2000 prevents immediate presidential re-election, but allows unlimited non-consecutive terms. Election is mandatory for all citizens between the age of 18 and 70.

Country overview

Government type

Constitutional republic.

Legal system

Based on civil law.

Executive branch

- ▶ Chief of state and head of government: President Martín Vizcarra Cornejo (since March 2018).
- ▶ Elections: Every five years by popular vote (non consecutive reelection). Next elections: April 2021.
- ▶ Cabinet: Council of Ministers is appointed by the president.

Legislative branch

- ▶ Unicameral congress.
- ▶ 130 seats.
- ▶ Members elected by popular vote, for a five-year term (non consecutive reelection).
- ▶ Next elections: April 2021.

Judicial branch

Judges are appointed by the National Council of the Judiciary: renamed National Justice Board after the 2018 Referendum.

International relationships

- ▶ Generally friendly.
- ▶ Member of the United Nations since 1945, member of the Security Council between 2006 and 2007.
- ▶ Member of the World Trade Organization since 1995.
- ▶ In 1998 became a member of the Asia Pacific Economic Cooperation (APEC) forum.
- ▶ In 2011 formed the Pacific Alliance with Chile, Colombia and Mexico.

Sources: Peruvian Constitution /
CIA - The World Factbook / Ministry of Foreign Affairs

1.2

Geography

Peru, located on west central coast of South America is bordered by the Pacific Ocean to the west, Chile to the south, Bolivia and Brazil to the east, and Colombia and Ecuador to the north. With a total land area of 1.29 million of km². Peru is the third largest country in South America after Brazil and Argentina. It may be divided geographically in three regions:

- ▶ **The Coast (Costa)**, which is a narrow desert strip 3,080 km long that accounts for only 11.7% of Peru's territory even when it contains approximately 60.4% of the population. Lima, the political and economical capital of the country is located in this region;
- ▶ **The Highlands (Sierra)**, which consists of the Andean Mountain Range, covers 27.9% of the territory and holds almost 26.9% of the population. This region contains the country's major mineral deposits; and
- ▶ **The Amazon Jungle (Selva)**, is the largest region occupying 60.4% of Peru's territory. This region is rich in petroleum and forestry resources.



Population

32,824,358
Urban 76.7%
Rural 23.3%



Area

1.29 million of km²



Currency*

Sol (S/)
S/1 = USD 0.301
USD 1 = S/3.323



Main languages

Spanish
Quechua
Aymara
Ashaninka



Religion

Catholic



Climate

Varies from tropical in the Amazon region to dry on the Coast temperate to very cold on the Highlands



Time Zone

GMT - 5 (Greenwich Mean Time minus five hours). There is no daylight saving time, and there is only one time zone throughout the entire country



Natural resources

Gold, copper, zinc, silver, gas, petroleum, fish, phosphates, timber agricultural products

*Exchange rate as of 13/01/2020
Sources: BCRP / INEI

1.3

People

The estimated population of Peru for the year 2020 is 32.8 million, of which 10.6 million (approximately 32.2%) reside in Lima, the capital of the country. The labor force is estimated to be about 24.1 million.

The predominant religion is Roman Catholicism and the main official languages are Spanish and Quechua. Aymara is also spoken in some parts of the southern Highlands Region of the country. With respect to the literacy rate, 94.4% age 15 and over can read and write.

People overview	
Population	32,824,358
Age structure	<ul style="list-style-type: none">▶ 0-14 years 26.4% (2019)▶ 15-64 years 66.3% (2019)▶ 65 years and over 7.3% (2019)
Growth rate	1.1% (2016 - 2019)
Birth rate	17.4 births/1,000 population (2019)
Death rate	5.8 deaths/1,000 population (2019)
Gender ratio	At birth 1.03 male/female
Life expectancy at birth	75.33 years (2019)

Source: INEI

1.4

Currency

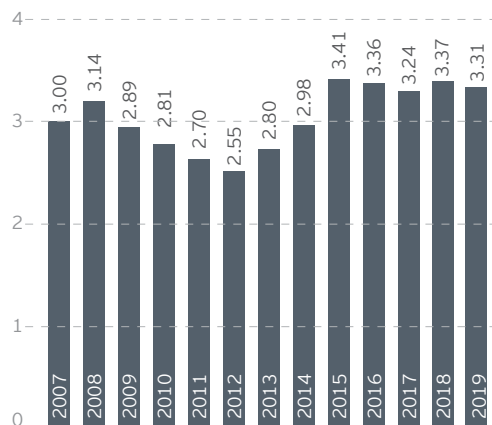
The Peruvian currency is the Sol (S/). Peru has a free-floating managed exchange rate regime.

During 2019, the US Dollar (US\$) to Peruvian Sol exchange rate reflected an appreciation of the Sol of 1.63% on average in the context of a still financially dollarized economy. Historically, the Peruvian Sol reached an all-time high of PEN 3.65 per US\$ in September of 2002 and a record low of PEN 1.28 per US\$ in August of 1992.

Banks are currently (January 13, 2020) buying US\$ at S/3.332 and selling US\$ at PEN 3.334. Parallel market rates are slightly different.

There are no restrictions or limitations on holding bank accounts in foreign currency or to remit funds abroad.

Exchange rate: Peruvian Sol to US\$ (PEN / US\$)



Source: BCRP

1.5

Economic overview

Peru, a country of 32.8 million people, is one of Latin America's fastest-growing economies. It has rich deposits of copper, gold, silver, lead, zinc, natural gas and petroleum. It is also a very diverse country due to climatic, natural and cultural variations of its regions. Peru's economy reflects its varied geography, an arid coastal region, the Andes further inland, and tropical lands bordering Colombia and Brazil. Abundant mineral resources are found mainly in the mountainous areas, and Peru's coastal waters provide excellent fishing grounds.

Economic overview	
External debt	US\$ 22.9 billion (2018)
Investment	22.4% GDP (2018)
Unemployment rate	6.4% (2018)
Population below poverty line	20.5% (2018)
Export partners	Brazil, Canada, China, India, Japan, Korea, Netherlands, Switzerland, US
Export commodities	Gold, copper, zinc, crude oil and by-products, coffee, potatoes, asparagus, textiles, fish meal
Import partners	Argentina, Brazil, Chile, China, Colombia, Ecuador, Mexico, US
Import commodities	Petroleum and by-products, plastics, machinery, vehicles, iron and steel, wheat, paper

Sources: BCRP / Ministry of Economics and Finance / INEI / ECLAC

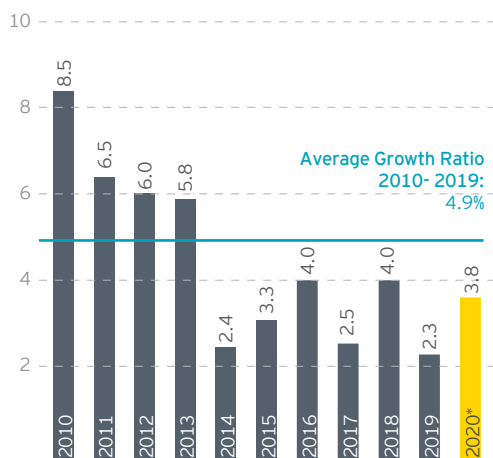
Mining is the dominant sector of the Peruvian economy. Substantial additional investment has flowed to the sector over the past 20 years. As a result, there has been an increase in exploration and development activities. Peru is among the major producers of mineral commodities in the world. They account for nearly 60% of the country's total exports. Copper and gold are the most important mineral exports by value.

In recent years, Peru has achieved significant advances in social and development indicators as well as in macroeconomic performance, with very dynamic GDP growth rates, reduction of external debt, a stable exchange rate and low inflation. Peru's rapid expansion has helped to reduce the national poverty rate from 48.5% in 2004, to 20.5% of its total population in 2018. Extreme poverty declined from 17.4% to 2.8% over the same period.

The country has had continuous economic and political stability since the early 1990s. Peru has been one of the region's fastest-growing economies, over the past two decades, in a context of low inflation. Prudent macroeconomic policies, investor-friendly market policies and the government's aggressive trade liberalization strategies combined to create a scenario of high growth and low inflation.

After an estimated 2.3% growth in 2019, Peru's economy will recover and it is expected to grow 3.8% in 2020 and 2021.

Gross Domestic Product (Real Annual Percentage Variation)



*Estimated
Source: BCRP

The country's positive growth performance has much to do with the competent monetary and fiscal policy pursued particularly over the last decade, with falling levels of public indebtedness (from 44.7% of GDP in 2004 to just 25.8% in 2019) and foreign reserves reaching US\$68.3 billion based on information available in December 2019.

This has gone hand in hand with trade and foreign direct investment (FDI) opening, operational independence of the central bank, and maximization of the revenues from the country's rich natural and mineral resources, with expenditures keeping pace. Among the countries that invest the most in Peru are Spain, the United Kingdom, the United States and Chile. Nearly a quarter of the total FDI is attracted by the mining sector and nearly half is split among the financial, communications and energy sectors.

Thanks to its strong macroeconomic performance, the main rating agencies - Standard & Poor's, Fitch and Moody's - upgraded Peruvian sovereign debt to investment grade a decade ago and currently such credit rating isn't at risk. Peru also benefits from strengths such as the fairly large size of its market and its sophisticated and rather deep financial sector.

As a country rich in natural resources, Peru exports goods that are highly subject to price volatility, whereas it imports industrial goods, prices of which are less volatile. The country has benefited from a steady improvement in its terms of trade since 2000, which has had a positive impact on the trade balance. Moreover, the country has engaged in several bilateral and multilateral trade agreements that have opened new markets for its exports.

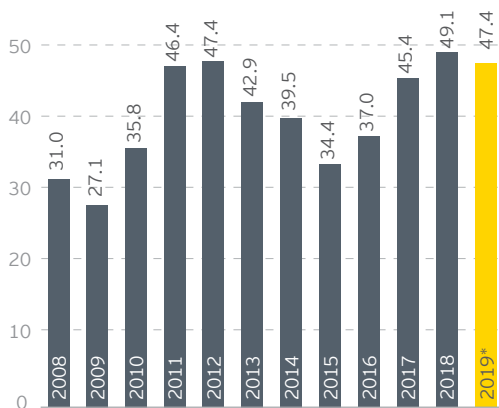
Notwithstanding Peru's improvements in macroeconomic stability, it still faces a number of important challenges that hamper its competitiveness potential.

For Peru to continue to grow in a sustained fashion going forward, a number of weaknesses will need to be tackled. This will include improving the quality of the institutional environment, upgrading the country's poor infrastructure (in particular its insufficiently developed transport infrastructure network) and educational standards. Peru's overdependence on minerals and metals subjects the economy to fluctuations in world prices.

Matching or beating the GDP growth rates that are required to undertake the necessary investments and reforms will depend mainly on how much of the US\$57.8 billion in mining investment for the next five to ten years actually goes ahead. Poverty levels and income and regional inequalities continue to loom as a cause of social unrest in the country. Not all Peruvians have shared in the benefits of growth, despite the government's efforts to increase social spending with the goal of reducing poverty in Peru and improving wealth distribution in the country.

Exports (in US\$ billions)

*Estimated



Source: BCRP

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Peru’s economy continues to grow and the mining industry is the engine.



Elizabeth Rosado
Tax Partner
EY Peru

GDP / Trade Balance

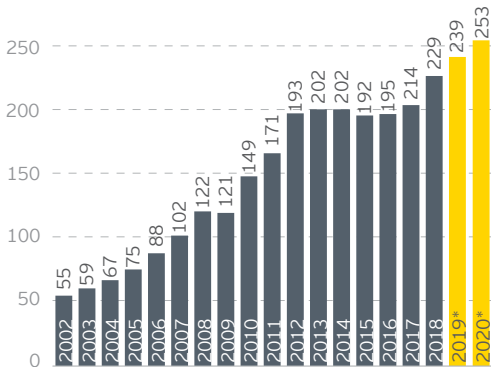
According to preliminary information published by the Central Reserve Bank, Peru’s economy grew nearly 2.3% in 2019, which is below the 4% of the previous year but still strong. Currently, the services sector is the main contributor of Peru’s GDP, with nearly 60% of GDP stemming from this sector. The economy is expected to remain on a solid footing in 2020, as external demand will continue to prop up Peruvian exports and government’s efforts to cut red tape should boost private investment.

In 2019, Peru’s total exports jumped to a historic record to US\$45.9 billion. The trade balance (from January to November) recorded a surplus of US\$4.9 billion compared with a surplus of US\$7.2 billion in 2018.

Although the external sector’s contribution to economic growth has been diminishing exports have remained strong. Increased output of minerals, especially copper, allowed for the surge in exports in 2019.

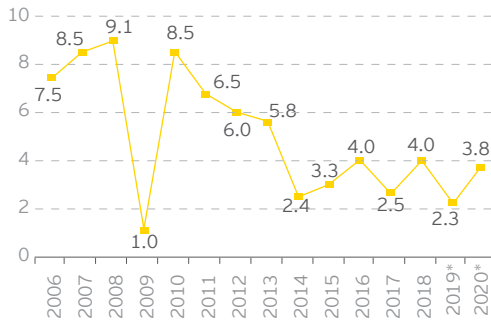
The main detraction from the external sector’s contribution to growth stemmed from increasing imports, although capital goods imports have remained at healthy levels. Peru’s imports are mainly composed of final and intermediate goods, as opposed to exports, in which minerals and ores account for the majority of overseas sales.

Peru's GDP (in US\$ billions)



*Estimated
Source: International Monetary Fund

GDP variations



*Estimated
Source: BCRP

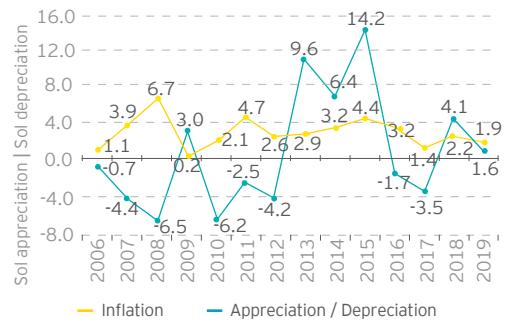
Exchange rate and inflation

The Central Reserve Bank of Peru (BCR) conducts a managed floating regime for the exchange rate of the PEN versus the US\$. The Bank allows the market to determine the value of the currency, although it intervenes to avoid large fluctuations. The market value of the PEN rose by 1.63% against the US\$ in 2019.

The BCR started targeting inflation in 2001 and is now committed to keeping the annual inflation rate within a target range of 1% to 3%. The central bank's commitment to stable inflation has favored inflows of capital as well as exchange rate stability.

The annual inflation rate was 1.9% in 2019, remaining among the lowest in the region (2.2% in 2018). The Bank's officials also expect inflation to finish 2020 within the target range.

Appreciation / Depreciation and inflation



Sources: BCRP / Ministry of Economy and Finance

1.6

Infrastructure access

It is expected that Peru will only realize its full economic potential after reducing its infrastructure bottlenecks. Estimates vary, but the investment required runs into billions of dollars. In the last decade, Peru has begun to take the necessary measures to improve its underprivileged infrastructure (transport facilities, electricity, water and communications) in order to promote new investments which will contribute to the development of the productive sectors of the country.

President Martin Vizcarra, who took office in March 2018, intends to continue with this trend and has announced that Peru will increase public investment in infrastructure during his administration. The fiscal plan sets to increase fiscal autonomy for regional authorities to reduce the profound regional inequalities in living standards across the country.

Mining is one of the sectors affected by this constraint since mining and metals companies need to have access to transportation facilities to deliver their products to national and international markets. These needs are in addition to the standard mine infrastructure. Well-developed infrastructure reduces the effect of distance between regions, with the result of truly integrating the national market and connecting it at low cost to markets of other countries and regions.

In recent years, it is not so much the lack of availability of financing but the lack of administrative capacity in the provinces for the spending shortfalls in infrastructure that contribute to feed anti-mining sentiments. Regional and local authorities are still sitting on billions of soles from canon, mining royalties and other levies collected over the last decade lying dormant in bank accounts, which could be used to fund new roads, hospitals, schools and water projects.

What is clear is that the private sector will need to respond to deliver the required investment in infrastructure. Doing so requires changes to historical approaches to infrastructure investment, which have typically been government-led, one which places private sector capital at the forefront. The Peruvian government has become very proactive providing the private sector with incentives to develop investment projects. For example, Peru's tax system includes provisions to grant a form of credit against income taxes to allow third-party investors to recover capital investments made in public infrastructure. Mining and metals companies are responding by building social infrastructure and involving communities at an early stage.



1.7

Peru's Investment-Grade Rating

Peru has maintained its investment-grade credit rating since Moody's Investors Services raised it to that level in December 2009 matching moves made by Standard & Poor's and Fitch Ratings the previous year. The country's stable, credible and consistent macroeconomic policies in various administrations are the key supporting factors for the investment-grade rating.

It is well known that countries with investment grade ratings gain a higher level of confidence that generates more foreign and domestic investment. The risk premium demanded by multinationals and foreign investors is slashed after the upgrade. At the same time, the investment horizon is elongated.

Credit rating (long term debt in Foreign Currency)

Country	S&P	Fitch	Moody's
Chile	A+	A	A1
Peru	BBB+	BBB+	A3
Mexico	BBB+	BBB	A3
Colombia	BBB-	BBB	Baa2
Uruguay	BBB	BBB-	Baa2
Paraguay	BB	BB+	Ba1
Brazil	BB-	BB-	Ba2
Bolivia	BB-	B+	Ba3
Ecuador	B-	B-	B3
Argentina	CCC-	CC	Caa2
Venezuela	SD	WD	C

As of January 2020

Sources: Standard & Poor's / Fitch Ratings / Moody's

The same occurs with domestic investment. Local investors gain more self-confidence, thus allowing themselves to consider opportunities with lower rates of return. The impact is immediate, as consumers gain access to credit with more favorable terms.

The upgrade to investment grade has brought Peru a lot of positive attention worldwide. More importantly, it has had a positive impact on the local economy. For this reason, nowadays, many multinational corporations eye the country more seriously, as higher private investment is flowing into the country. This should contribute to alleviate a still complex social situation in Peru, by achieving improvements in employment and decreases in poverty.

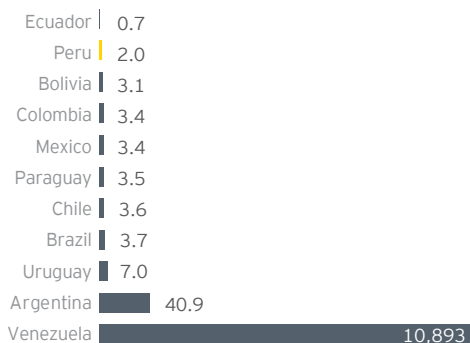
As shown in the chart below, a recent international survey indicates that Peru will have one of the lowest inflation levels of the region, with a projected inflation rate of 2.0% in 2020.

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Overwhelming feedback from foreign companies is that Peru is a good country to do business with.



Jorge Acosta
Advisory Services Leader
EY Peru

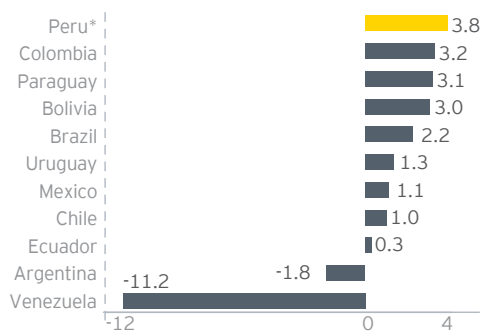
Estimated inflation rates in Latin America (2020)



Sources: Latin America Consensus Forecast (December 2019) / BCRP

Peru is expected to grow at a rate that will be well above the Latin American average. The central bank estimates that Peru's GDP will grow 3.8% in 2020, as noted in the following chart.

Estimated Latin American GDP growth rates (2020)



Sources: Latin America Consensus Forecast (December 2019) / BCRP



1.8

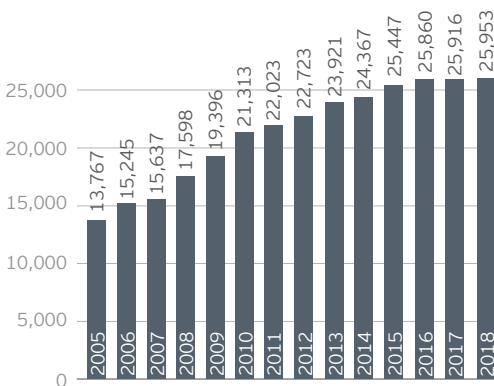
Investment promotion conditions

a. Foreign investment legislation and trends in Peru

The Peruvian government is committed to pursue an investor-friendly policy climate. It actively seeks to attract both foreign and domestic investment in all sectors of the economy. It has therefore taken the necessary steps to establish a consistent investment policy which eliminates all obstacles for foreign investors, with the result that now Peru is considered to have one of the most open investment regimes in the world.

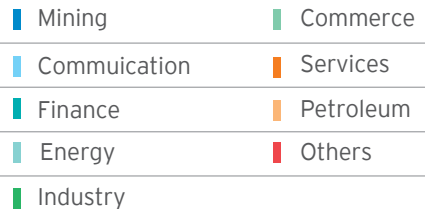
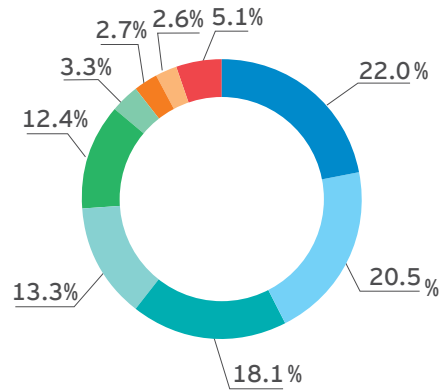
In an attempt to reduce the political risk perception of the country, Peru has adopted a legal framework for investments which offers automatic investment authorization and establishes the necessary economic stability rules to protect private investors from arbitrary changes in the legal terms and conditions of their ventures and reduces government interference with economic activities.

Foreign direct investment in US\$ millions



Source: ProInversion

Foreign direct investment by industry (2018)



Source: ProInversion

Foreign direct investment (FDI) is largely seen as a catalyst for economic growth in the future. The United States, United Kingdom, The Netherlands, Spain, Brazil and Chile appear as Peru's leading investors. FDI is concentrated in the mining, financial, electricity, telecommunications, and industry sectors.

The Peruvian government guarantees foreign investors legal stability on income tax regulations and dividend distributions. Foreign investors entitled to obtain tax and legal stability are those willing to invest in Peru, in a two-year term, at least US\$10 million in the mining and/or hydrocarbon sectors; US\$5 million in any other economic activity or to acquire more than 50% of the shares of a privatized state-owned company.

Peruvian laws, regulations, and practices do not discriminate between national and foreign companies. Accordingly, national treatment is offered to foreign investors. There are no restrictions on repatriation of earnings, international transfers of capital, or currency exchange practices. The remittance of dividends, interests and royalties has no restrictions either. Foreign currency may be used to acquire goods abroad or cover financial obligations so long as the operator is in compliance with the relevant Peruvian tax legislation.

b. Settlement of investment disputes

Foreign investors are protected against inconvertibility, expropriation, political violence and other non-commercial risks through access to the corresponding multilateral and bilateral conventions such as the Overseas Private Investment Corporation (OPIC) and the Multilateral Investment Guaranty Agency (MIGA). Also, Peru has joined the International Convention for Settlement of International Disputes (ICSID) as an alternative to settle disputes arising between investors and the government. In addition, Peru has signed more than thirty bilateral investment treaties with different countries from around the world.



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While foreign investors can find a secure and favorable investment climate in Peru, they can equally benefit from all incentives offered to local investors.



Marcial García
Mining & Metals Leader
EY Peru



2

Geology and
mining



2.1

Importance of Peru's mining sector

The mining sector is and has always been very important to the national economy of Peru. Its well-known mining tradition dates back to the pre-Inca times, and goes on through the Inca, colonial and republican periods. In each of those stages, mining has been one of the major activities in the country's development. Traditionally it has contributed about half of the country's export revenues.

Peru is one of the most extensively mineralized countries of the world. It currently plays host to some of the world's major mining companies, including, Glencore, Freeport-McMoRan, Rio Tinto, Anglo American, MMG, Teck, Chinalco and Barrick. Since the liberalization of the industry in the 1990s local and foreign investment has been deployed to develop major modern mines.

Peru has a well recognised mineral wealth. It is considered one of the top ten richest mineral countries in the world. It is one of the world's biggest producers of base and precious metals. Currently, it is the world's second largest producer of copper and it is also a major producer of gold, silver, zinc, among other minerals. Peru has 10.0% of the world's copper reserves, 4.8% of its gold, 19.6% of its silver, 9.1% of zinc, 7.2% of lead and 2.3% of tin reserves, according to the most recent data published by the US Geological Survey.

Metal production ranking

	World								
Metal	2010	2011	2012	2013	2014	2015	2016	2017	2018
Silver	2	3	3	3	3	3	2	2	2
Zinc	3	3	3	3	3	3	2	2	2
Tin	3	3	3	3	4	4	6	5	4
Lead	4	4	4	4	4	4	4	4	3
Gold	6	6	5	5	7	6	6	6	6
Copper	2	3	3	3	3	3	2	2	2
Molybdenum	4	4	4	4	4	4	4	4	4

	Latin America								
Metal	2010	2011	2012	2013	2014	2015	2016	2017	2018
Silver	2	2	1	1	2	2	2	2	2
Zinc	1	1	1	1	1	1	1	1	1
Tin	1	1	1	1	1	1	1	1	1
Lead	1	1	1	1	1	1	1	1	1
Gold	1	1	1	1	1	1	1	1	1
Copper	2	2	2	2	2	2	2	2	2
Molybdenum	2	2	2	2	2	2	3	2	2

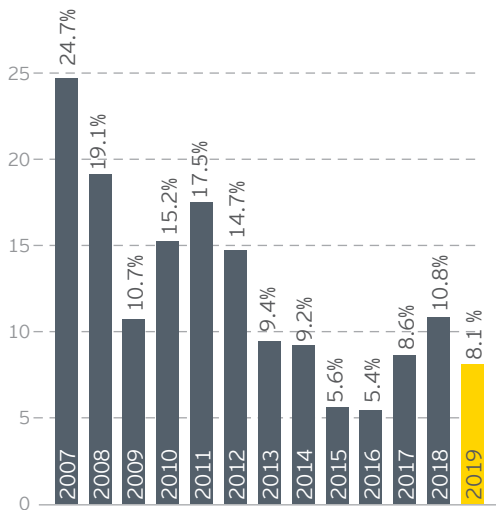
Source: U.S. Geological Survey



According to estimates, today the mining sector accounts for nearly 10% of the GDP, while mineral export revenues reached US\$28.9 billion in 2018, representing 58.9% of the country's total exports. Copper was the leading export metal, in terms of value, followed by gold, lead, zinc, iron, silver, tin and molybdenum. The mining sector is also important for the generation of employment for thousands of Peruvians and represents one of the main sources of fiscal revenues.

It is estimated that Peru has some 200 operating mines and a pile of major projects currently waiting to be developed worth US\$57.8 billion. The United Kingdom is the largest foreign investor in Peru in mining projects, followed by China, Canada and Mexico. Of the new mining investments expected to be developed, US\$40.9 billion is planning to be allocated to copper projects, which represent the 71% of the total.

Tax revenues from the mining sector
(% of total)



*As at november 2019
Source: SUNAT

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Peru has a long mining history and the industry is widely recognized as a driver of growth.



David Warthon
Tax Partner
EY Peru

Peru's mineral production

Production	Units	2014	2015	2016	2017	2018	2019
COPPER	FMT	1,377,642	1,700,814	2,353,859	2,445,585	2,437,035	2,455,440
GOLD	Fine gr.	140,097,028	146,822,907	153,005,897	151,103,938	140,210,984	128,413,463
ZINC	FMT	1,315,475	1,421,513	1,337,081	1,473,073	1,474,383	1,404,382
SILVER	Fine Kg.	3,768,147	4,101,568	4,375,337	4,303,541	4,160,162	3,860,306
LEAD	FMT	277,294	315,784	314,422	306,794	289,123	308,116
IRON	FMT	7,192,592	7,320,807	7,663,124	8,806,452	9,533,871	10,120,007
TIN	FMT	23,105	19,511	18,789	17,790	18,601	19,853
MOLYBDENUM	FMT	17,018	20,153	25,757	28,141	28,034	30,441

Source: Ministry of Energy and Mines

Total mining investments in Peru (US\$)

	2014	2015	2016	2017	2018	2019
Beneficiation plant	889,682,461	446,220,610	238,198,426	286,720,393	1,411,676,115	1,512,994,358
Mining equipment	557,607,616	654,233,735	386,908,382	491,197,398	656,606,475	1,035,404,125
Exploration	625,458,907	527,197,097	377,053,519	484,395,158	412,524,042	356,571,548
Preparation	420,086,095	374,972,373	349,690,539	388,481,559	761,288,310	1,151,532,751
Infrastructure	1,463,521,224	1,227,816,025	1,079,320,196	1,556,537,971	1,084,149,410	1,316,174,401
Others	4,122,853,398	3,594,184,486	902,392,511	720,684,303	621,190,528	784,454,904
Total	8,079,209,701	6,824,624,326	3,333,563,573	3,928,016,782	4,947,434,879	6,157,132,087

Source: Ministry of Energy and Mines

2.2

Mining potential

Increasingly, Peru is being targeted for inbound investment and is perceived by international mining and metals companies as a global player. This is partly due to the scale of opportunity where most of its territory is yet to be subjected to vast exploration and partly as a result of its attractive legislation and regulatory environment.

Although Peru is endowed with large deposits of a variety of mineral resources, it is estimated that only 0.30% of the country's total territory is being explored. Likewise, only a small percentage of Peru's mineral reserves are being exploited. It is estimated that only 1% of its territory is under exploitation. According to recent mining statistics, Peru's production rates are minimal with regards to the country's mineral potential. However, through modern techniques and equipment, a vast potential of diverse marketable minerals are increasingly becoming available from previously inaccessible regions.

Peru has numerous mineralized belts and mineral provinces, a wide variety of world-class ore deposits and a very dynamic mining community. It is regarded as one of the countries with largest and diversified mineral resources in the world. In addition, Peru has an excellent geographical location, in the center of South America, with easy access to the Asian and North American markets.

Within Latin America, Peru has, perhaps, the greatest untapped potential for new discoveries and production. Peru's clear and simple mining

law and excellent geological potential has helped the country to attract one of the largest budgets for minerals explorations and development in the world. However, it is believed that Peru has the capacity to double or triple current level of output, especially in base metals.

Peru's favourable geology and significant undeveloped mineral resources constitute a very important comparative feature, which has driven many mining companies to commit to invest in the country's mining sector.

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Future returns will only be competitive in the long term if the right decisions over capital are made now.



Enrique Oliveros
Transactions & Corporate
Finance Services Leader
EY Peru

The following table lists Peru's estimated reserves in 2018 of major minerals, such as copper, gold, zinc, silver, lead, iron ore and tin. These mineral reserves represent "proven" (measured) and "probable" (indicated) categories and exclude quantities reported as "possible" (inferred). For this purpose, reserves were defined as being well delineated and economically recoverable volumes of minable ore from mines committed to production.

Reserves (2018)

Metal	Metric Tons
Copper (in thousands)	83,000
Gold	2,600
Zinc (in thousands)	21,000
Silver	110,000
Lead (in thousands)	6,000
Tin	110,000
Molybdenum (in thousands)	2,400

Source: U.S. Geological Survey

Peru's favourable geology and significant undeveloped mineral resources constitute a very important comparative feature, which has driven many mining companies to commit to invest in the country's mining sector.

Mining projects pipeline

There is an estimated US\$57.8 billion of mining projects waiting to be developed in the country, although many of them are on a smaller scale than recent projects. The Ministry of Energy and Mines lists 48 main projects in different stages of development targeting a variety of metals and minerals.

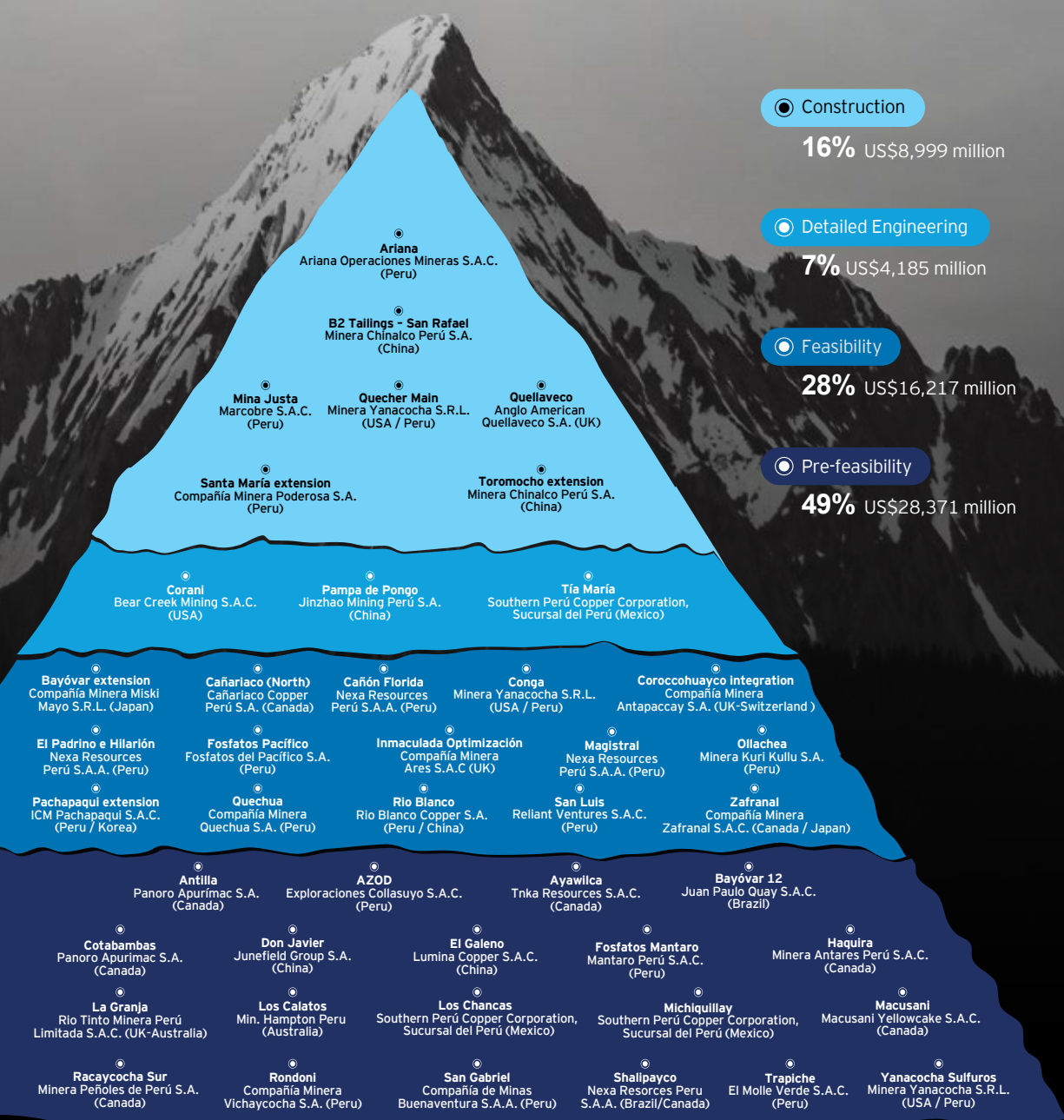
About US\$41 billion (71%) will be invested in copper projects, with gold (11%) and iron ore (9%) set for much of the rest.

The following figure and chart show which are the projects involved, distinguishing between projects under construction, projects that are in the detailed engineering stage, and projects in feasibility and pre-feasibility stages.

Projects are shown in random positions /
Portfolio estimated as at September 2019
Source: Ministry of Energy and Mines (MEM)

Hierro Apurímac
Apurímac Ferrum S.A.
(Australia)

Quicay II
Corporación Minera
Centaurio S.A.C. (Peru)



Geographical Location of the Mine Construction Projects



Project portfolio estimated as at September 2019
 Source: Ministry of Energy and Mines (MEM)

Mine Construction Project Portfolio

Construction start date	Commissioning	Project	Operator	Region	Main ore	Current stage	Aggregate Investment in (US\$ Millions)
In construction	2019	B2 Tailings - San Rafael	Minsur S.A.	Puno	Tin	Construction	209
	2020	Quecher Main	Minera Yanacocha S.R.L.	Cajamarca	Gold	Construction	300
	2020	Mina Justa	Marcobre S.A.C.	Ica	Copper	Construction	1,600
	2021	Toromocho extension	Minera Chinalco Perú S.A	Junin	Copper	Construction	1,355
	2021	Ariana	Ariana Operaciones Mineras S.A.C	Junin	Copper	Construction	125
	2022	Quellaveco	Anglo American Quellaveco S.A.	Moquegua	Copper	Construction	5,300
	2022	Santa María extension	Compañía Minera Poderosa S.A.	La Libertad	Gold	Construction	110
2020	2021	Inmaculada Optimización	Compañía Minera Ares S.A.	Ayacucho	Gold	Feasibility	136
	2022	Corocochuayco integration	Compañía Minera Antapaccay S.A.	Cusco	Copper	Feasibility	590
	2023	Pachapaqui extension	ICM Pachapaqui S.A.C.	Ancash	Zinc	Feasibility	117
	2023	Corani	Bear Creek Mining S.A.C.	Puno	Silver	Detailed Eng.	585
	2023	San Gabriel (Former Chucapaca)	Compañía de Minas Buenaventura S.A.A.	Moquegua	Gold	Pre-feasibility	431
	2023	Yanacocha Sulfuros	Minera Yanacocha S.R.L.	Cajamarca	Copper	Pre-feasibility	2,100
2021	2023	Pampa de Pongo	Jinzhao Mining Perú S.A.	Arequipa	Iron	Detailed Eng.	2,200
	2024	Zafranal	Compañía Minera Zafranal S.A.C.	Arequipa	Copper	Feasibility	1,157
2022	2023	Magistral	Nexa Resources Perú. S.A.A.	Ancash	Copper	Feasibility	480
	2025	Haqaira	Minera Antares Perú S.A.C	Apurimac	Copper	Pre-feasibility	1,860
	2025	Los Chancas	Southern Perú Copper Corporation, Sucursal del Perú	Apurimac	Copper	Pre-feasibility	2,800
To be defined	To be defined	Antilla	Panoro Apurímac S.A.	Apurimac	Copper	Pre-feasibility	250
		Ayawilca	Tinka Resources S.A.C.	Pasco	Zinc	Pre-feasibility	262
		AZOD (Accha y Yanque)	Exploraciones Collasuyo S.A.C.	Cusco	Zinc	Pre-feasibility	346
		Bayóvar extension	Compañía Minera Miski Mayo S.R.L.	Piura	Phosphate	Feasibility	300
		Bayovar 12	Juan Paulo Quay S.A.C.	Piura	Phosphate	Pre-feasibility	168
		Cañariaco (North)	Cañariaco Copper Perú S.A.	Lambayeque	Copper	Feasibility	1,437

continues...

...continuation

Mine Construction Project Portfolio

Construction start date	Commissioning	Project	Operator	Region	Main ore	Current stage	Aggregate Investment in (US\$ Millions)		
To be defined	To be defined	Cañón Florida (Former Bongará)	Nexa Resources Perú S.A.A.	Amazonas	Zinc	Feasibility	214		
		Conga	Minera Yanacocha S.R.L.	Cajamarca	Gold	Feasibility	4,800		
		Cotabambas	Panoro Apurímac S.A.	Apurímac	Copper	Pre-feasibility	1,533		
		Don Javier	Junefield Group S.A.	Arequipa	Copper	Pre-feasibility	600		
		El Galeno	Lumina Copper S.A.C.	Cajamarca	Copper	Pre-feasibility	3,500		
		El Padrino e Hilarión	Nexa Resources Perú S.A.A.	Ancash	Zinc	Pre-feasibility	470		
		Fosfatos Mantaro	Mantaro Perú S.A.C.	Junin	Phosphate	Pre-feasibility	850		
		Fosfatos Pacífico	Fosfatos del Pacífico S.A.	Piura	Phosphate	Feasibility	831		
		Hierro Apurímac	Apurímac Ferrum S.A.	Apurímac	Hierro	Pre-feasibility	2,900		
		La Granja	Río Tinto Minera Perú Limitada S.A.C.	Cajamarca	Copper	Pre-feasibility	5,000		
		Los Calatos	Minera Hampton Perú S.A.C.	Moquegua	Copper	Pre-feasibility	655		
		Macusani	Macusani Yellowcake S.A.C.	Puno	Lithium	Pre-feasibility	800		
		Michiquillay	Southern Perú Copper Corporation, Sucursal del Perú	Cajamarca	Copper	Pre-feasibility	2,500		
		Ollachea	Minera Kuri Kullu S.A.	Puno	Gold	Feasibility	165		
		Pukaqaqa	Nexa Resources Perú S.A.A.	Huancavelica	Copper	Pre-feasibility	706		
		Quechua	Compañía Minera Quechua S.A.	Cusco	Copper	Feasibility	1,290		
		Quicay II	Corporación Minera Centauro S.A.C.	Pasco	Gold	Pre-feasibility	400		
		Racaycocha Sur	Minera Peñoles de Perú S.A.	Ancash	Copper	Pre-feasibility	1,000		
		Río Blanco	Río Blanco Copper S.A.	Piura	Copper	Factibilidad	2,500		
		Rondoní	Compañía Minera Vichaycocha S.A.	Huanuco	Copper	Pre-feasibility	250		
		San Luis	Reliant Ventures S.A.C.	Ancash	Silver	Feasibility	100		
		Shalipayco	Nexa Resources Peru S.A.A.	Junin	Zinc	Pre-feasibility	91		
		Tía María	Southern Perú Copper Corporation, Sucursal del Perú	Arequipa	Copper	Detailed Eng.	1,400		
		Trapiche	El Molle Verde S.A.C.	Apurímac	Copper	Pre-feasibility	1,000		
		Total		(48 projects)					57,772

Portfolio estimated as at September 2018
Source: Ministry of Energy and Mines (MEM)

Mining Exploration Project Portfolio					
Project	Operator	Region	Main ore	Environmental Impact Study approval date	Investment (US\$ Millions)
ENVIRONMENTAL IMPACT STUDY/PERMISSION					
Coma	Palamina S.A.C	Puno	Au		3,800
El Porvenir	Nexa Resources el Porvenir S.A.C.	Pasco	Zn		2,200
Hilarion	Noca Resources Perú S.A.A.	Ancash	Pb		9,400
Iluminadora	Newmont Peru S.R.L	Arequipa	Au		3,800
Pucajirca	Minera Peroles de Perú S.A.	Ancash	Cu		2,000
Pukaqaqa sur	Noca Resources Perú S.A.A.	Huancavelica	Cu		4,900
Quehuincha	Hudbay Perú S.A.C.	Cusco	Cu		3,000
San antonio	Sumitomo Metal Mining Perú S.A.	Apurimac	Cu		8,000
Santander	Trevali Perú S.A.C.	Lima	Zn		2,000
Santo Domingo	Fresnillo Perú S.A.C.	Apurimac	Au		1,300
Scorpius	Alpha Mining S.A.C.	Ayacucho	Au		1,800
Sombrero	Sombrero Minerales S.A.C.	Ayacucho	Cu		2,400
Suyawi	Río Tinto Mining and Exploration S.A.C.	Tacna	Cu		15,000
Yanacochita ii	Compañía Minera Ares S.A.C.	Ayacucho	Au		2,800
Yumpag	Compañía de Minas Buenaventura S.A.A.	Passco	Ag		20,000
EXPLORATION AUTORIZATION EVALUATION					
Alta Victoria	Minera Cappel S.A.C.	Junin	Ag	28/10/2019	3,500
Anamafiyay	Compañía de Minas Buenaventura S.A.C.	Lima	Au	27/04/2018	1,500
Apacheta	Vale Exploration Perú S.A.C.	Huancavelica	Cu	05/05/2019	4,400
Ayawilca	Tinka Resources S.A.C.	Pasco	Sn	22/07/2019	18,000
Bongará	Minera Forrester S.A.C.	Amazonas	Zn	27/09/2019	3,100
Cerro Negro	Minera Yanacocha S.R.L.	Cajamarca	Au	03/06/2019	5,000
Chapitos	Camino Resources S.A.C.	Arequipa	Cu	30/04/2019	83,400
Cochaloma	Compañía Minera Ares S.A.C.	Ayacucho	Au	27/03/2019	2,300
El Galeno	Lumina Copper S.A.C.	Cajamarca	Cu	12/09/2018	15,000
Elisa Sur	BHP Biluton World Exploration Inc. Sucursal del Perú	Moquegua	Cu	26/08/2019	1,100
Huacullo	Compañía Minera Ares S.A.C.	Apurimac	Au	13/02/2019	1,500
La Quinua	Minera Yanacocha S.R.L.	Cajamarca	Au	03/04/2018	1,000
Lourdes	Pucara Resources S.A.C.	Ayacucho	Au	20/06/2019	2,000
Mina Marta	Compañía Minera Barbastro S.A.C.	Huancavelica	Ag	04/12/2017	2,500
Pablo Sur	Compañía Minera Ares S.A.C.	Ayacucho	Au	04/03/2019	2,800
Pampa Negra	Minera Pampa de Cobre S.A.C.	Moquegua	Cu	11/10/2018	45,500
San Jose 1	Minera Yanacocha S.R.L.	Cajamarca	Au	12/04/2019	1,800
Shalipayco	Compañía Minera Shalipayco S.A.C.	Junin	Zn	08/02/2019	2,000
Trapiche	El Molle Verde S.A.C.	Apurimac	Cu	26/08/2019	9,000
Tumipampa Sur	Compañía Tumipampa S.A.C.	Apurimac	Cu	19/03/2018	2,000
Yumpag (fase 2)	Compañía de Minas Buenaventura S.A.A.	Passco	Ag	19/02/2018	3,000
Zafranal	Compañía Minera Zafranal S.A.C	Arequipa	Cu	08/11/2019	47,000
Zoraida ii	Volcan Compañía Minera S.A.A.	Junin	Ag	18/09/2019	1,700

continues...

...continuation

Project	Operator	Region	Main ore	Environmental Impact Study approval date	Investment (US\$ Millions)
EXPLORATION IMPLEMENTED OR TO BE IMPLEMENTED					
Amauta	Compañía Minera Mohicano S.A.C.	Arequipa	Cu	23/11/2018	10,000
Arcata	Compañía Minera Ares S.A.C.	Arequipa	Ag	31/08/2017	6,000
Ayawilca	Tinka Resources S.A.C.	Pasco	Ag	11/11/2016	1,000
Azulmina	Nexa Resources Perú S.A.A.	Ancash	Zn	27/09/2019	6,900
Berenguela	Sociedad Minera Berenguela S.A.	Puno	Ag	03/10/2018	10,800
Caylloma	Minera Bateas S.A.C.	Arequipa	Ag	31/01/2018	14,300
Colquipucro	Tinka Resources S.A.C.	Pasco	Zn	23/11/2016	2,500
Eposuyay	Vale Exploration Perú S.A.C.	La Libertad	Cu	08/03/2019	4,600
Illari	Newmont Perú S.R.L.	Lima	Au	11/09/2019	7,300
Inmaculada	Compañía Minera Ares S.A.C.	Ayacucho	Ag	14/07/2017	6,000
La zanja	Minera la Zanja S.R.L.	Cajamarca	Au	13/12/2017	1,600
Loma linda	Consorcio Minero Sunec S.A.C.	Pasco	Au	03/03/2017	3,800
Malpaso ii	Pan American Silver Huaron S.A.	Huanuco	Ag	28/03/2018	3,200
Mayra	Compañía de Minas Buenaventura S.A.A.	Arequipa	Au	10/11/2017	1,000
Palca	Compañía Minera Ares S.A.C.	Ayacucho	Au	19/03/2019	2,800
Palma	Compañía Minera Chungar S.A.C.	Lima	Zn	25/08/2017	6,100
Quenamari	Minsur S.A.	Puno	Sn	09/11/2018	6,000
Romina 2	Compañía Minera Chungar S.A.C.	Lima	Zn	11/07/2018	2,500
San pedro	Pan American Silver Huaron S.A.	Pasco	Pb	20/04/2018	4,000
Shahuindo	Shahuindo S.A.C.	Cajamarca	Au	19/07/2017	13,200
Sierra nevada y manuelita	Compañía Minera Argentum S.A.	Junin	Cu	20/04/2018	4,100
Soledad (fase 1)	Chakana Resources S.A.C.	Ancash	Ag	16/11/2018	4,300
Tambomayo	Compañía de Minas Buenaventura S.A.A.	Arequipa	Au	28/09/2018	1,500
Tantahuatay 4	Compañía Minera Coimolache S.A.	Cajamarca	Au	09/04/2018	28,000
Yauricocha	Sociedad Minera Corona S.A.	Lima	Cu	16/06/2019	3,600
TOTAL (63 projects)					496,200

Portfolio estimated as at November 2019.

Source: Ministry of Energy and Mines (MEM). Cartera de Proyectos de Exploración de Mina

2.3

Recent developments and future trends in the mining industry in Peru

a. Peru is looking to update its mining law

In July 2019, Peruvian President Martin Vizcarra announced that his government would seek to update the General Mining Law. The announcement was made during his annual Address to the Nation as part of Peru's Independence Day anniversary celebrations.

In his speech, Vizcarra noted that the current mining law has been in force for nearly three decades and that it is therefore necessary to update it with a view of adapting it to the current reality, providing a clear framework for investors. He also reiterated his administration's commitment to socially responsible mining.

According to the government the idea is to maintain Peru's standing as an attractive place to invest by having a law that truly promotes investment that is environmentally sustainable and responds to social needs.

The update would include putting in order the various "patches" made to the current law throughout its almost 30 years of existence, improving permitting review times and reducing bureaucracy to improve the country's competitiveness.

The initiative still needs to be sent to Congress for approval and is not expected to contain any important changes on taxes on mining companies.

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Although the government is preparing legislation to update Peru's mining law, we don't foresee big changes on the mining fiscal system which could make us lose international competitiveness.



Marcial García
Mining & Metals Leader
EY Peru

b. Mining policy

Peru has a long history of major minerals projects and the mining industry is widely recognized as a driver of growth and a job provider.

The role of the government over exploration, mining, smelting and refining of minerals is limited to that of a regulator, promoter and overseer. The government has privatized most of its assets in the mining sector. In contrast with the situation two decades ago, large mining operations are now held by domestic and foreign privately-owned mining companies. Private domestic interests own most of the medium and small-sized mining operations.

The marketing of mineral products in Peru is unrestricted, both domestically and externally. Thus, mining companies are not under the obligation neither to satisfy the internal market before exporting its mining products nor to sell them at “official” prices or terms. Nowadays, Peru offers mining investors significant commercial



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Today Peru offers, in addition to its prospectivity and strong mining tradition, a very attractive and competitive climate for investors.



Victor Burga
Audit Mining & Metals Leader
EY Peru

advantages and ample freedom not only to sell their products to the buyer offering the best terms, but to import the machinery and equipment they might require for their mining activities at a lower cost and with less bureaucratic requirements than ever before.

Peru's approach towards its mineral sector development is showing favorable results. International mining companies perceive Peru as an attractive target for their investments. Examples include Anglo American, Rio Tinto, Glencore, Barrick Gold, Newmont, Gold Fields, Freeport- McMoRan, Grupo Mexico, Teck Resources, Minmetals, Jiangxi Copper, Aluminum Corp of China, MMG Limited, Zijun Mining Group and Shougang Corporation.

C. Social license to operate

Achieving a social license to operate is the single most important challenge that the mining industry faces in Peru. Income and regional inequalities continue to be a source of social conflicts, which have had a negative impact on a number of mining projects. Achieving a social license to operate is one challenge, maintaining it is another. The key to both is communicating value through the concept of shared value and, more broadly, of corporate social responsibility, which must be part of mining companies' operations.

In recent years Peru has seen a number highly publicized mega projects being postponed over environmental or community concerns, strikes and anti-mining protests, including the US\$4.8 billion Conga project (Minera Yanacocha) and the US\$1.4 billion Tía María project (SPCC). There is strong evidence that community groups are manipulated by politicians, anti-mining NGOs and other groups with wider political agendas.

The need for a social license to operate is readily accepted by the mining and metals sector. By managing an effective communication process highlighting the positive impact of mining through productive, profitable and sustainable development initiatives can show the government, communities and other stakeholders how their presence in the country can create positive economic and social contributions.

Miners are taking different approaches to win over communities and ensure they maintain their "social license" during the duration of the project. The major mining and metals organizations are trying to implement systems to share and measure the benefit of their operations, demonstrating that they not only make communities wealthier but healthier. This relies on working with local

communities to create shared value, listening to what they want, rather than just coming up with initiatives that are not tailored to their needs. Community support for a project is partly dependent on its economic participation and local employment is an important element of that.

A structural change in in the way proceeds from mining are allocated and spent could be an option in the future. Meanwhile, the government is increasingly seeking to fill the gap between community expectations and existing legislation which require community consultation for the development of new projects with increased regulations.

Although the International Labor Organization Convention No. 169 requires that indigenous and tribal peoples are consulted on issues that affect them, the implementing regulations attempted to exclude mining development projects from this obligation. The Supreme Court, however, has issued a binding decision providing for the application of the Convention to all indigenous persons without exceptions.



Indigenous communities should be consulted from the outset, even from pre-exploration, to identify and ideally eliminate potential issues. Communities need to clearly see a full range of benefits from mining, from financial gain to improved infrastructure and expanded business opportunities. Many of these benefits will ensue as a result of a new mine; however, companies need to be more adept at communicating the benefits to the communities at the time of consultation.

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Corporate social responsibility and a mining company's social license to operate have become critical for modern miners – and the mining sector in Peru is no exception.



Beatriz Boza
Corporate Governance
and Sustainability Leader
EY Peru

d. Environmental concerns

Government still faces the important challenge of formalizing illegal gold miners, who have destroyed 53,000 hectares of the Amazon rain forest with mercury. It is estimated that they concentrate 20% of Peru's gold production. At this point, the Peruvian government has approved a widespread ban on illegal mining to rid the country of a dangerous practice that leads not only to extensive environmental damage and deforestation, but to criminal activities associated with them. It remains to be seen whether this administration will be able to handle this ecological dilemma effectively on the short-term, restoring law and order in areas such as the Madre de Dios region.

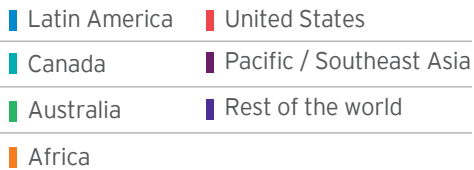
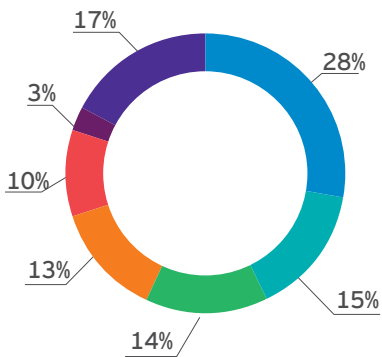
e. Exploration trends

The latest World Exploration Trends (WET) report from S&P Global Market Intelligence reveals that global spending on mining exploration rose to an estimated US\$10.1 billion in 2018, compared with US\$8.5 billion in 2017, representing 19% growth year over year. This was the second consecutive year of growth, following four years of shrinking commitment to exploration.

Not surprisingly, Peru has not been immune to the general trend in overall mining exploration activity. It has significant number of projects actively being explored in different regions, as illustrated by the strong volume of investment flows to fund drilling activities.

In fact, according to S&P Global Market Intelligence's WET 2019 report, Peru remained one of the top destinations for exploration in the world in 2018. This can be explained by Peru's perceived advantages in terms of geology, legal stability and low costs for mining development. The level and success of exploration today will strongly influence Peru's future competitiveness in mineral production.

Worldwide non - ferrous exploration 2018



Source: SNL Metals & Mining



3

Mining tax
and legal
framework



3.1

Mining terms

Peru has a comprehensive legal framework that clearly defines rights, obligations and responsibilities for all stages of the development process of mineral resources. Mining operations are undertaken under a resource regime based on an administrative act, where the grant of a mining right depends on the strict compliance with the procedure laid down in the Law for the grant of that title and not on administrative discretion. The absence of administrative discretion leaves the right to mine more firmly ensured within Peru's mining legal framework than under other regimes.

The right to explore, extract, process and/or produce minerals in Peru is granted by the Peruvian government in the form of mining and processing concessions. Requirements for obtaining them are determined by law and the application and granting process are relatively simple and clear. The rights and obligations of holders of mining concessions and processing concessions are currently set forth in the General Mining Law. This law clearly determines the terms and conditions under which those mining activities are allowed in Peru; including the way in which mining rights can be obtained and maintained, how they can be lost, what are the obligations of their holders, etc. The law also makes provision

for contracts permitting options over mineral rights, assignments and mortgages.

Mining concessions may be separately granted for metallic and non-metallic minerals. The same mining concession is valid for exploration and for exploitation operations; hence there is no complicated "conversion" procedure. Mining concessions are granted on a "first come, first served" basis, with provision for an auction if simultaneous claims are made. A separate processing concession is available, granting the right to concentrate, smelt or refine minerals already mined. No concession is required to trade in minerals and exports by producers are not restricted.

To obtain a mining concession, the law requires that the area is free of restrictions and that the applicant is clearly identified, able to carry out the proposed activities and pays application and license fees. The application process is managed by INGEMMET, the mining and geology institute. The terms and conditions, rights and obligations of mining concessions are not subject to any discretionary discretion or negotiation. Applications are publicly disclosed and processed in the order they are filed. The successful awards



are disclosed to the public in the mining cadaster, which is available on line. This system guarantees both openness and transparency of the allocation process. Mining concessions can also be obtained through the assignment of concessions previously granted by to independent or related parties.

a. Security of tenure

The constitutional protection of property rights and the reasonable completeness and unambiguousness of the General Mining Law in Peru gives mining and metals companies the possibility to obtain a clear and secure title for mining development.

Under Peru's current legal and regulatory regime, mining concessions have an indefinite term provided that (i) a minimum annual level of production or investment is met and (ii) an annual concession fee is paid. The irrevocability of mining rights subject to the fulfilment of these obligations provides security of tenure within the mining regime in Peru and reasonably assures the transition between the exploration and mining phases.

Failure to meet the minimum production requirement will result in the payment of a progressive penalty as from the eleventh year following the year in which the concession was granted. The loss of the mining concession and the penalty may be avoided by demonstrating investments in the mining rights of amounts at least ten times greater than the penalty to be paid. The mining concession will unfailingly be lost, however, if the minimum production requirement is not met by the thirtieth year.

In order to calculate the production and investment in each mining concession, the titleholder may create an operating unit, or "Unidad Económica Administrativa", provided the mining rights are all within a radius of five, ten

or twenty kilometers, depending on the type of mineral produced.

Processing concessions enjoy the same duration and tenure as the mining concessions, subject to the payment of a fee based on nominal capacity for the processing plant or level of production. Failure to pay such processing fees or fines for two years could also result in the loss of the processing concession.

b. Mineral and surface land ownership

In Peru, as in many other countries, the state retains ownership of all subsurface land and mineral resources. The ownership of extracted mineral resources, however, is vested on the titleholders of mining concessions.

Under Peruvian law, there is a differentiation between the surface land property and that of natural resources. It is often the case that the titleholders of mining concessions (which confer them the right to explore and mine underground ore reserves in the area of the claim) are not the owners of the surface land.

Clear administrative procedures which holders of mining concessions must follow to gain access to privately owned land for mining activities have been established in the General Mining Law in order to avoid potential conflicts with third parties after a mineral deposit has been discovered. Pursuant to Peruvian regulations, all operators of mining areas in Peru are required to have an agreement with the owners of the land surface above the mining rights or to establish an easement upon such surface for mining purposes. Expropriation procedures have been considered for cases in which landowners are reluctant to allow mining companies to have access to a mineral deposit. The administrative decision originated from these procedures can only be judicially appealed by the original landowner with respect to the amount of his compensation.

C. Right to transfer mining rights

Mining rights can be transferred by their private holders with no restrictions or requirements, other than to register the transaction with the Public Mining Register. The Mining Law clearly defines the rules for the transfer of a mining concession and regulates other so-called mining contracts, such as option contracts, concession assignment agreements, mortgages, joint venture agreements, among others. These legal definitions do not only benefit those “junior” mining companies specialized in obtaining exploration and mining rights to sell them to medium and large-sized mining companies, but it also is convenient for those mining holders who for one reason or another are no longer interested on maintaining a mining right in Peru.

d. Size of exploration blocks / Duration of exploration rights

Concessions for exploration and exploitation of mineral resources are granted in areas that can go from 100 hectares to 1,000 hectares per concession, except in marine zones, where the concession could reach an area of up to 10,000 hectares.

As it has been mentioned before, a concession is irrevocable, as long as its holder complies with all the obligations imposed by the Law. Among these obligations is the requirement to reach a minimum production in a ten-year term. However, if the required minimum production is not obtained on time the mining holder has the opportunity to pay a penalty in order to maintain its mining right. The flexibility of these terms gives the concession holder ample freedom to plan the magnitude and timing of investments in the concession, as well as to decide whether or not to put the property into production.

e. Availability of mineral agreements

In Peru mining companies may enter into agreements with the government to obtain a series of guarantees and benefits. These contracts, however, do not intend to supplement or stand in place of the Mining Law. In fact, they are not even referred to the terms and conditions under which a mining concession is obtained, maintained or terminated, but rather to investment promotion issues such as the possibility to obtain judicial, tax, foreign exchange and commercial stability.

f. Options to acquire an equity participation

The Peruvian policy towards government participation in mining ventures harmonizes with the world-wide current trends. Rather than participate directly as a partner in the mineral operations, Peru shares-in its benefits through fiscal mechanisms.

g. Government policies on the sale of mineral products

The sale of mineral products is also unrestricted, both domestically and externally. Therefore, mining operators are not under the obligation neither to satisfy the internal market before exporting their mining products nor to sell them at “official” prices or terms.

h. Environmental matters

In recent years, Peru has enacted a new regime of environmental laws, which establishes the main environmental guidelines and principles applicable in Peru. Pursuant to these laws, the MEM and the Environmental Ministry have issued regulations mandating environmental standards for the mining

industry and reviews and approves environmental studies for mining operations. These laws and related regulations significantly increased the level of environmental regulation previously in effect in Peru and established a number of environmental management standards as well as guidelines with respect to particulate emissions in air, water quality, exploration, tailings and water discharged, among other requirements.

Under these environmental regulations, new mining development and production activities are required to file and obtain approval for an Environmental Impact Study ("EIS"), which incorporates technical, environmental and social matters, before being authorized to commence operations. The Environmental Evaluation and Oversight Agency, ("OEFA") monitors environmental compliance. OEFA has the authority to carry out unexpected audits and levy fines on mining companies if they fail to comply with prescribed environmental standards.

In addition, mining companies must prepare, submit and execute plans for the closing of mines, or Closure Plans, and grant environmental guarantees to secure compliance with Closure Plans during the life of the concession. The guarantee must cover the estimated amount of the Closure Plan and may be in cash, trusts, and any other guarantee contemplated in the Banking Law.



3.2

Peruvian mining fiscal system

a. Overview

The economic attractiveness of exploring in a country is strongly influenced by the fiscal system that applies to deposits that are discovered and subsequently developed. If tailored properly, fiscal terms are able to achieve overall objective of collecting an adequate share of the economic benefit generated by the mining industry for the government while maintaining high levels of exploration and production activities. In practice, however, it has proven extremely difficult for mining countries to implement fiscal packages that satisfy the interests of both host governments and mining companies.

The Peruvian legal framework clearly defines the fiscal regime applying to the mining sector, including restrictions for modifying tax provisions through fiscal stabilization agreements. As it has been designed, Peru's mineral sector fiscal system tends to be progressive after the mine reaches certain level of profit.

Fiscal systems which are progressive come the closest to create the flexible conditions needed to achieve the dual objective of collecting an adequate share of the economic benefit generated by the mining industry for the government while encouraging the exploration and development of valuable resources. Progressive fiscal systems adjust to the actual profitability of each project and, therefore, they tend to enable a fair and reasonable allocation of economic benefits and risks between the mining investor and the host government, whatever the cost, price and risk scenario. Under such schemes the host government's cut, in percentage terms, is higher on large and profitable mines than on small and marginal deposits.

If the profitability of a project increases due to favourable price or cost conditions, then the host government's share of the mineral rent also

increases, but if the profitability decreases as a consequence of downward movement in the price of minerals or an unexpected increment in costs, then the government take also decreases. For this reason, in practice, this kind of fiscal systems are generally preferred by mining companies.

At a glance

Income Tax rate ⁽¹⁾ ⁽²⁾	29,5%
Dividends	5.0%
Modified Mining Royalties	1% to 12% imposed on operating mining income. A minimum royalty of 1% of sales is applicable.
Special Mining Tax	2% to 8.4% imposed on operating mining income.
Special Mining Burden	4% to 13.12% imposed on operating income ⁽³⁾ .
Good standing fee	US\$ 3/ha/yr.
Capital allowances	Accelerated depreciation, exploration write-offs.
Investment incentives	Tax losses can be carried forward for 4 years or indefinitely; stabilization agreements; VAT recovery.

(1) Mining companies with tax stabilization agreements are subject to a 2% premium.

(2) In addition, they must pay an 8% employee profit sharing.

(3) Is intended only for mining companies with tax stabilization agreements in place prior to October 1, 2011.

b. Fiscal regime

► Corporate Income Tax

Companies that are tax resident in Peru are subject to corporation tax on their worldwide taxable income. Tax resident companies are those incorporated in Peru. Nonresident entities as well as branches and permanent establishments of foreign companies are taxed on income from Peruvian sources only.

The corporate income tax rate is 29.5% from 1 January 2017. In addition, a Dividend Tax at a rate of 5% is imposed on distributions of profits to nonresidents and individuals by resident companies and by branches, permanent establishments and agencies of foreign companies. (See Dividends in Section g).

Mining companies in Peru are subject to the general corporate income tax regime. However, if the taxpayer has signed a Stabilization Agreement, an additional 2 percentage addition is applied, meaning the combined corporate income tax rate becomes 31.5%. Companies find tax stabilization very attractive and are generally willing to pay the premium.

Taxable income is generally computed by reducing gross revenue by cost of goods sold and all expenses necessary to produce the income or maintain the source of income. Certain types of revenue, however, must be computed as specified in the tax law, and some expenses are not fully deductible for tax purposes.

Business transactions must be recorded in legally authorized books of account that are in full compliance with the International Financial Reporting Standards ("IFRS"). The books must be kept in Spanish and must be expressed in Peruvian currency. However, accounting records may be kept in foreign currency (i.e. US dollars)

where a stability agreement has been entered into. (see Stability regime in Section f).

50% of income tax paid by a mine to the Central Government is to be remitted as "Canon", by the Central Government back to the regional and local authorities of the area where the mine is located.

► Tax loss relief

Taxpayers may choose to carry forward their Peruvian tax losses in accordance with system (a) or (b) below. If a particular system is not chosen by the taxpayer, the Tax Administration applies system (a).

- (a) Losses incurred in a year may be carried forward and set off against profits arising in the following 4 years; or
- (b) Losses incurred in a year may be carried forward and set off against 50% of future profits of the following years indefinitely.

Generally, losses from Peruvian source income may be offset against any Peruvian source income (except for losses from certain derivative financial instruments). Foreign source losses may only be offset against foreign source income and may not be carried forward.

There is no loss carry back system in Peru.

► Administration

There is a mandatory year-end of 31 December. Tax returns must be filed by the end of March or beginning of April the following year, depending on the taxpayer identification number.

Companies and branches must make monthly advanced payments of their annual corporate income tax, based on the company's monthly net income. Monthly advance payments are due on the 9th to the 15th business day, according to a schedule.

► **No project by project ring fencing**

The accounts for income tax purposes of different mining projects owned by the same company may be consolidated. Losses from one project or concession can be set against profits from another project or concession. There is thus no ring fence between projects or concessions, only between companies even when they are members of the same group.

Stability agreements are drafted on a project by project basis, so it is therefore possible for different projects within the same company to be subject to different tax rates and calculation rules.

► **Capital gains tax**

Capital gains derived by Peru tax resident entities are taxed at the normal corporate income tax rate of 29.5%. This rate does not increase where a stability agreement is in place.

Capital gains obtained by non-resident entities from Peruvian sources, including the sale of unlisted shares of a Peruvian company, are generally subject to tax at a rate of 30%. The applicable domestic tax result may be overridden by the provisions of an applicable Tax Treaty.

An indirect transfer of Peruvian shares by non-resident companies is subject to tax at 30% in Peru. An indirect transfer is deemed to occur if the following conditions are met:

1. At any time during the 12 months prior to the transfer, 50% or more of the fair market value of the shares in overseas holding company transferred directly or indirectly derives from the fair market value of Peruvian shares (the “50% Market Value Test”) and at least 10% of the overseas holding company’s shares are transferred (itself or together with its related parties); or

2. The “value” of the Peruvian shares being indirectly transferred is at least 40,000 Peruvian Tax Units (approximately US\$51 million). The value should be determined by multiplying the percentage obtained in the 50% Market Value Test by the value agreed in the Transaction.

The tax is paid directly by the non-resident seller, along with filing the relevant form. However, if 10% or more of the Peruvian company is owned directly or indirectly by the non-resident seller, the Peruvian company may be jointly responsible.

C. Capital allowances

► **Trade or business expenses**

Corporate expenses incurred in generating taxable income are generally deductible for corporate income tax purposes, subject to certain exceptions and limitations.

► **Tax depreciation**

Companies may depreciate the acquisition cost of fixed assets for corporate income tax purposes.

A depreciation rate of 20% for mining and processing equipment and 5% for real estate is granted to mining investors who have stability agreements in place with the Peruvian government. (see Stability regime in Section f).

Where a stability agreement is not in place, the general tax rules provide that other than for buildings and constructions, tax depreciation must match accounting depreciation on the same basis (straight-line, production units, or another basis).

The maximum annual depreciation rates allowed for tax purposes under the general tax rules is restricted, as summarised in the table below.

Buildings and constructions*	5%*
Vehicles	20%
Machinery and equipment for construction, mining and oil activities	20%
Machinery and equipment for other activities	10%
Data processing equipment	25%
Other fixed assets	10%

*This is a fixed rate rather than a maximum rate

► Pre-operative expenses

General

Pre-operative expenses are expenses incurred for a company starts generating income for mineral sales. There are a number of different types of pre-operative expenses which carry different treatments.

General pre-operative expenses (e.g. administrative expenses) may either be expensed in the year production commences or be amortized evenly over a period of up to ten years from the year in which production commences.

Exploration expenses

For pre-operative exploration expenses (e.g. drilling and surveys), taxpayers can choose to either expense these costs in the year they are incurred or amortize the costs evenly over the useful life of the mine from the year minimum production is achieved. This is an annual choice with respect to the costs incurred in each year. In one year, taxpayers may elect to

capitalise their exploration costs for subsequent amortization and the next year they may claim a deduction. The annual election is irrevocable.

► Mineral properties

Costs incurred in acquiring mining concessions and investments in prospecting and/or exploration work up to the date the legally required minimum production is achieved, should be capitalised and subsequently amortized by an annual percentage based on the life of the deposit.

This percentage is calculated by dividing the total estimated proven and probable reserves by the minimum production requirement according to law.

A literal approach has resulted in the period of amortization being calculated by reference to the number of hectares of the mining site rather than the productive life of the deposit.

Accordingly, this interpretation could create situations in which the life of the deposit determined by the above formula has no correlation with the productive life of the deposit measured in real terms.

The amortization period established by the mining company must be notified to the tax administration with the first annual income tax return in which the amortization begins.

The mine operator can choose to deduct from its income the prospecting and/or exploration work during the fiscal year in which these expenditures are incurred. Expenditure for exploration incurred after the concession has reached the minimum mandatory production stage can be deducted in the fiscal year it is incurred or amortized at an annual rate based on the estimated life of the mine.



► **Feasibility studies and other evaluation expenses**

Depending on the nature and timing, feasibility studies and other evaluation expenses may either be classified as development costs or as pre-operative expenses.

Development costs are costs that relate to the access to mines (e.g. roads, ramps and ventilation systems) before a company starts generating income from mines. Pre-operative expenses are other general costs relating to the period before a company starts generating income.

Where feasibility studies and other evaluation expenses are treated as development costs, these may be:

- i. expensed in the year they are incurred, or
- ii. amortized evenly over a period of three years from the year they were incurred.

Where feasibility studies and other evaluation expenses are treated as pre-operative expenses, these may be:

- i. expensed in the year production commences, or
- ii. amortized evenly over a period of up to ten years from the year in which production commences.

► **Mine site development costs**

Taxpayers have an annual choice of electing to deduct development costs in the year they were incurred or amortize them evenly over a period of up to three years from the year they were incurred. Taxpayers may not change their election with respect to the development costs incurred in the year concerned.

► **Public service infrastructure costs**

Costs incurred by mining companies in infrastructure for public use such as ports, airports, energy plants, schools, hospitals, roads or recreational facilities can be expensed as incurred, if approved by the government, after complying with specific requirements.

► **Other investments in communities**

Many companies make other investments in communities impacted by mining for the purpose of their sustainable development, so that when the mine closes the affected communities will be able to carry on with social and alternative economic activities. These investments are often characterised as Corporate Social Responsibility (“CSR”) expenditure.

Where CSR expenditure relates to public infrastructure such as schools, road or hospital building, the mining law grants a deduction, subject to compliance with specific requirements and approval from the government. There are no specific provisions in Peru’s tax law which grant a deduction for other CSR expenditure. The tax authorities generally treat CSR expenditure as non-deductible donations or charitable contributions. To reduce the risk of challenge, CSR expenditure should be derived from a contractual or legal obligation, such as to comply with the obligations assumed under the Environmental Impact Assessment required by law.

► **Rehabilitation and closure costs**

Rehabilitation costs can only be expensed in the year they are incurred. This means that accruing for the expenditure is not deductible. Payments or bonds into a fund are not deductible. Payments to a third party are arguably not deductible until the rehabilitation has been performed. Thus, single

mine companies may receive no effective tax deduction for this expenditure, given that it is generally incurred at the end of the life of the mine, at a time when often there is insufficient income to offset the deduction against. Under current tax law, Peru does not have a loss carry back system. Therefore, in cases where decommissioning activities are carried out at the end of a company’s lifecycle the costs may not obtain effective tax relief.

d. Mining taxes, duties and royalties

Mining producers may also be subject to the Modified Mining Royalty (“MMR”) and Special Mining Tax (“SMT”).

Each of these mining levies is calculated on operating income as determined for book purposes instead of for income tax purposes. Operating income is defined as revenues generated from the sale of mineral resources less (i) cost of goods sold (“COGS”) and (ii) operating expenditures. “Book” refers to Peruvian statutory reporting and is required to be prepared under IFRS. To calculate tax base for the new levies, companies begin with statutory book operating income and make certain adjustments, such as to disallow interest expense (whether booked as part of COGS or operating expenses) and to prorate exploration expenditure over the life of the mine.

Generally, depreciation and amortization taken into account for the purposes of these levies is equal to the amount of book depreciation and amortization. However, in particular situations there are differences between book value and tax value related to assets subject to depreciation and amortization. Such differences are due to the fact that the MMR and SMT do not allow depreciation and amortization related to accounting revaluations.

► **Modified Mining Royalty (“MMR”)**

In 2004, Peru implemented a mining royalty based on sales. This regime has been substituted by the MMR that is currently in force.

The MMR now applies to operating income, rather than sales. The MMR is payable on a quarterly basis with marginal rates ranging from 1% to 12%. The royalty rate increases as the operating margin increases. Companies must pay at least the minimum royalty rate of 1% of sales, regardless of profitability. The payments are deductible for corporate income tax purposes.

► **Special Mining Tax (“SMT”)**

In 2004, Peru implemented a mining royalty based on sales. This regime has been substituted in 2011 by the MMR that is currently in force.

The MMR now applies to operating income, rather than sales. The MMR is payable on a quarterly basis with marginal rates ranging from 1% to 12%. The royalty rate increases as the operating margin increases. Companies must pay at least the minimum royalty rate of 1% of sales, regardless of profitability. The payments are due quarterly and are deductible for corporate income tax purposes.

e. Indirect taxes

A 18% Value Added Tax (VAT) applies to the following transactions:

- Sale of goods within Peru
- Services performed or used within Peru
- Construction contracts performed within Peru
- First sale of real estate by the builder

- Importation of goods from outside Peru, regardless of the status of the importer
- Financing payments where the recipient entity is not a financial entity

Items which are not subject to VAT in Peru include salaries, local taxes, services offered free of charge and transfers of land.

VAT paid upon acquisition of goods or services can be deducted from VAT related to the sale of finished products or services.

Exporters are reimbursed for any VAT paid on the acquisition of goods and services. Exporters can apply such reimbursement as a credit to offset VAT or corporate income tax liabilities.

f. Incentives

Early recovery VAT system

An early recovery VAT system allows for recovery of the VAT credit in relation to acquisitions of goods and services, construction contracts, importations and other transactions if the entity requesting the refund is in the pre-operative stage and, consequently, has not begun to make any sales or exports that would enable them to recover the input VAT against output VAT.

VAT filings are made on a monthly basis, and the recovery of VAT takes place through these filings. It is common for the tax authorities to audit the refund application, which typically takes around six months. As such, on average the refund can take around seven months from the date of filing the application.

Depending on the quantum of the expenditure to which this system applies, this can have a significant favourable effect on cash flows and consequential on the net present value of the project.

The early recovery system is restricted to companies that:

- i. Have obtained a Resolution from the Ministry of Energy and Mines approving the application of the regime, and
- ii. Make a minimum investment commitment of US\$5 million on projects with a pre- operative stage of at least two years.

The early recovery of VAT is available in respect of purchases of goods and services made after the date of submission of the application. VAT incurred on expenditure prior to that time cannot be recovered under this regime but can be recovered under the normal regime.

There is also an early recovery VAT system for the acquisition of goods and services required for mining exploration. Under this regime, the VAT paid is refunded without having to wait until a commercial discovery takes place or production begins. This regime includes a final waiver of VAT if the exploration is unsuccessful.

For this purpose, certain administrative requirements shall be fully met. For example, mining companies must enter into the so-called "Exploration Investment Agreement" with the Peruvian government, making a minimum investment commitment of US\$0.5 million in mining exploration. In this case, VAT recovery is restricted to the VAT paid after the Agreement is signed.



Stability regime

Mining companies may enter into several types of Stabilization Agreements that assure that a given set of rules, mainly about aspects of the tax regime, will remain unchanged for a certain number of years. Such stability agreements are commonly entered into by mining companies. They use standard terms and are not specifically negotiated with individual taxpayers.

► Stability under the Foreign and Private Investment Legislation

Stability contracts entered with “Proinversión” (the private investment promotion agency of Peru), are generally available to (i) qualified foreign and national investors and (ii) the company that received the investment. Such a stability contract maintains stability with respect to the corporate income tax regime and the rate of tax on distributions of profits to the parent investor.

They also guarantee the unrestricted right to remit profits abroad, free availability of foreign currency, stability of the labor hiring regime and non-discrimination between foreign and national investors. The contract is effective for 10 years. To qualify, the mining investor must invest a minimum of US\$10 million within two years of entering the contract.

There is also an early recovery VAT system for the acquisition of goods and services required for mining exploration. Under this regime, the VAT paid is refunded without having to wait until a commercial discovery takes place or production begins. This regime includes a final waiver of VAT if the exploration is unsuccessful.

For this purpose, certain administrative requirements shall be fully met. For example, mining companies must enter into the so-called “Exploration Investment Agreement” with the Peruvian government, making a minimum investment commitment of US\$0.5 million in mining exploration. In this case, VAT recovery is restricted to the VAT paid after the Agreement is signed.

► Stability under the General Mining Law

Mining concession holders can be entitled to a broader range of stability benefits which can be effective for 10, 12 or 15 years depending on investment size and mine production capacity. These stability agreements cover tax rates and methods to calculate tax based of all major government taxes, duties, royalties and other similar payments. They maintain free marketing of mineral products for export or domestic sale; no foreign exchange controls in respect of foreign currency generated by exports; free convertibility into foreign exchange of local currency generated by mineral sales and non-discrimination on exchange matters.

Entering into stability agreements under the mining law carry a price for mining companies - they come with a corporate income tax rate surcharge of 2 percentage points, resulting in a corporate income tax rate of 31.5%.

Stability is important to investors as it reduces fiscal uncertainty. The main requirements are as follows:

- 10 year - the investment must equal at least US\$20 million and be allocated to start up an operation with a production capacity of 350 to 5,000 metric tons per day (MTPD).

- ▶ 12 year - this agreement targets production of at least 5,000 MTPD and requires an investment of US\$100 million for a start-up operation, or US\$250 million to capitalize an existing operation.
- ▶ 15 year - for mining concessions with an initial capacity of no less than 15,000 MTPD or capacity expansion plans to achieve a capacity of no less than 20,000 MTPD that require an investment program of no less than US\$500 million.

Benefits under stability agreements are limited to the investment defined in the feasibility study on the basis of which the stability agreement was signed. However, companies entering into 15-year stability agreements can include subsequent investments of at least US\$25 million provided that those investments are pre-approved by the Ministry of Energy and Mines.

Entering into a 15-year stability agreement allows a taxpayer to apply an annual tax depreciation rate of up to 20% (straight-line) for most mining and processing equipment, other than mine buildings and constructions which are still subject to a 5% depreciation rate. The 20% tax depreciation benefit is not limited to the amount of depreciation recorded for accounting purposes. This can reduce the present value of taxes owed and therefore increasing the overall net present value of the project.

The maximum depreciation rate of 20% needs to be approved by the General Mining Bureau. The taxpayer can elect to use a different depreciation rate each year, simply by notifying the National Superintendence of Tax Administration ("SUNAT"), so long as the 20% limit is not exceeded.

The 12 and 15-year agreements also carry the right to keep accounts for tax purposes in U.S. dollars.

Following the signing of a stability agreement there is a pre-operative phase, and once this phase is complete (and the mine is able to start producing), it must be approved by the Ministry of Energy and Mines.

The term of a 15-year stability agreement commences at the beginning of the first fiscal year in which the pre-operative phase is complete and approved. However, taxpayers may choose to take benefits of the agreement during the pre-operative phase up to 8 fiscal years before approval.

g. Withholding taxes

▶ Dividends

A 5% Dividend Tax applies to profits distributed to nonresidents and individuals from 1 January 2017. A 4.1% rate applies to profits earned up to 31 December 2014, and a 6.8% rate applies to profits earned from 1 January 2015 to 31 December 2016. This is the case regardless of when the profits are distributed. For these purposes, the first-in, first-out rules will come into play.

The Dividend Tax applies to distributions by Peruvian companies, and Peruvian branches, permanent establishments and agencies of foreign companies. This tax is generally withheld at source.

Dividends received by one tax resident company from another tax resident company currently are not taxable.

► Interest

Interest paid to non-residents is generally subject to a withholding tax at a rate of 30% but may be reduced to 10% or 15% under a tax treaty. For interest paid to unaffiliated foreign lenders, the rate is reduced to 4.99% if all the following conditions are satisfied:

- For loans in cash, the proceeds of the loan are brought into Peru as foreign currency through local banks or are used to finance the import of goods;
- The proceeds of the loan are used for business purposes in Peru;
- The participation of the foreign bank is not primarily intended to avoid the tax treatment applicable to transactions between related parties (i.e. the use of back-to-back loans is consequently precluded); and
- The interest rate does not exceed the LIBOR plus 7% points.

► Technical Assistance Services

Payments for technical assistance services used within Peru are subject to withholding tax at a rate of 15%, regardless of the country where the services are rendered. To ensure the application of the 15% rate, the local service recipient must obtain and present to the Tax Authorities upon request a report issued by an audit firm certifying that the technical assistance was effectively provided. Otherwise a withholding tax rate of 30% applies. This is only required, however, when the fees under the corresponding agreement for the technical assistance exceeds of 140 tax units (each tax unit is equivalent to PEN 4,300 in 2020).

► Royalties

Peruvian source royalties paid for the use of intangible property (e.g. know-how, patents, trademarks, design, model, plan, secret formula or process) are subject to withholding tax at an effective rate of 30%, but may be reduced under a tax treaty.

h. Financing considerations

► Interest deductibility

Generally, interest is deductible for corporate income tax purposes (at 29.5%, or 31.5% under a stability agreement) when the operational stage begins. Interest accrued before this time is treated as a general pre-operative cost. As such, it may either be expensed in the year production commences or may be capitalised (increasing the cost basis of the relevant asset) and then amortised over a period of up to ten years from the year in which production commences (effective relief being subject to any loss limitation). Interest owed to non-resident lenders is only deductible when paid.

Once the production stage commences, expenses should be recognised on an accrual basis. The Peruvian Income Tax Law establishes a definition for the accrual basis. Interest owed to non-resident lenders, however, will only be deductible when paid.

► Thin capitalization

The amount of interest paid to related or unrelated parties that exceeds the result of applying a coefficient (debt-to-equity ratio) equivalent to three times the taxpayer's net equity (3:1) at the end of the preceding year is not deductible.

On 1 January 2021, however, a new set of thin capitalization rules will enter into effect.

Under these rules, the interest that exceeds 30% of EBITDA of the preceding year will not be deductible. Interest that is not deducted may be carried forward for up to four years but will always be subject to the 30% of EBITDA limitation.

i. Worker's profit sharing

Mining Companies are obliged to pay a worker's participation of 8% on the net profits of the Company. The total sum received by the worker must amount up to 18 times its monthly salary, and the balance must go to a special educational, social and recreational fund. Disbursements are decided by a Board comprised of representatives of Mining Companies, Peruvian government and the workers.

The amount paid is allowed as a tax deduction for corporate income tax purposes. Not all foreign governments recognize this as a creditable tax and double taxation can thus occur.

j. Other tax aspects

▶ **Good standing fee**

This is also known as a Validity Tax and is calculated based on the area in mining concession from the moment the claim is filed. The fee is US\$3/ha/yr and it is deductible for corporate income tax purposes.

Reduced fees are applicable for small mining producers (US\$1/ha/yr) and for artisanal mining producers (US\$0.5/ha/yr).

▶ **Temporary net assets tax**

The Temporary Net Assets Tax ("ITAN") is levied at 0.4% on company's net assets with value in excess of PEN 1 million (approximately US\$0.3 million). It has to be paid only by taxpayers that have already started "productive operations" at 31 December of the preceding year. This means that entities on a pre-operative stage are tax

exempt, until their first year of operations. They will only be subject to the ITAN the following year.

Taxpayers are allowed to use ITAN payments as a credit to offset income tax liabilities. If at the end of a fiscal year the ITAN paid exceeds the annual income tax due, taxpayers can request the refund of the excess.

▶ **Tax on financial transactions**

The financial transaction tax is charged at a rate of 0.005% on deposits and withdrawals from Peruvian bank accounts, including checking accounts.

▶ **Complementary Mining Pension Fund**

Employers (i.e. mining companies) are required to contribute 0.5% of their annual income before tax to the Complementary Mining Pension Fund, 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 corporate income tax purposes.

▶ **Regulatory fees**

Regulatory fees are imposed and collected in Peru from specific categories of regulated entities, including those operating in the mining sector. Mining companies pay these fees based on a percentage of their monthly revenues to the Supervisory Agency for Investment in Energy and Mining of Peru- OSINERMINING (0.14%) and the Environmental Monitoring Agency of Peru - OEFA (0.10%) to recover the regulatory costs associated with enforcement activities, policy and rulemaking. Non-payment of regulatory fees on a timely manner may result in penalties and interests. Such fees are deductible for corporate income tax purposes

Although the amount of regulatory fees collected, during each fiscal year, should reasonably be equal to the amount appropriated for such fiscal year for the performance of the activities described above, in practice, the amount collected could be higher because of the way in which the regulatory fees have been structured.

► **Social Security contribution**

The Peruvian Health Social Security Office (EsSalud) runs the National Health System (NHS). The employer contributes 9% of total payroll to the NHS. EsSalud provides employees disability, illness, maternity and death benefits, as well as medical care.

According to the Health Care Law, the NHS will be complemented by the health programs and plans that the employers may grant to their workers with their particular health services or with private Health Care Companies (Empresas Prestadoras de Salud - EPS) that shall be authorized to carry out such activities.

The employers may elect the healthcare plan or program for their employees; however, they shall previously submit it to their vote. Employees, who would like to remain in the NHS, may do so.

The employers that provide healthcare through the complementary plans and programs are also obliged to pay the 9% contribution to the NHS. However, employers may use a portion of the expenses incurred in healthcare as credit against the 9% contribution.

The Health Care Law and regulations also foresee a complementary insurance for workers that carry out activities that are deemed to involve a significant level of risk such as mining activities. This insurance coverage shall be provided by the employer.

Employees are also required to elect either to contribute to the National Pension System (NPS) or to the Private Pension System (PPS). The contribution rate on average is 13% of salary in the NPS and 12.75% in the PPS and is withheld from payments made to employees.

For mining employers, an additional 4% must be contributed to the PPS, with 2% payable by the employee and 2% is payable by the employer. Both pension systems provide employees retirement, disability pensions and funeral costs. Employers are responsible for withholding employees' contributions from monthly salaries.

► **Transfer pricing rules**

Peru has adopted transfer pricing rules which are largely based on the OECD guidelines. These rules also apply to transactions with unrelated entities in non-cooperative and low-tax jurisdictions or whose revenues, profits or income are subject to a preferential tax regime. Transfer pricing documentation requirements follow the three-tiered approach, set out by the OECD in the final reports under Action 13 of the BEPS Action Plan, consisting of a local file, a master file, and a Country-by-Country report (CbCR).

In line with guidance issued in OECD BEPS Action 10, Peru has implemented rules on the treatment of import and export transactions that involve products, for which a quoted price is used by independent parties to set prices (i.e. commodities). These rules establish that the arm's-length price for Peruvian income tax purposes must be determined under the CUP method by reference to the price quoted on a public exchange.

The actual pricing date or period of pricing dates should be used as a reference to determine the price for the transaction, as long as independent parties in comparable

circumstances would have relied upon to the same pricing date. The taxpayer needs to notify the Peruvian tax authority (SUNAT) of the actual pricing date or period of pricing dates used to determine the price for the transaction within 15 working days prior to the date of shipment or disembarkation.

In the event the notification is not presented, it is incomplete or contains inconsistent information, SUNAT may determine the price for the commodity transaction by reference to the quoted price on: (i) the shipment date of the commodities exported; or (ii) the disembarkation date of the commodities imported.

If the selected transfer pricing method is different from the CUP, the taxpayer needs to provide the local tax authority with the supporting documentation that explains the economic, financial and technical reasons as to why the selected transfer pricing method is the most appropriate one.

► Tax treaties

Peru has entered into a multilateral tax treaty with the other members of the Andean Community (Bolivia, Colombia and Ecuador) which calls for an exclusive taxation at source and bilateral tax treaties with Brazil, Canada, Chile, South Korea, Mexico, Portugal and Switzerland. In 2019 Peru also signed a double tax treaty with Japan, which still needs to be ratified by both contracting states to enter in force.

The principal purpose of this still reduced income tax treaty network is to prevent taxes from interfering with the free flow of international trade and investment by mitigating international double taxation with respect to certain income items. This, however, is not a static list. Some existing tax treaties are being

renegotiated and others are in various stages of negotiation with countries such as Spain and the UK.

Except for the tax treaty with the other Andean Community countries, tax treaties entered into by Peru generally follow the OECD Model, although they incorporate provisions that are derived from the UN Model, to give more weight to the source principle than does the OECD Model.

Each of the treaties currently in force between Peru and other countries deals with the same matters. Many of the treaties contain common provisions addressing the same issue. It should, however, be noted that Peru's tax treaties show a remarkable degree of individuality, considering that almost every treaty is different in at least some respects. For that reason, it is essential to analyze the specific treaty that may apply to a particular tax issue.

► Stamp Tax

None.

► Exchange controls

None.





4



Miscellaneous
matters



4.1

Starting a business in Peru

Mining activities can be carried out in Peru through a number of investment vehicles. In practice, the three forms of legal organizations most commonly used by foreign investors are the corporation (Sociedad Anónima - S.A.), limited-liability company (Sociedad Comercial de Responsabilidad Limitada - S.R.L.) and the branch (sucursal), although Peruvian company law also provides for other forms of legal entities, including two special forms of corporations: the closely held corporation (Sociedad Anónima Cerrada) and the public corporation (Sociedad Anónima Abierta).

a. Requirements of an S.A.

A corporation (Sociedad Anónima - S.A.) is composed of shareholders whose liability is limited to the value of their shares. The S.A. is managed by a board of directors and one or more managers. To form an S.A., investors (i.e. the shareholders) must sign the deed of incorporation before a public notary and file it with the Mercantile Registry. The registrar receives the public deed and proceeds to register the company. The registrar is also interconnected with the Tax Authority (SUNAT) to register the company as a taxpayer and obtain the tax identification number (Registro Único de Contribuyente, RUC). The bureaucratic and legal steps that an investor must complete to incorporate and register a new standard SA normally take between 15-30 days. Notary fees are up to 1% of capital, depending on the company size, the length of the public deed, and the initial capital contribution. The registration fees are also paid to the notary.

The incorporation documents must include, at least, (a) the company's name; (b) business purpose and duration; (c) the company's domicile; (d) the name, nationality, marital status and residence of any individual shareholder and name, place of incorporation and address of any corporate shareholder (a minimum of two shareholders are required to set up an S.A.); (e)

the names of the initial directors, managers and agents; (f) the start-up date of operations; and (h) the capital structure (the shares nominal value and the total number of shares), classes of shares, if applicable, and details of individual initial capital contributions (whether in cash or kind). Sufficient proof that a minimum of 25% of capital stock has been paid into a bank before registration must also be provided.

b. Closely held corporation

A corporation can be classified as closely held if it does not have more than 20 shareholders and its shares are not listed in the Stock Exchange. The closely held corporation has certain features found in a limited-liability company (for example, limited liability of equity owners, absence of freely transferable equity shares and no requirement for a board of directors).

c. Public corporation

A corporation will be considered "public" where (i) it has undertaken an initial public offering (IPO) or stock market launch to sale its stock to the public; (ii) it has more than 750 shareholders; (iii) at least 35% of its shares is held by at least 175 shareholders, each of whom owns at least two per thousand (0.002%) but no more than 5% of the shares representing the corporation's capital (iv) it is incorporated as a public corporation; or (v) all the shareholders with voting rights agree unanimously to subject the company to the legal regime applicable to public corporations.

d. Limited Liability Company

The Limited Liability Company or S.R.L. is subject to registration procedures, reporting and accounting requirements similar to those for the S.A. The minimum number of owners is two, the maximum 20, whose liability is limited to their capital contributions. At least 25% of each participant's contribution to capital must be paid in upon founding. The S.R.L.'s capital is divided

Capital

Is divided into shares which may be freely transferred unless such transfers are restricted by the corporate bylaws. There are no minimum or maximum capital requirements although issued capital must be fully subscribed and at least 25% thereof paid in upon incorporation. Capital may be supplied in cash or in kind. Value of non-monetary contributions must be reviewed and approved by a majority of the board of directors within 60 days of incorporation and may be challenged in court during the following 30 days.

An S.A. must set aside at least 10% of net profits after taxes in a legal reserve fund till this amounts to 20% of capital. Loss of more than two-thirds of subscribed capital normally requires liquidation of the company.

Management

One or more managers are named (and removed) by the board of directors, unless bylaws stipulate naming by a general shareholders meeting. When only one manager is appointed, he/she will be the general manager. There are no nationality requirements. Legal entities can also be appointed as managers.

Founders, shareholders

An S.A. must have a minimum of two individual or corporate shareholders, with no requirements as to their nationality or residence.

The shareholders' general meeting is the supreme body of the S.A. and has powers of decision on any subject and the exclusive power of decision with respect to dissolution, amendments of the corporate bylaws and a capital increase or reduction, among other key corporate decisions.

Requirements of a Corporation ("S.A.") in Peru

Types of shares

Shares must be nominative and they represent the unit into which the proprietary interests in a corporation are divided. As a general rule, each share gives the right to one vote, but non-voting shares may be issued. Different classes or series of shares may be issued, with different rights and/or obligations. Shares must be recorded in the Share Register Book.

All shares must have the same par value but may be issued at a premium or at discount from par. Corporations may purchase their own shares in certain circumstances. Bylaw restrictions on transfer of shares are permitted.

Board of directors

An S.A. must have a minimum of three directors, with no maximum number provided by the law. There are no requirements as to their nationality or residence. Directors need not be shareholders, and they serve one to three-year renewable terms.

Directors may be elected by cumulative voting, in which each share has as many votes as there are directors to be elected, and shareholders either accumulate their votes in favor of one candidate or distribute them among several. A quorum is half the board membership plus one. The board of directors has all the powers vested in it by law and the corporate by-laws.

Control

An annual general meeting is required. Bylaws may specify a higher quorum and larger majorities than those laid down by law. The minimum quorum for a general meeting is 50% of capital on the first call and any number on the second call. Most decisions are taken by a simple majority of the paid-up voting shares represented. For major decisions, such as capital increases or decreases or corporate bylaw changes, the minimum quorum is two-thirds of total voting shares represented on the first call and 60% on the second call, and the decision requires in absolute majority of total voting shares represented.

into and represented by participating interests which cannot be denominated shares and which are not freely negotiable certificates. Capital holdings may be transferred outside the company only after they have been offered through the management to other partners or the company itself and they have declined to purchase the offered interests. Further restrictions on transfers may be set out in the bylaws. As a general rule, an S.R.L. is managed and represented by all its partners. However, the partner's general meeting may entrust the company's management to one or more managers who need not be partners in the S.R.L. or Peruvian citizens. Decisions are determined by a majority of capital contributions.

The S.R.L. is subject to registration procedures, reporting and accounting requirements similar to those for the S.A. The minimum number of owners is two, the maximum 20, whose liability is limited to their capital contributions. At least 25% of each participant's contribution to capital must be paid in upon founding. The S.R.L.'s capital is divided into and represented by participating interests which cannot be denominated shares and which are not freely negotiable certificates. Capital holdings may be transferred outside the company only after they have been offered through the management to other partners or the company itself and they have declined to purchase the offered interests. Further restrictions on transfers may be set out in the bylaws. As a general rule, an S.R.L. is managed and represented by all its partners. However, the partner's general meeting may entrust the company's management to one or more managers who need not be partners in the S.R.L. or Peruvian citizens. Decisions are determined by a majority of capital contributions.

The main characteristics of the S.R.L. of entity are:

Limited liability	Partners are not personally liable for the corporation's liabilities.
Centralized management	Partners general meeting and one or more managers (no board of directors is required).
Transfer of interest	Transfer of partners' interest to third parties is subject to approval by the existing partners and must be registered in the public register.
Continuity	Death, illness, bankruptcy, retirement or resignation of any partner does not cause the dissolution of the entity.

E. Establishing a branch

Procedures for organizing a branch in Peru are similar to the procedures applicable to organizing corporations or limited liability companies. It takes between two to three weeks to register a branch once the necessary documents have been submitted to the Peruvian notary. These include copies of the parent firm's corporate charter and bylaws, minutes of the shareholders agreement to set up a branch in Peru, certification of the branch's address, assigned capital and line of business, notifications of the appointment and powers of a legal representative in Peru; and a Peruvian consul's certification that the parent company is duly constituted in the country of origin and entitled to set up a branch in a foreign country.

4.2

Customs duties

a. Rates and Tax bases

The applicable customs duties and taxes are summarized below:

Tax	Rate	Tax bases
Custom duties*	0%, 6% and 11%	Customs Value**
VAT	18%	Customs Value + customs duties

* Customs duties rates depend on the kind of items imported. Capital goods are generally subject to a 0% rate.

** The World Trade Organization (WTO) rules are applicable to arrive at customs value.

b. International Trade Agreements

Peru's development strategy is based on an economy opened to the world and competitive in its export offer. It has been a successful strategy that has permitted the country to consolidate its foreign trade as an instrument for economic development and the reduction of poverty.

International trade negotiations, which have benefited from rigorous macroeconomic management and its consequent stability, have allowed the Peruvian economy to gradually tackle and reduce its external vulnerability in times of crisis such as in the current international situation. In recent years, Peru has negotiated Free Trade Agreements (FTA) with large and medium-sized markets.

As of 2017, 89% of Peru's exports are covered by Free Trade Agreements (FTAs) currently in force. This enables Peruvian products to enter, subject to the rules of origin of each trade agreement, under preferential conditions to over 55 countries, including the United States, China, Canada, Japan, South Korea, Thailand, Singapore and the member countries of the European Union, MERCOSUR, among others.

This market openness and the trade agreements that Peru has signed have permitted an increase in the number of exported products and exporting companies, particularly in non-traditional exports. Despite the fact that exports of traditional products still represent 73% of the country's total exports, it is clear that the trade agreements have allowed the country to diversify its offer of non-traditional goods.

Additionally, these trade agreements are a valuable instrument for attracting direct foreign investment and boosting increased productivity in companies, as well as the transfer of technology through the lower cost of imports of capital goods and quality inputs. Trade agreements provide an incentive to the processes of convergence of international standards, which has enabled more Peruvian companies to improve their management and logistics practices.

c. Other considerations

Mining companies are not exempt from import duties, but under certain circumstances can benefit from temporary import privileges that have the effect of differing duties. The customs legislation allows the temporary import, for an 18-month period of certain capital goods without the payment of the customs duties and import taxes (e.g. machinery and equipment). For these purposes, it is necessary to grant a guarantee for the unpaid taxes (and compensatory interest) and the referred goods must be re-exported before the end of the aforementioned term.

This regime will be applicable to the extent that the goods are identifiable and destined to specific purpose in a specific location. They also need to be re-exported within a specified period of time without having undergone any change except normal depreciation arising from their use.

4.3

Labor legislation

a. Job stability

In accordance with the Constitution, employees are protected against arbitrary dismissal.

This right, called “job stability”, is granted to employees who work for the same employer for more than four hours per day in average, after a three-month trial period. Once this period is completed, the employees are regarded as permanent and can only be dismissed under circumstances concerned with their behavior at work or ability to carry out their duties.

Employers may enter into employment contracts for an undetermined period of time or for fixed terms. Temporary or fixed term contracts are expressly foreseen by Law and are basically allowed for cases such as business expansion, production increments, temporary activities, extraordinary circumstances and seasonal activities. These contracts must be entered into in writing and communicated to the labor authority.

Workers on permanent contracts are entitled to mandatory severance payments if they are dismissed without cause. In Peru, the current mandatory severance pay (a key component in ensuring job stability) is set at 1.5 monthly salaries for each year of service. Workers under fixed term contracts are also legally entitled to a severance pay, equivalent to 1.5 monthly salaries for each month that remains pending to complete the term of the contract. In any case, the maximum severance payment is twelve salaries. Alternatively, the employee can demand the restitution to the same job he had. The law allows collective dismissals under certain circumstances such as acts of God or force majeure, financial or technical streamlining, dissolution, bankruptcy or operating downsizing without having to grant the severance payment.

b. Employees' benefits

Employers are required to provide the following benefits for employees:

Family allowance equivalent to PEN 93.00

- One month paid vacation per year
- One month salary bonus in July and one in December
- One month salary per year (approximately) as severance indemnity which should be deposited in advance with a bank elected by the employee. Deposits are regarded as final payments of the accrued liability
- Profit sharing in cash, which is calculated on the employer's taxable income and distributed among the employees. The rates are 5%, 8% and 10% depending on the employer's activity (8% for mining). This benefit does not apply to companies employing less than 20 individuals.
- Life insurance from the beginning of the labor relationship
- All these benefits are deductible for income tax purposes

Employers can negotiate with workers earning a monthly salary higher than 2 tax units (PEN 8,600 in 2020) a total annual compensation, including all the benefits described above, except for the profit sharing.

C. Expatriates

Expatriates working in Peru and foreign corporations carrying out activities in Peru are subject to Peruvian labor laws. As a general rule, foreign employees should not exceed 20% of total personnel. Additionally, wages paid to foreign employees should not exceed 30% of total payroll cost. Such limits can be waived for professionals and specialized technicians or management personnel of a new entrepreneurial activity or in case of a business reconversion.

No restrictions apply to foreign individuals working in Peru with Peruvian immigrant visa, individuals married to Peruvians or having Peruvian children, parents or siblings and foreign investors with a permanent investment in Peru of at least 5 tax units (PEN 21.500 in 2020).

Expatriate employees should register their employment contract with the labor authorities and obtain a visa that allows them to work. No additional work permit is needed.

d. Immigration

Foreigners can enter Peru under the following migratory qualifications:

Visa	Rate	Tax bases
Tourist visa	Temporal	This visa does not allow to perform paid activities.
Business visa	Temporal	Applicable to foreigners who will perform business, legal or similar activities (not remunerated in Peru) and technical assistance (short periods). This visa allows the assignee to sign contracts and/or promote exchange. Business visa is granted up to a maximum of 183 days and could be issued for single or multiple entries. Application should be filed at a Peruvian Consulate abroad. However Peru has signed some agreements that allows some nationalities to get the visa at the Airport.
Work visa	Resident or Temporal	Applicable to expatriates that will perform his activities in Peru subordinated to a Peruvian Company. In this context, the salary must be register in local payroll. A labor contract will necessary and can be range from 1 to 3 years and can be renewed for similar periods. This visa can be temporal (work contract for less than one year) or resident (work contract for 1 year or more. This visa is also applicable to expatriate who will perform activities as an independent. In this case, the expatriate will need to have a Peruvian tax ID and need to submit a civil contract before the migratory office to grant the visa.
Designated employee visa	Temporal Resident	Applicable to assignees employed by a foreign company who will perform highly specialized technical assistance in Peru. A service agreement must be signed between the foreign and the local company specifying the technical assistance required from the assignees. The designated worker visa allows the foreigner to perform specific activities during his stay in Peru while maintaining the employment relationship with the foreign company. This visa can be temporal less than 1 year or resident 1 year or more
Investement	Resident	Investment.
Immigrant	Resident	No restrictions.

As a general rule, income obtained for personal work or civil, commercial or any other type of business carried out within the Peruvian territory is considered to be Peruvian source income. However, non-resident individuals entering the country temporarily to perform the following activities are not taxed for revenues obtained in their home country, since they are not considered as Peruvian source income:

- Acts that precede a foreign investment or any other business;
- Supervision or control of an investment or business, (i.e. gathering data or information, meeting public or private sector personnel, etc.);
- Hiring local personnel; and,
- Signing agreements or similar documents.

Any other amount an expatriate receives in cash or in kind, as a compensation for work carried out within Peru, is considered as Peruvian source income and, consequently, will be taxable.



4.4

Accounting standards

a. Public Issuers

Entities under the supervision of the Superintendent of Stock Markets (SMV by its acronyms in Spanish), except for financial institutions which are under the supervision of Superintendent of Banks and Insurances, must prepare and file its financial statements using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

b. Private entities

The Peruvian Business Corporation Law establishes that the financial statements of companies incorporated in Peru must follow the Peruvian GAAP and other legal provisions on the matter. The Peruvian Accounting Standards Board has established that Peruvian GAAP is equivalent to the accounting standards as issued by the IASB, duly approved by the Peruvian Accounting Standards Board. Supplementary, companies in Peru can use US GAAP by analogy.

Certain IFRS internationally in force are not immediately used in Peru since the Peruvian Accounting Standards Board takes some time in studying and introducing these standards into Peru.

c. IFRS for mining entities

Although the following is not a comprehensive list of the issues in mining entities, it should contribute to the understanding of the main accounting topics affecting the financial statements of the mining entities:

► Inventories

Critical spare parts are to be classified as property, plant and equipment and not as inventories. These items are subject to depreciation.

► Exploration and evaluation costs

There is diversity in acceptable accounting treatments. Some entities capitalize exploration and evaluation costs, while others record as expenses when incurred.

► Development costs

Costs incurred to develop a property, including additional costs to delineate the ore body and remove impurities it contains, are capitalized. These costs are amortized when production begins, on the units of production method over the expected useful life of the ore body.

► Stripping costs

- As part of the mining operations, the entities incur waste removal costs (stripping costs) during the development and production phases. Stripping costs incurred in the development phase of a mine, before the production phase commences (development stripping), are capitalized as part of the cost of constructing the mine and subsequently amortized over its useful life using units of production method. The capitalization of development stripping costs ceases when mine starts production.
- Stripping costs incurred during the production phase (production stripping costs) are generally considered to create two benefits, being either the production of inventory or improved access to the ore mined in the future. Where the benefits are realized in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realized in the form of improved access to ore to be mined in the future, the costs are recognized as a non-current asset, referred to as a stripping activity asset. This asset is subsequently depreciated using the units of

production method over the expected useful life of the component identified of the ore body that has been made more accessible to the activity.

► Impairment of long-lived assets

- Entities must assess, at each reporting date, whether there is an indication that an asset may be impaired. If an indication exists, or when annual impairment testing for an asset is required, the entities estimate the recoverable amount of the cash generating unit (CGU). The recoverable amount is the higher of the fair value less costs of disposal and the value in use of the CGU.
- When the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount.
- IFRS contains specific rules for the calculation of the value in use (discounted cash flows) related to key assumptions as prices, discount rate, exchange rates and capital expenditures.
- IFRS requires the reversal of impairment losses recorded in prior years for assets subject to depreciation and amortization.
- IFRS requires the performance of an annual impairment test for assets not subject to depreciation and amortization (for example, goodwill), independently of the existence or not of impairment indicators.

► Depreciation of property, plant and equipment

- It is required to depreciate the assets using a components approach.
- There are potential risks in connection with the accounting treatment of major maintenances.

- Companies need to consider the use of the units-of-production method to depreciate/ amortize the assets used in the mine site, instead of using the straight-line method.
- IFRS need to consider the estimation of the residual value of the fixed asset in order to determine the depreciable amount.
- The residual values, useful lives and methods of depreciation must be reviewed at year-end. Any resulting impact is adjusted prospectively.

► Functional currency

Most of the mining entities keep their accounting records in US dollars, which is the functional and presentation currency.

► Decommissioning liabilities

- When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the change in present value based on a risk-free rate. In addition, the capitalized cost is depreciated and/or amortized based on the useful life of the asset.
- Changes in the estimated timing of rehabilitation, changes to the estimated future costs or changes in the risk-free rate are dealt with prospectively by recognizing an adjustment to the rehabilitation liability and a corresponding adjustment to the related asset. Any reduction in the rehabilitation liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of the asset. If it does, any excess over the carrying amount is taken immediately in the statement of profit or loss.

- For closed mines, changes to estimated costs or risk-free rate are recognized immediately in the statement of profit or loss.

► Revenues

Revenue from sale of concentrates and metals is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

- Contract terms for the sale of metal in concentrate to customers allow for a price adjustment based on final assay results of the metal in concentrate by the customer to determine the final content. These are referred to as provisional pricing arrangements and are such that the selling price for metal in concentrate is based on prevailing spot prices on a specified future date after shipment to the customer (the quotation period). Adjustments to the sales price occurs based on movements in quoted market prices up to the date of final settlement.
- Sales contracts for metal in concentrate that have provisional pricing features are considered to contain an embedded derivative, which is required to be separated from the host contract for accounting purposes. The host contract is the sale of metals in concentrate, and the embedded derivative is the forward contract for which the provisional sale is subsequently adjusted with final liquidations. The embedded derivative is originated by the metals prices since the date of issuance of the provisional liquidation until the date of issuance of the final settlement.

- The embedded derivative, which does not qualify for hedge accounting, is initially recognized at fair value with subsequent changes in the fair value recognized in the statements of profit or loss until final settlement. Changes in fair value over the quotation period and up until final settlement are estimated by reference to forward market prices.

► Financing costs

- IFRS requires an entity to capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognize other borrowing costs as an expense in the period in which it incurs them.
- There may be difficulties to determine the borrowing costs to be capitalized, specifically the exchange difference that is regarded as an adjustment to interest costs.



5

Appendix



5.1

Mining sector regulators and stakeholders

| Regulators

- ▶ **General Bureau of Environmental Health - DIGESA**
(www.digesa.sld.pe)
This is the technical-regulatory body in aspects related to basic sanitation, occupational health, hygienic food, zoonosis and environmental protection. It issues regulations and assesses environmental health processes in the sector. It is an entity under the Ministry of Health.
- ▶ **General Bureau of Mining Environmental Matters - DGAAM**
(www.minem.gob.pe)
This is the technical-regulatory body responsible for proposing and assessing the Mining Sector's environmental policy, proposing laws or issuing the necessary rules. It also focuses on promoting environmental protection activities in mining activities.
- ▶ **General Mining Bureau - DGM**
(www.minem.gob.pe)
This is the MINEM Mining Line Unit responsible for ruling and promoting activities to assure the rational use of mining resources in harmony with the environment.
- ▶ **Geological, Mining and Metallurgical Institute - INGEMMET**
(www.ingemmet.gob.pe)
This is the public agency responsible for granting the titles to mining concessions, administrating the national mining register and processing, administrating and issuing geo-scientific information on the national territory in order to promote investment in Peru.
- ▶ **Hydric Resources Intendance of the National Institute of Natural Resources - INRENA's IRH**
(www.inrena.gob.pe)
This is the highest technical-regulatory authority responsible for promoting, overseeing and controlling the policies, plans, programs, projects and rules on the sustainable use of hydric resources nationwide. It is part of the National Institute of Natural Resources (INRENA).
- ▶ **Mining Council**
(www.minem.gob.pe)
Highest-level administrative court of last resort over all mining matters that are subject to resolutions by agencies under the Ministry of Energy and Mines (DGM, DGAAM, INGEMMET, and others).
- ▶ **Ministry of Agriculture - MINAG**
(www.minag.gob.pe)
This is the entity that promotes the development of organized agrarian producers in productive chains, in order to achieve an agriculture that is fully developed in terms of economic, social and environmental sustainability.
- ▶ **Ministry of Energy and Mines - MINEM**
(www.minem.gob.pe)
This is the central and governing body for the Energy and Mining Sector, a part of the Executive Branch. Its purpose is to formulate and assess national policy in matters of sustainable development in mining-power activities. It is the governing authority in environmental matters in reference to mining-energy activities.

► **Ministry of Labor and Employment Promotion - MTPE**

(www.mintra.gob.pe)

This is the body governing labor in Peru, with all powers necessary to lead the implementation of policies and programs for generating and improving employment, and also responsible for enforcement of legislation for labor matters.

► **National Environmental Council - CONAM**
(www.conam.gob.pe)

This is the nation's environmental authority. Its purpose is planning, promoting, coordinating, controlling and safeguarding the nation's environment and natural heritage. It sets the balance among socio-economic development, the sustainable use of natural resources and preservation of the environment.

► **National Superintendency of Tax Administration - SUNAT**

(www.sunat.gob.pe)

A decentralized public entity in the Economy and Finance Sector that enjoys economic, administrative, functional, technical and financial autonomy. It is the main tax-collecting agency in the Peruvian economy.

► **Presidency of the Cabinet - PCM**
(www.pcm.gob.pe)

This is the technical-administrative body covered by the Executive Law; its highest authority is the President of the Cabinet. It coordinates and conducts follow-up on the Executive's multi-sector policies and programs, coordinates actions with Congress and independent constitutional bodies, among others.

► **Supervisory Body of Private Investment in Energy and Mines - OSINERGMIN**

(www.osinergmin.gob.pe)

This is the regulatory, supervisory body that regulates, enforces and oversees the activities undertaken by internal public- or private-law legal entities and individuals in the electricity, hydrocarbons and mining sub-sectors.

► **Technical Board of Irrigation District - ATDR**

Operational, functional and planning units oriented towards the conservation and development of the hydric resources within a hydrographic river basin. Their function is to administer waters for agricultural and non-agricultural uses, in accordance with approved cultivation and irrigation plans.



| Stakeholders

- ▶ **Sociedad Nacional de Minería, Petróleo y Energía - SNMPE**
(www.snmpe.org.pe)

Non-profit organization, groups the companies related to the mining, oil & gas and energetic activities in the country.

| PROINVERSIÓN

ProInversión is the Peruvian investment agency in charge of the promotion of business opportunities with high growth and profitability expectation in Peru. Its purpose is to promote investment unrelated to the Peruvian government by private parties in order to boost Peru's competitiveness and development and to improve the well being of the population.

Likewise, its vision is to be considered by investors and by the population as an efficient and strategic ally for the development of Peru's investments.

ProInversión provides information to potential investors regarding the incorporation of a legal entity, identifying investment by industries, investment projects (granted and pending) among other.

▶ **Contacts:**

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5.2

Our strength in the mining and metals sector

EY's mining and metals professionals combine technical capabilities with a thorough understanding of the industry's operating processes, strategic and operating risks, growth drivers, regulatory considerations, and market dynamics.

We use our wide experience of working with the world's largest mining and metals companies to help you to address your key business issues. This might involve helping you to overcome current sector issues such as rising costs where we can help you to streamline operational and business processes, and improve productivity on key profit drivers.

In this environment of increased sector consolidation, we can assist you with your divestment strategies, to ensure that you realize full value at exit. If you are looking to expand your operations to new regions, you can draw on our deep understanding of how to manage operational risks—both political and otherwise.

EY has a number of multi-service line solutions to help our clients meet these challenges.

Our services

EY has a global focus on mining and metals, with over 14,000 specialist global professionals including mining engineers, mineral process specialists and geologists. Our global team is closely networked and share industry and technical knowledge to provide our clients with a seamless global service. Some of our specialist mining & metals based services include:

- ▶ Sustainability and climate change
 - Providing an extensive range of services in areas such as sustainability reporting and assurance, sustainability strategy, environmental and social risk management, greenhouse gas emissions advisory, renewable energy, social and financial impact, legal advice and compliance assessment and climate change management.
- ▶ Mining advisory
 - Improving supply chain responsiveness to demand volatility; delivering core business re-engineering (e.g. merging a number of mines into one management structure), and delivering mine-based projects aimed at reducing costs or increasing production.
- ▶ Mergers and acquisitions advisory
 - Mergers and acquisitions, at either the holding company or asset level, require specific knowledge and skills in order to complete transactions. The knowledge and skills required relate to the regulatory environment, including the rules and regulations of each country's stock exchange, accounting, legal, structuring and taxation disciplines in addition to an understanding of transaction value-drivers.



- ▶ Valuation and business modelling (V&BM)
Providing a range of services to companies in the mining sector including valuations for purchase price allocation/acquisition accounting, tax planning, finance and stamp duty purposes and has specialists with extensive skills ranging from valuations of businesses and intangible assets to specialised mining capital equipment and real estate.

- ▶ Valuation and business modelling (V&BM) (continuation)
Our valuations personnel have experience in the extraction, beneficiation, refining, smelting and processing of base metals, bauxite, coal, diamonds, gold, iron ore, limestone, mineral sands, nickel, salt, etc. Further V&BM has deep expertise in model builds and reviews and is able to construct or review life of mine cash flow models as part of an acquisition strategy.

- ▶ Project finance advisory
Advising on the development, optimisation and implementation of finance plans covering the full range of project financing options for resources projects; non and limited recourse debt and tax effective leasing structures for coal mines, gold mines, copper mines, mineral sands producers and other resources project as well as a number of associated infrastructure projects such as preparation plants, conveyor systems and gas pipelines.

- ▶ Transactions advisory
Our global transaction capability covers over 80 countries and comprises over 5,000 professionals. These transaction professionals work across many elements of the transaction life cycle in the deal critical areas of financial due diligence, tax due diligence, legal due diligence and structuring, valuation and business modelling and transaction integration.

- ▶ Transaction integration
Providing commercial and operational due diligence, integration planning and methodology development, synergy assessment, and integration program management; corporate strategy advice on market opportunities and areas to exploit along the mining value chain, as well as practical operational advice in areas such as overhead and capital expenditure cost reduction, process efficiency, supply chain and procurement, and in functional areas such as finance and human resources.

Our knowledge

How the firm's staff are kept abreast of industry developments.

To ensure our teams are abreast with the hot issues, we provide all our people with regular monthly internal training focusing on the industry, as well as subscribing to a number of specialist resources such as Mining Journal; McCloskey's Coal, Raw Materials Group, Infomine and MiningNews.net.

We have a Global Mining & Metals Community Home Space, which is a portal for our professionals to access all of our global sector content including best practice deliverables, industry insights and thought leadership.

On a monthly basis, our global network receives a monthly hot topics email, Mining Discovery.

On a commodity by commodity basis, to help account teams keep abreast of sector developments, the Mining & Metals center has developed a number of commodity bulletins, the Briefcase series. These briefcases cover a number of regular topics including sector transactions; production disruptions; social license to operate; legal and regulatory issues.



DECLARATION

This work is limited in scope. This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional guidance. It is also not intended to be tax or legal advice and hence cannot be relied upon for any such purpose.

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5.3

EY thought leadership



Top 10 business risks and opportunities - 2020

For the third year in a row, there have been significant fluctuations in the risks our clients and partners are discussing with us, along with four new risks coming into the top 10. We think this highlights the ongoing disruption in the sector. This disruption has reminded us that there are always opportunities in time of change, hence we have amended the title of our annual report to reflect this thinking.



In the transition to a new energy world, will flexibility be your greatest asset?

The global energy sector is on the brink of a consumer-led, technology-enabled transition, and the balance of power is shifting fast. Business models, systems and controls will be disrupted. Managing such significant, interdependent changes will demand flexibility from energy companies as they adjust to the new normal.



Is riding the digital wave key to wiping out your competition?

This paper is intended to explore in more detail a pragmatic pathway for transformation, and specifically to describe a structured “wave” approach, which can start to integrate different digital initiatives into a more cohesive whole. The questions “What is the appropriate digital end-state to target for your organization?” and “What are the next steps based on the nature of your business and your digital maturity?” will be discussed throughout this study.



Mining and metals companies use M&A to accelerate growth agendas

Despite concerns on environment-related policies and political uncertainty, demand for mineral growth from decarbonization will be a key growth driver for the mining and metals sector. This paper explains how technology, convergence and new markets are key to M&A activity in this sector.

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EY is the global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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