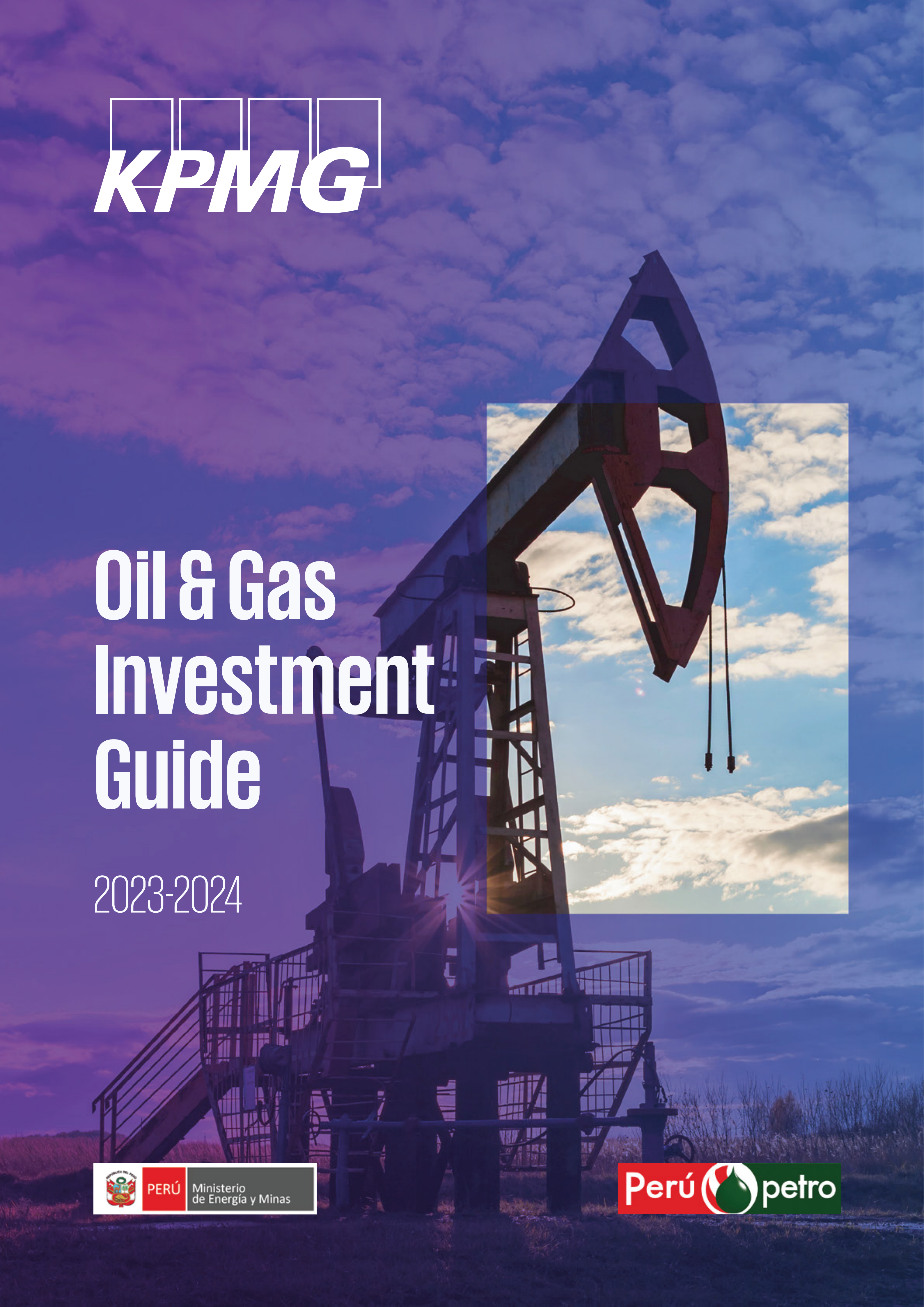

# Oil & Gas Investment Guide

2023-2024

PERÚ Ministerio de Energía y Minas

Perú petro

Oil&Gas Investing Guide is one of the publications prepared by KPMG in Peru to provide general information to investors who are considering investing or doing business in the country in the Oil&Gas industry. However, it should be noted that this publication does not provide the broad and detailed information that would be necessary for business decision-making.

Furthermore, due to the constant changes in regulations in Peru, we recommend obtaining legal, tax, accounting or other professional advice prior to executing the investment in the country.

Investments in Peru is part of a series of guides that KPMG publishes on topics related to investments in different countries.

This publication includes the most important legal provisions established up to March 2023.

Peru is considered the most stable country in Latin America. While the GDP projections for 2023 estimated an economical growth in the region of 1.3%, Peru started the year with an estimation of 2.2%.

The international investment landscape could be an opportunity for Peru. Indeed, the geopolitical context, above all the tension between Russia and Ukraine and OPEC+ stock controls continue having an impact in the oil & gas prices, which determines projections in average of US$80. Also, the search of alternative markets and cleaner energies in a context of climate change initiatives could be important since Peru has extensive reserves of natural gas (Camisea Project) and under-developed and/or unexplored basins along the Peruvian territory.

On the other hand, Peru is well positioned in the mining industry as the second world producer of copper and other minerals (for example, zinc, lead, tin, gold, silver, molybdenum, etc.). Energy transition plans of developed countries such United States and the countries of the European Union are passing regulations and carrying out projects that require such minerals. Nowadays, Peru is one of the sources of some critical minerals needed to such transition in order to reduce global warming.

As other countries in the region, Peru's energy and natural resources industries are incorporating sustainable standards. On one side, the Peruvian government working in regulations with social content and new energies to reduce social gaps in connection with the Sustainable Development Goals 2030; and, on the other side, private sector working in strategies to operate under ESG standards.

Peru is working in a comprehensive framework to attract investment. Therefore, this document includes a summary of relevant information usually need by investors interested in the Peruvian market. The document includes a general macroeconomic information as well as the legal, regulatory and fiscal provisions that could impact an investment decision.

KPMG is well-engaged in the effort to create an investment environment with new opportunities of sustainable development in Peru.

**Beatriz De la Vega**
Tax Advisory Partner & Energy and Natural Resources Leader
KPMG in Peru
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Peru faces the enormous challenge of creating favorable conditions to sustainably take advantage of the immense natural resources it possesses and create the highest value within the framework of the Energy Transition process.

The sustainable development of the great potential of Hydrocarbon Reserves and Prospective Resources that our country possesses - Petroleum and Natural Gas - should become the engine of economic growth. Hence the political decision of the Peruvian government to promote and encourage investment to develop Exploration and Exploitation projects aimed at guaranteeing Energy Security and consequently substantially and sustainably reducing imports of oil and liquid fuels.

For this purpose, it has been decided to strengthen PETROPERU through the Vertical Integration of its Operations. This will allow for the strategic complementation of the investment made by the Peruvian state in the Talara Refinery and the Operation of the oil fields, aimed at sustainably producing high-quality Petroleum, Gas, and Fuels with lower sulfur content, becoming a leading and competitive actor in the domestic market, contributing to the economic growth, development, and well-being of all Peruvians.

In terms of Natural Gas, Peru, through the MINEM, is promoting the development of important projects with the great objective of its Massification, allowing universal access to this cheaper and cleaner energy source, up to 40% in gasoline and 70% in electricity. Hence the institutional efforts of the MINEM to enhance the value of Natural Gas as a transition element towards a progressive change in the consumption matrix of cleaner fuels, which will allow it to reach households, transportation with CNG, Industry, Electric Generation, educational institutions, social organizations, and health establishments. Likewise, Natural Gas will make possible the development of a strategic industry such as Methane and Ethane Petrochemistry and the generation of great opportunities for growth in favor of millions of Peruvians, including our agricultural producers.

Similarly, it is imperative to highlight the immense potential of the country in Non-Conventional Renewable Energies, based on the use of new technologies such as Green Hydrogen, Wind, Photovoltaic, and Biomass sources, among others, which represents another great challenge due to its strategic contribution to the diversification of the Energy Matrix.
In summary, one of the main strategic objectives, therefore a priority of our National Energy Policy, being implemented by the MINEM, is to have a diversified Energy Matrix, based on Renewable and Non-Renewable sources and Energy Efficiency.

For these great purposes, it is necessary to have an "Oil & Gas Investment Guide" as a management, direction, preparation, and support tool for the necessary processes and activities to make Peru an attractive country for investment in Energy and Hydrocarbons. This "Oil & Gas Investment Guide," which has also allowed in its previous stages to closely know the current panorama of Peru and the one facing our Region on the road to the Energy Transition, while nations sustainably and efficiently take advantage of their Renewable and Non-Renewable Natural Resources, as well as identifying new opportunities to enhance our high energy potential.

The MINEM is especially grateful to KPMG and all those who, in one way or another, have contributed to making the "Oil & Gas Investment Guide" a reality that will be at the service of all those interested in the strategic objectives of the Hydrocarbon Sub-Sector.

**Ing. Enrique Bisetti Solari**
Vice Minister of Hydrocarbons
Ministry of Energy and Mines
Peru


GSS-BAL-009

2022 was a year of great challenges for the country, both politically and socially, however, the macroeconomic fundamentals remained solid, a strength that allows us to continue promoting the arrival of investments in the country.

PERUPETRO has resumed an intensive investment promotion after having identified 31 new areas for exploration and exploitation of hydrocarbons in various sedimentary basins with important prospects that have been generating interest among companies.

These 31 new areas are in the Marañon, Ucayali, Madre de Dios, Salaverry and Tumbes Basins, proposed areas with hydrocarbon potential that can be granted to interested companies as License Contracts or as Technical Evaluation Agreements.

At the same time, PERUPETRO has been aligning efforts with the different sectors involved in the development of the industry, to reactivate production and generate conditions for the development of important projects underway, mainly in the Peruvian offshore, where expectations are promising.

The Peruvian offshore basins have prospective oil resources of approximately 12,966 million barrels and 7.52 trillion cubic feet of natural gas. The probabilities of finding oil are important; therefore, PERUPETRO has redoubled its efforts to make offshore exploration viable and to value the resources that God has blessed us with.

In the same way, we are developing a permanent dialogue with the communities in the areas of influence of the operations for the sustainable development of the industry. A Social Fund has been established for the new Contracts to be signed, so that the population can directly perceive the benefits generated by the hydrocarbon sector.

The hydrocarbon industry has been an important generator of income for the country, and an important engine of economic development, mainly for the regions where there is hydrocarbon production.

PERUPETRO, aware of the path towards the energy transition, will continue to promote a country vision that allows understanding the strategic importance of hydrocarbons for Peru, even more so in an unexplored country with resources that must be taken advantage of. We are sure that, with the effort and commitment of all the sectors involved, with strict respect for the environment and in a permanent dialogue with the communities in the areas of influence of the operations, we will achieve important results to ensure our energy development.

**Isabel Tafur**
President of Perupetro

# Content

# 01

# Introduction

# Overview

Over the last few years, the Peruvian economy has been in constant growth, even within the pandemic caused by the outbreak of COVID 19, Peru has maintained its economic stability, thus being an attractive country for investors from various industries.

The GDP in Peru in the last millennium has had an average annual growth of 4.4%, due to the measures adopted by the Government for economic recovery as a result of COVID 19, in addition, said growth is related to the fact that the Peruvian economy is sustained in the high price of raw materials (i.e., gold, copper and oil).

Likewise, in 2022 the process of accession to the OECD has begun.

In Peruvian legislation there is a regime to promote foreign investment. Foreign investors and the companies in which they participate have the same rights and obligations as national investors and companies, therefore the right to free enterprise is guaranteed.

## Government

Politically Peru, like most of Latin American countries, has had a succession of periods of democratic government and dictatorship.

Peru has a constitutional government, based on the 1993 Constitution. This replaced the Constitution of 1979, under which democracy was restored after more than one decade of military government, characterized in its early years by state socialism, and later by a process of gradual restitution of freedom.

The Administration of Peruvian President, Dina Boluarte, provides with a legal framework in keeping with the demands of international competitiveness, thus resulting in a country with an attractive market for both national and foreign investments.

## Political System

In conformity with the provisions of the constitution of 1993, the Republic of Peru is democratic, social, independent and sovereign. The state is one and indivisible, and its government is unitary, representative, and decentralized.

The President of Peru is the head of state and represents the nation.

Congress, consisting of a single chamber with one hundred and thirty Congressmen, wields The Legislative.

The Supreme Court of Justice governs and administers the Judiciary.

## Currency

Peru’s official currency is the Sol (S/), which, as of December 30st, 2022, was worth about 0.27 US$ (US$ 1 = 3.320 Soles).

The government has decontrolled the exchange rate system. Debts in foreign currency are permitted under Peruvian law and the U.S. dollar is frequently used for civil and commercial liabilities and is also generally accepted for normal business operations.

Companies receiving foreign investment can request to keep their books in U.S. dollars.

# Macroeconomic context

According to the BCRP inflation report, Peru's economic activity expanded 2.7% in 2022, with a 0.6 percent growth corresponding to primary activities, driven by the recovery of agricultural and hydrocarbon production. Likewise, the improvement in the health situation compared to 2021 contributed to an increase of 3.2 percent in non-primary activity, mainly in sectors such as commerce and services. The advances were diminished by the falls registered in some primary sectors such as metallic mining, fishing and primary manufacturing. In the case of mining, social conflicts and lower laws contributed to the decline; Fishing was affected by the lower catch for human and industrial consumption, which in turn had an impact on primary manufacturing, registering a lower production of fishmeal and fish oil and canned and frozen fish products.

The economy is expected to grow 2.6% in 2023 due to the expected recovery of the primary sectors, mainly metal mining: a positive effect is estimated from the projects that have recently come into operation, such as Quellaveco, and from the reactivation of mines that paralyzed their activities in 2022. However, most of the non-primary sectors are expected to slow down their growth due to the lower dynamism contemplated in private consumption and public investment that is usually observed in the first year of the new subnational authorities . By the year 2024, economic activity is projected to grow 3.0%, the year in which it is estimated that activities related to tourism and restaurants will reach their pre-pandemic levels.

## GDP BY ECONOMIC SECTOR

(Real percentual variations)

| | 2021 | 2022 | 2023* | | | 2024* | |
|---|---|---|---|---|---|---|---|
| | | | January | IR Dic.22 | IR Mar.23 | RI Dic.22 | RI Mar.23 |
| **Primary GDP** | 6,4 | 0,6 | 1,2 | 6,3 | 5,1 | 2,8 | 3,0 |
| Agricultural | 4,6 | 4,3 | 1,9 | 2,4 | 2,2 | 2,7 | 2,7 |
| Fishing | 9,9 | -13,7 | 33,0 | 11,6 | 5,0 | 3,5 | 3,5 |
| Metal mining | 10,5 | -0,2 | -3,6 | 8,6 | 7,0 | 2,8 | 3,1 |
| Hydrocarbons | -4,6 | 4,0 | -3,5 | 4,7 | 4,7 | 4,9 | 4,9 |
| Manufacture | 3,2 | -2,9 | 13,3 | 6,9 | 5,3 | 2,0 | 2,0 |
| **Non primary GDP** | 15,7 | 3,2 | -1,8 | 2,0 | 1,9 | 3,1 | 3,1 |
| Manufacture | 25,2 | 2,3 | -3,3 | 2,0 | 1,0 | 3,0 | 3,0 |
| Electricity and water | 8,5 | 3,9 | 3,3 | 5,0 | 4,6 | 3,9 | 3,9 |
| Construction | 34,9 | 3,0 | -11,7 | 1,3 | 1,0 | 3,2 | 3,2 |
| Trade | 17,8 | 3,3 | 1,2 | 2,4 | 2,2 | 3,5 | 3,5 |
| Services | 11,9 | 3,4 | -1,2 | 2,0 | 2,1 | 2,9 | 2,9 |
| **Gross domestic product** | 13,6 | 2,7 | -1,1 | 2,9 | 2,6 | 3,0 | 3,0 |

IR: Inflation Report.
* Proyection. Source: BCRP.

According to the BCRP perspectives, the activity of the hydrocarbon sector in 2022 registered a growth of 4.0% compared to 2021. The sector is expected to grow 4.7% this year and 4.9% for 2024.

Foreign investment plays an important role in the national economy, designing an integrated system of regulations to guarantee foreign investors.

Investments are received without restrictions in various sectors of economic activity (i.e., telecommunications, electricity, retail, banking, among others).

## Foreign Investment Registry

Foreign investments made in the country are automatically authorized, and must be registered with the Private Investment Promotion Agency of Peru (PROINVERSION), including technology license contracts, technical assistance, technical services, basic engineering and in detail.

Under Decision 291 of the Andean Community, all direct investment or investment from subregional investors (Bolivia, Colombia, Ecuador and Peru) must be registered with the competent body (PROINVERSIÓN in Peru) in freely convertible currency.

## Rights of Foreign Investors

The State guarantees the right of foreign investors to transfer abroad, in freely convertible currencies, prior payment of legal taxes, the full dividends or proven net profits from their investment; thus, as well as all of their capital invested in Peruvian companies, including the sale of shares, participations or rights, reduction of capital or partial or total liquidation of companies.

## Foreign Investment Restrictions

Pre-investment approval is not required. Technology transfer contracts, licenses, patents and trademarks are registered with the administrative authorities, without this registration implying a qualification of the content of its stipulations.

Under Law No. 29785, the execution of certain investment projects may be subject to prior consultation with the indigenous or native peoples of the place where said projects are located. Said consultation does not imply a veto right over the project.

## Property Acquisition

Regarding property rights, foreigners (individuals and companies) are in the same condition as Peruvians; however, 50 kilometers inside the border line, foreigners cannot acquire or possess mines, land, forests, water, fuel or energy sources, and may be exempted from this limitation with an authorization.

The transfer of property ownership occurs with the valid sales contract; and although the registration in the public records is not mandatory, according to the laws, it is always preferred to provide security to the transaction.

## Competition Rules

There are regulations that consecrate the free market system in Peru and limit the activity of the State as a regulator of productive activities; they guarantee commercial identification and intellectual property rights, they design a general competition framework that makes Peru a particularly attractive country for private investment.

INDECOPI is the State body in charge of ensuring compliance with the legal regulations, in order to ensure the functioning of the free market in Peru, it is in charge of the protection of intellectual property and regulatory aspects of competition in the market, among others.

## International Investment Agreements

The International Investment Agreement is an international treaty whose purpose is to establish a legal framework to attract, promote and protect investments through international standards that guarantee a transparent and predictable treatment applicable to investments.

Since 1991, 29 Agreements for the Promotion and Reciprocal Protection of Investments have been in force and, since 2009, 9 investment chapters are in force in Free Trade Agreements.

## Trade Agreements

Peru participates in the Andean Community Integration Agreement, together with Bolivia, Colombia and Ecuador since 1969. The Andean Community of Nations encourages the progressive economic integration of its members with a view toward establishing a common market.

On January 16, 2009, the free trade agreement with the United States was signed which has been in effect since February 1, 2009.

The main international integration schemes in which Peru participates are:

- ALADI (Latin American Integration Association): Brazil, Argentina, Paraguay, Uruguay and Cuba.
- CAN (Andean Community of Nations): Bolivia, Colombia and Ecuador.
- Pacific Alliance: Mexico, Colombia, and Chile. Free Trade Agreements with: United States, Cuba, China, Chile, Mexico, Singapore, South Korea, Japan, Canada, EFTA, European Union, Thailand, Panama, Costa Rica, Venezuela and Honduras.
- Free Trade Agreements with: USA, Cuba, Chile, Mexico, Canada, Singapore, China, South Korea, Thailand, Japan, Panama, EFTA countries, European Union, Costa Rica, Venezuela, Hondura, United Kingdom, and Australia.

## "Works for Taxes" mechanism

In 2022, Law 29230 – Law that promotes regional and local public investment with the participation of private sector was published, in which allows private companies that sign investment agreements to finance, execute and/or propose investment projects, optimization, marginal expansion, rehabilitation and replacement investments, and optimization, marginal expansion, rehabilitation and emergency replacement investments within the framework of the National System of Multiannual Programming and Investment Management, under the "Works for Taxes" modality.

The Works for Taxes mechanism allows private sector companies to finance, execute, and propose various public investment projects declared viable under the Invierte.pe. system of the Ministry of Economy and Finance. Thus, private companies are allowed to develop projects in health, education, tourism, agriculture and irrigation, culture, environment, urban habilitation, social development, among others, being that in these sectors an efficient and sustainable use of electricity can be given for the benefit of the population. This is achieved through an investment agreement between the private company and the public entity that previously prioritized the project declared viable.

In this way, the "Works for Taxes" mechanism allows for an acceleration in public investment, since the different levels of government are able to finance a list of previously prioritized projects, using future tax revenue streams, instead of having to wait for the totality of the capital necessary for implementation.

# Legal Stability Agreements

Foreign investors can enter into Legal Stability Agreements with the State through the Private Investment Promotion Agency (Proinversión), which will guarantee stability in the tax regime in force at the time of subscription, among other benefits.

Under the stability of Legislative Decree No. 662, the following stability benefits are established for the investor:

- Fiscal stability for the investor, provided that he makes a contribution for an amount of not less than USD 2 million, within a maximum period of two (2) years from the signing of the agreement.
- The regime protects the investor from variations in the taxable base or from the creation of new taxes that affect the taxable base of the company.
- If the profit or dividend for the investor decreases in percentage with respect to what would have been determined according to the stabilized regime, the dividend tax rate will be reduced so that the available profits are not affected.

Likewise, the recipient entity of the investment enjoys the following benefits, under Legislative Decree No. 757:

- To sign an agreement that grants fiscal stability to the recipient of investment, the investor must have its own stability agreement.
- The total amount of new investments received by the company must be greater than 50% of its capital and reserves and will be used to expand production capacity or technological improvement.
- Fiscal stability includes the Income Tax Regime (additions, deductions, rates) for 10 years.

# 02

# Opportunities for Foreign Investors

# Timeline of the hydrocarbon sector regulations and historical highlights

| | |
|---|---|
| 1917 | Start of operations of the Talara Refinery by International Petroleum (IPC) |
| 1922 | Law No. 4452 - Establishes that the Government is owner of hydrocarbons and may grant concessions. |
| 1948 | Creation of the "Empresa Petrolera Fiscal", a a state-owned company responsible to engage in oil exploration and exploitation activities in Los Órganos and Zorritos areas. |
| 1952 | Law No. 11780 - Oil Law |
| 1961 | Aguaytia gas discovery |
| 1967 | Inauguration of La Pampilla Refinery. |
| 1968 | Nationalization of the International Petroleum Company (IPC). |
| 1969 | Law Decree No. 1753 - Creation of Petróleos del Perú S.A. (Petroperú), a state-owned company responsible of exploring, exploiting, refining, commercializing, and developing the hydrocarbon industry in the country |
| 1969 | Law Decree No. 17440 - Establishes the access to exploration, exploitation, prospecting and manufacturing through contracts with the Ministry of Energy and Mines. |
| 1973 | Law Decree No. 20036 - Petroperú Organic Law |
| 1977 | Construction of the Norperuvian Pipeline. |
| 1979 | Law Decree No. 22774 - Approval of the general terms for hydrocarbon exploration and exploitation operations |
| 1979 | Law Decree No. 22775 - Establishes that oil companies are subject to the general Income Tax regime. |
| 1984 | Discovery of Camisea gas. |
| 1990 | Beginning of privatization of oil companies. |
| 1993 | Law No. 26221, Organic Hydrocarbons Law.<br>Creation of Perupetro S.A. to promote investments in the exploration and exploitation of hydrocarbons. |
| 1993 | Supreme Decree No. 049-93-EM - Approval of the Regulations for the Application of Royalties in Oil Contracts |
| 1995 | Construction of the liquid cargo dock and multiboyas submarine terminal at the Talara Refinery. |
| 1995 | Supreme Decree No. 032-95-EM - Approval of the Regulations of the Tax Stability Guarantee within the framework of the Organic Hydrocarbons Law |
| 1996 | Privatization of La Pampilla Refinery. |
| 1998 | Start of production at Aguaytia.<br>Heavy crude oil discovery in Block 67. Gas discovery in Block 78 |
| 1999 | Law No. 27133 - Law for the Promotion of Natural Gas Industry Development |
| 2000 | Law No. 27332 - Framework Law on Regulatory Bodies for Private Investment in Public Services |
| 2000 | Law No. 27343 - Law regulating Stability Agreements with the Government under the Sectorial Laws |
| 2001 | Law No. 27624 - Law that establishes the refund of the General Sales Tax and Municipal Promotion Tax for the exploration of hydrocarbons. |
| 2004 | The production of Camisea gas start |
| 2005 | Light crude oil discovery in Situche. |
| 2006 | Heavy crude oil discovery in Block 39. |
| 2007 | Gas discovery in Block 57 (Kinteroni) |
| 2009 | Gas discovery in Blocks 31B and 58 (Santa Rosa and Urubamba). |
| 2010 | Supreme Decree No. 064-2010-EM - Approval of National Energy Policy 2010-2040 |
| 2011 | Gas discovery in Block 57 and 58 (Mipaya and Taini). |
| 2012 | Law No. 29852 - Creation of the energy security system and the energy social inclusion fund. |
| 2013 | Crude oil discovery in Blacks 95 and 131 (Britania and Los Angeles).<br>Gas discovery in Block 88 (San Martin). |
| 2013 | Law No. 30130 - Declaration of national interest for the execution of the Talara refinery modernization project |
| 2013 | Approval of the Universal Energy Access Plan 2013-2022 |
| 2014 | Start of production in Los Angeles. |
| 2014 | Publication of the National Energy Plan 2014 - 2025 |
| 2018 | Start of operation of the first low-sulfur gasoline plant. |
| 2020 | Start of drilling of Marina 1 well in Peruvian sea. |
| 2023 | The Integrated Gas Transportation System - Southern Zone of Peru Project is in the formulation stage by the Ministry of Energy and Mines. |

# Oil & Gas Industry in Peru

The hydrocarbon industry can be summarized in three phases within the value chain: exploration, production, and refining. These, in turn, are included in three general segments: upstream, midstream, and downstream.

## Upstream

Upstream activities comprise the exploration of new reserves and exploitation, which consists of the extraction of oil and/or gas.

Exploration processes include the use of geological science, drilling technology and qualified personnel to find subway traps containing hydrocarbons.

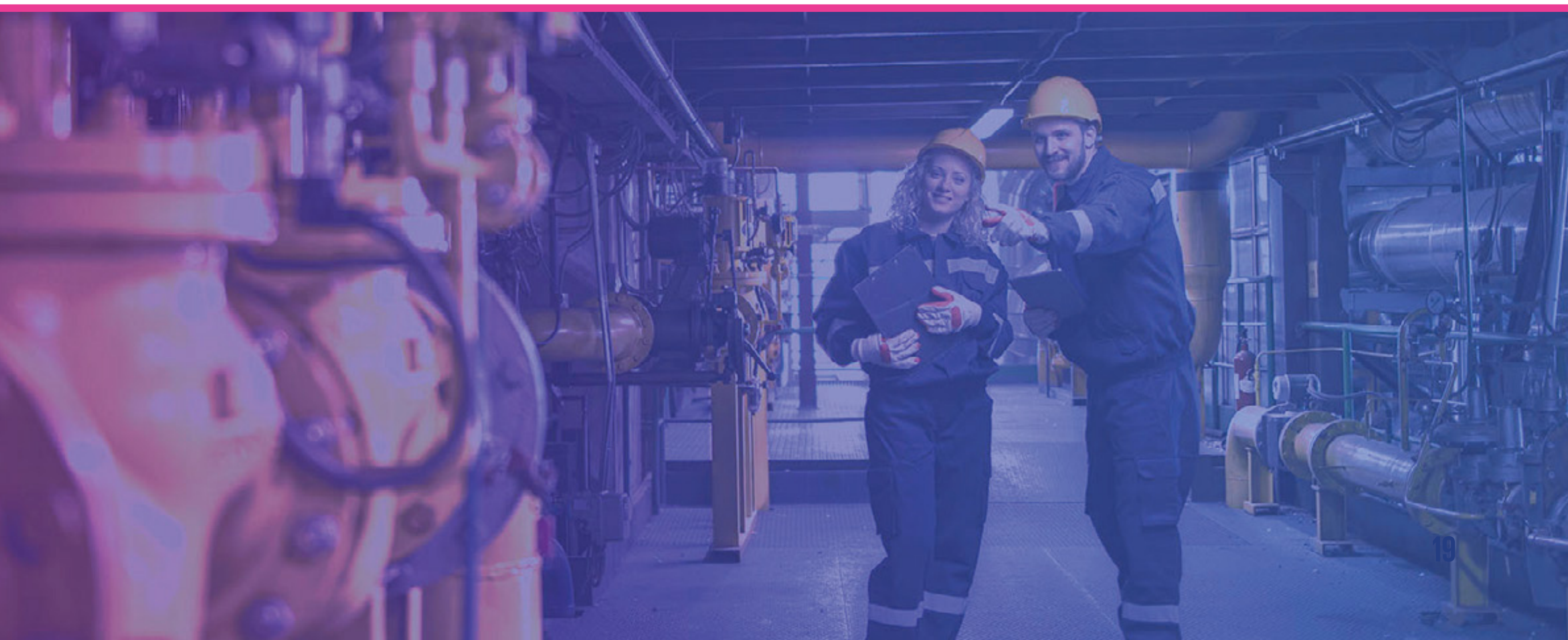
Exploitation is the activity of extracting oil and gas resources from reservoirs and delivering them to a transportation provider.

Exploitation activities can be carried out in:

- Onshore: Comprises all drilling activities that are performed onshore.
- Offshore: Comprises all drilling activities carried out offshore. In these zones, drilling is carried out between 400 and 1,500 meters from the surface to the seabed.

Exploration and exploitation are a complex and capital-intensive business that involves the following typical processes:

- Preliminary exploration: exploration of areas where oil and gas reservoirs can be discovered and economically developed.
- Exploration and exploitation agreements: comprises the negotiation of license agreements, identification of potential joint venture partners.
- Exploration of the concessioned area: Drilling of an exploratory well, often performed by a subcontractor who drills and/or provides drilling equipment.
- Evaluation and completion of a well: Testing of sufficient reserves and subsequent expenditures to complete a well that is deemed economic.
- Developing the exploratory area: Drilling additional wells and installing surface equipment to create efficient and economic production.
- Producing the exploration acreage: Surfacing and selling separate oil and gas on an economic schedule dictated by reservoir pressure and the efficiency of the selected equipment.
- Closure and abandonment of the exploratory area: Closing and plugging of wells below the surface and removal of surface equipment after the wells reach their economic limit. These activities are known as plugging and abandonment or decommissioning, restoration, and abandonment.



## Midstream

Midstream activities comprise the storage, commerce, and transportation of oil and/or gas through different means such as pipelines, gas pipelines, trains, tank trucks that transport to refineries, fractionation plants or ports for foreign trade.

- Pipelines are an important part of midstream activities. Crude oil generally moves through pipelines, trucks, barges or tankers, while natural gas moves through pipelines.
- In the case of Peru, the midstream activity is as follows:
- Pipeline transportation system: This system consists of two pipelines, one for natural gas and the other for natural gas liquids. Both pipelines start in the jungle of Cusco, crossing the highlands of Ayacucho and Huancavelica, and reach the coast of Ica.
- Norperuvian Pipeline: The pipeline begins its route at Station 1, in San José de Saramuro (Loreto), then continues west to Station 5, which is the point of confluence with the Northern Branch. The pipeline continues southwest to Station 6, in Kuzu Grande, to continue to Bagua where Station 7 is located, and then southwest to Station 8. At this point, the pipeline changes to northwest direction, to Station 9 and from there begins its ascent to the Andes Mountains. At this point it begins its descent towards the Bayovar terminal in Piura.
- Storage tanks: operated by Petroperú and located on the Norperuvian Pipeline, it has four collection stations:
- Station 1: five tanks with a total capacity of 447,000 barrels.
- Andoas Station: three tanks with a total capacity of 159,000 barrels.
- Station 5: six tanks with a total capacity of 759,000 barrels.
- Bayovar Terminal: fourteen tanks with a total capacity of 1,792,000 barrels.

## Downstream

Downstream activities include processing (refining and/or fractionation), petrochemical plants, storage and marketing of petroleum products up to their sale to fuel product distributors and retail outlets, as well as manufacturers and specialized distributors.

Most downstream activities are related to supply chain management and are traditionally part of the core competencies of most oil companies.

Supply chain management ranges from the establishment and management of integrated logistics chains to the entire supply and value chain process and all stages of refining/processing, all the way to the final consumer.

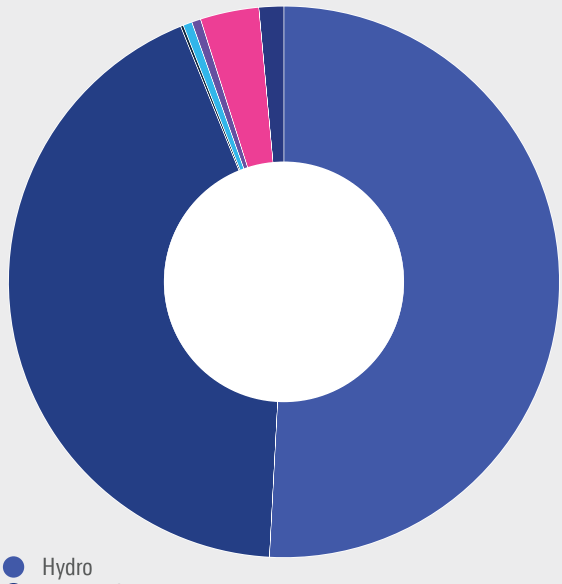
In the case of Peru, downstream activity includes the following:

- Refineries: Seven refineries operate in the country: La Pampilla Refinery, Talara Refinery; Conchán Refinery, Iquitos Refinery, Pucallpa Refinery, El Milagro Refinery and Shiviyacu.
- LPG supply plants: there are nine LPG supply plants, of which five are producers and four are storage plants.
- LPG bottling plants: 117 bottling plants operate with a capacity of 69.5 MB.
- Liquid fuel or other hydrocarbon products supply plants: 29 supply plants operate with a total capacity of approximately 7,159.2 MB.
- Service stations: as of May 2020, there are 5,183 service stations operating nationwide.
- LPG sales outlets: as of May 2020, there are 9,678 service stations operating nationwide.

# Background of the Oil&Gas sector

Peru has not been immune to important changes in the hydrocarbons industry. Being a net importer of hydrocarbons, since the late 1990s, the Peruvian government has focused on developing the Camisea gas field and diversifying the energy matrix.

### Peruvian Energy Matrix



- Hydro
- Natural Gas
- Coal
- Diesel2/Residual500/Residual 6
- Bagasse/Biogás
- Wind
- Solar

Source: COES

For which, Peru has created a legal framework aimed at attracting investment, modernizing its institutions and integrating the local economy with the global economy through free trade agreements.

The Oil & Gas sector manifests its importance by influencing the main macroeconomic indicators associated with the growth and development of the country.

Thus, for example, the Camisea deposit has increased the production of natural gas liquids, which is used to produce liquefied petroleum gas, one of the most used fuels in the country for vehicular transport, which, in addition to generating savings , generates lower GHG emissions. Likewise, it has turned Peru into a net exporter of LPG.

In Peru there are 18 sedimentary basins with hydrocarbon potential; 8 located offshore and 10 onshore. As of January 2023, Peru has 31 current contracts, of which 6 are for exploration activities and 25 for exploitation activities, with an investment of 0.47 MM US$ and 48.84 MM US$, respectively.

### Negotiation requests for contracts / Tax Stability Agreement (TSA) - Contracts / TSA

| Type of request | Nº |
|---|---|
| Hydrocarbon Exploration and/or Exploitation Contracts by Direct Negotiation | 1 |
| Other agreements | 6 |
| Total | 7 |

Source: PERUPETRO

This new project involves the construction of gas pipelines in the southern highlands of Peru, which includes the regions of Arequipa, Cusco, Moquegua, Apurímac, Puno and Tacna.

Such project will provide security of supply to the users of the National Interconnected Electric System, as well as provide Natural Gas and Liquefied Natural Gas supply coverage for the main cities in the southern area of Peru and the Energy Node in Mollendo and Ilo.

The project will have an investment of US$ 4,320.80 million and will be developed under a co-financed Public Private Partnership, being the MINEM the holder of the concessioned activity. To date, the project is in the formulation stage and the estimated date for the granting of the concession is yet to be defined.

# Investment in the hydrocarbons sector

PERUPETRO SA is the state company, representative of the State in oil & gas contracts.

The Hydrocarbons Law and its Regulations establish the rules that will be applicable to the exploration and exploitation of hydrocarbons (oil and gas), and the following types of contracts may be established:

- License contract: the State authorizes the Contractor to explore and exploit hydrocarbons in the Contract area, transferring ownership of the hydrocarbons extracted in exchange for payment of a contractually established royalty.
- Service contract: The State authorizes the Contractor to explore and exploit hydrocarbons in the Contract area, granting the Contractor a remuneration based on the controlled production of hydrocarbons.

The aforementioned contracts are considered Law Contracts, and foreign companies must establish a branch or subsidiary in the country and appoint a representative of Peruvian nationality.

Other contractual modalities can be established to the extent that they are authorized by the MINEM.

Regarding the applicable tax regime, the contracts signed within the framework of the Hydrocarbons Law apply the tax regulations in force on the date of their execution, with respect to the activities of the contract (other activities will be taxed regularly). Likewise, an additional rate of 2% will be applied to the Income Tax.

### FISCAL REVENUES BY LICENCE CONTRACTS AND SERVICE REVENUES (USD)

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| LICENSE CONTRACTS | 1,936,709,376 | 1,630,236,927 | 729,400,948 | 628,916,464 | 793,265,366 | 1,031,043,074 | 774,298,039 | 510,336,273 | 1,239,632,895 | 1,843,376,408 | 256,749,727 |
| SERVICE CONTRACTS | 88,500,700 | 85,017,748 | 39,958,131 | 32,856,496 | 37,120,279 | 72,221,416 | 80,735,419 | 27,959,085 | 39,479,236 | 37,230,608 | 4,580,950 |
| TOTAL | 2,025,210,076 | 1,715,254,676 | 769,359,078 | 661,772,960 | 830,385,645 | 1,103,264,489 | 855,033,459 | 538,295,359 | 1,279,112,132 | 1,880,607,016 | 261,330,676 |

Source: Perupetro

### HYDROCARBONS TAX REVENUES (in PEN millions)

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CIT | 1,907.9 | 1,903.3 | 913.3 | 393.9 | 723.4 | 1,022.3 | 898.1 | 576.9 | 1,231.2 | 3,104.0 | 589.5 |
| VAT | 1,520.0 | 1,511.9 | 921.3 | 727.3 | 851.4 | 1,291.3 | 1,227.9 | 736.3 | 1,744.8 | 3,461.5 | 493.0 |
| VAT regime of perceptions | 159.7 | 157.7 | 134.3 | 130.2 | 156.1 | 184.9 | 196.1 | 138.3 | 210.0 | 271.8 | 68.1 |
| Excise Tax (ISC) | 1,497.3 | 1,039.3 | 1,194.9 | 968.2 | 672.1 | 510.0 | 1,299.0 | 888.6 | 989.9 | 769.1 | 244.3 |

Source: SUNAT. Elaborated by KPMG

* Up to march

### CANON Y SOBRECANON (USD)

#### CANON REVENUES

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| TOTAL | 1,117,642,673 | 975,075,160 | 492,700,121 | 395,249,809 | 479,565,757 | 626,727,915 | 502,517,426 | 325,987,029 | 717,211,143 | 1,027,781,174 |

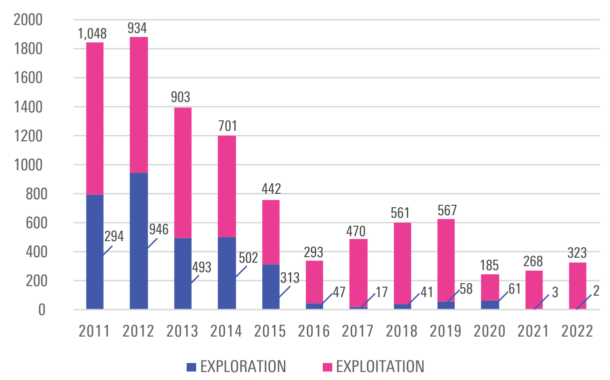
FUENTE: Petroperu - estadísticas anuales de canon

## Situation of the Hydrocarbons Sector

According to the “March 2023 Inflation Report” of the BCRP, the hydrocarbons sector registered a growth of 4% in 2022 in respect of 2021, mainly due to extraction of oil and gas. The first driven by the greater extraction of oil of block 95 due to the drilling of new oil wells, and the increase in gas extraction was due to the increase in internal (block 88) and external (block 56 and 57) demand.

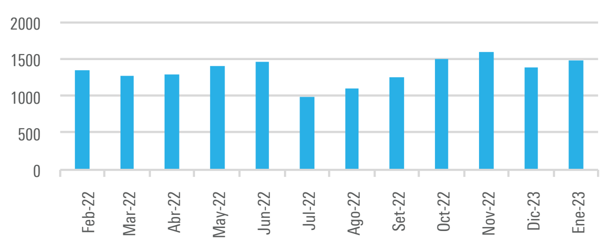
By 2023, the sector is expected to grow 4.7 percent, a figure associated with a normalization of the production of natural gas and natural gas liquids. In 2024, the sector would grow 4.9 percent associated with a normalization of oil extraction, due to the greater production of lots in the jungle.

### Investments in thousands of US$




### Oil monthly production (MBPD)

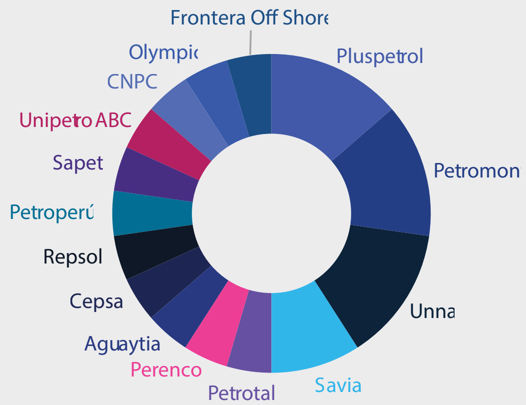

### Gas monthly production (MMPCD)




Source: Perupetro
*Does not include natural gas liquids.

# Participation in blocks

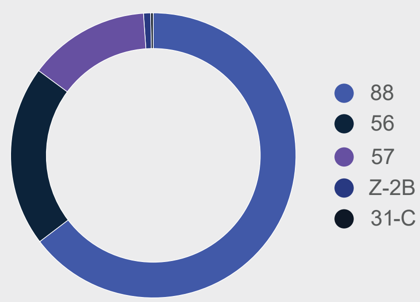
### Number of Blocks



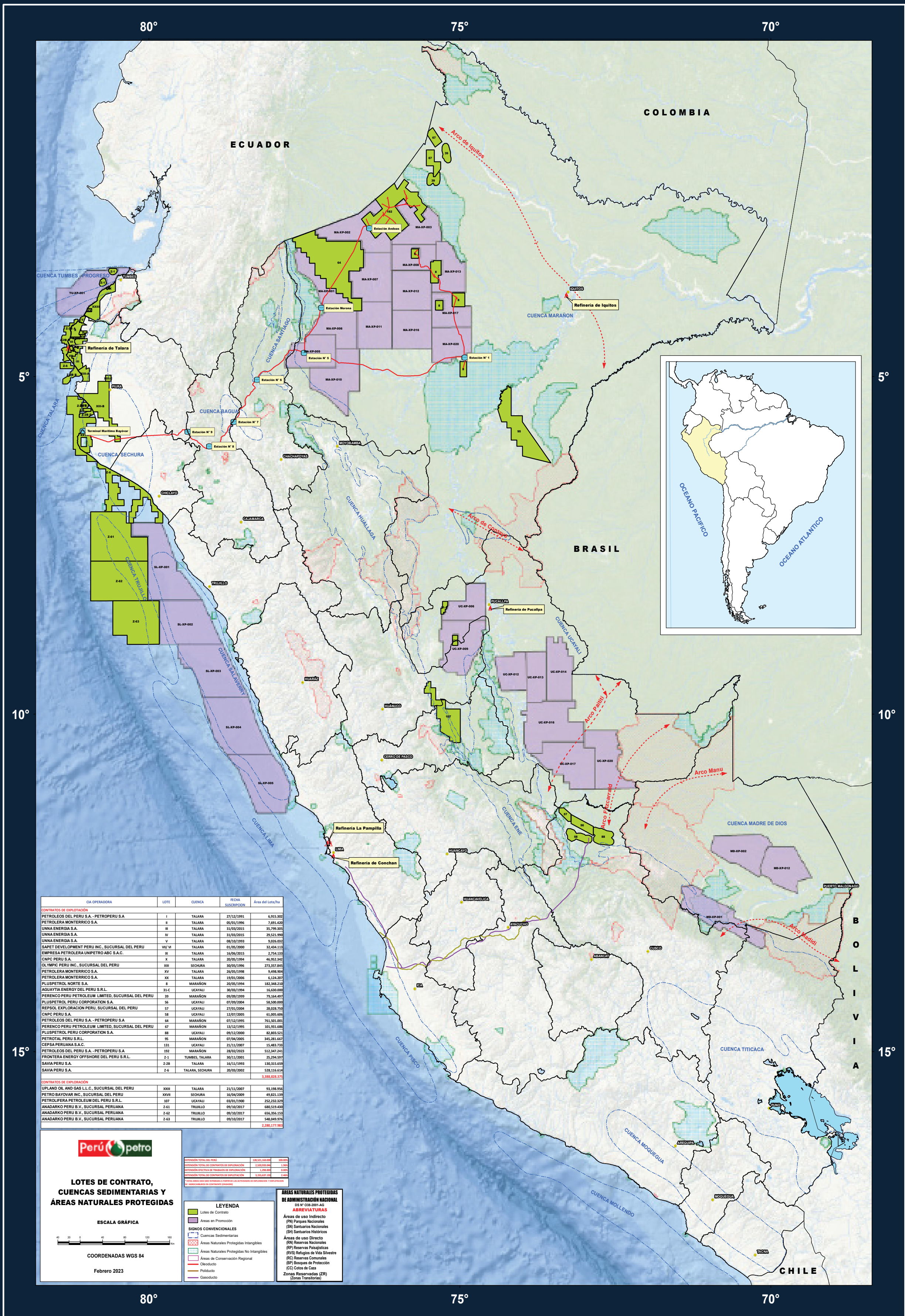

Elaborated by KPMG
Source: Perupetro

| ZONE | OPERATOR | BLOCK | PRODUCTION |
|---|---|---|---|
| North rainforest | Pluspetrol Norte | 8 | Oil |
| | Petrotal | 95 | Oil |
| | Perenco | 67 | Oil |
| Central rainforest | Aguaytia | 31-C | Gas and NGL |
| | Cepsa | 131 | Oil |
| South rainforest | Pluspetrol | 88 | Gas and NGL |
| | Pluspetrol | 56 | Gas and NGL |
| | Repsol | 57 | Gas and NGL |
| Northwest | Petroperú | I(T) | Oil and gas |
| | Petromont | II | Oil and gas |
| | Unna | III. | Oil |
| | | IV. | Oil and gas |
| | | V | Oil |
| | Sapet | VII/VI | Oil and gas |
| | Unipetro ABC | IX. | Oil |
| | CNPC | X | Oil and gas |
| | Olympic | XIII | Oil and gas |
| | Petromont | XV | Oil |
| | Petromont | XX | Oil |
| Continental shelf | Savia | Z-2B | Oil, NGL and Gas |
| | Savia | Z-6 | Oil |
| | Frontera Off Shore | Z-1 | Oil |

### Natural Gas audited production by oil well (2022)



# MAP OF CONTRACT BLOCKS, SEDIMENTARY BASINS AND PROTECTEC NATURAL AREAS




| CIA OPERADORA | LOTE | CUENCA | FECHA SUSCRIPCION | Área del Lote/ha |
|---|---|---|---|---|
| CONTRATOS DE EXPLOTACIÓN | | | | |
| PETROLEOS DEL PERU S.A. - PETROPERU S.A | I | TALARA | 27/12/1991 | 6,915.302 |
| PETROLERA MONTERRICO S.A. | II | TALARA | 05/01/1996 | 7,691.420 |
| UNNA ENERGIA S.A. | III | TALARA | 31/03/2015 | 35,799.305 |
| UNNA ENERGIA S.A. | IV | TALARA | 31/03/2015 | 29,521.990 |
| UNNA ENERGIA S.A. | V | TALARA | 08/10/1993 | 9,026.032 |
| SAPET DEVELOPMENT PERU INC., SUCURSAL DEL PERU | VII/ VI | TALARA | 01/05/2000 | 32,434.113 |
| EMPRESA PETROLERA UNIPETRO ABC S.A.C. | IX | TALARA | 16/06/2015 | 2,754.133 |
| CNPC PERU S.A. | X | TALARA | 20/05/1994 | 46,952.342 |
| OLYMPIC PERU INC., SUCURSAL DEL PERU | XIII | SECHURA | 30/05/1996 | 273,357.845 |
| PETROLERA MONTERRICO S.A. | XV | TALARA | 26/05/1998 | 9,498.904 |
| PETROLERA MONTERRICO S.A. | XX | TALARA | 19/01/2006 | 6,124.207 |
| PLUSPETROL NORTE S.A. | 8 | MARAÑON | 20/05/1994 | 182,348.210 |
| AGUAYTIA ENERGY DEL PERU S.R.L. | 31-C | UCAYALI | 30/03/1994 | 16,630.000 |
| PERENCO PERU PETROLEUM LIMITED, SUCURSAL DEL PERU | 39 | MARAÑON | 09/09/1999 | 79,164.497 |
| PLUSPETROL PERU CORPORATION S.A. | 56 | UCAYALI | 07/09/2004 | 58,500.000 |
| REPSOL EXPLORACION PERU, SUCURSAL DEL PERU | 57 | UCAYALI | 27/01/2004 | 28,028.750 |
| CNPC PERU S.A. | 58 | UCAYALI | 12/07/2005 | 61,005.606 |
| PETROLEOS DEL PERU S.A. - PETROPERU S.A | 64 | MARAÑON | 07/12/1995 | 761,501.001 |
| PERENCO PERU PETROLEUM LIMITED, SUCURSAL DEL PERU | 67 | MARAÑON | 13/12/1995 | 101,931.686 |
| PLUSPETROL PERU CORPORATION S.A. | 88 | UCAYALI | 09/12/2000 | 82,803.521 |
| PETROTAL PERU S.R.L. | 95 | MARAÑON | 07/04/2005 | 345,281.667 |
| CEPSA PERUANA S.A.C. | 131 | UCAYALI | 21/11/2007 | 15,483.733 |
| PETROLEOS DEL PERU S.A. - PETROPERU S.A | 192 | MARAÑON | 28/02/2023 | 512,347.241 |
| FRONTERA ENERGY OFFSHORE DEL PERU S.R.L. | Z-1 | TUMBES, TALARA | 30/11/2001 | 25,294.597 |
| SAVIA PERU S.A. | Z-2B | TALARA | 16/11/1993 | 130,315.659 |
| SAVIA PERU S.A. | Z-6 | TALARA, SECHURA | 20/03/2002 | 528,116.614 |
| | | | | 3,388,828.375 |
| CONTRATOS DE EXPLORACIÓN | | | | |
| UPLAND OIL AND GAS L.L.C., SUCURSAL DEL PERU | XXIII | TALARA | 21/11/2007 | 93,198.956 |
| PETRO BAYOVAR INC., SUCURSAL DEL PERU | XXVII | SECHURA | 16/04/2009 | 49,821.139 |
| PETROLIFERA PETROLEUM DEL PERU S.R.L. | 107 | UCAYALI | 03/01/1900 | 252,232.329 |
| ANADARKO PERU B.V., SUCURSAL PERUANA | Z-61 | TRUJILLO | 09/10/2017 | 680,519.430 |
| ANADARKO PERU B.V., SUCURSAL PERUANA | Z-62 | TRUJILLO | 09/10/2017 | 656,356.153 |
| ANADARKO PERU B.V., SUCURSAL PERUANA | Z-63 | TRUJILLO | 09/10/2017 | 548,049.976 |
| | | | | 2,280,177.983 |

Perú petro

**LOTES DE CONTRATO, CUENCAS SEDIMENTARIAS Y ÁREAS NATURALES PROTEGIDAS**

ESCALA GRÁFICA

40 20 0 40 80 120 160 Km

COORDENADAS WGS 84

Febrero 2023

| | | |
|---|---|---|
| EXTENSIÓN TOTAL DEL PERÚ | 128,521,160.000 | 100.00% |
| EXTENSIÓN TOTAL DE CONTRATOS DE EXPLORACIÓN | 2,520,933.046 | 1.96% |
| EXTENSIÓN EFECTIVA DE TRABAJOS DE EXPLORACIÓN | 1,298.000 | 0.00% |
| EXTENSIÓN TOTAL DE CONTRATOS DE EXPLOTACIÓN | 3,155,637.193 | 2.46% |

* ESTAS AREAS HAN SIDO ESTIMADAS A PARTIR DE LAS ACTIVIDADES DE EXPLORACION Y EXPLOTACION DE HIDROCARBUROS EN CONTINENTE (ONSHORE)

**LEYENDA**

- Lotes de Contrato
- Areas en Promoción

SIGNOS CONVENCIONALES

- Cuencas Sedimentarias
- Áreas Naturales Protegidas Intangibles
- Áreas Naturales Protegidas No Intangibles
- Áreas de Conservación Regional
- Oleoducto
- Poliducto
- Gasoducto

**ÁREAS NATURALES PROTEGIDAS DE ADMINISTRACIÓN NACIONAL**
DS N° O38-2001-AG

**ABREVIATURAS**

Áreas de uso Indirecto
(PN) Parques Nacionales
(SN) Santuarios Nacionales
(SH) Santuarios Históricos

Áreas de uso Directo
(RN) Reservas Nacionales
(RP) Reservas Paisajísticas
(RVS) Refugios de Vida Silvestre
(RC) Reservas Comunales
(BP) Bosques de Protección
(CC) Cotos de Caza

Zonas Reservadas (ZR)
(Zonas Transitorias)

# 03

# Incorporating a Peruvian Entity

# Legal Vehicles to Invest in Peru

Foreign investors can set up companies or branches without restrictions and engage in all kinds of businesses, except for activities that take place within 50 km. of the international borders of the country, in which case they require authorization from the Government. There are specific limitations to invest in different types of regulated services, such as air transport, broadcasting, banking, among others.

Companies are governed by Peruvian General Companies Act - Law No. 26887 (hereinafter, “LGS”), which regulates different types of companies:

## Corporation or Sociedad Anónima (S.A.)

The corporation (S.A.) is the main form of organization regulated by the LGS, and its capital is represented by shares and made up of contributions from the shareholders, who are not personally responsible for company debts.

A corporation used as a subsidiary of a foreign investor has its own legal status different from its shareholders and/or parent company.

The minimum number of shareholders is two (2) and they can be natural or legal persons, both national and foreign. The incoporation and registration of an S.A. is carried out approximately in two (2) to three (3) months.

There is no minimum capital amount required by the LGS for the establishment of a legal entity in Peru, except for banks, financial entities, pension funds administrators and certain other controlled companies.

## Types of corporations

Corporations have three (3) types: (i) Corporation (Sociedad Anónima or S.A.), (ii) Public Corporation (Sociedad Anónima Abierta or S.A.A.); and, (iii) Closed Corporation (Sociedad Anónima Cerrada or S.A.C.)

## Public Corporation or Sociedad Anónima Abierta (S.A.A.)

The public corporation (S.A.A.) is a special form of corporation, which meets the general requirements of the S.A., but has some own distinctive features.

For the incorporation of a publicly traded company, you must meet one of the following requirements:

i. Primary public offering of shares or convertible bonds;

ii. It has more than 750 shareholders;

iii. Over 35% of its capital belongs to 175 or more shareholders, regardless within this number those shareholders whose individual equity trend did not reach two per thousand of the capital or exceed 5% of capital;

iv. It is constituted as such; or,

v. All shareholders voting unanimously approved the adjustment to the scheme.

The public company must register all its shares in the Public Registry of Securities Market. In addition, companies are under the control of the Peruvian Securities Market Superintendency (hereinafter, “SMV”).

## Closed Corporation or Sociedad Anónima Cerrada (S.A.C.)

The closed corporation (S.A.C.) is a special form of corporation, which meets the general requirements of the SA, but has some own distinctive features. The most important aspects of the closed corporation are:

i. The maximum number of shareholders is 20. The share capital is divided into shares, registered shares of equal value, and when incorporating it must be paid at least in 25% of each share and deposited in bank or financial institution on behalf of society.

ii. In the S.A.C., the board of directors is optional. Therefore, if you choose to ignore the board of directors its corporate bodies are: the general shareholders meeting and general manager,

The incorporation and registration of a S.A.C., is carried out approximately in ten (10) business days.

## Limited Liability Company or Sociedad Comercial de Responsabilidad Limitada (S.R.L.)

The S.R.L. is similar to a S.A.C: with the same minimum and maximum number of shareholders, their liability being limited to their participation in the capital.

The difference lies in certain limitations or requirements for the transfer of the shareholder status, which in the case of the S.R.L. has more formalities.

In limited liability companies, the share capital is divided in equal, accumulative, and indivisible participations, which cannot be denominated shares nor represented by instruments or par value shares.

The incorporation and registration of an S.R.L. is carried out approximately in ten (10) business days.

## Branch of a Foreign Company

TAccording to the LGS, a branch is a permanent establishment by means of which a local or foreign company develops activities in a place different from its domicile.

The branch does not have legal independence or juridical personality different from its head office. Therefore, the branch will be regulated by the head office's by-laws and its activities must be within the head office's corporate purpose, being legally an extension of it in the Peruvian territory.

In the case of branches, capital is assigned by the head office but its liability is not limited to it. The head office remains unlimited liable for the obligations assumed by the branch. The assigned capital does not have a minimum amount and must be previously deposited or wire transferred in a Peruvian financial institution.

# Corporate Reorganization

The second section of the LGS regulates various forms of corporate reorganization, including. They can reorganize the civil, commercial and limited liability companies, only if they are domiciled in Peru. Merging branches of foreign companies is permitted only if the merger of their parent companies is allowed. The three (3) more used types of reorganizations are:

(i) **Transformation:** By transforming a company, it adopts, without dissolving, a different corporate form, among those provided by law, maintaining the same legal identity initiated at the time of registration in the Public Registry.

(ii) **Merger:** By merging two or more companies, under an agreement including full block transfer of its assets to a new company or to one of the participants, with the extinction of the transferors and the consequent issuance to the shareholders of the companies extinguished a percentage of shares in the new capital in proportion to their participation in the company in which they participated.

(iii) **Spin-Off:** By splitting one or more companies transferred in block one or more segments of its assets to another and another, new or existing, companies with direct issuance or allocation of shares in the share capital to the transferor.

# M&A Control Act

### Scope of application

- Acts that produce effects in all or part of the Peruvian national territory, including acts of concentration that are carried out abroad and directly or indirectly involve economic agents that carry out economic activities in the country.

- Economic agents that offer or demand goods or services in the market and carry out acts of concentration that produce or may produce anticompetitive effects in all or part of the national territory.

- The Peruvian Competition Authority (INDECOPI) considers as “Business Control Operations” any act or operation involving a transfer or change of control of a company or part of it

### Prior Control Threshold

A business concentration is subject to the prior control procedure when, jointly, the following conditions are met:

- The total sum of the value of sales or annual gross income or value of assets in the country of the companies involved in the business concentration operation has reached a value equal to or greater than 118,000 UIT* (approx. PEN 584’100,000 or USD 155’100,000), during the prior fiscal year to that in which the operation is notified.

- The value of sales or annual gross income or value of assets in the country of at least two of the companies involved in the business concentration operation have reached a value equal to or greater than 18,000 UIT (approx. PEN 89’100,000 or USD 23’660,000) each, during the fiscal year prior to that in which the operation is notified.

# Dissolution and Liquidation of Companies

The Peruvian General Companies Act establishes the grounds for dissolution of a company. If a company continues to operate under a condition like the cited in the LGS, it acquires an irregular condition, being its directors, managers and representatives unlimited, jointly and severally liable for the contracts and acts of the corporation after becoming an irregular company.

Once the company has been dissolved, it enters into a liquidation process, keeping its legal capacity until registration of the dissolution. If, during the liquidation process, the equity of the company is extinguished, then bankruptcy should be declared.

For a branch of a foreign company ceases to operate in Peru, must have, like to establish it, an agreement of the company that chooses to establish it, that decides to terminate operations and remove the branch of Peru.

# Business Cooperation Agreements

The General Law of Business Associations establishes that a business cooperative agreement is an agreement that creates and governs participation and integration relationships in businesses or specific companies, which are of common interest to the parties involved.

This law regulates two types of business cooperation agreements: (i) association and (ii) joint venture.

According to the Income Tax Law, business cooperative agreements shall keep bookkeeping independent from their contracting parties, except for agreements shorter than three years or, that due to the modality of the operations, an independent bookkeeping is not possible.

Under the law governing Sales Tax and Excise Tax, business cooperative agreements keeping independent accounting are subject to these taxes.

# Protection of Commercial and Industrial Rights

The members of the Andean Community, which brings together Peru, Bolivia, Colombia and Ecuador, undertake to standardize their trade laws and even adopt common rules, such as rules for the protection of trade-related rights. In order to achive this, the member countries of the Andean Community adopted a Common Industrial Property Regime governed by de Andean Decision 486.

## Tradenames

This distinguishes the merchant in the exercise of his activities, and is usually related to the name of the business. A company can have more than one tradename. It is protected without the need for registration: whoever adopts a name to distinguish their business activities and uses it effectively in commerce, acquires a right over that name, and in order to exercise it, they must prove priority in use (the oldest use).

## Other Industrial Property Rights

The industrial property rights protected in Peru are various, such as patents, trademarks and trade names. In the field of inventions, Peruvian legislation protects the elements of industrial property.

## Brands :

The protection of trademarks in Peru is obtained by registering them. Any sign or medium capable of distinguishing one product or service from another of the same nature in commerce can be registered as a trademark (for a term of 10 years, renewable indefinitely for similar periods). Peruvian law makes it possible to register forms, sounds and smells.

## Patents:

Title that protects the creator of an invention with industrial application. The patent right is granted by the competent authority after analyzing whether the invention is truly a creation; whether it is “inventive” –a contribution to technology- and not the obvious or necessary result of a known procedure; and if it has industrial application.

The authority will decide whether or not the invention is detrimental to the public order, morals, health, or lifes of individuals.

# Peruvian Banking System

Financial activity is regulated by the General Law of the Financial System and the Insurance and Organic System of the Superintendence of Banking and Insurance - SBS, Law No. 26702, to which companies operating in the financial and insurance market and companies that carry out related or complementary activities must abide.

Financial legislation treats foreign investments in the same way as national capital, subject to international conventions applicable to it.

According to the operations they carry out, companies in the financial system are classified as:

- **Multiple Operations Companies:**

  Banking Companies, Financial Companies, Municipal Savings and Credit Banks, Municipal Popular Credit Banks, Development Entities for Small and Micro Businesses, Savings and Credit Cooperatives (authorized to receive resources from the public), and Rural Savings and Credit Banks.

- **Specialized Companies :**

  Real Estate Capitalization Companies, Financial Leasing Companies, Factoring Companies, Bonding and Guarantee Companies, Trust Services Companies, Investment Banks, and Insurance Companies.

Companies in the financial sector must be incorporated as open stock corporations. Its organization and operation is authorized by the Peruvian Superintendency of Banks, Insurance and Pension Fund Administrators (hereinafter, "SBS"). Also, every company in the financial system authorized to receive deposits and/or capital from the public, belongs to the Deposit Insurance Fund (FSD).

Companies domiciled abroad can establish offices in Peru that operate with the public; for this, they must be subject to the conditions established by law for national companies and prove that the minimum capital required is domiciled in the country.

# Lima Stock Exchange

Peru is part of the Latin American Integrated Market (MILA) with about 712 issuers, which allows its investors to carry out cash operations in capital investments registered in the Colombian Stock Exchange, Mexican Stock Exchange, Santiago Stock Exchange (Chile) and the Lima Stock Exchange (Peru).

The main purpose of the Lima Stock Exchange is to facilitate the negotiation of registered securities as well as to provide the services, systems and mechanisms for their intermediation. The placement and issuance of securities are authorized by the Peruvian Superintendence of the Stock Market (SMV).

In Peru, CAVALI S.A. is the company in charge of Securities Clearing and Settlement, being its main roles the following:

- Securities Clearing and Settlement Institution (ICLV)

  Registration, transfer, custody, clearing and settlement of securities for operations carried out on the Lima Stock Exchange (variable income and corporate fixed income) and Datos Técnicos S.A. (public fixed income).

- Administrative Entity of the Securities Settlement System

  Administration of the securities settlement systems in the country.

- Withholding Agent

  Withholding agent for income tax on capital gains and interest from the sale of securities.

## Corporate Sustainability Report

In December 2015, the SMV issued the Resolution SMV N° 033-2015-SMV/01 which forces regulated companies to issue a corporate sustainability report.

The Corporate Sustainability Report (“RSC”) was required by SMV for regulated companies since 2016 (as of year) and it is a basic appendix within several questions to be answered related to policies and methodologies, social & environmental impact and stakeholders’ relationship.

In 2020, through SMV Resolution N° 018-2020-SMV/02, the appendix was revised to incorporate other questions that are aligned with current ESG trends, and which will allow shareholders, investors and other interest groups to have relevant and accurate information on policies, standards and actions that issuers have been implementing to ensure their long-term sustainability.

# 04

# Peruvian Tax System

## Bases of Taxation

Taxation in Peru is governed by the principles of reserve of the law, equality and respect for the fundamental rights of the person, as well as the non-confiscation of taxes.

The term tribute includes taxes, contributions and fees.

## Tax Unit

The Tax Unit (UIT) is a reference value used to determine tax bases, deductions, limits, sanctions and other tax obligations. For the year 2023, the UIT has been established at 4,950 Soles (US$ 1, 302.63 approximately).

## Taxpayer's Registry

Any individual or legal person or other collective entity that acquires the status of taxpayer must register in the Taxpayer's Registry (RUC).

## General Antiavoidance Rule

On the other hand, in the tax system, Rule XVI of the Preliminary Title of the Tax Code, contemplates a General Anti-Avoidance Rule whose objective is to determine if the contractual structure agreed by the taxpayers has been formulated for tax avoidance purposes.

## Declaration and Payment of Taxes

Taxpayers determine the amount of their taxes and file the declaration electronically. The tax declaration can be monthly, as in the case of the Value Added Tax, or annual, as in the case of Income Tax.

## Tax Administration

The administration and collection of taxes from the Central Government is the responsibility of the National Superintendence of Customs and Tax Administration (hereinafter SUNAT), as well as taxes related to foreign trade.

The taxes that the law creates in favor of the municipalities and are empowered to create (municipal rates and contributions), are administered and collected by them.

The aforementioned entities are also competent to resolve administrative procedures related to the inspection of taxes (determination of the tax obligation).

## Challenges

The determinations and sanctions established by the Tax Administration (SUNAT or other entities) can be claimed before it in the first instance and in a second instance before the Tax Court, being able to appeal later to the judicial headquarters.

## Sanctions

Failure to pay taxes generates the application of default interest (TIM) with the current rate of 0.9% per month.

## Information Exchange

Although the information that taxpayers provide to the tax authority for the purpose of filing their taxes is classified, the Tax Administration bodies may exchange such information among themselves.

Likewise, the tax reserve can be lifted at the motivated request of Congress, a judge or the Superintendent of Banking and Insurance, among others.

## Prescription

The action of the Tax Administration to determine the tax debt, to demand its payment and apply the sanctions, prescribes after four (4) years as a general term, six (6) years when the tax returns ordered by law aren't filled, and ten (10) years in the case of withheld or received taxes that were not delivered.

# 05

# Taxation on business activity

# General rules for Corporate Income Tax

Companies domiciled in Peru are subject to Income Tax for their worldwide source income (obtained from their activities in Peru and abroad) at a rate of 29.5%. Branches of companies incorporated abroad are only taxed on their earned income that qualifies as Peruvian source income.

The distribution of profits to shareholders is taxed with an additional rate of 5%, which must be withheld and paid by the person making the distribution, unless the shareholder is another legal entity domiciled in Peru, in which case it is not appropriate to tax the distribution of dividends with the additional rate of 5%.

To determine the amount to which the tax rate is applicable (Net Income), the costs necessary to generate the taxable income and the expenses necessary to maintain the productive source must be deducted from the total income subject to the tax (Gross Income).

## Payments on account

Companies must make monthly payments on account (advances) of Income Tax, at a rate of 1.5% of their monthly net income in the case of new taxpayers, which may be applied as credits in the annual regularization tax return.

## Income Tax Credit

Companies can apply as a credit against their Income Tax, the Tax paid abroad for income from a foreign source, within the limit established by law.

## Pre-operating expenses

Pre-operating expenses and in general the necessary business expenses are recognized. Expenses incurred abroad are deductible as long as they are duly supported.

## Thin capitalization rules

The thin capitalization rule establishes that net interest that exceeds 30% of the taxable EBITDA of the previous year will not be deductible for Income Tax purposes.

EBITDA is net income after compensation for losses plus net interest, depreciation and amortization.

The net interest that could not have been deducted in the fiscal year due to exceeding the indicated limit, may be added to those corresponding to the four (4) immediate following fiscal years.

The limitation on the deduction of financial expenses (i.e. undercapitalization or percentage of EBITDA) will not apply, among others, to companies in the Financial and Insurance System and taxpayers whose net income in the taxable year is less than or equal to 2,500 UIT (US $2,941,176).

# Non- resident

Non-resident companies, branches, agencies or other permanent establishments, among other cases of non-resident taxpayers, must pay taxes on their income (income) that qualify as Peruvian source income must apply the following withholding rates:

| Taxed Activity | Rate |
|---|---|
| Interest from external credits (subject to certain requirements). | 4.99% |
| Interest paid abroad by companies with multiple operations established in Peru, such as banking companies and financial companies established in Peru. | 4.99% |
| Interest from bonds and other debt instruments, deposits made in accordance with Law 26702, General Law of the Financial System. | 4.99% |
| Other interests. | 30% |
| Income derived from the rental of ships and aircraft. | 10% |
| Royalties. | 30% |
| Dividends and other forms of profit distribution. | 5% |
| Technical Assistance (prior compliance with requirements) when it is used economically in the country. | 15% |
| Digital services (automated services) used economically in the country. | 30% |
| Income from the sale of securities carried out within the country. | 5% |
| Income from the sale of securities carried out outside the country. | 30% |
| Other income (sale of goods, rights or provision of services in the country) | 30% |

With the exception of the cases of presumed income mentioned below, for purposes of withholding Income Tax from non-residents, the following are considered net income:

The totality of the amounts paid or accredited corresponding to other income of the third category.

The amount that results from deducting the recovery of the capital invested in the cases of alienation of assets or rights, after submitting a request to the Tax Administration and obtaining the investment certification.

## Presumption of Net Income of Non-Residents from international activities

The Income Tax Law presumes, among other assumptions, that non-domiciled companies that carry out part of their operations in the country, obtain income from Peruvian sources equivalent to the following percentages of their gross income:

| Taxed Activity | Rate |
|---|---|
| Insurance activity | 7% |
| Aircraft rental | 60% |
| Ship rental | 80% |
| Telecommunications services | 5% |
| Air Transport | 1% |
| Chartering or maritime transport | 2% |
| Provision of news or informative material | 10% |
| Distribution of films or the like | 20% |
| Container supply | 15% |
| Demurrage of containers for transport | 80% |

# Agreements and conventions to avoid double taxation

Peru has signed 8 agreements to avoid double taxation on income and wealth with the following countries:

Canada
Chile
Brazil
Mexico
Portugal
South Korea
Swiss
Japan

Said agreements follow the guidelines of the OECD model, so, in principle, the country where the profits will be taxed is the country of residence of the company, except for different express provisions.

It should be added that, recently, Peru has signed an agreement to avoid double taxation with Japan that takes effect as of January 1, 2022.

Likewise, Peru, by being part of the Andean Community of Nations, is part of the agreement (Decision 578) to avoid double taxation with the following countries:

Ecuador
Bolivia
Colombia
Peru

Decision 578, as a general rule, states that the benefits resulting from business activities are only taxed in the country where they were carried out, that is, in the country of source, with the exception of technical services, technical advice.

# Countries with low or no taxation

Peruvian legislation has provided for the regulation of tax havens under the name of countries or territories of low or null taxation, when they do not have a Tax Information Exchange Agreement or a Double Tax Treaty (DTT) in force with Peru that includes an information exchange clause or lack of transparency at the level: legal, regulatory or administrative.

Likewise, it will be considered as such when the applicable rate of Corporate Income Tax is 0% or less than 60% of that which would correspond in Peru.

The aforementioned criteria will not apply in the case of a country that is a member of the OECD.

On the other hand, the regime of a country will be considered under the category of "preferential tax regime", when it is under any of the criteria provided for countries with low zero taxation or when the regime excludes the residents of the country from said regime or that the benefited subjects are prevented from operating in the market. The classification of pernicious or potentially pernicious regimes, carried out by the OECD, will also be taken into account.

The Ministry of Economy and Finance will publish the list of countries or territories that have complied or not with the exchange of information, according to the information sent by SUNAT.

## International Tax Transparency Regime

In application of the International Fiscal Transparency Regime ("Controlled Foreign Corporation Rules"), passive income from natural or legal persons domiciled in Peru through controlled entities not domiciled, can be attributed to taxpayers domiciled in the year in which they are generated.

The Income Tax paid by controlled entities not domiciled for said passive income may be used by the domiciled taxpayer as a credit against the tax in Peru with respect to the passive income attributed to him. The subsequent distribution of dividends by controlled entities not domiciled in favor of the domiciled taxpayer (for the aforementioned passive income) will not be subject to Income Tax in Peru.

## Temporary Tax on Net Assets (ITAN)

Tax applied to the value of net assets recorded in the balance sheet as of December 31 of the previous taxable year, applying a rate of 0.4% to the excess of S/. 1,000,000 (approximately US$ 255,754).

## Ultimate Beneficial Owner (UBO)

Legal persons domiciled in Peru, those that have a branch, agency or permanent establishment in the country, as well as legal entities (autonomous estates without legal personality and associative contracts), are obliged to provide information about those natural persons who are benefited with the business activities carried out, whether they are beneficiaries by exercising ownership and/or control of the legal person.

# Transfer Pricing rules in Peru

## Transfer Pricing in Peru, an OECD based Regime

Peru was one of the first countries in the region to adopt Transfer Pricing Rules, which are in place since 2002.

The Peruvian Transfer Pricing regime is based on OECD Guidelines and relies on the arm´s length principle as its fundamental pillar.

All intercompany transactions, either local or international, and all tax haven transactions must be priced at “arm´s length” for tax purposes.

The methodologies to carry out transfer pricing analyses are similar to the ones proposed by the OECD, including the Comparable Uncontrolled Price Method, the Resale Price Method, the Cost Plus Method, the Profit Split Method, the Residual Profit Split Method and the Transactional Net Margin Method.

The Tax Authorities can adjust the valuation for Income Tax purposes when they consider the rules have not been applied correctly and this has generated a lower income tax in Peru.

## Transfer Pricing Formal Obligations

Peru has a 3 Level documentation:

- **Local File (Due every June):** Applicable for companies with revenues higher than US$ 3 MM (aprox.) and an aggregated value of intercompany and tax haven transactions higher than US$ 530 k (aprox.)
- **Master File (Due every October):** Applicable for companies with revenues higher than US$ 26 MM (aprox.)
- **CbC Report (Due everu October):** Applicable for companies that belong to a Multinational Group with consolidated revenues higher than US$ 750 MM.

## Intragroup Services Rules

The country has specific intragroup services rules in place, which require to comply with the following conditions, among others, for the service costs or expenses to be considered deductible for tax purposes:

- Pass a Benefit Test
- Have detailed documentation on the costs and expenses incurred by the service provider.
- Have detailed documentation to prove the reality of the service (including deliverables, emails, communications, contracts, invoices, etc.)
- Low Value added services are subject to a deduction cap of costs +5%.

## Commodity exports / imports rules – “Sixth Method”

There are special rules in place for the export and import of commodities, which include the need to file a separate TP Informative Return for each import / export contemporaneously with each transaction. In case this return is incomplete or not filed, the commodity price must be re evaluated for tax purposes using the international quotation of the commodity at the date of departure (exports) or arrival (imports) of the merchandise.

## Other peculiarities

- While the regime is OECD based, it has several peculiarities, including the following:
- Local Transactions and Tax haven transactions with non related parties must be documented.
- Even small transactions must be documented (< US$ 3 k per transaction)
- Use of interquartile range is mandatory.
- Comparable companies can only use 1 year of financial information.

# Special regulatory rules for Corporate Income Tax

Oil & Gas industry is subject to the general corporate tax regime. However, some special fiscal rules are applicable, which mainly consist in royalties, levies and tax benefits.

Oil & Gas companies are subject to general coporate income tax regime, however, there are some special regulatory rules for oil & gas sector.

## Income Tax rate

Oil & Gas companies with licenses or service agreements are subject to 2% premium. These 2% would be added to Income Corporate Tax rate (29.5%).

## Exploration and development expenditures

The Organic Hydrocarbon Law establishes the exploration and devepment expenditures, as well as the investments made by the Contractors until the date on which the commercial extration of Hydrocarbon starts can be accumulated in an account. At the option of the Contractor and with respect to each contract, the amount shall be amortized in accordande with either of the following two methods:

1. On a unit of production basis; or,
2. By means of straight-line amortization, deducting the expenditures in equal portions, over a periord of not less than five (5) annual periods.

Once commercial extraction has begun, all amounts corresponding to expenses that have no recovery value will be deducted as an expense for the year.

Investments in one contract area that have not reached the commercial extration stage will be cumulated to the same type of investments in another contract area in which the commercial extration stage has been reached, and the total investments will be amortized using the chosen method.

## Ring Fence rules

Contractors that carry out exploration and exploitation activities or exploitation of Hydrocarbons in more than one Contract area, as well as related activities or other activities, shall be determinate the results of each fiscal year independtly for each Contract area and for each activity for income tax calculation purposes.

The total income tax amount to be paid by the Contractor will be the sum of the ammounts calculated for each contract, for related activities and for other activities.

If one or more of the Contractors or related activities generate tax losse that can be carried forward, these may offset against the profit generated by other Contracts or related activities.

Tax losses from one or more contracts or related activities may not be offset agains profits generated by other activities. Nor may tax losses generated by other activities be offset against profits generated by one or more contacts or related activities.

# Special Contributions

## Royalties

Investors that perform Oil & Gas activities under a license contract entered with PERUPETRO must pay a royalty in favor of the Peruvian Government, while service contract executors must pay a remuneration to the contractor, in function of the Audit Hydrocarbons Production.

The royalty is determined by using one of the following methodologies: production scales, economic results, or others.

The paid royalty will be considered as an expense.

## Hydrocarbon Canon

The canon is a participation that Local and Regional Governments, among other public entities, obtain as income for oil& gas exploitation activities in their jurisdictions.

Canon income is distributed in Loreto, Ucayali, Piura, Tumbes and Puerto Inca, under certain criteria and percentages of distribution.

## Osinergmin Contribution

The Oil & Gas Companies that produce or import fuel, including liquefied petroleum gas, or carry out transportation and distribution activities should pay this contribution to the Supervisory Body of the Private Investment in Energy and Mines (OSINERGMIN). The rate of this contribution is 0.34% for 2023 (for import or production activities) and 0.38 % for 2024, and 0.38% for 2025 applied on their monthly billing after deducting VAT.

## OEFA Contribution

The Oil & Gas Companies that import or produce fuel, including liquefied petroleum gas, or carry out transportation and distribution activities should pay this contribution to the Environmental Audit and Evaluation Agency (OEFA). The rate of this contribution for years 2023-2025 is 0.10% (for import or production activities), the rate is applied on their monthly billing after deducting VAT.

## FISE Contribution

The Energy Social Inclusion Fund (FISE) is the fund established by the Peruvian State, which originally functioned as a mechanism to promote the inclusion of the population in need of access to energy supply. It has the following objectives:

1. To massify natural gas for housing and vehicular purposes.
2. Expand the energy frontier through the use of renewable energies.
3. Generate access to LPG for vulnerable sectors of the population.
4. To function as a compensation mechanism related to residential electricity.

It is financed through large electricity consumers (mainly mining and industrial companies), natural gas transportation services through pipelines (Camisea), and fuel production and imports. The hydrocarbon and electricity companies, which carry out these activities, are responsible for collecting these contributions and transferring them to the Supervisory Body for Private Investment in Energy and Mining (OSINERGMIN).

# 06

# Taxation of Individuals

# Domicile Status

An individual is domicile if they remain in Peru for more than 183 calendar days during any 12-month period. The change in the condition will become effective as of January 1 of the following year and it affects the Income Tax for your worldwide source income.

## Rates

### Capital Income

The 6.25% rate is applied to your net 1st income category: those produced by the lease, sublease and assignment of assets; and those of 2nd. Category: interest, royalties and capital gains (disposal of assets and/or rights deducting their computable cost duly accredited).

In the case of dividends and any other form of profit distribution, they will be subject to an IR rate of 5%.

### Work Income

Income derived from self-employment (4th category) and dependent work (5th category) of people domiciled in the country, as well as those obtained from income from a foreign source, are taxed by Income Tax, applying the following rates progressively:

| Sum of Net Work Income and Foreign Source Income | Rate |
|---|---|
| Up to 5 Tax Units (approximately US$ 5,882) | 8% |
| More than 5 UIT up to 20 UIT (approximately US$ 23,529) | 14% |
| More than 20 UIT up to 35 UIT (approximately US$ 41,176) | 17% |
| More than 35 UIT up to 45 UIT (approximately US$ 52,941) | 20% |
| More than 45 Tax Units (approximately US$ 52,941) | 30% |

In the case of non-resident natural persons who receive income from independent and/or dependent work, a fixed rate of 30% will be applied.

In all cases, the domiciled employer will have the obligation to withhold and pay the employee's tax to the Tax Administration (SUNAT).

## Deductions

Domiciled natural persons may make the following deductions

| Concept to deduce | Amount to deduct |
|---|---|
| Of the total gross income of the 1st and 2nd category. | 20% |
| Of the total gross income of the 4th category with a limit of 24 UIT (approximately US$ 28,235).<br>It does not apply in the case of income received by the functions of company director, trustee, agent, business manager and other similar. | 20% |
| Of the total fourth category income | 7 Tax Units per year (US$ 8,235 approx.) |
| Rental expenses for real estate located in the country, services of doctors, dentists and independent professional services and contributions to the Social Security of Health (Essalud) made by domestic workers, among others. | Up to 3 Tax Units per year (approximately US$ 3,529) |

For the withholding of Income Tax of non-resident subjects, net income is considered, without admitting evidence to the contrary.

| Concepts | Net rent (%) |
|---|---|
| The amounts paid for income of 1st, 2nd and 5th category. | 100% |
| The amounts paid for 4th category income. | 80% |

Domiciled natural persons may apply against their tax the Income Tax paid abroad for income from a foreign source, taking into account the limits established by Law for said effect.

## Unaffected

The indemnities provided by current labor provisions, as well as life annuities and pensions originating from personal work, are unaffected from Income Tax.

# Capital gain

Income that comes from the sale of capital goods are those that are not intended to be marketed within the scope of a business or company.

To determine the income obtained from the capital gain, the computable cost corresponding to the alienated asset must be deducted.

# Disposal, redemption or redemption of Transferable Securities

- **Obtained by Non-Residents:**

  Capital gains from the transfer of shares are taxed with Income Tax at a rate of 5% if the operation is carried out "within the country", shares registered in the Public Registry of Shares of the Stock Exchange and the transfer it is carried out by some centralized negotiation mechanism in Peru and with 30% if it is carried out “outside the country”.

- **Obtained by Residents:**

  Capital gains obtained by individuals are subject to Income Tax at a rate of 6.25% on the amount resulting from deducting 20% of gross income.

  The capital loss originated by the alienation of shares by natural persons can only be offset against the capital gain obtained by carrying out the same type of operations.

# Disposal of real property

- **Not Domiciled:**

  Net capital gains obtained by non-residents are subject to Income Tax at a rate of 5%.

- **Domiciled:**

  Capital gains obtained by a natural person are subject to Income Tax at a rate of 6.5% on the amount resulting from deducting 20% of gross income.

# 07

# Indirect Taxes

# Value Added Tax

They are taxed with the Value Added Tax (VAT), the sale of goods and the provision of services in the country.

The VAT rate is generally 18%, compounded with a rate of 16% on the value of the sale or of the service provided and the rate of 2% of the Municipal Promotion Tax (IPM).

In addition to the sale of goods and the provision of services, the use of services in the country provided by non-residents, construction contracts, the first sale of real estate made by their builders and imports of goods are taxed with VAT.

Until December 31, 2023, the goods and services indicated in Appendices I and II contained in the VAT Law, such as fresh fish, vegetables, legumes, seeds, fruits, books, among others, are exonerated; On the other hand, among the exempted services is public passenger transport within the country, international cargo transport, among others.

# Tax benefits

- ## Amazon

  The sale of goods, the provision of services and construction contracts carried out in the Amazon, by taxpayers who carry out certain activities and who also meet certain requirements, such as having their tax domicile, administration and production, are exempt from VAT. in that region, among others.

- ## Early Recovery Regime

  The early recovery VAT regime allows obtaining an early recovery of the VAT paid on the import or adquisition of goods, services, and construction contracts incurred during the preoperative stage that are destined to the execution of the project investment comintment and that are destined to operations levied with VAT or exportation.

  The benefit is applied to all those activities with investments complying the following requirements:

  i. a minimun investment commitment of USD 2 million for Companies that have not started their productive activity abd that apply to this regime until December 31, 2024. After this period the minimum investment will be USD 5 million.

  ii. projects with a pre-operational stage of at least 2 years.

- ## Definitve recovery Regime for Oil&Gas activities

  Under this regime, can be requested in recovery the VAT paid on the import or acquisition of goods, provision or use of services and construction contracts related to oil & gas exploration activities.

  The regime will be applicable until the end of the exploration phase established in the contracts or agreement.

  This regime will be in force until December 31, 2027.

- ## Exports

  The export of goods, services and construction contracts executed abroad are not taxed with the VAT. Exports are considered: sales to establishments located in Duty Free and sales made in them, swap operations carried out by mining producers, as well as the provision of lodging services to non-residents.

  In the case of services, in order to consider that an export has been made, the provider must previously be registered in the Registry of Service Exporters in charge of the Peruvian Tax Authority (SUNAT).

- ## Balance in favor of the Exporter

The Balance in favor of the Benefit Exporter (SFMB) is a mechanism to compensate and/ or return to the exporter the VAT tax credit, generated by its export operations, being constituted by the amount of VAT (VAT and IPM) that occurred been consigned in the payment vouchers corresponding to the acquisition of goods, services, construction contracts and import policies.

- ## Concepts not taxed

The credit services provided by banks and financial and credit institutions, the transfer due to company reorganization (merger or spin-off), the transfer of sole proprietorships and irregular companies, as well as the transfer of land and the second transfer are not taxed with VAT. real estate, among other cases.

- ## Excise Tax (ISC)

It is taxed with the ISC, the sale in the country at the producer level and the importation of the fuels specified in Appendix 3 of the VAT and ISC Law (see following table).

This tax seeks to tax polluting fuels in order to generate a disincentive for their consumption and encourage their substitution towards less polluting fuels and even the transition towards more sustainable technologies, such as electric and hybrid vehicles.

| Excise Tax on fuels | | | |
|---|---|---|---|
| Tariff Heading | Products | S/ per gallon | USD per gallon* |
| 2701.11.00.00 | Anthacites for energeting uses | 51.72 (per ton) | 196.54 |
| 2701.12.00.00<br>2701.19.00.00 | Bitumus coal for energetic use, and other coals | 55.19 (per ton) | 209.72 |
| 2710.12.13.10<br>2710.12.19.00<br>2710.12.20.00<br>2710.20.00.90 | Gasoline for motors with Research Octane Number (RON) les tan 84 | 1.27 | 4.83 |
| 2710.12.13.21<br>2710.12.19.00<br>2710.12.20.00<br>2710.20.00.90 | Gasoline for engines with RON equal or over 84, but less tan 90, and with 7.8% volumen of fuel alcohol | 1.22 | 4.64 |
| 2710.12.13.29<br>2710.12.19.00<br>2710.12.20.00<br>2710.20.00.90 | Gasoline with RON equal or over 84, but less than 90 | 1.27 | 4.83 |
| 2710.12.13.31<br>2710.12.19.00<br>2710.12.20.00<br>2710.20.00.90 | Gasoline for engines with RON equal or over 90, but less tan 95, and with 7.8% volumen of fuel alcohol | 1.16 | 4.41 |
| 2710.12.13.39<br>2710.12.19.00<br>2710.12.20.00<br>2710.20.00.90 | Other fuels with RON over or equal to 90 but less than 95 | 1.21 | 4.60 |
| 2710.12.13.41<br>2710.12.19.00<br>2710.11.20.00<br>2710.20.00.90 | Gasoline for engines with RON equal or above 95, but less than 97, and with 7.8% volume of fuel alcohol | 1.13 | 4.29 |
| 2710.12.13.49<br>2710.12.19.00<br>2710.20.00.90 | Other fuels with RON over or equal to 95 but less than 97 | 1.17 | 4.45 |
| 27.10.12.13.49<br>27.10.12.19.00<br>2710.1.20.00<br>2710.20.00.90 | Other fuels with RON equal or above 97 and engines with 7.8% volume of fuel alcohol | 1.13 | 4.29 |
| 2710.12.13.59<br>2710.12.19.00<br>2710.12.20.00<br>2710.20.00.90 | Other fuels with RON equal or above 97**** | 1.17 | 4.45 |

*USD1= S/3.80

| Excise Tax on fuels | | | |
|---|---|---|---|
| Tariff Heading | Products | S/ per gallon | USD per gallon* |
| 2710.19.14.00/ 2710.19.15.90 | Kerosene and Jet Fuels (Turbo A1), except certain sales in the country or imports for airships | 1.93 | 7.33 |
| 2710.19.15.90 | Kerosene and Jet Fuels (Turbo A1), only for:<br>-Aircraft exploiters, according to Law No.27261<br>-Holders of certificates to operate airships issued by the General Bureau of Civil Aeronautics<br>-Aviation fuel traders that hold a valid certificate of registry issued by the General Bureau of Civil Aeronautics | 0.26 | 0.99 |
| 2710.19.21.10/ 2710.19.21.90 | Gasoils, except Diesel B2 | 1.47 | 5.59 |
| 2710.19.21.11/ 2710.19.21.99 | Gasoils | 1.58 | 6.00 |
| 2710.19.21.11/ 2710.19.21.99 | Rest of gasoils, except Diesel B2 and Diesel B5 | 1.26 | 4.79 |
| 2710.19.21.20 | Diesel B2 | 1.44 | 5.47 |
| 2710.19.21.21 | Diesel B2 with sulfur content equal or below 50 ppm | 1.04 | 3.95 |
| 2710.19.21.29 | Rest of Diesel B2 | 1.24 | 4.71 |
| 2710.19.21.31 | Diesel B5 with sulfur content equal or below 50 ppm | 1.01 | 3.84 |
| 2710.19.21.39 | Rest of Diesel B5 | 1.20 | 4.56 |
| 2710.19.22.10 | Residual 6, except sales in the country or imports by certified seacraft fuel marketers | 0.92 | 3.50 |
| 2710.19.22.90 | Other fuels | 1.00 | 3.80 |
| 2710.20.00.11 | Diesel B2 with sulfur content equal or below 50 ppm | 1.70 | 6.46 |
| 2710.20.00.12/ 2710.20.00.13 | Diesel B5 and Diesel B20 with sulfur content equal or below 50 ppm | 1.49 | 5.66 |
| 2710.20.00.19 | Other mixes of Diesel B2 with Biodisel B100 | 1.70 | 6.46 |
| 2711.12.00.00/ 2711.19.00.00 | Liquifield Oil Gas | 0.00 | 0.00 |

# 08

# Other Taxes

# Municipal taxes

- ## Property Transfer Tax (Alcabala)

  The alcabala tax is levied on transfers of urban or rural real estate for consideration or free of charge, including sales with reservation of title, its tax base is the transfer value (from which the value of 10 UIT is deducted, approximately USD 11,765) applying a fee of 3%, being paid by the buyer.

- ## Property tax

  It is an annual tax that is levied on the value of urban and rural properties, charged to the owner as of January 1 of the year to which the tax obligation corresponds.

  The taxable base of the tax is constituted by the value of the property and the following cumulative progressive scale is applied:

  - Up to 15 Tax Units (US$ 17,647 approx.): 0.2%
  - More than 15 and up to 60 UIT (US$ 17,647 approx.): 0.6%
  - More than 60 Tax Units (more than US$ 70,588 approx.): 1.0%

- ## Vehicle Property Tax

  The tax is levied on the ownership of automobiles, trucks, etc., manufactured in the country or imported, less than three years old from the first registration in the vehicle ownership registry. The tax base is made up of the original value (with an adjustment for the age of the vehicle) and a rate of 1% applied to the value of the asset.

- ## Establishment Opening License

  Rates that every taxpayer must pay one time to operate an industrial, commercial or service establishment. The amount must respond to the cost of the administrative service provided, which may not exceed 1 UIT (approximately US$ 1,176).

- ## Road Tax on gasoline

  This tax is levied on sales in the country of gasoline at the producer level, the import and sale in the country by the importer of gasoline.

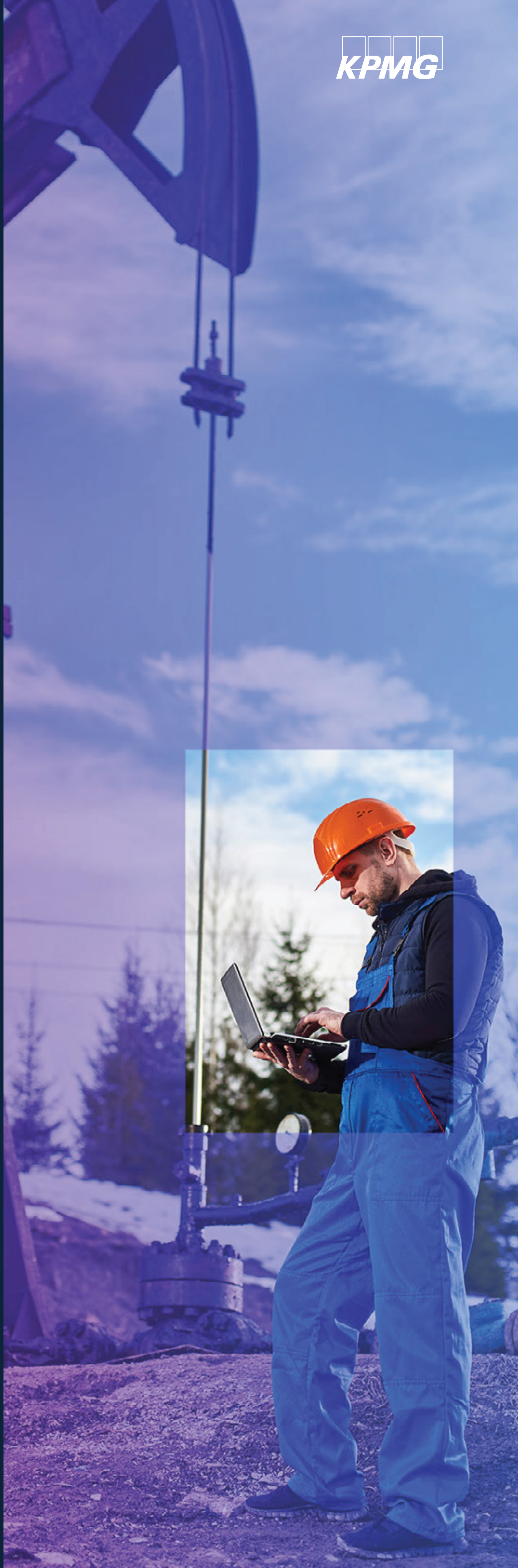
  The Road Tax is calculated by applying the rate of 8% on the taxable base, which is constituted by:

  - The ex-plant price, which does not include the Excise Tax or any other tax levied on the production or sale, in the case of sales in the country at the producer level.

  - The CIF Customs value, in the case of imports. The value does not include taxes paid in the operation.

  - The sales value, in the case of sales in the country of imported goods.

  The entity in charge of collecting the Road Tax is the Peruvian Tax Authority (SUNAT), the amounts collected will be destined to the Municipal Compensation Fund (FONCOMUN).



- ## Financial Transaction Tax (FTT)

  0.005% tax on transactions made in the accounts of the Peruvian banking system (accreditation or debit), regardless of the amount of the operation.

  The ITF paid is deductible as an expense for annual Income Tax purposes.

- ## Bancarization regime

  Under Peruvian law, any payment that exceeds USD 500 or S/. 2000 Soles must be made through the Peruvian Banking System, using "payment methods": checks, bank deposits, transfers, credit or debit cards, among others. In the case of money mutuals, means of payment must be used for any amount.

  Payments made without using "Means of Payment" will not give the right to deduct expenses, costs or credits.

- ## Contribution to SENATI

  Companies that carry out industrial activities and have more than 20 workers on average in the previous year are obliged to pay a contribution to the National Industrial Work Training Service (SENATI).

  The contribution rate is 0.75% applicable to the remuneration received by workers engaged in industrial activity.

# 09

# Foreign Trade

# Foreign Trade

## Import

The Customs Tariff of Peru is based on the Common Tariff Nomenclature of the Member Countries of the Andean Community - NANDINA, structured according to the Harmonized System of Designation and Coding of Merchandise (HS Code).

In order to determine the tax base for customs duties and taxes levied on imports into Peruvian territory, the WTO Customs Valuation Agreement is applicable. This Agreement provides for six valuation methods to be applicable successively.

## Restricted or prohibited products

Restricted goods are those that require a special authorization, license, permit, etc.; from the relevant authority, depending on the type of imported good.

On the other hand, goods considered prohibited (used clothing, used footwear, archaeological remains and objects, among others) are prevented from entering as well as leaving the national territory.

## Temporary import regime

Temporary import will be applicable to the extent that the goods are identifiable and intended to fulfill a specific purpose in a specific place, and to be re-exported within a specified period of time without having undergone modifications, except for the normal depreciation derived from their use. .

## Customs warehouse

Regime that allows goods arriving in the customs territory to be stored in a customs warehouse for this purpose, for a determined period (12 months) and under customs control, without payment of customs duties and other taxes applicable to importation for consumption, provided that they have not been requested from any customs regime nor are they in a situation of abandonment.

## Main Ports in Peru

- Port of Callao;
- Port of Matarani, department of Arequipa;
- Port of Paita, in the department of Piura;
- Port of Salaverry, department of La Libertad;

## Export

Exports are duty free. In addition, the Drawback refund regime allows exporting companies of manufacturing, textiles, agriculture and other productive activities, the total or partial recovery of customs duties that affected the importation of raw materials and spare parts, provided that their CIF value does not exceed 50% of the FOB value of exports.

## Free Trade Zones

The goods that enter these zones are exempt from taxes such as Income Tax, VAT, among others. To date, the Ilo, Paita and Matarani Zones are in operation, as well as the Tacna zone.

Likewise, the e- commerce of goods that is carried out in the Tacna Commercial Zone to the rest of the country, is not subject to VAT or other taxes (with the exception of Income Tax.

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# Labor and Immigration Legislation

# Labor contracting modalities

- ## Indeterminate employment contracts

Peruvian labor law has established, as a general rule, the hiring of workers for an indefinite term, so that, in principle, all paid and subordinate services are presumed to be for an indefinite term.

These employment contracts may be entered into orally or in writing.

The employment relationship begins the day on which the effective provision of services exists, being the first three (3) months of the employment relationship considered. as a trial period, as a general rule (except for the cases of trusted and management personnel which canm agree longer periods). If they are not qualified to provide the service, the employment relationship may be terminated without the need to invoke a just cause for dismissal.

- ## Fixed-term employment contracts

They are exceptional, and must be recorded in writing, provided that the employer can prove an objective cause (real and verifiable) for temporary hiring, otherwise the contract could be distorted and imply an employment relationship for an indefinite period of time.

- ## Part-time work contracts

It can be held for an indefinite or fixed term, its essential characteristic being that it has a working day of less than four (4) hours a day on average during the week and must be registered with the Administrative Labor Authority (hereinafter AAT).

Workers hired under this contractual modality, because they do not comply with the provision of a minimum number of hours, have reduced labor benefits: they are not entitled to Compensation for Service Time (CTS), they do not have job stability (the employer can terminate the contract unilaterally without invoking just cause), and they only have six business days of vacation for each year of service, bonuses for national holidays and Christmas, and profit sharing.

The following table details all the modalities of temporary employment contract subject to the private labor regime:

| Temporary | | |
|---|---|---|
| Start or increase of activity | Needs From the market | Reconversion business |
| To meet temporary needs arising from a new business activity. Maximum duration 3 years old | To meet temporary increases in production due to substantial variations in demand. Duration maximum of 5 years. | By substitution, extension or modification of the activities carried out in the company. Maximum duration of 2 years. |
| **Accidental** | | |
| Occasional | Substitution | Of emergency |
| To meet transitory needs other than the usual activity of the workplace. Duration maximum of 6 months a year. | To temporarily replace a stable worker whose relationship is legally suspended. Its duration is subject to the timely reinstatement of the holder to his job. | To cover needs produced by a fortuitous event or force majeure. The term will coincide with the duration of the emergency. |
| **By work or service** | | |
| Work or service | Intermittent | Seasonal |
| It has a previously established object: a work, material or intellectual, or a determined service. The term will be the one that is necessary. | To cover the needs of company activities that by their nature are permanent but discontinuous. It does not have a specific duration period. | Address the needs of the business that occur at times of the year, subject to repetition in equivalent periods in each cycle, according to the nature of the activity. |

# Remote Work

Currently there is one legal frame for teleworking in Peru, since remote work law expired on December 31st, 2022. The current telwroking law establishes the following:

| Affair | Telecommuting |
|---|---|
| Implementation | Agreement between the parties |
| Formality | Written agreement |
| Mandatory application | Force majeure or unforseen event |
| Location to provide the service | Outside the workplace, any place proposed by the employee, even overseas. |
| Work tools | Provided by the employer and if provided by the worker, they must be compensated by the former; unless otherwise agreed by both parties. |
| maximum working day | Applicable for personnel subject to immediate control |
| OSH | Obligation of the employer to inform and verify the measures, conditions and recommendations of SST. |
| Right to digital disconnection | Workers not subject to a maximum working day: Minimum 12 continuous hours in a 24-hour period |
| Return to face-to-face | Changes in the work modality must be agreed by both parties, exceptionally the employer can do it unilaterally when it responds to Business needs. Asking a remote teleworker to assist to the workplace requires a notification in advance with the timeframe agreed by both parties. |
| Validity | Permanent |

### Outsourcing of services

The contracting of the provision of services by other companies is regulated through the figure of outsourcing of services, which supposes only a contractual relationship between companies, but not a labor relationship between the main company (company that commissions the development of specialized activities or works that are part of its main activity to another) and the personnel of the company that provides the service.

According to new regulation issued in 2022, the outsourcing of activities that are part of the core of the business is not allowed. This regulation is currently suspended due to challenges at administrative and judicial instances. The Supreme Court will decide if this prohibition remains or will be delcared illegal.

Outsourcing with the displacement of personnel to the company premises requires from the outsourcing company:

1. Assume the services provided at your own risk and expense;
2. Have their own financial, technical or material resources, must have capital to support their operations and have 2 or more clients, with exceptions;
3. Be responsible for the results of your activities; and
4. Your workers must be under your exclusive subordination: your staff must be directed, supervised and sanctioned by the outsourcing company and not by the contracting company.

# Job intermediation

It allows the secondment of personnel and its use is restricted, it is oriented to cover temporary, complementary and/or specialized activities of the user company, with the following requirements:

| Activities | Definition |
|---|---|
| Temporary | They are occasional or replacement services. The number of workers of service companies or cooperatives that can provide services in user companies may not exceed 20% of the total number of workers of the user company. |
| Complementary (permanent) | Auxiliary activity, not linked to the main one. His absence does not interrupt operations. Examples: surveillance, security, repairs, external messaging, cleaning and others of a similar nature. |
| Specialized (permanent) | Auxiliary, secondary or activity not linked to the main activity that requires a high level of technical, scientific or particularly qualified knowledge. Examples: specialized maintenance and sanitation. |

- ## Working day

The ordinary working day is (8) eight hours a day or (48) forty-eight hours a week, as a maximum, a higher or lower limit can be set than the regular one, as long as the ordinary working day does not exceed 48 hours a week.

Those hours actually worked that exceed the daily or weekly workday will be paid with a surcharge of not less than 25% of the ordinary hour value for the first two hours; and, after the third hour, with a minimum surcharge of 35%, unless a higher amount is agreed.

- ## Night shift

It is the time worked between 10pm and 6am, night shifts must be rotating for workers and those who are assigned to said shifts who receive a remuneration equivalent to the minimum vital remuneration (RMV) in force on the date of payment (S/ 1,025 Currently (approximately USD 262) they must receive a surtax of 35%.

- ## working condition

Any allowance - in cash or in kind - that is granted to the worker for the full performance of his work or during the exercise of his functions, such as mobility, travel expenses, representation expenses, clothing and in general everything that reasonably complies with such object and does not constitute a benefit or patrimonial advantage for the worker.

Working conditions are not affected by the contributions that are levied on remuneration, nor are they considered as the basis for calculating social benefits and the contribution to social health security.



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# Laboral benefits

The labor benefits established by law that workers receive are the following:

| Concept | Detail | Amount |
|---|---|---|
| Remuneration | Amount that remunerates the effective hour of work, is the calculation basis for social benefits. | If the working day is ordinary (4 hours a day or more) it cannot be less than the RMV, which currently amounts to S/. 1,025.00 (approximately US$ 262). |
| Household allowance | Amount granted to the worker who certifies having children under 18 years of age or who, being older, have been pursuing higher education. | It is equivalent to 10% of the RMV. Currently amounts to S /. 102.50 (USD 26 approximately). |
| Legal gratuities | Amounts granted to workers for National Holidays (paid in July) and Christmas (paid in December) of each year. | They are each equivalent to an ordinary monthly remuneration, made up of the basic salary plus other remuneration items that are regularly paid to the worker (eg family allowance, housing allowance, etc.). |
| Compensation for Time of Services (CTS) | Annual amount paid by the employer to the worker in order to generate a protection fund in the event of termination of the employment relationship. 50% is deposited every six months (May and November of each year) in the bank chosen by the worker. | It is equivalent to the ordinary monthly remuneration received by the worker in the months of April and October of each year, plus one sixth of the amount paid for legal gratuity. |
| Life insurance | The employer must pay for life insurance from the beginning of the employment relationship. It is a group or collective insurance and benefits the direct family members of the worker (spouse/partner and children). | The insurable remunerations for the payment of the capital or policy are constituted by those that appear in the books of payrolls and payment slips, habitually received by the worker. |
| Vacation | It consists of 30 calendar days of paid physical rest for each full year of services, provided that it also complies with the service record required by law. | The amount is equivalent to an ordinary monthly remuneration that would have corresponded to him if he continued working. |
| Participation in company profits | The company that has more than 20 workers (on average 20.5 per year) and that generates profits (net income before taxes, not accounting profit), is obliged to distribute to its workers a share in the profits according to the percentage that corresponds according to the activity carried out:<br><br>Fishing Companies: 10%<br>Telecommunications companies: 10%<br>Industrial business: 10%<br>Mining Companies: 8%<br>Wholesale and retail trade companies and restaurants: 8%<br>Companies that carry out other activities: 5% | For example, if a mining company has generated net profit before taxes of S/ 1,000, and meets all the requirements required by law for profit sharing, it must carry out the following exercise:<br>Net profit before taxes: S/ 1,000 Percentage to distribute: 8%<br>So: S/ 1000 x 8% = S/ 80 (total to distribute)<br>Thus, the company will distribute S/ 80 among all its workers according to the following detail:<br>• 50% of the amount calculated based on the days actually worked during the year.<br>• 50% of the remaining sum based on the remuneration received at the time of payment. |

| Concept | Detail | Amount |
|---|---|---|
| Social Health Insurance (ESSALUD) | The employer must pay a contribution to the EsSalud Insurance for each of its workers. | It is equivalent to 9% of the monthly ordinary remuneration and includes the family allowance and other concepts of a remunerative nature. It does not tax the CTS.<br>As of March 2015, legal bonuses are not taxed with the aforementioned concept, instead, the employer must pay the equivalent of the contribution (9%) directly to the worker as an "extraordinary bonus" in accordance with the provisions of Law 29351. |
| Complementary Insurance for Hazardous Work (SCTR) | The employer must pay monthly in favor of its workers the coverage of additional insurance to that provided by the Social Security of Health (ESSALUD) for carry out activities classified as risky. | The percentage to be paid will vary depending on the greater or lesser degree of risk of the activity, and varies between 0.63% to 1.84% of the ordinary monthly remuneration and includes the family allowance and legal bonuses. It does not tax the CTS. |
| Compensation for arbitrary dismissal | If the employer fires a worker without just cause, it is obliged to pay compensation. | In the case of workers with indefinite-term contracts, it is equivalent to one and a half (1.5) regular monthly remuneration for each year of the worker's services; however, the ceiling of said compensation is 12 remunerations.<br>In the case of workers with fixed-term contracts, it is equivalent to one and a half (1.5) regular monthly remuneration for each month remaining to complete the contract with a maximum of 12 remunerations. |
| Concept | Detail | Amount |
| Remuneration | Amount that remunerates the effective hour of work, is the calculation basis for social benefits. | If the working day is ordinary (4 hours a day or more) it cannot be less than the RMV, which currently amounts to S/. 1,025.00 (approximately US$ 262). |
| Household allowance | Amount granted to the worker who certifies having children under 18 years of age or who, being older, have been pursuing higher education. | It is equivalent to 10% of the RMV. Currently amounts to S /. 102.50 (USD 26 approximately). |
| Legal gratuities | Amounts granted to workers for National Holidays (paid in July) and Christmas (paid in December) of each year. | They are each equivalent to an ordinary monthly remuneration, made up of the basic salary plus other remuneration items that are regularly paid to the worker (eg family allowance, housing allowance, etc.). |

# Immigration regime – Types of migratory qualities

Permits are granted by the National Migration Superintendence, in accordance with the following:

## Temporary:

Allows the entry and permanence of a foreigner in Peruvian territory, without the intention of residence, in general for 183 days, cumulative within a period of 365 days. Some temporary migratory qualities are:

- **Business**

  It allows the foreigner without residence intention to carry out activities of a business, legal, contractual, specialized technical assistance or similar nature, the period of stay is extendable.

- **Temporary Worker/Designee**

  Applicable to foreigners who wish to carry out the same activities referred to in the migratory qualities resident worker and designated resident, but without the intention of residence. It allows multiple entries, with the term of stay being extendable.

- **Tourist**

  It does not allow work or carry out paid or lucrative activities, it allows multiple entries and the term of stay is not extendable.

## Residence:

Authorizes entry and/or residence in the territory of the Republic, they are extendable and allow multiple entries. Some migratory qualities of residence are the following:

- ### Designated

  It allows you to carry out work activities that consist of performing a specific task or function or a job that requires specialized professional, commercial or technical knowledge sent by a foreign employer. It allows multiple entries and the term of permanence is 365 days.

- ### Investor

  It allows establishing, developing or managing legal investments within the framework of Peruvian legislation. The term of permanence is 365 days.

- ### Worker

  It allows lucrative activities to be carried out subordinately or independently, through a work contract approved by the Ministry of Labor and Employment Promotion, including employees of a transnational company or international corporation that travels to Peru to work in a company of the same economic group. or holding, to perform as senior management or trust personnel or as a specialist or specialist.

You can sign contracts or transactions, not being able to carry out lucrative activities on your own, the term of permanence of 365 days.

- ## Relative of resident

Permits residence to a foreigner who is a member of the family immigration unit of a Peruvian or resident foreigner. It allows lucrative activities to be carried out in a subordinate or independent way.

- ## Permanent

Allows foreigners to reside indefinitely after three (3) years as a legal resident, with an indefinite period of stay.

- ## International agreement

Allows residence to nationals of countries with which the Peruvian State has international treaties and agreements in force and that establish the possibility of residence. Includes the statutes for Political Asylums and Refugees.

The term of permanence and conditions are in accordance with the provisions of the applicable international treaties and conventions.

- ## Resident Special

It is granted by MIGRATION to foreigners who, having entered the country, need to regularize their immigration status, it allows the foreigner to enter the country multiple times and carry out lucrative activities in a subordinate or independent manner in the public and/or private sectors.

The term of permanence is up to 365 days, extendable, unless expressly provided in the approved regularization standard.

- ## Work permit

Any foreign citizen who has been assigned to start work in Peru must apply for a work permit. Employers, whether foreign or national, are authorized to hire personnel from other countries, with the condition that they do not exceed 20% of the total number of employees hired, and that their salaries must not exceed 30% of the costs registered in the payroll.

The hiring of foreign employees is subject to the labor regime of the private sector and to the limits established in the law that regulates it. Currently, work contracts with foreign personnel, as well as extensions and modifications, are automatically approved, that is, with the mere presentation, leaving their subsequent review at the discretion of the Administrative Authority.

Additionally, workers may apply for the exception of the aforementioned limit percentages if they are specialists, managers or executive personnel of a new company, employees of public companies or private companies that have signed agreements with public bodies, among other cases.

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# Other relevant issues

# Accounting and Audit

“International Financial Reporting Standars - IFRS and International Auditing Standards-ISAs, are main frameworks for financial information”

## Accounting

The generally accepted accounting principles in Peru are, International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Likewise, there are accounting standards or requirements issued by Preuvian Regulators: Superintendencia de Mercado de Valores - SMV, Superintendencia de Banca, Seguros y AFP - SBS and the Superintendency of Healthcare Providers.

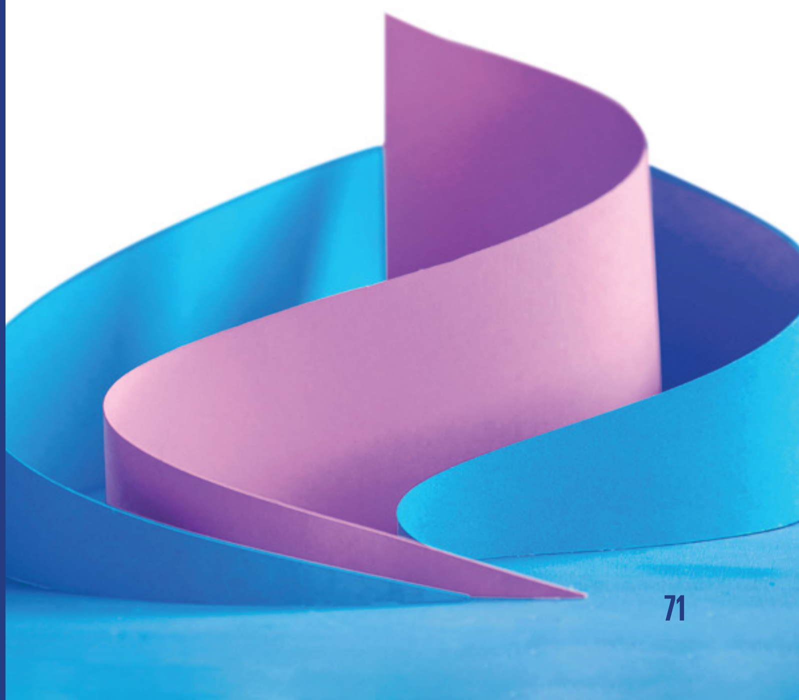
Legal entities subject to control and supervision are required to prepare their annual financial information in compliance with the Financial Information Regulations and the Manual for the Preparation of Financial Information, they must also present their audited annual financial information.

Those companies not supervised or regulated by the SMV with annual income equal to or greater than 3,000 UIT (UIT for 2023 is S/ 4,950.00 or USD 1,269.00, approximately) must prepare and present their financial statements under IFRS audited by auditing companies authorized by a College of Public Accountants in Peru.

## Audit

Similar to IFRS, Peru has adopted the Generally Accepted Auditing Standards (NAGAS) and the International Auditing Standards (ISA) approved for application in Peru by the Board of Deans of the College of Public Accountants of Peru.

The general framework of auditing standards (International Auditing Standards) is given by the general standards (referring to the qualities of the auditor), standards related to the execution of the work (audit planning, supervision and evaluation of internal control) and the standards related to the auditor’s report (about the content of the opinion).



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# Energy transition

# Environmental Regulations

## Environmental obligations

Under the Environmental Impact Assessment System (SEIA) regulations, any investment project that involves activities, constructions, works, and other commercial and service activities, funded by public, private, or mixed capital, which could result in significant negative environmental impacts, must obtain environmental certification before being carried out. It is mandatory for these projects to have an environmental certification beforehand, and no national, regional, or local authority can approve, authorize, allow, grant or enable them without it. The scope of this regulation includes activities related to hydrocarbons projects.

There are some specific rules for the hydrocarbon's activities such as the Supreme Decree No. 039-2014-EM. For these sector, the investors must present de Environmental Impact Assessment (EIA) before the exploration and exploitation execution. The EIA is an important document that addresses technical, environmental and social matters. In this regard, this document contributes with the determination of the appropriate mechanisms for preventing, minimizing, mitigating and remediate of the eventual negative environmental impacts that the hydrocarbon activities could trigger.

# Environmental Impact Assessments

Depending on the magnitude of the impact that the hydrocarbons activity could produce there are different types of EIA:

- **Envitonmental Impact Statement (EIS):**

  When the negative environmental impact is determinated as not significant. Its approval is almost inmediate. An EIS must be evaluated within 30 days.

- **Semi Detailed Environmental Impact Assesment (EIA-sd):**

  When the negative environmental impact is determinated as modarate and susceptible to be eliminated or minimized by adopting easly meassures. The investor should present a study that will be on a period of evaluation by the competent authority. An EIA-ds must be evaluated within 90 days.

- **Detailed Environmental Impact Assesment (EIA-d)**

  When the negative environmental impact is determinated as significant because of its magnitude, characteristics or location. It will be necessary to present an in-depth analysis to study the impact and propose the risk management. An EIA-d must be evaluated in a maximun of 120 days.

  The competents authoritys to evaluates the EIA are the Ministry of Energy and Mines (MINEM), and for complex studies the Environmental Certification National Service for Sustainable Investment (SENACE).

# Environmental Regulations

## Prior consultation

Before commencing an investment project that involves utilizing natural resources, the investor needs to assess whether the project area is located between or near lands of indigenous communities. This is because special regulations are in place in our country to safeguard the rights of these communities.

Through the Convention No. 169 of the International Labor Organization and the Law of the Indigenous and Native Peoples Right to Prior Consultation and its Regulations, Peru recognized the indigenous communities as a vulnerable group and established a special right to consultation in their favor.

Indigenous people have the right to be consulted about any legislative or administrative measures that may affect their living conditions concerning the use of their land.

This process aims to safeguard the rights of indigenous communities and to avert potential social conflicts that may arise from investment projects that could impact them.

The timeline for conducting the prior consultation process by the competent authority is before the issuance of the Supreme Decree that approves the subscription of contracts for exploration and exploitation.

The prior consultation process consists of seven stages, which include: (1) Identifying the legislative or administrative matter that requires consultation; (2) Identifying the indigenous people and their representative organizations; (3) Publicizing the legislative or administrative matter that requires consultation; (4) Providing information; (5) Conducting an internal evaluation by the indigenous people; (6) Facilitating dialogue between the Government and indigenous people; and (7) Making a decision.

The decision-making process must consider the following aspects:

- It must be within the competences of the promoting entity.
- It must comply with the constitutional and legal framework.
- It must adhere to the environmental legislation.
- It must preserve the survival of the indigenous people and their collective rights.
- It must guarantee the communal property and land rights of the indigenous peoples.

It should be noted that in the event of a lack of consensus in the final stage of the process, the entities promoting the project will make every effort to modify the legislative or administrative measures to ensure the protection of the rights and improvement of the living conditions of the indigenous people. Therefore, the absence of consensus does not give the latter a right of veto.

# Environmental Regulations

## Citizen Participation

It involves all communications that can be stablished between government authorities, investors and communities located in the area of interest –direct and indirect- of the projects.

Citizen participation will be ruled by special laws since the level of sensitivity and social trust reaches different level in this industry.

In this sense, regarding hydrocarbon activities, in January 2019, the MINEM published the new Regulation on Citizen Participation for the Hydrocarbon Activities (Supreme Decree No, 002-2019-EM) with the aim to strengthen the access tights to information and citizen participation, as well as to provide information too socio-environmental entities and strengthen the relations between local communities, the government and oil companies.

# Citizen Participation Procedure

Currently, the citizen participation on hydrocarbons procedure could be dividend in 2 stages:

- ### Negotiation and subscription of the Exploration or Exploitation Agreements

  This stage is in charge by Perupetro S.A., whome will make the previous procedures to the process of negotiation with the interested companies until the presentation of the Contractor of the blocks and the following subscription of the Exploration and/or the Exploitation agreement.

  This stage could be subdivided in 3 phases:

  - Before the beginning of the process of negotiation
  - Before the consignment of the project of the agreement with the MINEM
  - After the susbcription of the agreement

  Once this procedures are finished, Perupetro must emit: a report in which it will be contained the analysis of the process of citizen participation remitted to the Hydrocarbons General Direction (HGD) and a report with the detail and analysis of the citicen participation remitted to the Environmental Authority (SENACE) and the Environmental General Direction (DGAAH).

- ### Evaluation of the Environmental Impact:

  This stage is in charge of the investors and could be divided in two phases:

  - **Before the presentation of the environmental impact study:** the compny representant will present the citizen participation to the competent authority.
  - **During the environmental impact study evualuation:** the company representant as well as de competent authority will inform to the residents of the possible environmental and social impacts that could generate the project.

# Energy Transition, miscellaneous matters

## Carbon bonds

In 2018, Law 30754 – The Framework Law on Climate Change established  general provisions to coordinate, articulate, design, execute, report, monitor, evaluate and disseminate public policies for the integral, participatory, and transparent management of adaptation and mitigation to climate change in order in order to reduce the country's vulnerability to climate change, take advantage of the opportunities of low-carbon growth and comply with the international commitments assumed by the State in the United Nations Framework Convention on Climate Change.

the Law establishes that the State designs and implements programs, projects and activities aimed at reducing greenhouse gas emissions, carbon sequestration, and the increase of sinks, prioritizing, among others, sustainable transportation.

In 2020, the government approved Supreme Decree 013-2019-MINAM (Regulation of the Law), which creates the National Registry of Mitigation Measures. This Registry allows access to information on mitigation measures developed in the country, including carbon credits generated.

Likewise, the Regulation establishes that REDD+ is the mechanism for reducing emissions from deforestation and forest degradation. It seeks to offset carbon emissions through the issuance of bonds. It is led by Ministry of Environment - MINAM and is financed by international organizations (Moore Foundation and German Bank KFW).

To date, the are 645k protected area carbon bonds for sale. The 30% are old carbon bonds (prior to 2012, whose price was between USD 3 and 5 per bond). But from 2013 to 2017, the price of carbon bonds was up to USD 7, and from 2018 to 2020, was between USD 8 and 9. From 2021 to 2022, the price of carbon bonds was up to USD 9+.

Peru is the second largest carbon bond issuer in LATAM: 14M in 1Q of 2021. The Carbon bonds come only from REDD+ projects: Madre de Dios project (9M), Alto Mayo project (+8.4M) and Cordillera Azul (25M).

*How to buy carbon bonds from Protected Areas in Peru?*

1) Contact NGO allied to National Service for Natural Areas under State Protection – SERNARP (NGO CIMA, AIDER or Conservation International).

2) Submit a request for the purchase of carbon credits (deadline: 15 days).

The funds collected are destined to biomass conservation and financing of community productive projects.

## Electromobility

As part of international commitments and national policy objectives, Peru has committed to undertake actions to reduce greenhouse gas emissions by 40% by 2030. In this sense, within the framework of its constitutional powers and in order to comply with its adaptation and mitigation NDCs, the Peruvian government has approved several guidelines in its policies, oriented to sustainable development, as well as concrete actions aimed at reducing its polluting emissions.

Although some tax benefits have been approved that represent progress on the road to electromobility, to date Peru does not have a comprehensive regulatory framework that encourages the transition from the use of polluting vehicles to more efficient vehicles.

Notwithstanding the foregoing, to date, Congress is reviewing bills that promotes the use eco-friendly vehicles.

Some of the proposals for the use of this type of vehicle are the temporary reduction of taxes that have an impact on the acquisition of these vehicles (i.e., ad-valorem, VAT, Municipal Promotion Tax, Vehicle Wealth Tax, reduction of the current income tax rate, early recovery of VAT), among others of a regulatory nature.

## Green Hydrogen

The private initiative project seeks to promote the development of Green Hydrogen in its different applications, through tax and financial incentives.

Among the tax incentives included in this project, it is proposed to introduce income tax deductions, exclusion from the scope of application of VAT, early recovery of VAT, accelerated depreciation and tariff exceptio

## Carbon Tax

Peru does not have national carbon pricing policies. However, it has established a social cost of USD 9+ per ton for its evaluations of public investment projects.Also, there is a private initiate project that proposes to introduce a tax on liquid fuels derived from hydrocarbons and automotive fuels due to CO2 emissions, called “Green Tax”, with the purpose of providing a bonus for energy efficiency according to emission levels.

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## Tax benefits for I+D+i projects

Law No. 30309 granted a tax benefit of additional deduction for expenses incurred in Technological Innovation projects (hereinafter, I+D+i), which establishes that taxpayers who incur in such expenses, whether or not related to the company’s line of business and who comply with the requirements established in said law, may access the following deductions:

a. If their net income does not exceed two thousand three hundred Tax Units (2300 UIT):

   i. 240%: If the project is carried out directly by the taxpayer or through I+D+i centers domiciled in the country.

   ii. 190%: If the project is carried out through R&D&I centers not domiciled in the country.

b. Those whose net income exceeds 2300 UIT:

   i. 190%: If the project is carried out directly by the taxpayer or through I+D+i centers domiciled in the country.

   ii. 160%: If the project is carried out through I+D+i centers not domiciled in the country.

In this respect, paragraph a) of article 3 of the aforementioned law establishes as one of the requirements for the aforementioned deduction that the projects in question must be qualified as such by the National Council of Science, Technology and Technological Innovation - CONCYTEC; specifying that, for such purposes, the definitions of scientific research, technological development and technological innovation projects provided in paragraph a.3 of article 37 of the Law of the Taxpayer shall be considered. ) of Article 37 of the Income Tax Law (hereinafter, the Income Tax Law); and the aforementioned qualification shall be made within 45 working days, as established in the regulations. Likewise, CONCYTEC’s authorization is valid for 4 years.

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Pursuant to article 37 of the Income Tax Law, in order to establish the third category net income, the expenses necessary to produce it and maintain its source, as well as those related to the generation of capital gains, will be deducted from the gross income, as long as the deduction is not expressly prohibited by this law.

In turn, as established in paragraph a.3) of article 37 of the Income Tax Law, for purposes of determining Corporate Income Tax, expenses on I+D+i, whether or not related to the company's line of business, are deductible.

Regarding technological innovation projects, paragraph iii) of subsection a.3) of article 37 of the Corporate Income Tax Law develops the concept of technological innovation as follows:

Technological innovation: It is the interaction between market opportunities and the knowledge base of the company and its capabilities, involving the creation, development, use and dissemination of a new product, process or service and significant technological changes thereof. Products or processes whose characteristics or applications, from a technological point of view, differ substantially from those existing previously, will be considered new. Both product and process innovation are considered.

The deduction will be made as from the year in which the I+D+i project qualifies, as expenses are incurred.

However, expenses incurred prior to the qualification of the project will be deducted in the year in which the qualification is obtained.

Expenses are incurred in the year in which they are accrued, unless they form part of the cost of a project involving the recognition of an intangible asset, in which case it is understood that they are incurred in the year in which they are disbursed.

## Gasoline - diesel fuel

Supreme Decree 014-2021-EM optimizes the types of gasoline and gasohol in Regular and Premium. It also establishes that as of 2024, only Gasoline and Gasohol with sulfur content of no more than 10ppm may be marketed.

## Petrochemical

The benefits referred to in Law 28176 - Law for the Promotion of Investment in Natural Gas Processing Plants, and its Regulations, are applicable to the Basic and Intermediate Petrochemical Industry with investments in excess of USD 5M.

Some of the benefits established by the Law 28176 are those contained in the Organic Hydrocarbons Law (Law 26221), such as on contract assignments, on income tax, on the export regime, on temporary imports, on tax and exchange stability, on accounting in foreign currency, among others.

Also, the Law establishes that investment expenses incurred by the natural gas processing plants before starting their commercial operations will be accumulated in an account whose amount will be amortized on a straight-line basis, deducted in equal portions, for a term of no less than five years.

## Natural Gas Processing Plants

Law 28176 establishes that the benefits applicable to Natural Gas Processing Plants are included in the Organic Hydrocarbons Law (Law 26221), such as the assignment of the contract, subjection to the tax regime of the contract, tax and exchange stability, export regime, temporary import, among others.

Likewise, the investment expenses incurred by the natural gas processing plants before starting their commercial operations will be accumulated in an account whose amount will be amortized on a straight-line basis, deducted in equal portions, for a term of no less than five years.

## Biofuels

Biofuels are understood to be chemical products obtained from raw materials of agricultural, agro-industrial or other biomass origin and that comply with the quality standards established by the competent authorities.

In Peru, in 2003, was published the Law 28054, that promotes the development of biofuels market.

For its part, Petroperu, a state company, has been carrying out biodiesel supplier selection processes for both national and international companies.

In Peru, Diesel B5 biodiesel is mainly marketed in the departments of Loreto and Ucayali.

KPMG

# F. Our Professional Staff

Our professionals have experience in accounting (all our Partners and Directors have ACCA certification in IFRS Financial Reporting), tax and legal in local and foreign companies in the sector, with specific requirements in IFRS Adoption and treatments in USGAAP, PCAOB-SOX, Public Offering of shares, among others.

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# KPMG in the World

Global network of the world's leading professional services firms, providing innovative business solutions and audit, tax (tax and legal) services, and consulting to a large number of large and prestigious organizations. We operate in 144 countries and have more than 236,000 people working in member firms around the world.

KPMG announced its intention to become a zero-carbon business by 2030 , as part of its continued focus on generating growth in a sustainable manner.

Our environmental, social and governance (ESG) commitments included in our KPMG Impact Plan, present our actions that have now gained even more traction, in four categories: Planet, People, Prosperity and Governance.

**We operate in**

144

**countries**

236,000

**People working in member firms around the world**

**Our growth rate Global FY22 was**

+14%

**Source: 2022 KPMG Global Corporate Reporting**

**Global Income FY22**

$35

**billion of dollars**

## Our values

We have values by which we live. They guide our everyday decisions and actions, define what we stand for, and create a shared sense of identity globally.

Integrity
**we do the right thing**

Excellence
**We never stop learning and improving.**

Courage
**We think and act boldly.**

Together
**We respect each other and turn our differences into strengths.**

For Better
**We do what really matters.**

# KPMG in Peru

We value diversity and attract the best talent to build exceptional experience together.

+500
**professionals multidisciplinary _**

+ 80 trainees
**preparing to assume new positions**

100%
**of our team enjoy our flexible work model**

61 %
**of our professionals are Millennials , which provides a new perspective on innovation.**
*Age range less than 30 years

56%
**of our team is made up of women.**

47%
**of our leaders are women.**

# We develop our people

We encourage self-development and continuous learning by providing resources to our professionals that allow them to carry out quality work and promote their growth.

+10,000 Training hours
**Training platforms available to our professionals**

+15
**educational agreements with the best institutions in the country**

Benefits Program _
**Our people are extraordinary**
Enjoy
Programa de beneficios

**Enjoy Program : We have a benefit plan aimed at our people, providing them with an experience focused on diversity, flexibility and support.**

3. 4%
**of our professionals were promoted last year.**

**Promoter of the Association of Good Employers.**

**ABE since 2007, for our good practices in administration and people management.**

5
**Security Training and Health at work and against sexual harassment.**

# Our Services

## Audit

- Audit of financial statements
- IFRS and its tax implications in
- Peru
- IFRS: Changes and updates
- Accounting Consulting Services

## Tax & Legal

- Tax Compliance
- Tax consulting
- Transfer pricing
- Tax Innovation and Technology
- Labor & inmigration
- Legal Services
- Global Mobility Services

## Advisory

### Risk advisory solutions

- Internal Audit Services, Risks and Compliance
- Financial Risk Management
- Forensic Services
- Validation of the effectiveness of controls to SOX purposes
- Assurance of contract compliance before third parties
- ESG Services

### Deal advisory & Strategy

- Corporate Finance
- Fusions and acquisitions
- Restructuring
- Financial Due Diligence
- Global Infrastructure

### Consulting Services

#### Operations Strategy

- Strategy
- ESG
- Customer experience
- Digital Supply Chain
- Shared Services
- digital roadmaps

#### Technology

- Program management
- Powered Enterprise
- Managed services
- Technology Business Management
- Project management
- ERP Advisory
- Business intelligence

#### Innovation and digital transformation

- Data Analytics
- Robotics (RPA)
- Innovation
- Agile & Digital Operating Models
- Connected Enterprise
- Low code
- Digital transformation
- Process optimization

KPMG