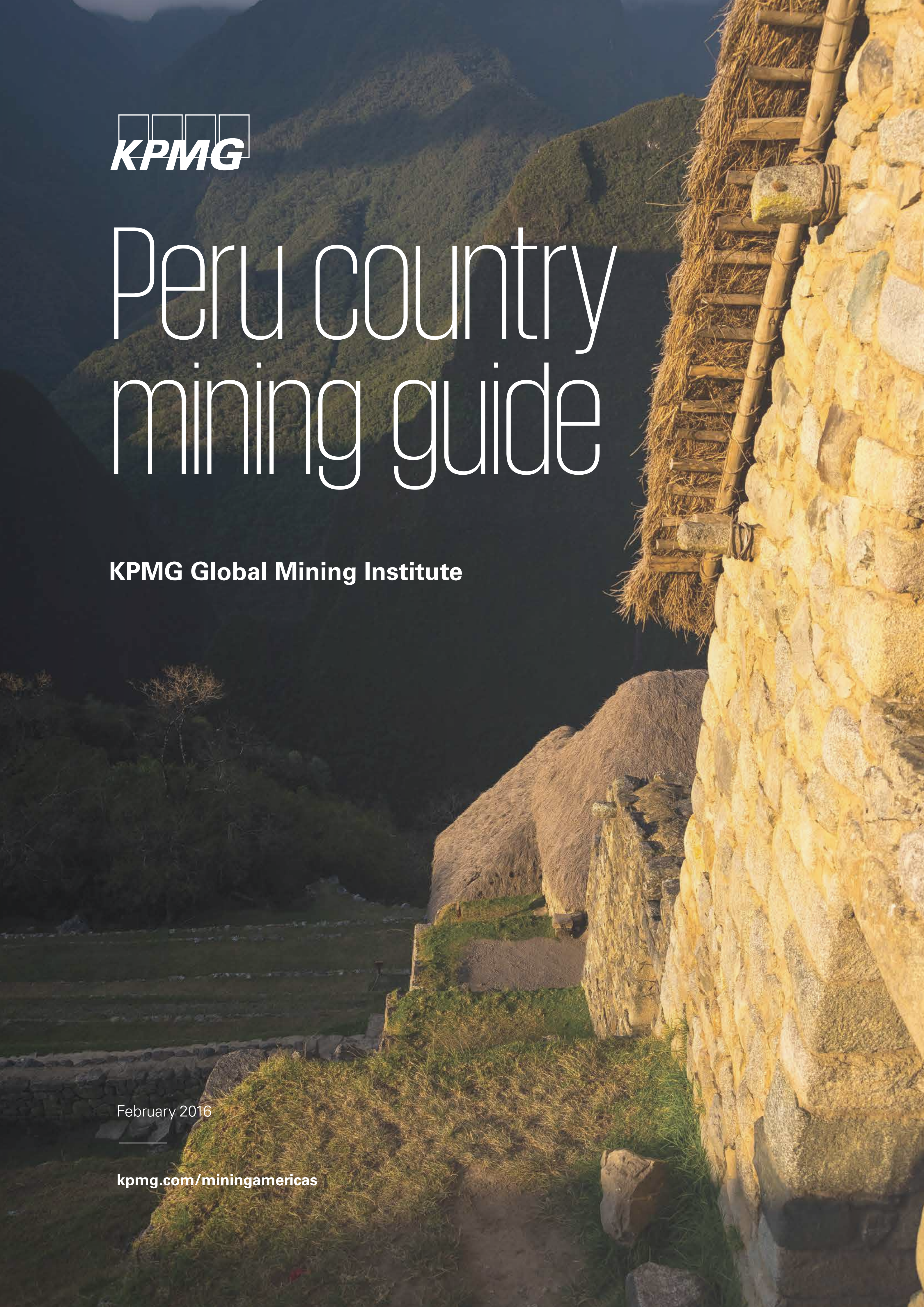

KPMG

Peru country mining guide

KPMG Global Mining Institute

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kpmg.com/miningamericas

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Executive summary

Peru is the world's third largest producer of copper, after Chile and China, and holds the third-largest copper reserves. Peru is also the third largest producer of silver in the world, and the sixth largest producer of gold. The country also has significant reserves of coal, iron ore, silver, tin, sulfur and zinc. Mineral exports account for approximately 60 percent of Peru's total shipments abroad.

Given its strong mining potential, Peru has been attracting the world's major mining companies to expand activities in the country. According to the Ministry of Energy and Mines (MINEM), copper production in Peru increased by 64 percent from 113,700 tonnes in December 2014 to 186,450 tonnes in December 2015. The Mining and Energy Minister, Rosa Ortiz, estimated that the increased production from the expansions of the Toromocho, Constancia and Cerro Verde mines would enable the country to produce an estimated 2.5 million tonnes of copper in 2016. Foreign direct investment (FDI) has been entering the country, of which the Mining sector contributes over 24 percent. As of October 2015, mining investment reached US$6.5 billion and is expected to reach US$7.5 billion by the end of 2015. Since investment activity in Peru has been driven by the Private sector in recent years, the country is displaying a growing commitment to become a good place for doing business, ranking second in the Latin American region in World Bank's *Doing Business 2016*.

A long way to go

Peru currently ranks in the middle of World Bank's ease of doing business rankings. The Humala government is willing to introduce more structural reforms in the country to bolster the economic growth of Peru. Ground transportation and electric power infrastructure is expensive and difficult to build due to the presence of the Andes Mountains and the Amazon jungle. The country's environment is sensitive with its citizens being even more sensitive toward protecting it.

Peru

3rd

Peru is the world's **third largest producer of copper and silver** in the world

6th

The **sixth largest producer** of **gold**

20th

Peru is the **20th largest country in the world** and the **third largest in South America**

The country **ranked fifth in the EIU regional ranking**, which included 12 countries from the South American region.

The Mining industry in Peru is primarily regulated by mining laws and regulations enacted by Peruvian Congress and the Executive branch of the government. The General Mining Law was approved in 1992 and regulates nine different mining activities. MINEM is the principal central government body in Peru with the authority to regulate mining activities within Peru. In Peru, nationals and foreigners are subject to the same set of rules and regulations. The environmental certifications within the country are granted in accordance with the impact that the project is expected to have on the environment. The government passed a new law in July 2014 to boost investment in the Mining sector.

A tax predictable regime

Financially, it appears that Peru expects the Mining sector to contribute generously to the national treasury. The three main taxes and fees imposed on mining companies are corporate income tax, royalties and concession rights. However, mining companies are also required to pay a special mining tax and a special mining lien. In September 2011, an additional charge was levied on companies with stability agreements that is aimed at increasing tax revenues from mining companies. Taxation will clearly be an issue for mining companies seeking to develop Peruvian projects in the future.

The recent spike in mining activity is putting pressure on Peru's existing infrastructure and increasing the demand for new capacity. The government is responding by making infrastructure development a national priority. In May 2015, the government announced plans to finance US$1113 billion worth of infrastructure projects in partnership with private companies to reduce the infrastructure gap of between US$85 billion and US$106 billion.

Labor shortages

Labor is abundant and trainable in Peru, although there are shortages of highly skilled workers in some fields due to a decline in the number of employees operating in the Mining industry. In February 2015, approximately 190,819 people were employed in the industry, a fall from 208,382 in 2013. In order to fill that gap, the sector is planning to open some employment opportunities to foreign professionals and technicians. Peruvian law currently stipulates that not more than 20 percent of a company's total workforce can be foreigners.

Country snapshot

Peru[1, 2]	
Geography	The Republic of Peru, commonly known as Peru, is the 20th largest country in the world and the third largest in South America, after Brazil and Argentina. — Located in Western South America (10o00S, 76o00W), between Chile and Ecuador, the country spreads over 1,285,216 square kilometers
Climate	Peru has three main climatic zones: the tropical Amazon jungle to the east; the arid coastal desert to the west; and the Andes Mountains and high plateau in the middle of the country. The climate of the Andes Mountains varies from temperate to frigid.[3]
Population	With an estimated population of 30.44 million (July 2015), Peru is the 44th most populated country in the world. The country's population is relatively young, with a median age of 27.3 years.
Currency	The official currency of Peru is the Sol (S/). Peru has had four main monetary systems since 1897. S/ is the currency introduced in 1991 when the country was experiencing hyperinflation.[4] Average exchange rate in 2015 was: — S/ 3.1390 : US$1 — S/ 3.4805 : EUR1[5]

1 CIA: The World Factbook, Accessed on January 28, 2016
2 Peru Country Profile, EIU, Accessed on January 28, 2016
3 Peru Weather, Lonely Planet
4 Peruvian Money – Peruvian Currency
5 Oanda.com, Accessed on January 28, 2016

EIU (Economist Intelligence Unit) rankings: ease of doing business

Peru ranked 48th among the 82 countries covered under the EIU business environment ranking for 2010–2014. The country ranked fifth in the regional ranking, which included 12 countries from the South American region.

Over 2015–2019, the business environment is expected to improve due to improvements in infrastructure and financing, according to EIU forecasts. Peru's openness to foreign trade is one of the favorable attributes of the country as a business location. The country has secured multiple free-trade agreements (FTAs) and has a stable macroeconomic environment. The business-friendly approach that existed within the historical period (2010–2014) will remain in place irrespective of the government that succeeds Mr. Humala (who himself took a highly orthodox approach).

Peru's infrastructure remains weak; however, it is expected to improve markedly over the long-term. Furthermore, the country's labor market is expected to remain the weakest aspect of the business environment.[6]

Value of Index[a]		Global Rank[b]		Regional Rank[c]	
2010–2014	2015–2019	2010–2014	2015–2019	2010–2014	2015–2019
6.09	6.42	48	48	5	5

Note a. Out of ten
Note b. Out of 82 countries.
Note c. Out of 12 countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Mexico, Peru and Venezuela.

Source: Economist Intelligence Unit

[6] Peru Country Profile, EIU, Accessed on January 28, 2016

Type of government

Peru is a constitutional republic. The president is directly elected for a five-year term and may not be re-elected to a second consecutive term. As the head of the state and the government, the president appoints a council of ministers.

Peru's Congress comprises 130 members, and can be dissolved once during a presidential term. Peru's 25 regions and 1 province constitute its administrative divisions under civil law. The provincial capitals have Courts of first instance and the Supreme Court is situated in Lima. The judges of Supreme Court are proposed by the National Council of the Judiciary or National Judicial Council, nominated by the president, and confirmed by the Congress.[7, 8]

7 CIA: The World Factbook, Accessed on January 28, 2016
8 Peru Country Profile, EIU, Accessed on January 28, 2016

Economy and fiscal policy

Mineral resources are found in the mountainous and coastal areas of Peru with the coastal waters proving excellent fishing grounds. Peru is the world's third largest producer of silver and third largest producer of copper. High prices for Peru's metals and minerals exports persist in the international market, accounting for major growth in the country's economy. The exports of metals and minerals account for approximately 60 percent of the country's total exports. The Peruvian economy is vulnerable to fluctuations in world prices, despite strong macroeconomic performance, due to dependence on minerals and metals exports and imported foodstuffs.

Peru has been one of the fastest growing economies in Latin America over the past decade. Backed by favorable external environment, prudent macroeconomic policies, and structural reforms in different areas, the country achieved an average GDP growth rate of 6.1 percent between 2005 and 2014. In 2010, the first year after the global downturn, Peru's economy grew a remarkable 8.5 percent. Growth started slowing down in 2014 due to adverse external conditions, prompting the country into a challenging phase as it witnessed a corresponding decline in domestic confidence and fewer investments. The Fishing industry has been affected by the adverse weather conditions in the country.

Peru has followed a steady path of fiscal consolidation since it barely avoided bankruptcy in 1998, by signing an agreement with the IMF. The economy's overall stable and strong performance, among the Latin American counterparts, has allowed the government to increase its revenues and, therefore, to balance the budget. Despite the fact that government consumption has expanded faster than the country's GDP during 2004–2014, the Humala administration is committed to fiscal responsibility while simultaneously aiming at promoting social development and productive public investment.

In the first two quarters of 2015, the economy grew by 2.4 percent, which included an expansion of 6.5 percent in the third quarter, led by strong domestic demand. Peru's GDP growth for 2015 is forecast at 3 percent and 2016 forecast at 4.7 percent by Peru's Finance Minister Alonso Segura in

the budget proposal submitted to the government in September 2015. International Monetary Fund (IMF) projected the country's 2015 growth at just 2.4 percent, even worse than the 3.8 percent growth forecast it issued in April 2015. The country maintains its leading position among the countries of Latin America, even with a downward revision of its growth projections.

Peru's government aims to simultaneously jump-start the struggling Mining sector while also investing in other sectors to deter the country's economy from commodity exports. On one hand, it is promoting new mining projects that will increase copper production. However, it is also focusing on education and infrastructure, while trying to cut red tape and bring more workers into the formal sector to increase productivity. According to the National Bureau for Statistics (INEI), 74.3 percent of the labor force in 2014 was informal.

According to the World Bank, the economy growth in Peru is expected to progressively recover to an average rate of 4 percent during 2016–2017, mainly driven by the large mining projects that are expected to begin over 2015 and 2016. Additionally, the country is expected to implement a countercyclical fiscal policy to support aggregate demand. Moreover, with the ongoing application of structural reforms within the country, the confidence of private investors will be assured, ensuring continued investment in the country's economy.

EIU expects that Peru will remain an attractive destination with respect to the business environment due to the continuity of its orthodox economic policies. The Humala government is willing to introduce more structural reforms in the country, which will bolster the growth of the economy. Despite the increase in funding on public education and healthcare systems, they are expected to continue to underperform. During 2016–2020, investments and trade flows will remain strong because of the bilateral free trade agreements with Peru's main trading partners — the US, China, and the EU and regional initiatives within Latin America. EIU has forecast the country's economic growth during 2016–2020 at an average of 4.3 percent. [9,10,11,12,13,14]

[9] CIA: The World Factbook, Accessed on January 28, 2016
[10] Peru Country Profile, EIU, Accessed on January 28, 2016
[11] Peru shifts GDP forecast down, increases budget deficit, September 1, 2015
[12] Peru Overview, The World Bank, Accessed on January 28, 2016
[13] Peru's Economic Woes Echo Latin America's, October 9, 2015
[14] Peru Economic Outlook, FocusEconomics, January 19, 2016

Fraser institute rankings

Economic freedom of the world 2015 report[15]

Among the 157 countries covered in the Fraser Institute's Economic Freedom of the World 2015 Report, Peru ranked 41st, with a score of 7.34 on a scale of 10. This annual peer-reviewed report ranks 157 countries around the world, based on their policies that enable 42 different economic measures in the following areas:

— Size of government – expenditures, taxes and enterprises

— Legal structure and security of property rights

— Access to sound money

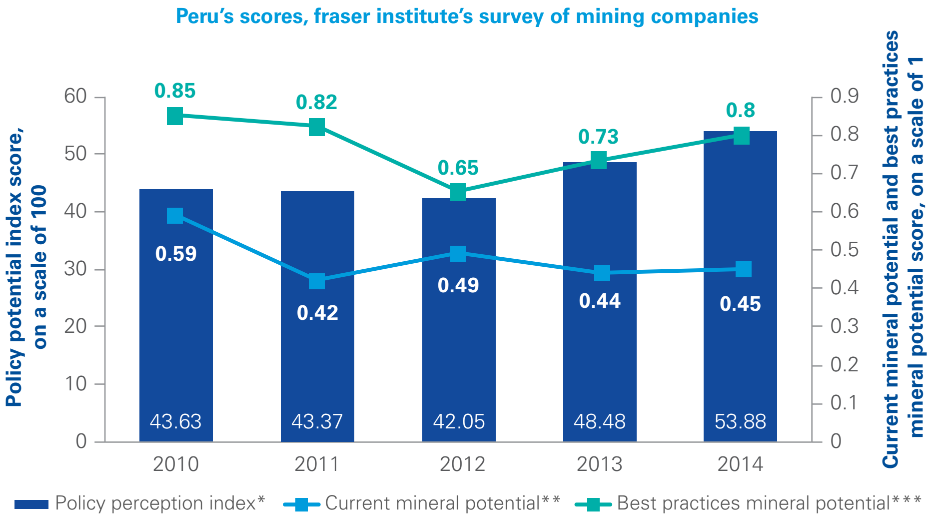
— Freedom to trade internationally

— Regulation of credit, labor and business

Survey of Mining Companies 2014[16]

Peru ranked 52nd on Policy Perception Index by the Fraser Institute's Survey of Mining Companies 2014. The country has slipped down in the rankings on the Current Mineral Potential index, with a ranking of 46 (of 122) in 2014 from a rank of 22 (of 79) in 2010.

Figure 1: Peru's scores, Fraser Institute's Survey of Mining Companies 2014



Note *: The Policy Perception Index is a composite index that measures the effects on exploration of government policies
Note**: The Current Mineral Potential index is based on respondents' answers to the question about whether or not a jurisdiction's mineral potential under the current policy environment encourages or discourages exploration. It assumes current regulations and land use restrictions.
Note***: The Best Practices Mineral Potential Index is based on respondents' answers to the question about mineral potential of jurisdictions, assuming their policies are based on "best practices." It assumes no land use restrictions in place and the industry "best practices".

15 Economic Freedom of the World 2015 Annual Report, Free the World, September 2015
16 Survey of Mining Companies: 2014, Fraser Institute Annual

Regulatory environment

Peru's Mining industry is primarily regulated by mining laws and regulations enacted by Peruvian Congress and the executive branch of government. The General Mining Law was approved in 1992, with the aim of attracting foreign investment in the sector. The law regulates nine different mining activities: reconnaissance; prospecting; exploration; exploitation (mining); general labor; beneficiation; commercialization; mineral transport and mineral storage outside a mining facility. However, since 2000, a number of countervailing laws have been enacted that focus on sustainable development.

The Ministry of Energy and Mines (MINEM), a principal central government body in Peru, has the authority to regulate mining activities within the Peruvian territory. MINEM also grants mining concessions to local or foreign individuals or legal entities, through a specialized body called The Institute of Geology, Mining and Metallurgy (INGEMMET).

INGEMMET issues mining concessions and keeps registers of all issued mining concessions, as well as controlling the payments of the Good Standing Fees and Penalties due every year. It also administers the mining concessions cadaster and conducts geological surveys.

The General Directorate of Mining (DGM), a body of MINEM, grants authorization to start exploration and exploitation projects. It also issues concessions for the following activities regulated under the General Mining Law: general labor, beneficiation and mineral transport.

The Ministry of Energy and Mines (MINEM), a principal central government body in Peru, has the authority to regulate mining activities within the Peruvian territory.

One of the other laws that are applicable to the Mining industry is the Prior Consultation Law, which defines the public participation process that must be conducted before the approval of a project that may have an impact on indigenous people.

In Peru, nationals and foreigners are subject to the same set of rules and regulations concerning the Mining industry.

The Environmental Assessment and Oversight Agency (OEFA), a body of the Ministry of the Environment, is in charge of auditing compliance with environmental regulation of all mining projects and operations.

The General Directorate of Mining Environmental Affairs (DGAAM), a body of MINEM, grants environmental certifications for the Mining sector in Peru. As of July 2015, the Environmental Certification National Service (SENACE), a body of the Ministry of the Environment, grants environmental certifications for projects that require a Detailed Environmental Impact Assessment (EIAd).

The environmental certifications for mining projects in Peru are granted in accordance with the significance of the project. Based on the significance, projects are classified into the following three categories:

— Category I: Projects that do not cause any significant negative environmental impact. Such projects can be certified with the approval of an Environmental Impact Statement (DIA).

— Category II: Projects that cause moderate environmental impacts that can be minimized or eliminated by taking certain precautionary measures. These projects are certified with the approval of a semi-detailed Environmental Impact Assessment (EIAsd).

— Category III: Projects that produce significant negative environmental impacts. Such projects require deeper analysis to review the impacts and propose effective environment management strategies. The projects are certified with the approval of a Detailed Environmental Impact Assessment (EIAd).

In July 2014, Peruvian government passed a new law to boost investment in the Mining sector. The law, signed by President Humala in July 2014, significantly reduces most fines for companies because of environmental damages, forces environmental studies to be done in just 45 days, and allows exploitation of fossil fuel and mining in any newly formed protected areas. Under the new law, the Ministry of Environment no longer has the authority to set standards for air, soil, and water quantity.

The Mining Occupational Health and Safety Regulations govern the health and safety in the Mining industry.

The regulations govern that the concession holders and employers must:

— assume all costs related to occupational health and safety;

— implement the occupational health and safety management system;

— obtain and maintain all related permits; and

— report all mandatory information to the respective government agencies.[17,18]

[17] Peru Mining Law, International Comparative Legal Guides, August 24, 2015

[18] Peru slashes environmental protections to attract more mining investment, Mongabay News, July 23, 2014

Sustainability and environment

Historically, the Mining sector in Peru has been associated with pollution.[19] There have been instances of major protests in the country against the industrial pollution caused by the mining projects, specifically the Tia Maria mining project. Most of these protests have led to suspension of the projects.[20]

On October 31, 2012, Peru's congressional committee on the economy approved the creation of a new oversight institution, known as SENACE (the national environmental certification service), within the Ministry of Environment. The institution comprises representatives of six ministries and is chaired by the Environment Ministry has the principal function of reviewing and approving environmental impact assessments (EIAs) for large-scale investment projects. Previously, the Ministry of Energy and Mines (MINEM) was responsible for both rewarding mining concession agreements and approving EIAs. July 2015 onwards, SENACE was given the authority to grant environmental certifications for projects that require a Detailed Environmental Impact Assessment (EIAd).

Peru is a leading gold producing nation in the world and this has attributed for rampant illegal gold mining in the country. Gold mining in Peru has been responsible for widespread mercury pollution, affecting the entire food chain, including the food ingested by the people living in the country. Gold mining is also responsible for polluting the rivers when sediment is released into the rivers, which affects the aquatic life. Illegal mining in the country has been held accountable for depletion of forest cover in the country.[21] According to the *Monitoring the Andean Amazon Mapping* project, there was a "rapid increase" in deforestation along the Upper Malinowski River from 2013 to 2015, with 85 hectares of forest lost because of mining in the area. This has been predominant despite the strict environmental regulations and agreements in the country.[22]

As of June 2015, illegal operations within the Cajamarca region continue to operate despite several administrative penalties imposed on the mines located in the area. Most of illegal mining operations within Peru continue as they are located in isolated regions and authorities encounter difficulties and hence do not intervene in such regions.[23]

19 Capitalizing on sustainable development in mining, KPMG International, January 2012
20 Peru's mining protests suspended amid evidence of leadership's corruption, June 16, 2015
21 Gold mining ravages Peru, October 28, 2013
22 Grim prospects for sustainable miners in Peru, September 21, 2015
23 Illegal mining in Cajamarca continues despite penalties, June 16, 2015

Taxation

As per World Bank's *Doing Business 2016* report, Peru ranks 50 globally in the ranking among 189 economies on the ease of paying taxes. Peru has made paying taxes easier for companies by creating an advanced online registry with up-to-date information on employees.[24]

The National Superintendence of Customs and Tax Administrations (SUNAT) is the main body responsible for collecting, and managing taxes paid to the central government. Municipal governments are responsible for levying and collecting municipal taxes. The three main taxes and fees imposed on companies operating in the Mining sector include corporate income tax, royalties, and concession rights.

Corporate income tax

The corporate income tax rate in Peru for the fiscal year 2015–2016 is 28 percent. In mid-2014, Peru introduced a series of tax reforms, which aim to reduce the corporate income tax to 26 percent by 2019. The tax rate on dividends is 6.8 percent; and on interest is 4.99 percent under specific conditions otherwise 30 percent. Mining companies pay the standard corporate tax on income. In addition to the corporate income tax, the mining companies pay royalties. [25, 26]

Royalties

Under the revised version of the 2004 Mining Royalties Law, mining companies must pay on a quarterly basis a royalty to the state for exploitation of resources based on operating profit. Under the revised fiscal system, the new royalty is applied to operational profit of the mining companies – at a marginal-increment rate, rising from one percent to 12 percent, depending on operational margin, in 17 separate brackets. The state takes a percentage of the value of the concentrates at prevailing international market prices.

The law also defines the distribution of royalties to the provinces in the following manner:

— Local governments of the districts in which the mining exploitation occurs receive 20 percent of royalties, of which 50 percent goes to the local communities located near the mine.

— The government of the province in which mining takes place receives 20 percent.[27, 28]

[24] Doing Business 2016 Peru, A World Bank Group Flagship Report
[25] Peru reduces corporate income tax but raises dividends taxation, January 21, 2015
[26] Tax in Cross-Border Deals, Latin Lawyer, October 1, 2015
[27] Investment in Peru 2015, KPMG
[28] Peru Mining Law, International Comparative Legal Guides, August 24, 2015

Concession rights

Concession rights are granted by the Peruvian government for mining, exploration, production, refining, and transport of minerals by individuals or companies. The following benefits are offered to companies undertaking mining activities:

- Foreign currency: The Peruvian Constitution establishes equal protection for domestic and foreign investors who may enter into agreements with the government and guarantee free access, possession, and disposal of foreign currency.
- Taxation exemption: Investors who undertake large mining operations may enter into tax law stability agreements with the government for periods of ten and fifteen years. Tax stability would include taxes known as "impuestos." No taxes created subsequently to the date of execution of the stability agreement shall be applicable.

Apart from these taxes, there are two industry-specific taxes levied on the Mining sector by the central government:

- Special Mining Tax (SMT): A tax that is applied as a marginal rate, from 2 percent to 8.4 percent, on operational profit, also in successive brackets for different operational margins.
- Special Mining Lien (SML): Mining companies that have taxation stability agreements previously signed with the government pay this contribution in the form of lien as the marginal rate rising from 4 to 13.2 percent.

SMT and SML charges are assessed by multiplying an effective rate specifically assessed for each charge by the "quarterly operational profits."[29, 30]

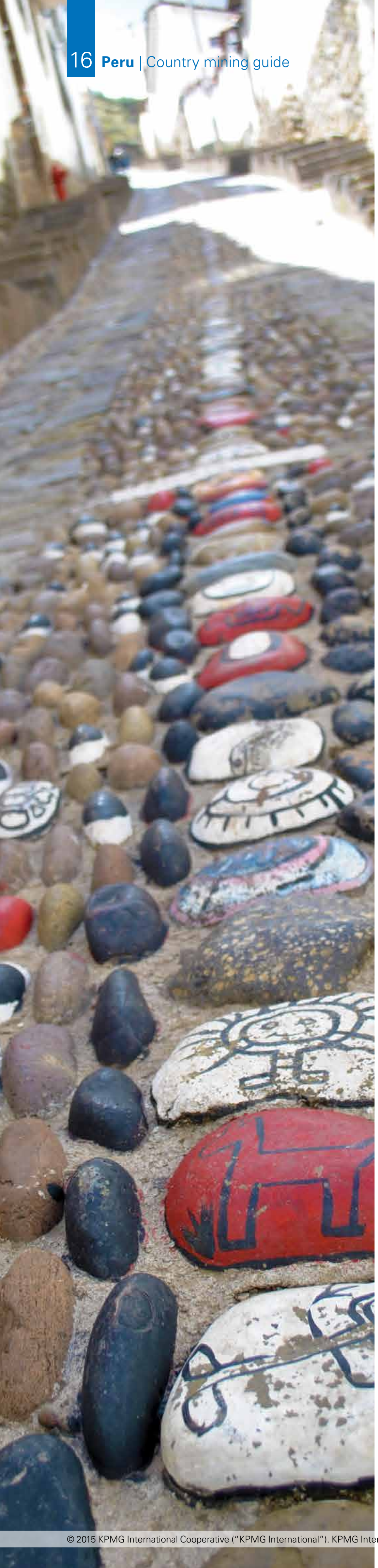
In September 2011, an additional charge was levied on companies with stability agreements, which was known as Special Mining Contribution (SMC), with rates of 4–13.12 percent on quarterly net operating profits.[31]

29 Investment in Peru 2015, KPMG
30 Overview of Peru's Mining Industry, SES Professionals
31 Peru Mining Law, International Comparative Legal Guides, August 24, 2015

Stability agreements

Stability agreements general regime Leg. Decree 662–757	
Beneficiaries	— Investor: Any individual or legal entity (minimum investment of US$ 10 MM) — Investee Company: Any Peruvian Company receiving the investment (minimum investment of US$ 10 MM).
Regime scope	The following guaranties are granted for a period of 10 years: 1. Stability of the Income Tax regime in force at the time of signing the stability agreement.
	a) To the investors: It is guaranteed that the dividends and/or profits agreed or distributed to them will not be charged with an Income Tax higher than that in force at the signing of the stability agreement (current rate: 4.1%). To the investee company: It is guaranteed the stability of the Income Tax regime in force at the time of signing the stability agreement (same tax and same tax basis). The stability is applicable to the profits or losses from all the activities carried out by the company without exceptions.
	b) Application of Income tax rate in force at the time of signing the stability agreement (current rate: 30%).
	c) No benefits of accelerated depreciation.

Stability agreements special regime mining law (Production up to 5000TM/day)	Stability agreements special regime mining law (Production higher than 5000TM/day)
— Any individual or legal entity owner of a mining property receiving a minimum investment of US$ 2MM.	— Any individual or legal entity owner of a mining property receiving a minimum investment of US$ 20MM to start operations or a minimum investment of US$ 50MM to expand operations.
The following guaranties are granted for a period of 10 years: 1. Stability of the tax regime in force at the time of approval of the investment program (tax contributions and charges not include).	The following guaranties are granted for a period of 15 years: 1. Stability of the tax regime in force at the time of approval of the investment program (tax contributions and charges not include).
a) The stability is applicable to all taxes (except to tax contributions and charges) and not only to Income Tax. If during the stability term new taxes were created, these will not be applicable. If stabilized taxes are derogated during the stability term, the referred derogation will be also inapplicable. The stability is applicable only to the profits or losses from mining activities carried out in the properties included in the contract signed with Peruvian Government. In case the beneficiary has other mining properties which are not included in the referred contract, the profits or losses from the activities carried out in those properties have to be registered in different accounts for tax purposes.	a) The stability is applicable to all taxes (except for tax contributions and charges) and not only to Income Tax. If during the stability term new taxes were created, these will not be applicable. If stabilized taxes are derogated during the stability term, the referred derogation will be also inapplicable. The stability is applicable only to the profits or losses from the mining activities carried out in the properties included in the contract signed with Peruvian Government. In case the beneficiary has other mining properties which are not included in the referred contract, the profits or losses from the activities carried out in those properties have to be registered in different accounts for tax purposes.
b) In case of Income Tax, the stabilized rate is equivalent to the rate in force at the time of approval of the investment program increased in 2% (30%+2%: 32%).	b) In case of Income Tax, the stabilized rate is equivalent to the rate in force at the time of approval of the investment program increased in 2% (30%+2%: 32%).
c) No benefits of accelerated depreciation.	c) Accelerated Depreciation. A maximum annual rate depreciation of 20% could be applicable to all fixed assets (including machineries and industrial equipment which are already subject to this rate). In case of real estate properties, the maximum annual rate of depreciation is 5% (the current rate is 3%).



	Stability agreements general regime Leg. Decree 662–757
	d) N/A.
	e) N/A.
	f) There is no legal provision that limit the exemptions, incentives and other tax benefits related to Income Tax according to the terms and conditions of the provision in force at the time of signing the agreement.
	2. Free remittance of dividends and profits. Free sale of mineral products.
	3. Free disposition of currency generated by export operations.
	4. Non-discrimination for foreign currency exchange.
	5. N/A.
	6. Stability of labour contracts regime.
	7. Accounting in foreign currency is not allowed.

Stability agreements special regime mining law (Production up to 5000TM/day)	Stability agreements special regime mining law (Production higher than 5000TM/day)
d) In case of indirect taxes, the stability only guarantees the possibility to place the tax burden on the final consumer.	d) In case of indirect taxes, the stability only guarantees the possibility to place the tax burden on the final consumer.
e) The stability is applicable also to special regimes related to tax refunds, temporary import operations and similar regimes.	e) The stability is applicable also to special regimes related to tax refunds, temporary import operations and similar regimes.
f) In case of exemptions, incentives and other tax benefits related to the stabilized taxes, this stability will be subject to the terms and conditions established by the legal provision in force at the time of signing the agreement.	f) In case of exemptions, incentives and other tax benefits related to the stabilized taxes, this stability will be subject to the terms and conditions established by the legal provision in force at the time of signing the agreement.
2. Free remittance of dividends and profits. Free sale of mineral products.	2. Free remittance of dividends and profits. Free sale of mineral products.
3. Free disposition of currency generated by export operations.	3. Free disposition of currency generated by export operations.
4. Non-discrimination for foreign currency exchange in export operations.	4. Non-discrimination for foreign currency exchange in export operations.
5. Stability of legal mining regime related to administrative rights and obligations applicable to the owner of mining properties, i.e. mining royalties and "derecho de vigencia" (administrative charge paid to Peruvian Government in order to keep the ownership of mining properties). If during the stability term new administrative charges were created or the rates of those which already exist are increased, these changes will not be applicable.	5. Stability of legal mining regime related to administrative rights and obligations applicable to the owner of mining properties, i.e. mining royalties and "derecho de vigencia" (administrative charge paid to Peruvian Government in order to keep the ownership of mining properties). If during the stability term new administrative charges were created or the rates of those which already exist are increased, these changes will not be applicable.
6. N/A.	6. N/A.
7. Accounting in foreign currency is not allowed.	7. Accounting in foreign currency may be requested. If this is the case it will only allowed for minimum periods of 5 years.

Power supply

In December 2015, MINEM informed that Peru is still an attractive country for mining and energy investments, as recognized abroad. As of October 2015, mining investment reached US$6.5 billion and is expected to reach US$7.5 billion by the end of 2015.[32]

MINEM projected the investments in Energy sector to reach US$8.1 billion in 2014, bolstering the country's development and competitiveness. In January 2014, the ministry asked the Private Investment Promotion Agency (ProInversion) to move ahead with projects worth US$7.3 billion, with an additional US$800 million in investment expected for rural electrification projects.[33]

Electricity generation in Peru was dominated by hydro until the advent of natural gas from the Camisea fields in 2004. In 2013, the electric energy production registered an increase of 6.3 percent in comparison to 2012, reaching 40,688 gigawatt hours (GWh). The generation of electricity from thermal gas accounted for around 46 percent of the total energy generation, whereas hydro represented just 53 percent.

The Vice Minister of Energy, Edwin Quintanilla, expects growth during 2015–2017 to be strong, after a slower than expected growth in 2014, primarily because of many infrastructure projects that are expected to start operating soon and new mines which are being built in the country. In 2014, the expected growth of the electricity demand was approximately 12 percent but the actual growth reported was around 5-6 percent.

Energy generated from non-conventional renewable sources (excluding hydro) accounted for 3 percent of the total electricity generated in 2014 and is expected to reach 5 percent in 2015. To reach the required 5 percent, the country will need to install 400 MW of new capacity, distributing it between wind, solar, and biomass.

In 2013, Peru had approximately 69,000 MW of technically usable water potential. The wind potential is also vast (77,000 MW) with an estimated exploitable potential of 22,000 MW. The solar potential stood between 6.0 and 6.5 kWh/m^2 of daily incident solar energy, mainly in the coast.

As of January 2015, the government signed power-purchase agreements (PPAs) for four wind farms (for 232 MW), five solar plants (96 MW) and two biomass facilities (27 MW).

Since the start of the renewable energy auction (RER) model in 2010, the Peruvian government has also signed PPAs for 44 mini-hydro plants of less than 20 MW amounting to 391 MW. The players developing these small-scale projects include Latin America Power, Union Group, Alarde, Aluz Clean Energy, Rurelec, IBT and others.

32 Peru still attractive to mining, energy investments, December 29, 2015
33 Peru Plans $8.1 Billion in Energy Investments in 2014, January 8, 2014

The tender for new RER auction for up to 1,750 GWh of energy a year was launched in September 2015, and is expected to attract significant participation from international and domestic firms. The tender contains 20-year PPAs scheduled to be awarded in January 2016 and plants to come online by December 2018.

A significant portion of the electricity generation is conducted in the central part of Peru, requiring significant investment in the transmission network. At present, there are two main players in transmission: ISA of Colombia, which controls approximately 75 percent of the infrastructure and currently operates 9,600 kilometers of lines in Peru, and Abengoa of Spain, which completed the 900 kilometers 500-kV line between Chilca and Montalvo with an investment worth US$500 million.

As per the data provided by the MINEM, Peru is adding over 5 GW before 2021 comprising 1.4 GW of thermal gas and diesel generation in the 'Southern Energy Node'; 200 megawatt (MW) at the Quillabamba thermal gas plant; 2.4 GW in hydro projects until 2018; and 1.2 GW of new hydro projects in a long-awaited tender process by ProInversion.

The Vice Minister of Energy, Edwin Quintanilla, expects growth during 2015–2017 to be strong, after a slower than expected growth in 2014, primarily because of many infrastructure projects that are expected to start operating soon and new mines which are being built in the country.

The National Energy Plan 2014–2025 states that 60 percent of the total power generation should come from renewable resources, including traditional hydro. According to the Minister of Energy and Mines, Mr. Eleodoro Mayorga, the installed capacity in Peru stood at less than eight gigawatt (GW) as of 2014 and will need to be doubled by 2024 to meet the growing energy demand. Business Monitor International expects the total electricity capacity and generation to grow by an annual average of 5.4 percent and 6.5 percent, respectively, between 2015 and 2024 – some of the highest growth rates in Latin America.[34, 35, 36, 37]

Electricity is supplied to mining companies through the Interconnected National Electric System (SEIN) – a national power grid that supplies electricity to different parts of Peru through generators, transmitters and distributors of electricity. In places where SEIN does not supply power, mining companies can opt to generate their own power by applying for appropriate concession from authorities.[38]

34 Power in Peru, Global Business Reports, February 2015
35 Electricity in Peru, ProInversion, InvestinPeru
36 Peru Power Report Q1 2016, Business Monitor International
37 Peru Power Report Q4 2015, Business Monitor International
38 Peru – Sandra Orihuela and Orihuela Abogados, Website of Latin Lawyer

Infrastructure development

Peru's future economic growth depends on the growth of infrastructure. In early 2015, Credit Suisse estimated that Peru has the potential to reach a growth rate of 5.6 percent in 2016, primarily due to investment in infrastructural projects in mining, roads, and facilities, among others.

Peru's Minister of Economy and Finance, Mr. Alonso Segura expects the Infrastructure sector to surpass the Mining sector as the main driver of new investments in 2016.

In May 2015, the Peruvian government announced that it will finance $113 billion worth of infrastructural projects together with the regional and local governments in partnership with private companies, which will help reduce the infrastructure gap (calculated at between 40 percent and 50 percent of GDP between US$85 billion and US$106 billion).[39, 40]

Peru's government is determined to reduce this gap by adopting public private partnership (PPP) infrastructure projects. The annual amount of investment directed toward the Infrastructure sector through PPPs has been rising since 2004 when an amount of US$220 million was invested in Peruvian infrastructure. In 2013, the amount rose to US$5 billion and to a record US$12 billion by Q1 2014, according to ProInversion. As of April 2014, the investments included projects such as the construction and operation of the second line of the Lima metro, worth US$5.7 billion, and the new international airport at Cusco, which will be built in the nearby town of Chinchero for US$658 million.

The Association for the Promotion of National Infrastructure (AFIN) has listed several large plans that are expected to be tendered and awarded between 2014 and 2018. These include four additional subway lines for Lima, amounting to 86 kilometers in length; the five sections of the Longitudinal de La Sierra highway, three of which will be tendered under PPP agreements; the northern Peru gas pipeline; and 6000 MW of electricity generation capacity expected from new dams. AFIN estimates that these projects will represent between US$15 billion and US$16.7 billion of PPP contracts to be awarded per year over the four years under the state concession program.[41]

Historically, investment in the Mining industry has been deterred by the sentiments of foreign investors who view the infrastructure gap as a factor, which can lead to lower productivity and reduced competitiveness. The bright prospects of the Mining industry in future, along with investments by the government in the infrastructure projects is expected to attract more foreign investments.[42]

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39 Peru allocates US$ 113 billion into infrastructure projects, May 21, 2015
40 Peru's Alonso Segura sees infrastructure as the new growth driver, September 22, 2015
41 PPPs are driving up FDI and improving efficiency, Oxford Business Group, 2015
42 Foreign Investment Fuels Peru's Mining Industry, March 12, 2014

Labor relations and employment

Peru is an emerging economy with a work force of approximately 16.55 million. Most of the rights of workers are found in Peru's New Labor Procedure Law, enacted in 2010.[43] The Ministry of Labor and Employment Promotion, the principal labor authority in Peru, oversees enforcement of the labor laws and is responsible for administering labor relations policy, promoting job creation, and encouraging the development of small and medium-sized enterprises. Even though the legal framework to uphold international labor standards are well defined in Peru, the government has not effectively enforced the law in all cases.[44, 45]

The constitution of Peru has set various labor rights including Law of Productivity and Labor Competitiveness; Procedural Labor Law; Law on Collective Labor Relations; Law on Days of Work, Hours, and Overtime; Regulations on Safety and Health in the Workplace; and sector-specific legislation and ratified international conventions.[46]

The employment agreements must be registered with the Ministry of Labor. All workers, whether domestic or foreign, or hired employees, consultants or independent contractors, are also subject to Peru's tax regime, based on the tax residency of the worker and the type of services being provided.

Employers who want to hire foreign employees must be aware of Peru's Law of Recruitment of Foreign Workers. The law clearly defines the protections that apply to Peruvian workers and the restrictions placed on the employment of foreign workers. Not more than 20 percent of an employer's total workforce may comprise foreign employees.[47]

The rise in new job opportunities is indicating towards better employment conditions in Peru. The unemployment rate in Peru for the month of December 2015 was 5.7 percent, significantly lower that the peak of 7 percent in the months of March and May 2015.[48]

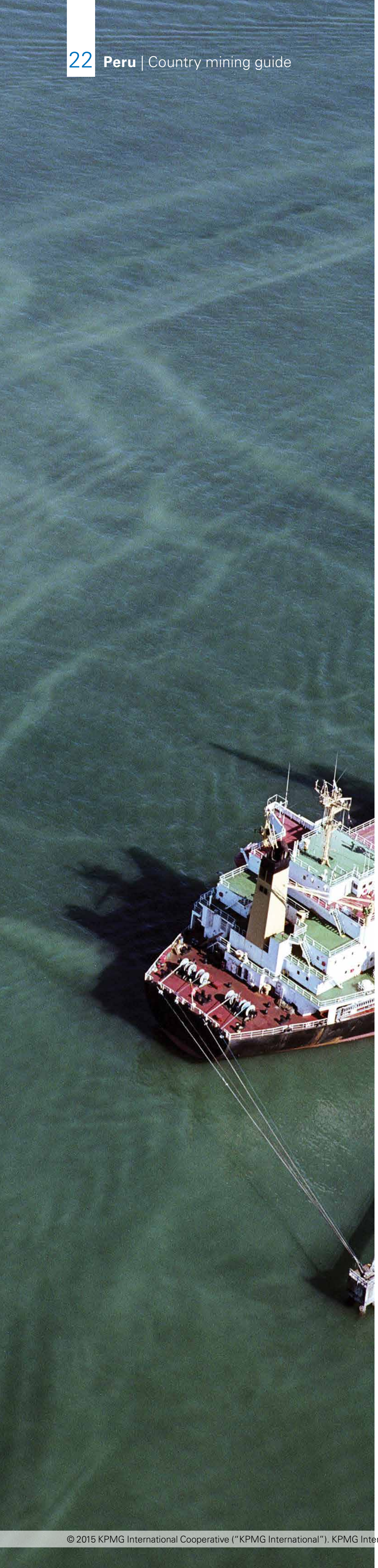
Peru is facing a worsening youth employment crisis, as a new labor law was introduced in December 2014 that discriminates against young people. The new law reduces the benefit entitlements to the youth, including bonuses, social security and life insurance. The new law also reduced the number of permissible holidays from 30 to 15 days. According to official figures, the unemployment rate for those aged between 18 and 24 is four times higher than those aged 30 to 65.[49]

The Mining sector has praised the technical knowledge and professional dedication of Peruvian engineering graduates. As a result, the wages are sometimes higher than the US wages in the mining sector for management positions and consulting services. Some workers, such as formal miners, are highly paid and (per statute) receive a share of company profits up to a maximum total annual amount of 18 times their base monthly salary.

In April 2014, the government created the National Labor Superintendence (SUNAFIL) and opened nine regional offices to represent the labor inspectorate nationally.[50]

The employment in the Mining industry within Peru is showing a decline since 2013 when the total employees listed were approximately 208,382, declining to approximately 190,819 in February 2015. The upcoming investments in new mining projects forecast shortage of skilled labor in the industry, enabling the government to open new opportunities to foreign professionals and technicians.[51]

43 Employment Law in Peru, Martindale.com, July 2012
44 Peru Labor Rights Report, US Department of Labor
45 2015 Investment Climate Statement – Peru, US Department of State
46 Peru Labor Rights Report, US Department of Labor
47 Being Hired as a Foreign Worker by a Peruvian Employer, November 16, 2015
48 Peru Unemployment Rate, IEconomics
49 Thousands protest against Peru Labor laws, December 31, 2014
50 2015 Investment Climate Statement – Peru, US Department of State
51 Peru metals and mining, BTG Pactual, April 14, 2015



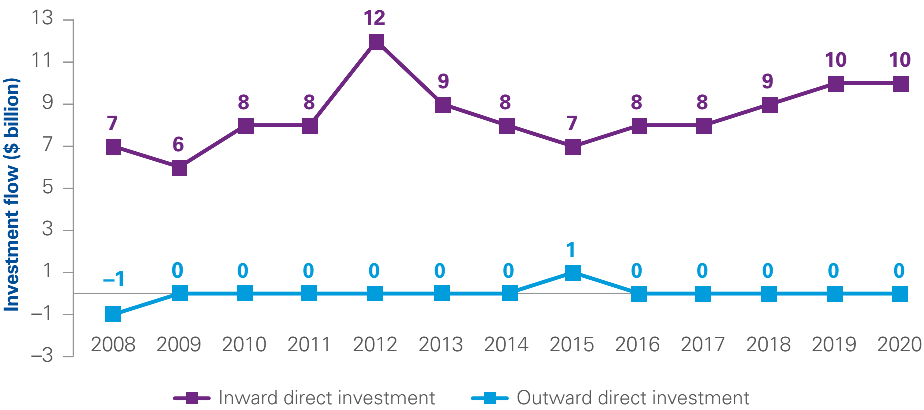
Inbound and outbound investment

The Central Reserve Bank of Peru (BCRP) reported a flow of US$10,172 million of foreign direct investment (FDI) for 2013, lower by US$2,067 million to the amount obtained in 2012, mainly due to reinvestments and capital contributions.

The Mining sector contributed 24 percent of the total FDI inflow in 2013. The investment activity in Peru in recent years has been driven by Private sector investments.[52] The country will continue to develop as a good place for doing business as it has strengthened investor protections and eased ways to obtain construction permits. Peru ranked 48th among the 82 countries in EIU business environment ranking for 2010–2014.

Mining is a major source of Private sector investment and tax revenue in Peru, while mineral exports account for about 60 percent of Peru's total shipments abroad.[53]

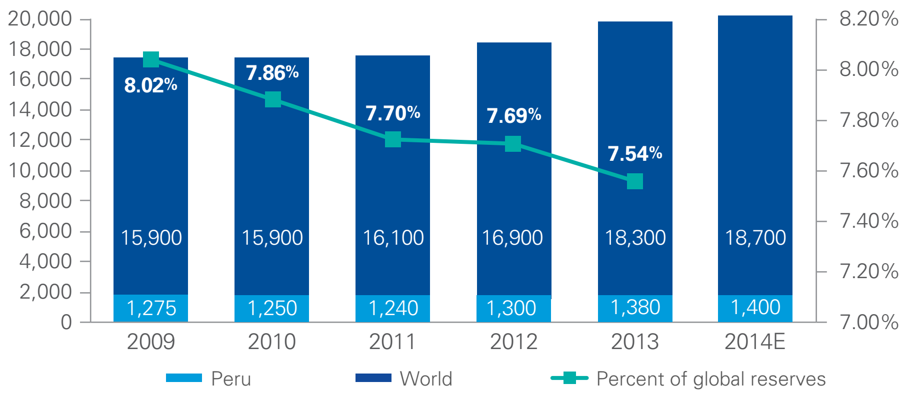
Trend for inward and outward direct investment in Peru



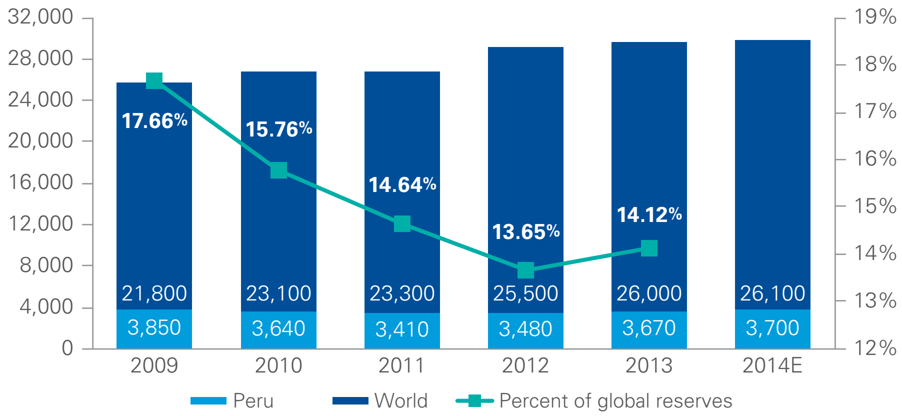
52 Foreign Direct Investment, ProInversion
53 CIA: The World Factbook, Accessed on January 28, 2016

Key commodities – production and reserves

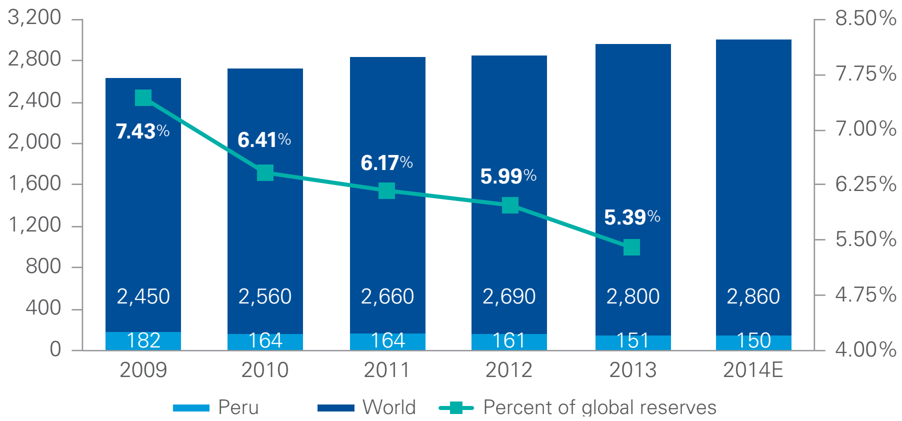
Copper production (in thousand tonnes)



Silver production (in tonnes)



Gold ore production (in tonnes)



Level of production

Peru is the world's third largest producer of copper, after Chile and China. According to MINEM, copper production in Peru increased by 64 percent from 113,700 tonnes in December 2014 to 186,450 tonnes in December 2015. The Mining and Energy Minister, Rosa Ortiz, estimated that the increased production from the expansions of the Toromocho, Constancia and Cerro Verde mines would enable the country to produce an estimated 2.5 million tonnes of copper in 2016. Peru is also the world's third largest producer of silver after Mexico and China; output in December 2015 was 13.10 million ounces, an increase of 19 percent over December 2014.

Peru is the currently the sixth largest producer of gold, after China, Australia, the US, Russia, and South Africa. The gold production declined by 7.8 percent in December 2015 to 378,605 ounces.[54, 55, 56]

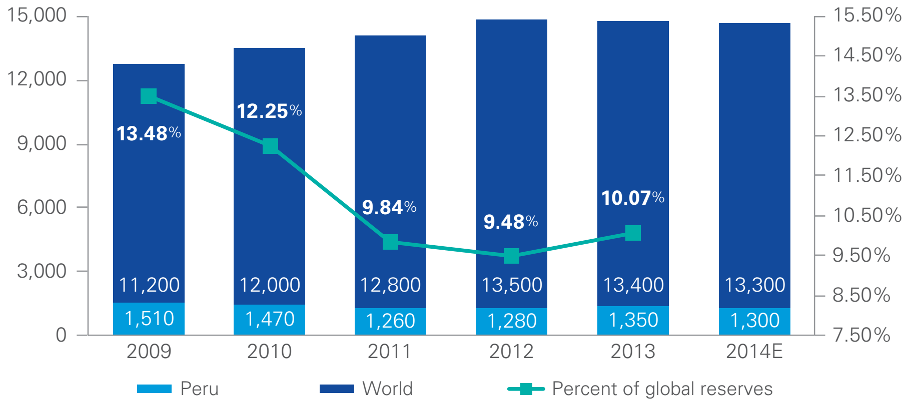
54 Peru's metal output rises in December, gold, zinc and tin output drops – January 28, 2016
55 Huge boost in Peru's copper production to drive 2016 growth – December 22, 2015
56 US Geological Survey – gold, copper, silver, zinc, lead – February 3, 2016

Peru's share in global reserves of key commodities

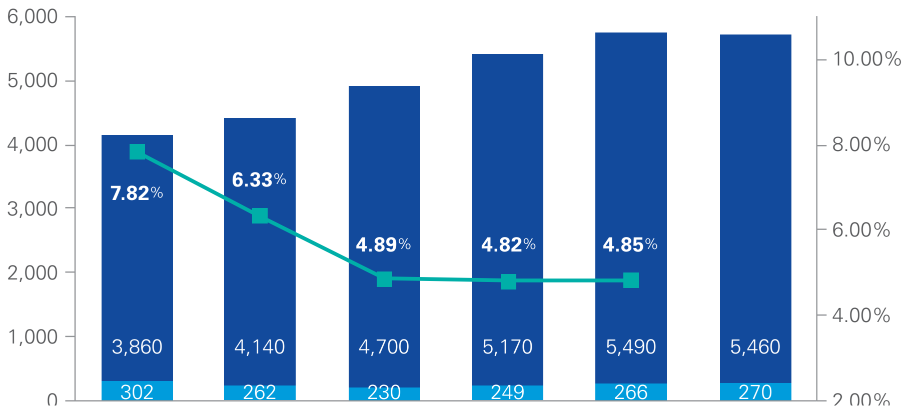
After Chile and Australia, Peru has the third largest copper reserves in the world. It also has significant reserves of coal, iron ore, silver, sulfur and zinc.

In addition, Peru has been attracting the world's major mining companies, given its strong mining potential for extracting gold, silver, copper, phosphates and zinc.

Zinc production (in thousand tonnes)



Lead production (in thousand tonnes)



Major mining companies in Peru[57, 58]

Key Domestic Players

- Aruntani S.A.C.
- Compañía de Minas Buenaventura S.A.A.
- Compañía Minera Antamina S.A.
- Compañia Minera Antapaccay S.A.
- Compañía Minera Milpo SAA
- Compañia Minera Miski Mayo S.A.C.
- Consorcio Minero Horizonte S.A.
- Consorcio Minero S.A.
- Doe Run Peru S.R.L.
- Empresa Siderúrgica del Perú. S.A.A.
- Hochschild Mining PLC
- Inversiones Breca SA
- Minsur S.A.
- Sociedad Minera Cerro Verde SAA
- Southern Peru Copper Corp., Sucursal del Peru
- Volcan Compañía Minera S.A.A.
- Votorantim Metais - Cajamarquilla S.A.

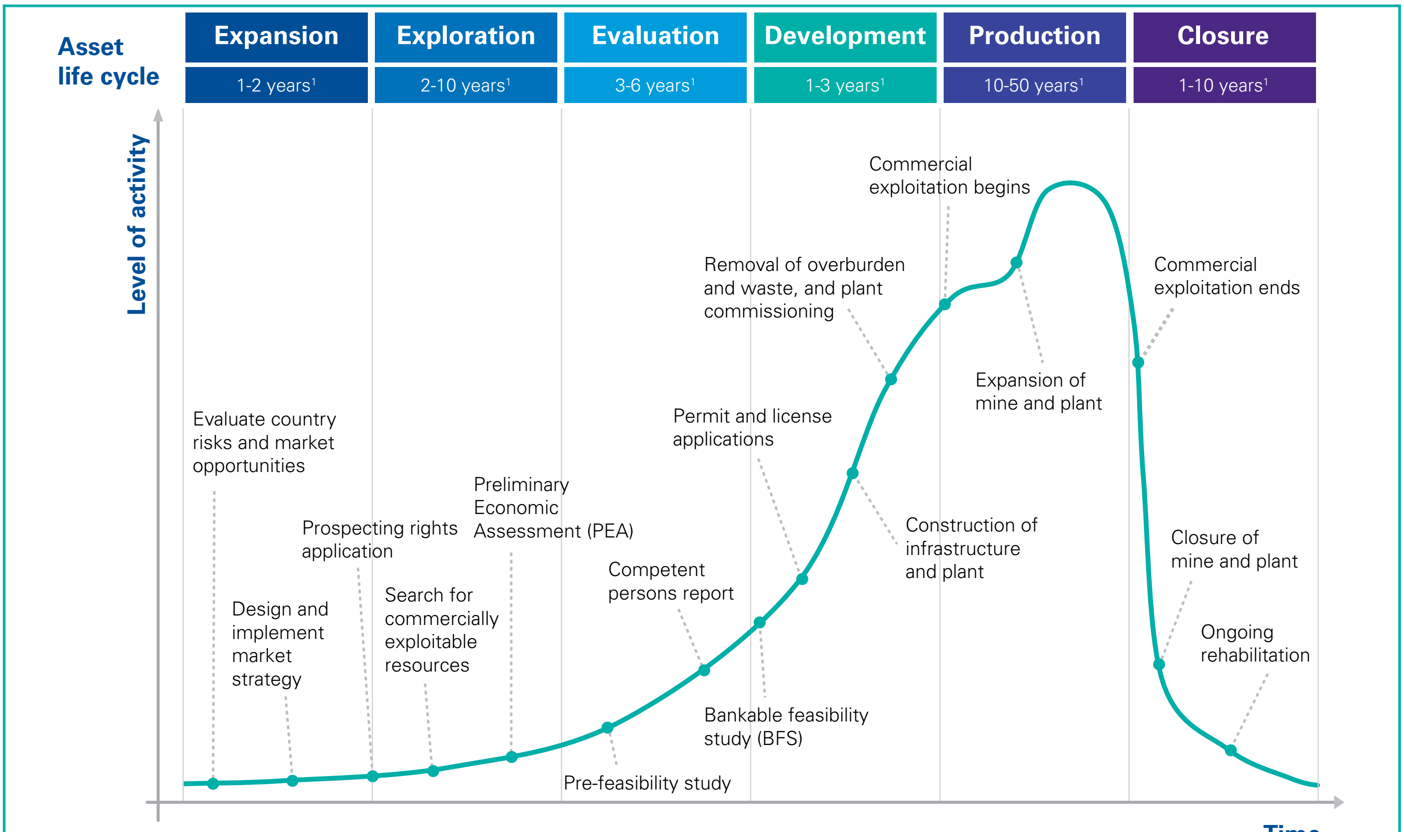
Foreign Companies with Operations in Peru

- Alcoa Inc.
- Barrick Gold Corporation
- BHP Billiton
- Candente Copper Corporation
- Chinalco
- Freeport-McMoRan Copper & Gold
- Gold Fields
- The Graystone Company
- Newmont Mining Corporation
- Rio Tinto
- Shougang Corporation
- Sienna Gold Inc.
- Sulliden Gold Corporation
- Teck Resources
- Vale
- Xstrata Copper

57 Capital IQ, Accessed on January 3, 2016

58 Methodology used for identification of mining companies:
- For identifying top mining companies in Peru, Capital IQ was accessed to generate the list of companies operating in Peru in the following industry sectors: Aluminum; Diversified Metals and Mining; Gold; Precious Metals and Minerals and Steel and Silver
- The list was filtered to exclude domestic Peruvian corporations with revenue less than US$100 million (LTM February 2016)
- The list of foreign companies with operations in Peru includes companies whose ultimate parent company are headquartered outside Peru.

Mining asset life cycle



Source: KPMG International, 2012.

Note: (1) Estimated duration of stage in the mining asset life cycle
(2) Reflects key activities only at each stage of the mining asset life cycle

KPMG's mining strategy service offerings

Asset life cycle	Expansion	Exploration	Evaluation	Development	Production	Closure
	1-2 years[1]	2-10 years[1]	3-6 years[1]	1-3 years[1]	10-50 years[1]	1-10 years[1]

Strategy	Growth		Performance	Compliance	Sustainability
Strategic and scenario planning	**Transactions**	**Projects**	**Operational excellence**	**Risk and compliance**	**Business resilience**
Portfolio management	Market entry	Project development	Operating model development	Statutory audit	Community investment
Scenario planning	Financing and M&A	Feasibilities	Cost and tax optimization	Enterprise risk management	Energy, water and carbon
Strategy development	Tax structuring	Financing	Supply chain transformation	Internal assurance	Material stewardship
People and change	Due diligence	Tax structuring	Business intelligence	Forensic investigations	Mine Rehabilitation
Tax strategy and policy	Integration	Project execution	Business transformation	Tax compliance	Reporting and tax transparency

Further insight from KPMG

An eye to the future – Adapting to change in a volatile mining industry

Growth in a time of scarcity: Managing transactions in the mining sector.

This release from KPMG's Global Mining Institute provide thoughtful insights into implementing change and the benefits of transformation through standardization, outsourcing and divesting non-performing or core assets. After several years of unprecedented layoffs in the industry, talent and resource management will be critical to future success.

We therefore stress the need for international operators to have an effective mobility program that allows them to move resources from where they are to where they are needed, in a cost-effective and efficient manner, creating a strong, mobile and global workforce. Our analysis of talent management strategies highlights the benefits of having detailed, long-term output targets and matching resource needs accordingly.

Global Metals Outlook 2015

The past few years have been challenging for many metals organizations. Overcapacity and sagging iron ore prices have led to heightened pressure and intense competition. Not surprisingly, everyone is looking for new growth opportunities while – at the same time – remaining keenly focused on reducing costs.

In this report, KPMG International provides a comprehensive overview of current trends, issues and opportunities in the global metals sector. It includes valuable benchmarks as well as forward-thinking advice and practical insights from KPMG partners, industry experts and metals leaders.

Insights into Mining

KPMG's mining practice is committed to the industry and periodically publish a series of insightful articles authored by leading KPMG Mining professionals and advisors. The articles are designed to inform and stimulate debate amongst those involved in the industry. Topics in recent articles include Incremental Innovation, Project Risk and the Role of the Board, Exploring Linkages between Risk & Strategy, Key Questions on Risk Management and Net Asset Value (NAV) Multiples.

Mining M&A Quarterly Newsletters

This quarterly publication provides a current snapshot of the M&A market, providing a review of select key transactions while focusing on the rationale behind those deals as trends take shape. It highlights Canadian transactions, but set in the context of global M&A deals and trends.

KPMG global mining practice

KPMG member firms' mining clients operate in many countries and have a diverse range of needs. In each of these countries, we have local practices that understand the mining industry's challenges, regulatory requirements and preferred practices.

It is this local knowledge, supported and coordinated through KPMG's regional mining centers, which helps ensure our firms clients consistently receive high-quality services and the best available advice tailored to their specific challenges, conditions, regulations and markets. We offer global connectivity through our 14 dedicated mining centers in key locations around the world, working together as one global network. They are a direct response to the rapidly evolving mining sector and the resultant challenges that industry players face.

Located in or near areas that traditionally have high levels of mining activity, we have centers in Melbourne, Brisbane, Perth, Rio de Janeiro, Santiago, Toronto, Vancouver, Beijing, Moscow, Johannesburg, London, Denver, Singapore and Mumbai. These centers support mining companies around the world, helping them to anticipate and meet their business challenges.

For more information, visit **kpmg.com/miningamericas**

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