

# Peru's oil & gas investment guide 2016 / 2017

February 2016



Ministry of Foreign Affairs  
Peru



Building a better  
working world

# Contacts EY Peru oil & gas leaders

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**Paulo Pantigoso**  
Country Managing Partner  
Tel: +51 1 411 4418  
paulo.pantigoso@pe.ey.com

**Jorge Acosta**  
Advisory  
Tel: +51 1 411 4437  
jorge.acosta@pe.ey.com

**Enrique Oliveros**  
Transactions & Corporate Finance  
Tel: +51 1 411 4417  
enrique.oliveros@pe.ey.com

**Víctor Burga**  
Assurance  
Tel: +51 1 411 4419  
victor.burga@pe.ey.com

**Juan Paredes**  
Assurance  
Tel: +51 1 411 4410  
juan.paredes@pe.ey.com

**David De La Torre**  
Tax  
Tel: +51 1 411 4471  
david.de.la.torre@pe.ey.com

**Renato Urdaneta**  
Advisory  
Tel: +51 1 411 4438  
renato.urdaneta@pe.ey.com

**Beatriz De La Vega**  
Tax  
Tel: +51 1 411 4482  
beatriz.de-la-vega@pe.ey.com

**Claudia Vega**  
Tax  
Tel: +51 1 411 4483  
claudia.vega@pe.ey.com

**Fernando Núñez**  
Assurance & Markets Leader  
Tel: +51 1 411 4473  
fernando.nunez@pe.ey.com

**Marco Antonio Zaldívar**  
Assurance  
Tel: +51 1 411 4450  
marco-antonio.zaldivar@pe.ey.com

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**Lima**  
Av. Víctor Andrés Belaunde 171,  
San Isidro.  
Tel: +51 1 411 4444

**Chiclayo**  
Av. Santa Victoria 612,  
Urb. Santa Victoria.  
Tel: +51 74 227 424

**Arequipa**  
Av. Bolognesi 407,  
Yanahuara.  
Tel: +51 54 484 470

Peru has a longstanding tradition as an oil producing country, which dates back to the end of the 19th century. Indeed, it hosted the very first oil well drilling in South America, located at the northern region of Peru, which is still producing hydrocarbons. More recently, Camisea, a major project regarding one of the most important gas reservoirs in the region, started production in 2004. This project boosted Peruvian economy in every aspect by providing a reliable source of cheap and eco-friendly energy, diversifying the energy matrix and making of Peru an exporter of liquefied natural gas since 2010.

The exploitation of oil basins and the Camisea project has been developed in a political and macroeconomic stability offered and improved by the government. As a result, Peru's economy has been growing at annual rates above other countries in the region, largely supported by the prices of commodities.

Despite of downfall of international prices and high volatility, Peru still has much more to offer. Indeed, oil & gas sector has real potential for growth and further expansion. It holds golden opportunities for investors as much of the country is still to be subjected to vast exploration. To optimize proven reserves of natural gas, efforts to develop midstream projects are in progress by the Peruvian government in order to spread the use of this hydrocarbon in all Peruvian territory. This also could bring opportunities in the development of petrochemical projects.

International investors are a crucial part of the growth and success of Peru's oil & gas exploration and production. Peru welcomes foreign investment with an open and stable regulatory environment. A foreign investment law guarantees the security of foreign and domestic investments. Furthermore, Peru is consistently undertaking measures to improve its business climate to attract more investment. We invite you to contact us with your questions and we wish you all the best with your oil & gas investments opportunities in Peru.

# Preface



Beatriz De La Vega  
Oil & Gas Leader and Editor  
EY Peru  
Telf: +51 1 411 4482  
[beatriz.de-la-vega@pe.ey.com](mailto:beatriz.de-la-vega@pe.ey.com)





**Ministerio de Relaciones Exteriores  
Perú**



**Juan Carlos Gamarra**  
General Director of Economic Promotion  
Ministry of Foreign Affairs

Despite the declining global economic environment, Peru has stood as a leading country in economic development in the region. This has not only been a consequence of the macroeconomic management consistency, but also of the continuity in our politics of private investment attraction. Certainly, these circumstances provide a favorable business environment, auspicious to investors.

Peru is country enriched with cultural and historic inheritance, and a strategic geographic location in the southeastern Pacific coast with a vast diversity in flora, fauna, weather, and abundance of natural resources. In this regard, the hydrocarbons sector is one of our main assets, for our country has a longstanding tradition in exploitation, which dates back to the mid of the XIX century.

Due to the significant benefits that the exploitation of hydrocarbons bring to the country, from its industrial to residential use, we consider that boosting the development of this sector by strengthening competitiveness is of the utmost importance. Nonetheless, certain goals aiming towards social inclusion regarding the access to the resource, and strict compliance with environmental standards must be met.

The Ministry of Foreign Affairs, through the General Directorate of Economic Promotion, is permanently diffusing investment opportunities, as well as the commercial and touristic attractiveness that Peru offers. In this regard, we would like to highlight the importance of this publication as a comprehensive tool to show investors the attractiveness of the Peruvian hydrocarbons sector. Welcome to invest in Peru!



**Rafael Zoeger Núñez**  
Chairman of the Board of  
Directors of Perupetro S.A.

Peru is an underexplored country. Although, we have 18 hydrocarbon basins, 98% of the exploratory wells have been drilled in only four basins. Moreover, we are part of the Sub Andean trend which is very prolific in our neighbor countries, so the potential is obviously there, and what we need to do is encourage exploration activities in order to improve potential and hydrocarbon reserves.

Based on official information published by the Peruvian Ministry of Energy and Mines in the Annual Book of Hydrocarbon Reserves, published in December 2014, Peru's proven reserves are estimated to be 683 million barrels of crude oil; 727 million barrels of natural gas liquids; and, 14.63 trillion cubic feet of natural gas; which combined can be expressed as an equivalent amount of 3,847 million of oil barrels. The aforementioned Annual Book reports that hydrocarbon resources of our country are estimated to be 5,429 million barrels of crude oil, 3,207 million barrels of natural gas liquids; and, 74.59 trillion cubic feet of natural gas, which together can be expressed as an equivalent amount of 21,067 million of oil barrels. Therefore, if we compare the estimated hydrocarbons resources with the estimated hydrocarbons reserves, then we realize that there are still great exploration opportunities in Peru.

Peru is also a multiracial and multicultural country, with heritage of ancient cultures and native communities. The Government is aware of this reality, and is making every effort to harmonize the interests of all the stakeholders involved in the hydrocarbon industry.

In Perupetro we are motivated and encouraged to assist investors. As an example, our Technical Data Bank provides -free of cost- information. In addition, we provide guidance and advice to all investors according to their needs and expectations. Our final goal is to execute new exploration and exploitation agreements in order to transform our country in a leading hydrocarbons exporter.

Due to the current situation of the hydrocarbons industry, Perupetro is committed to look for new strategies to attract foreign investment. For such purpose, we are currently reviewing our competitiveness in order to improve our contracting conditions, and technical information as well as update our legislation to the new situation of hydrocarbon industry. This context gives us an opportunity to focus on a new perspective to offer different and better alternatives to attract investors.





# About this oil & gas investment guide

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Oil and gas companies have many countries to choose from when deciding where to expend their exploration and development budgets. The factors taken into account in their investment decision-making process and the weight placed on each of them varies from company to company. As a generalization, however, those nations which offer a prospective geology, reasonable tax terms, acceptable legislation and political stability have the best potential to attract long-term investments into the exploration and development of new oil wells.

This oil and gas investment guide has been structured to help investors broadly evaluate Peru's oil and gas sector investment conditions. Within this guide, we have examined various

aspects usually taken into consideration by oil and gas companies before making an investment decision. This guide provides an assessment of the current Peruvian hydrocarbon investment climate from an oil and gas companies' perspective (foreign and domestic), focusing on their basic requirements to invest.

Included in this guide is an overview of Peru's political structure, business environment, macroeconomic profile, key indicators and outlook for the future, geological potential, oil and gas sector trends and recent developments, as well as a description of the hydrocarbon terms and fiscal regime applicable to hydrocarbon companies, considering major government taxes, royalties and similar levies.

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

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

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

First published in 2014, this guide has been designed to be easily consulted and to offer a balanced and objective account of areas of potential interest to foreign oil & gas investors.

With this oil & gas investment guide, EY demonstrates its commitment to contribute to Peru's progress, through our support for business ventures, growth and success. We provide readers with the most recent information on the country's shining economic performance, as well as important technical information on how to establish businesses in Peru. We invite you to read through, and to contact us should you have any questions and comments.

**"The difference between good investment decisions and bad investment decisions is the right information at the right time"**



**Paulo Pantigoso**  
Country Managing Partner  
EY Peru



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### EY

#### Services for the oil and gas sector

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The background image shows an industrial oil field under a clear blue sky. Two large, dark, curved pipes dominate the foreground, arching from the top left and right towards the center. In the mid-ground on the left, a tall, complex drilling rig with a lattice structure and a red top section stands on a sandy, gravelly surface. Other smaller industrial structures and pipes are visible in the distance. The overall scene is brightly lit, casting long shadows on the ground.

# I Background information

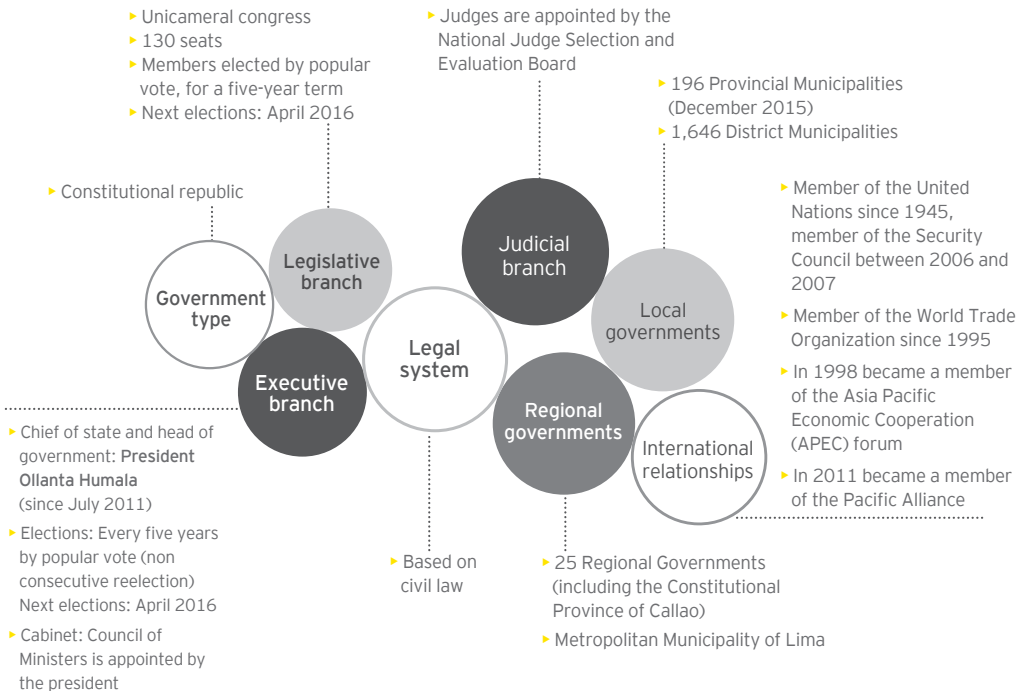
## Form of government

Peru is a democratic constitutional republic with a multiparty system. Under the Constitution of 1993, the President is the Chief of State and Head of Government. The president is elected every five years and cannot run for re-election immediately. The President appoints the Prime Minister and the members of the Cabinet. There is a unicameral Congress of 130 members elected for a five-year period. The legislative proposals can be submitted by both, the executive and legislative branch, and will become law once they are approved by the Congress and

promulgated by the President. The judicial and electoral bodies are independent.

The Peruvian Government is elected directly through the mandatory vote, applicable to all citizens between the age of 18 and 70 years. In the last democratic election (2011), President Ollanta Humala Tasso was elected as President. Peru has some of the best macroeconomic indicators of the Americas and expects to grow in terms of the Gross Domestic Product (GDP), at a rate well above the average rate of the region.

### Country overview



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

## Geography

Peru, located on the west central coast of South America, is bordered by the Pacific Ocean to the west, Chile to the south, Bolivia and Brazil to the east, and Colombia and Ecuador to the north. With a total land area of 1,285,215.60 km<sup>2</sup>, Peru is the third largest country in South America after Brazil and Argentina. It may be divided geographically in three regions:

- ▶ The Coast (Costa), which is a narrow desert strip 3,080 km long that accounts for only 10.7% of Peru's territory even when it contains approximately 17.4 million inhabitants. Lima, the political and economic capital of the country is located in this region.
- ▶ The Highlands (Sierra), which consists of the Andean Mountain Range, covers 31.8% of Peru's territory and holds almost 10.9 million inhabitants.
- ▶ The Amazon Jungle (Selva) is the largest region occupying 57.5% of Peru's territory, in which 3.1 million inhabitants reside. This region is rich in petroleum and forestry resources.



### Peru's geographic information



**Population**  
31.4 million  
Urban 76.6%  
Rural 23.4%



**Area**  
1,285,215.60 km<sup>2</sup>



**Religion**  
Freedom of religion  
Mostly Roman Catholic



**Principal languages**  
Spanish / Quechua /  
Aymara



**Currency\***  
Sol (S/)  
S/1 = US\$0.292  
US\$1 = S/3.413



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



**Natural Resources**  
Gold, copper, silver,  
zinc, lead, hydrocarbons,  
fish, phosphates, and  
agricultural products



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

\* Exchange rate as of 12/31/2015  
Sources: BCRP / INEI / SBS

# 03

## People

The estimated population of Peru for the year 2015 is 31.4 million, of which 9.75 (approximately 31.1%) resides in Lima, the capital of the country. The labor force is about 23.0 million (2015).

The predominant religion is Roman Catholicism and the main official languages are Spanish and Quechua. Aymara is also spoken in some parts of the southern Highlands Region of the country. With respect to the literacy rate, it is expected that by 2015, 94.3% of the population will be able to read and write.

### People overview

<b>Population</b>	31.4 million people 76.6% resides in urban areas
<b>Age structure</b>	0 - 14 years 28.7% (2015) 15 - 64 years 65.0% (2015) 65 years and over 6.3% (2015)
<b>Growth rate</b>	1.13% (2012 - 2015)
<b>Birth rate</b>	19.4 births/1,000 population (2010 - 2015)
<b>Death rate</b>	18.6 deaths/1,000 population (2010-2015)
<b>Sex ratio</b>	At birth 1.05 male/female
<b>Life expectancy at birth</b>	74 years (2015)

Sources: INEI / CIA Factbook

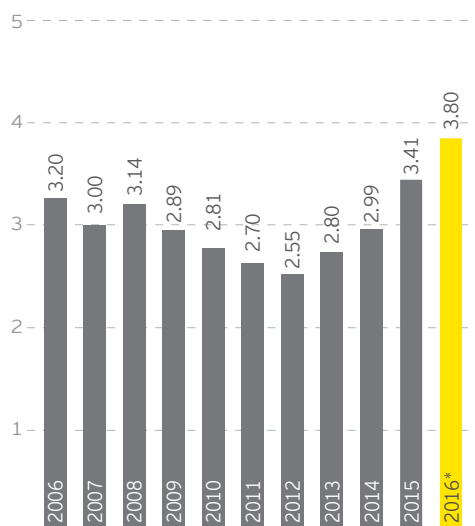
# 04

## Currency

The Peruvian currency is the Sol (former "Nuevo Sol") (S/ or PEN). Peru has a free-floating managed exchange rate regime. Banks are currently (December 31, 2015) buying US dollars at S/3.408: US\$1.00 and selling at US\$1.00: S/3.413. Parallel market rates are slightly different.

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

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



\*Estimate

Sources: BCRP / EY



## Economic overview

With a population of 31.4 million (for 2015, and rich deposits of copper, gold, silver, lead, zinc, natural gas, petroleum and urea, Peru is a very diverse country due to the climatic, natural and cultural variation of its regions.

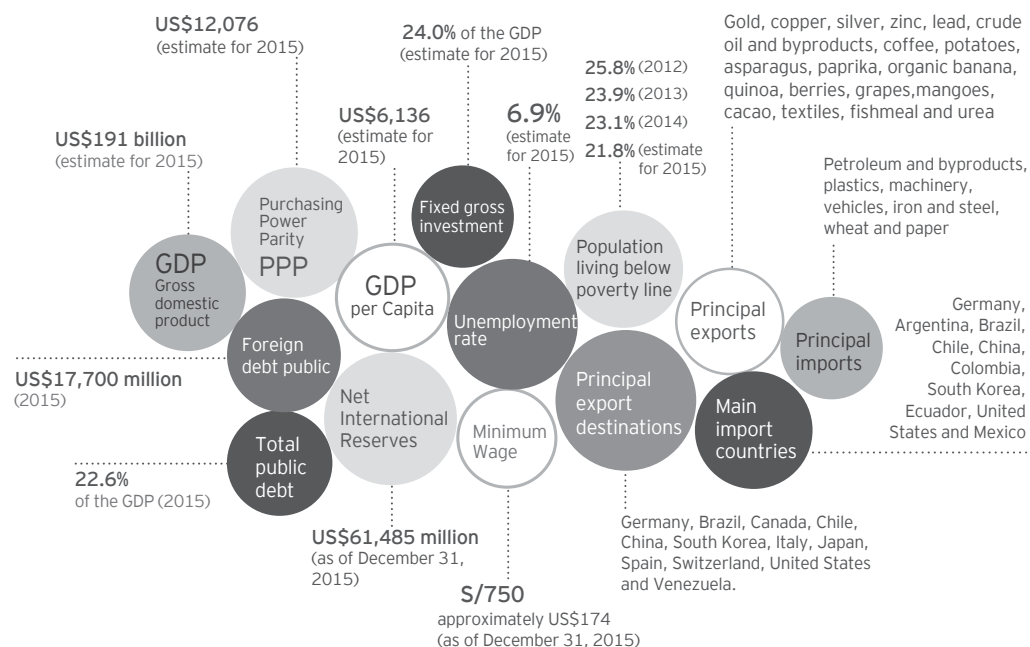
Peru's economy reflects its varied geography, an arid coastal region, the Andes further inland, and tropical lands bordering Colombia and Brazil. Abundant petroleum resources are found mainly in the Amazon Jungle area.

In recent years, Peru has achieved significant advances in social and development indicators as well as in macroeconomic performance, with very dynamic GDP growth rates, reduction of external debt, a stable exchange rate, low

inflation which in 2015 was 4.4%, a little bit above the upper limit of the Central Bank's annual target range of 1% to 3%.

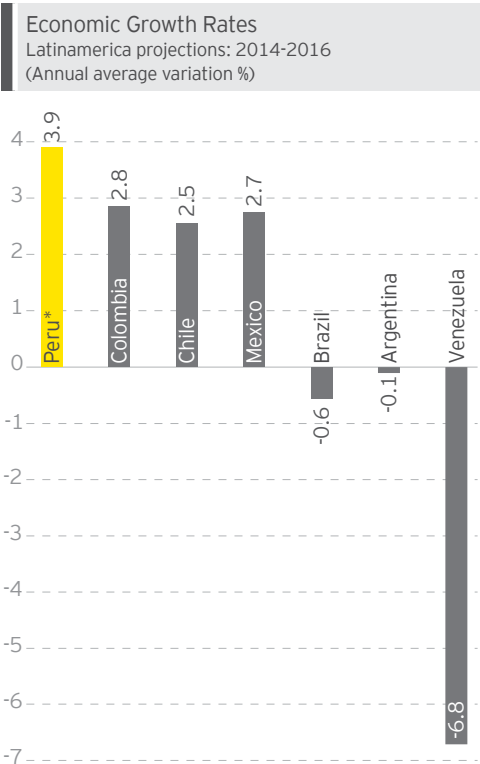
The country has had continuous economic and political stability since the early 1990's. The Peruvian economy has grown 116% between 2000 and 2015 (the highest 15-year average growth in Peru's history). This growth was largely driven by prudent macroeconomic policies, investor- friendly market policies and the government's aggressive trade liberalization strategies. Growth is now slowing within a context of lower prices for Peru's largest commodity exports, although the country's economy has remained strong in the last years, growing about 2.9% in 2015, with an estimated growth of 4.0% for 2016.

### Peru's economic overview



Sources: BCRP / Ministry of Economy and Finance (MEF) / APOYO / International Labor Organization (ILO) / INEI / International Monetary Fund (IMF) / EY

Despite the mentioned slowdown, Peru's economic growth will continue to be one of the strongest among peers, as the central bank now expects growth of around 4.0% in 2016. It is expected that the increase in mineral production will support Peru's economic growth over the next few years. Peru's rapid expansion has helped to reduce the national poverty rate in almost 18% in the last 7 years, up to 21.8% of its total population in 2015.



Sources: FMI / \*BCRP

The country's recent boost in economic growth has much to do with the monetary and fiscal policies applied over the past two decades, reducing the debt level (from 32.3% of the GDP in 2006 to 22.6% as public debt in 2015) and ensuring consistent fiscal government: 0.9% in 2013, -0.3% and -2.1% of the GDP for 2014 and 2015, respectively. All of this has gone hand-in-hand with the liberalization of the goods



and labor markets, opening up trade through multiple recent international trade agreements, direct foreign investment, and the maximization of the revenues resulting from its rich natural resources. Peru is also reaping the benefits of the increasing size of its market and domestic consumption, and the development of its financial sector, which can be seen, for example, in the private consumption by an estimated 3.4% in 2015 (estimated at 3.5% for 2016). Likewise, as of December 31, 2015, net international reserves stood at approximately 32.1% of the estimated GDP as of the same date.

The Peruvian economy for 2015 is expected to be the first fastest growing in Latin America. This is driven principally by private consumption (3.5% for 2016), public investment (10.9% for 2016) improved employment indicators, and the recovery of total exports. At the same time, the growth of fixed private investment in 2017 is expected to be situated at 4.0.

**GDP and GDP per Capita (Purchasing Power Parity-PPP) of the Principal Economies of Latin America (2015 and 2020)**

Country	2015		2020
	GDP in US\$ Billions (PPP)	GDP per Capita in US\$ (PPP)	GDP per Capita in US\$ (PPP)
Brazil	3,207	15,153	18,048
Argentina	964	22,375	23,180
Colombia	664	13,793	16,976
Venezuela	491	15,891	13,901
<b>Peru</b>	<b>385</b>	<b>12,076</b>	<b>15,261</b>
Chile	424	23,563	28,513
Mexico	2,220	18,332	22,189

Source: International Monetary Fund (IMF), October 2015

Peru has signed a number of Free Trade Agreements (FTAs). These FTAs have been entered into with the United States, China, Thailand, the European Union, South Korea, Canada, Costa Rica, Chile, Mexico, Venezuela, Panama, Singapore, Cuba, Japan and EFTA States (European Free of the Trade Association) which includes Iceland, Kingdom of Norway, Swiss Confederation and the Principality of Liechtenstein. It also has 29 (see page 31) Bilateral Reciprocal Investment Promotion and Protection Agreements (BRIPPAs). Also, Peru maintains trade negotiations corresponding to the Trans Pacific Partnership Agreement, which includes Chile, the United States, Singapore, Australia, and New Zealand, among others, and with Honduras, El Salvador and Turkey.

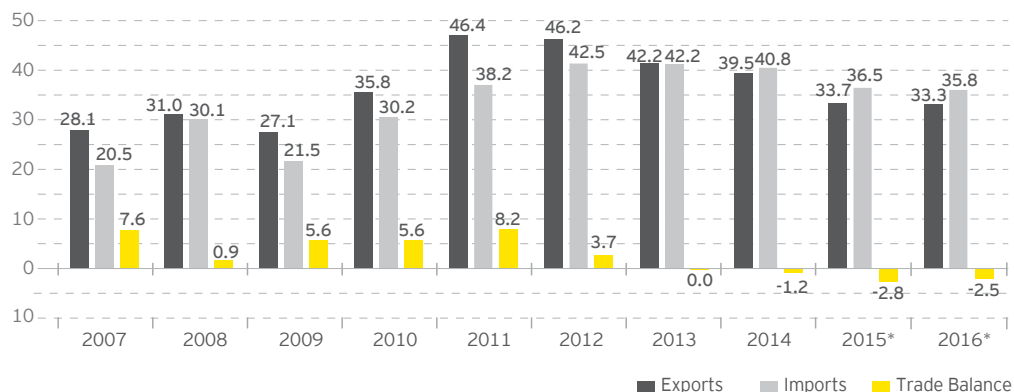
The Free Trade Agreement (FTA) with the United States entered into force on February 1, 2009, opening the way to greater trade and investment between both countries. Likewise, the Free Trade Agreement (FTA) with China and Japan became effective in 2010 and 2012, respectively. Additionally, Peru entered into the Framework Agreement for the Pacific Alliance in April 2011, a trading bloc that it forms part of together with Chile, Colombia, and Mexico, aimed at encouraging regional integration and the greater

growth, development, and competitiveness of their economies, as well as achieving the free circulation of goods, services, capital, and people.

Peru's traditional main exports are gold, copper, petroleum oil, natural gas, zinc, lead, iron, fishmeal, quinoa, grapes, asparagus, mangoes, cacao, berries and coffee, and its principal trading partners are the United States, China, Brazil, Chile, Ecuador, Argentina, Switzerland, South Korea, Japan, Canada, Germany, Spain, Mexico, and Italy.



## Trade balance in US\$ billions



\*Estimate

Sources: BCRP / ComexPeru

## Peru's main economic activities

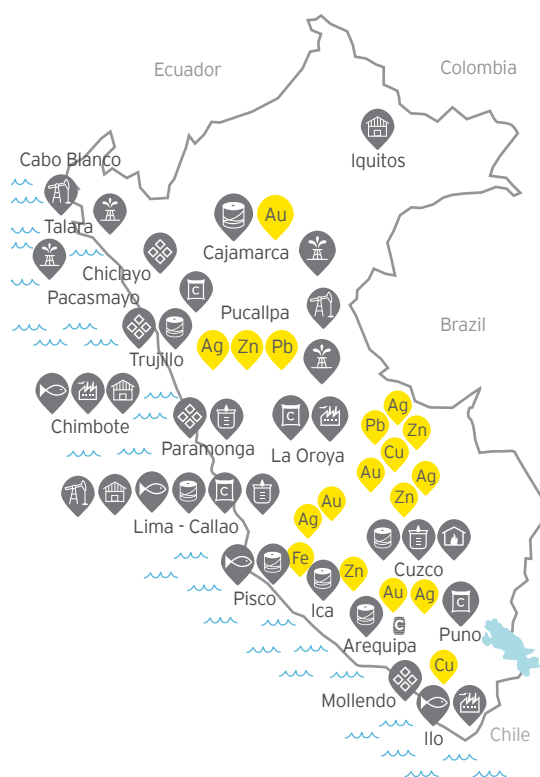
Peru's main economic activities include agriculture, fisheries, mining, the exploitation of petroleum and gas, and the manufacturing of goods, most notably textiles. The sharply contrasting geographical areas of Peru make it a particularly diverse country, with a wide variety of ecosystems, and thus, flora and fauna.

In 2014, Peru ranked as the world's top producer of fishmeal (US\$1.150 billion exported as of December 2014); and fresh asparagus 570 million estimated as of December 2014); it is the second-largest exporter of avocado (US\$307 were exported as of December, 2014); and the third largest exporter of natural calcium phosphates - non-traditional product- (US\$900 million exported in 2014). It is also an important producer and exporter of mangos (US\$151 million up to October, 2015) and fresh grapes (US\$307 million up to October 2015).

In mining, according to the Mineral Commodity Summaries Publication authored by the U.S. State Department, Peru ranked third in the world in 2014 in the production of silver, copper, tin and zinc, fourth in lead, molybdenum and boron, fifth in mercury, and sixth in gold besides having large deposits of iron ore, phosphates, manganese, petroleum, and gas. The principal destinations for Peruvian copper are China and Japan, gold to Switzerland, United States and Canada, and zinc and silver to China.

One of the economic activities that is only recently being exploited and which shows great potential is that of forestry resources (cedar, oak, and mahogany, mainly).

## Main economic activities by region



Fishing	Textile industry
Petroleum	Cement plant
Oil refinery	Chemical plant
Sugar refinery	Metal industry
Fishmeal plant	Smelting
Natural gas	Metallurgical industry
Gold	Zinc
Silver	Lead
Copper	Iron

Source: University of Texas - Perry Castaneda Library Map Collection

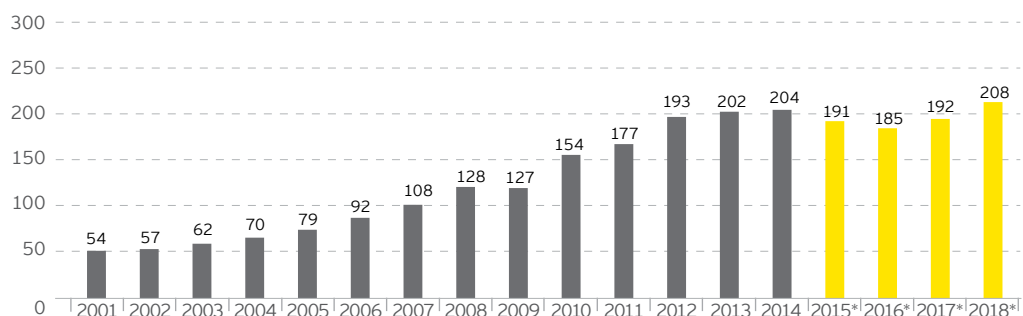


## Gross Domestic Product (GDP) / Trade Balance

The Gross Domestic Product (GDP) estimate for 2015 is US\$191 billion. It is estimated that at the end of 2016, total FOB exports came to US\$33.3 billion, while imports totaled US\$35.8 billion. The principal exports came from the mining, hydrocarbons, and agricultural and livestock industries.



### Peru's real GDP (in US\$ billions)



\* Estimate

Sources: BCRP / Ministry of Economy and Finance / International Monetary Fund (IMF) / EY / Apoyo

### Gross Domestic Product (GDP) by Industry - Annual % Change

	2008	2009	2010	2011	2012	2013	2014	2015*	2016*	2017*
Agriculture and Livestock	8.0	1.3	4.3	4.1	5.9	1.6	1.4	2.6	1.6	3.7
Fisheries	3.0	-3.4	-19.6	52.9	-32.2	18.1	-25.3	19.3	-1.2	27.9
Mining	7.3	-1.4	-0.7	-1.1	2.2	4.3	-2.2	12.8	11.2	11.6
Hydrocarbons	10.3	16.1	28.4	19.7	2.3	7.2	3.9	-11.7	8.1	4.6
Manufacturing	8.6	-6.7	10.8	8.6	1.5	5.1	-2.9	-1.6	1.1	4.2
Electricity and Water	8.1	1.1	8.1	7.6	5.8	5.5	4.9	6.0	6.0	5.5
Construction	11.0	-0.5	12.5	8.9	7.2	8.9	2.1	-6.5	2.5	3.5
Commerce	16.8	6.8	17.8	3.6	15.8	5.9	4.4	3.9	3.8	3.8
Other Services	8.7	3.6	8.8	7.0	7.3	6.2	4.8	4.0	3.7	3.7
<b>GDP</b>	<b>9.1</b>	<b>1.0</b>	<b>8.5</b>	<b>6.5</b>	<b>6.0</b>	<b>5.8</b>	<b>2.4</b>	<b>2.9</b>	<b>4.0</b>	<b>4.8</b>

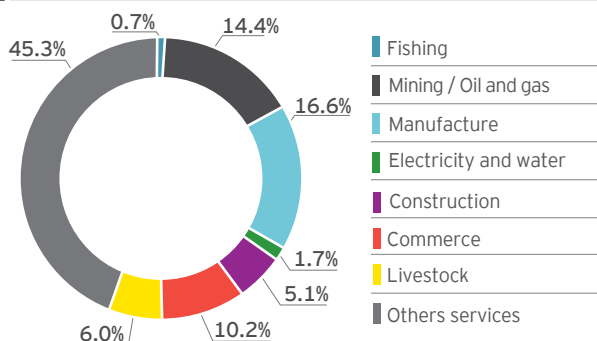
\*Estimate

Sources: BCRP / EY



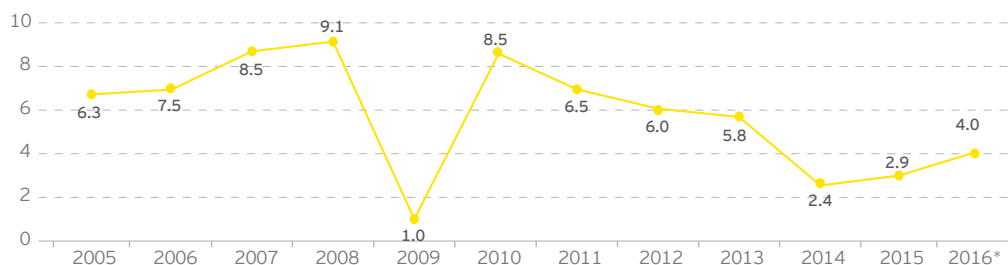


Peru's GDP by productive sector



Sources: BCRP

GDP variations



\*Estimate

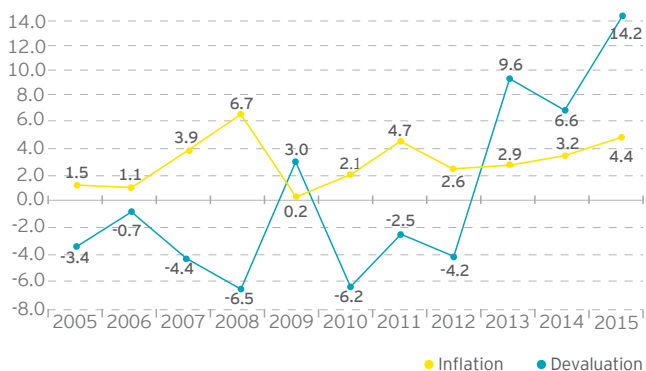
Source: BCRP

Devaluation and inflation

Exchange rate depreciation: the market value of the PEN (S/) fell 14.2% against the US\$ in 2015.

The annual inflation rate was 4.4% as of December, 2015. Peru's central bank aims to keep the annual inflation rate within a target range of 1% to 3%.

Devaluation and inflation



Sources: BCRP / EY

## Infrastructure and services

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

The hydrocarbon is one of the sectors affected by this constraint since oil and gas companies need to have access to transportation facilities to deliver their products to national and international markets. Well-developed infrastructure reduces the effect of distance between regions, with the result of truly integrating the national market and connecting it at low cost to markets of other countries and regions.

The government has been evaluating different alternatives to reduce such problems. One of those alternatives is the construction of pipelines, i.e. to transport natural gas extracted from Camisea's gas fields to the north and south region of Peru (called Southern and Northern Peruvian Gas Pipeline project). Another important alternative implemented by the Government is the Northern Peruvian Pipeline, constructed to transport oil from the north region of Peru to the coast.

### **Northern Peruvian Oil Pipeline**

This is one of the most important hydrocarbons' transportation infrastructures in the country, for it has connected the producing blocks of the northeastern jungle with the northern coast since

1972. The oil pipeline is operated by Petroperu, which charges a fee for its use.

Production of heavy oil in recent years has highlighted the necessity of overhauling the pipeline. Petroperu has plans regarding this project, which could consist of two stages at a cost of approximately US\$1 billion.

### **Southern Peruvian Gas Pipeline project**

This project consists of a pipeline system that will enhance the existent hydrocarbons transport system and that will be able to transport natural gas and its associated liquids to Peru's south region. The pipeline will also enable the development of petrochemical facilities, the installation of power plants, and the increase in the demand of a more efficient energy source.

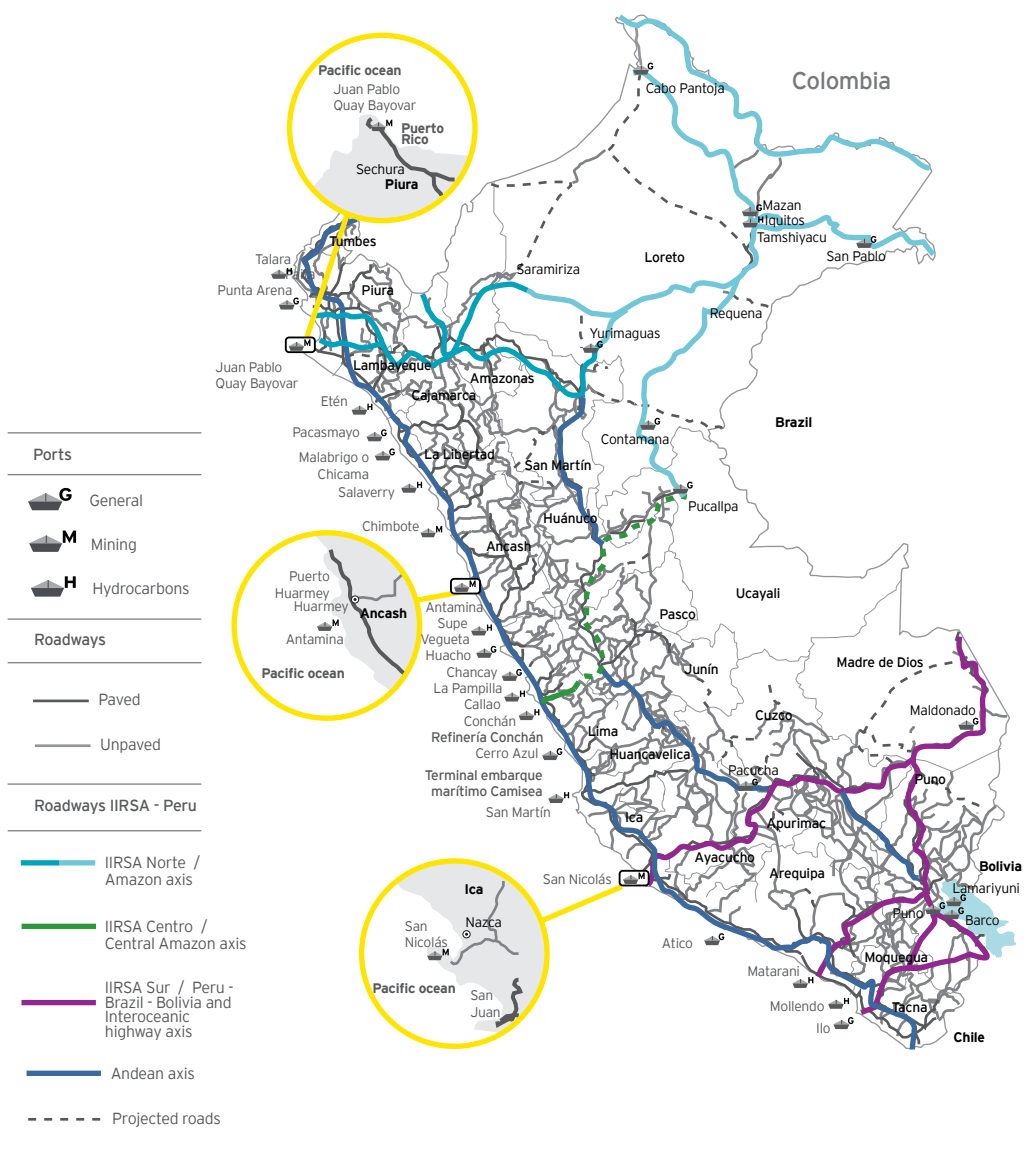
The Southern Peruvian Gas Pipeline will increase the current transportation capacity of the national pipeline system by approximately 500MMSCFD in the short term. As of December, 2015, the project showed a 29.23% progress, and it might be ready in 2018.

### **Northern Peruvian Gas Pipeline Project**

Natural gas distribution concessions in the northern region will begin to operate in the following years due to the lack of infrastructure to transport Camisea's gas to such places.

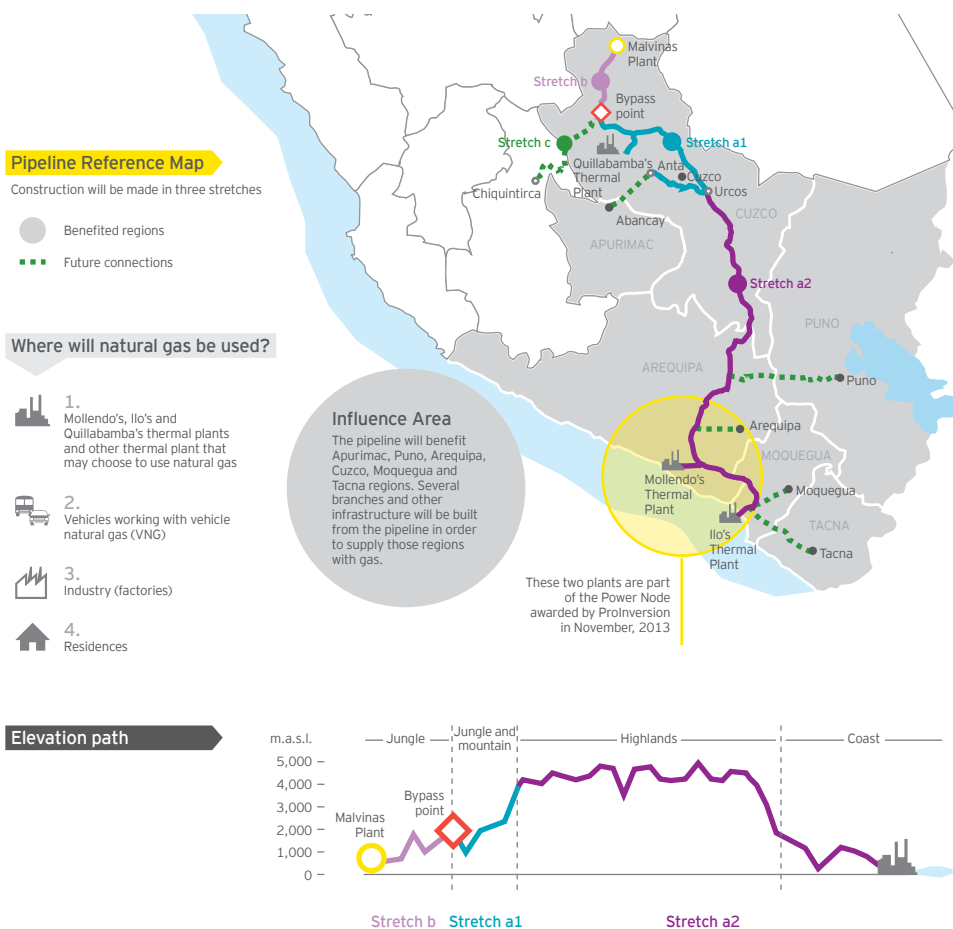
Thus, the importance of building a gas pipeline arises, in order to make the gas available at reasonable costs. Currently, this project is under review by the government. If the demand for natural gas in the north exceeds expectations, this mega project might get the necessary boost to see it done.

## Infrastructure access map



Source: Ministry of Transport and Communications

## Southern Peruvian Gas Pipeline Project - Reference map



Source: ProInversion

## Peru's Investment-Grade Rating

Peru has maintained its investment-grade credit rating since Moody's Investors Services raised it to that level in December, 2009 matching moves made by Standard & Poor's and Fitch Ratings the previous year. Sound economic prospects, with GDP growth rates estimated at 6% over the medium term, are a key supporting factor for the investment-grade rating. Peru's robust growth prospects are supported by rapidly growing investments levels. The upgrade is also supported by the significant decline in Peru's fiscal and external vulnerabilities within a context of high and diversifying sources of growth with low inflation and strengthening macroeconomic fundamentals. It is expected that these trends

will remain in place over the medium term despite an increasingly riskier international environment. The strong support for sound trade and macroeconomic policies from the current administration of President Humala remains a precondition for Peru to maintain its investment-grade rating.

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

Peru's investment grade rating (long term debt in Foreign Currency)

Country	S&P	Fitch	Moody's
Chile	AA-	A+	Aa3
<b>Peru</b>	<b>BBB+</b>	<b>BBB+</b>	<b>A3</b>
Mexico	BBB+	BBB+	A3
Colombia	BBB	BBB	Baa2
Uruguay	BBB-	BBB-	Baa2
Brazil	BB+	BB+	Baa3
Bolivia	BB	BB-	Ba3
Paraguay	BB	BB-	Ba1
Venezuela	CCC	CCC	Caa3
Ecuador	B-	B	B3
Argentina	SDu	C	Ca

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

S&P / Fitch	Moody's	Feature
AAA	Aaa	Risk Free
AA+, AA, AA-	Aa1, Aa2, Aa3	High Grade
A, A, A-	A1, A2, A3	High Repayment Capacity
BBB+, BBB, BBB-	Baa1, Baa2, Baa3	Moderate Repayment Capacity
BB+, BB, BB-	Ba1, Ba2, Ba3	Some Repayment Capacity
B+, B, B-	B1, B2, B3	Highly Uncertain Repayment Capacity
CCC+, CCC, CCC-, CC	Caa1, Caa2, Caa3	Extremely Vulnerable to Default
SD/D	Ca	Default

● Investment grade

Source: Bloomberg



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

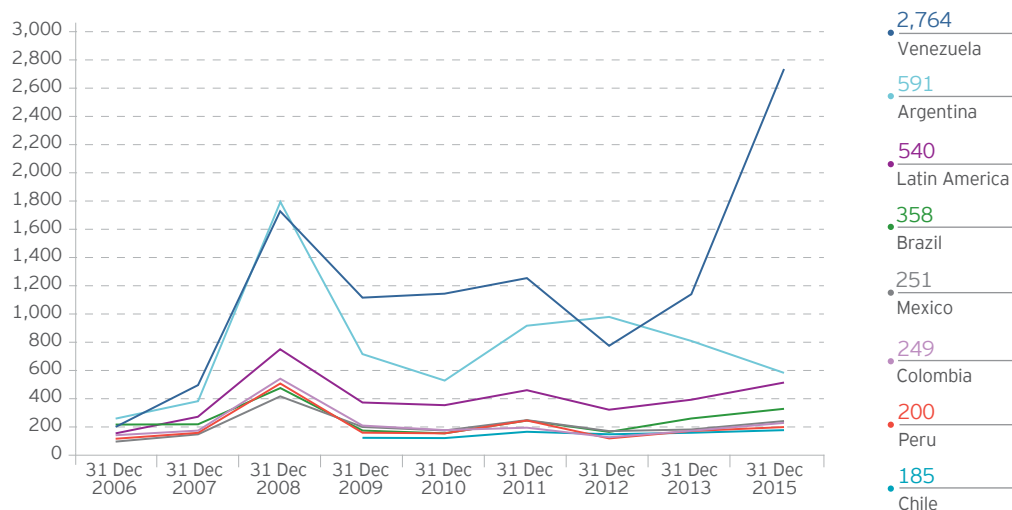
The upgrade to investment grade has brought Peru a lot of positive attention worldwide. More importantly, it has had a positive impact on the local economy and should help to boost the stock market and the appreciation of the Peruvian currency, the sol, in the short term. For this reason, nowadays, many multinational

corporations look the country more seriously, as higher private investment is flowing into the country. This should contribute to alleviate a still complex social situation in Peru, by achieving improvements in employment and decreases in poverty.

## Country risk

As of December 31, 2015, Peru had a country risk of 200 base points, ranking second-lowest in Latin America. This score is less than half of the regional average (540 points).

### Country risk indicator



Source: BCRP  
As of December 31, 2015

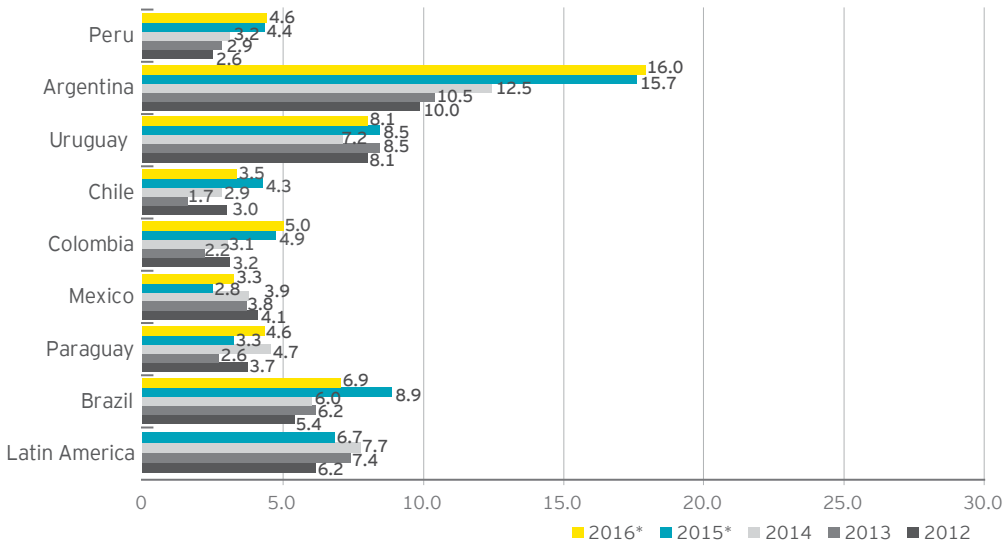


Peru has recently achieved the position of the third most globalized country in Latin America, according to the Globalization Index established by EY. Five elements are considered within this index: openness to foreign trade, capital flows, exchange of technology and ideas, international movement of workers, and cultural integration. Additionally, in January 2014 Bloomberg Markets positioned Peru as the seventh emerging market with the greatest international projection, based on the country's advantages, such as low share prices and their possible increase in the future.

As may be seen in the following charts, Peru's level of inflation is one of the lowest in Latin America, with a rate of 4.4% in 2015, and an estimated range of 4.6% for 2016. In addition, over the past decade (2006-2015), the Peruvian economy had the lowest average annual inflation rate in Latin America, at 3.2%, below that of Ecuador (4.2%), Colombia (4.0%) and Brazil (5.7%).

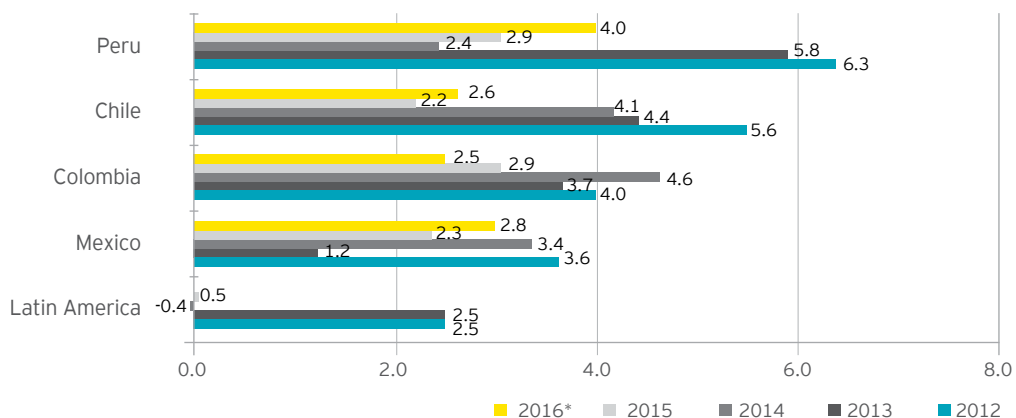


Estimated inflation rates in Latin America



\*Estimate  
Sources: BBVA Research - Peru / BCRP

### Estimated Gross Domestic Product (GDP) growth percentage rates in Latin America



\*Estimate

Sources: BBVA Research - Peru / Ministry of Economy and Finance / International Monetary Fund (IMF) / EY / BCRP



## Investment promotion conditions

### Foreign investment legislation and trends in Peru

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

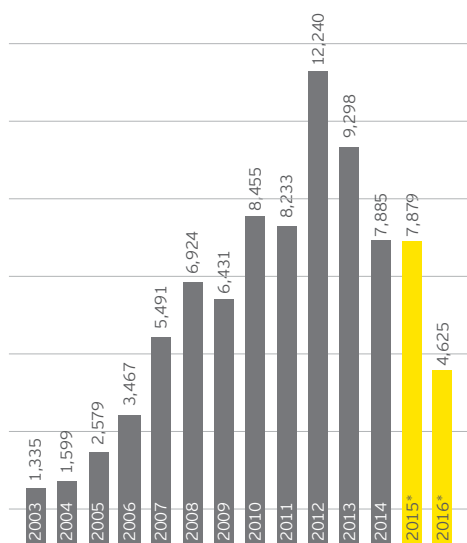
In an attempt to reduce the political risk perception of the country, Peru has adopted a legal framework for investments which

offers automatic investment authorization and establishes the necessary economic stability rules to protect private investors from arbitrary changes in the legal terms and conditions of their ventures and reduces government interference with economic activities.

Peru's Central Bank reported that the stock of foreign direct investment (FDI) is expected to be US\$4,625 million for 2016.

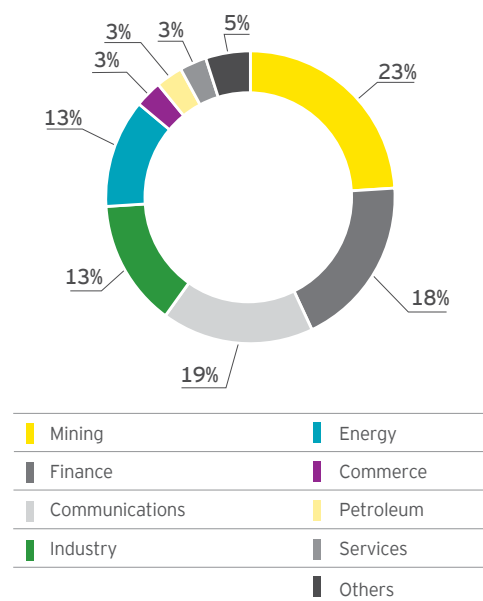
FDI is concentrated in mining, oil and gas, telecommunications, finance and electricity.

Direct foreign investment flow  
(millions of US\$)



\*Estimate  
Source: BCRP

Foreign investment by industry (2015)



Source: Proinversion



The Peruvian government guarantees foreign investors legal stability on income tax regulations and dividend distributions. Foreign investors entitled to obtain tax and legal stability are those willing to invest in Peru, in a two-year term, at least US\$10 million in the hydrocarbon and/or mining sectors; US\$5 million in any other economic activity or to acquire more than 50% of the shares of a privatized state-owned company. Peruvian laws, regulations, and practices do not discriminate between national and foreign companies. Accordingly, national treatment is offered to foreign investors. There are no restrictions on repatriation of earnings, international transfers of capital, or currency exchange practices. The remittance of dividends, interests and royalties has no restrictions either.

Foreign currency may be used to acquire goods abroad or cover financial obligations as long as the operator is in compliance with the relevant Peruvian tax legislation.

### Recognition of Favorable Investment Climate

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According to the World Economic Forum 2015-2016, Peru is among the top countries in Latin America in terms of macroeconomic environment, market size, financial market development, labor market efficiency, and goods market efficiency, technological preparation, between others.

	2013 - 2014		2014 - 2015		2015 - 2016	
	Ranking	Score	Ranking	Score	Ranking	Score
<b>Peru Total</b>	<b>61/148</b>	<b>4.25</b>	<b>65/144</b>	<b>4.20</b>	<b>65/148</b>	<b>4.24</b>
SUB-INDEX:						
<b>Basic Requirements</b>	<b>72</b>	<b>4.53</b>	<b>74</b>	<b>4.59</b>	<b>74</b>	<b>4.52</b>
Institutions	109	3.36	118	3.40	118	3.26
Infrastructure	91	3.50	88	4.19	88	3.54
Macroeconomic Environment	20	5.91	21	5.04	21	5.89
Health and Primary Education	95	5.36	94	5.73	94	5.39
<b>Efficiency Enhancers</b>	<b>57</b>	<b>4.20</b>	<b>62</b>	<b>4.20</b>	<b>62</b>	<b>4.19</b>
Higher Education	86	4.01	83	3.99	83	4.08
Goods Market Efficiency	52	4.37	53	4.19	53	4.47
Labor Market Efficiency	48	4.50	51	3.71	51	4.33
Financial Market Development	40	4.50	40	4.14	40	4.49
Technological Readiness	86	3.39	92	3.55	92	3.30
Market Size	43	4.46	43	5.61	43	4.47
<b>Innovation and Sophistication Factors</b>	<b>97</b>	<b>3.35</b>	<b>99</b>	<b>3.73</b>	<b>99</b>	<b>3.34</b>
Business Sophistication	74	3.95	72	4.14	72	3.93
Innovation	122	2.76	117	3.31	117	2.76

Source: World Economic Forum 2015-2016

## Ease of Doing Business in Peru

According to Doing Business 2016, Peru ranks 50<sup>th</sup> out of 189 countries in terms of ease of starting a company and doing business, and ranks third in Latin America, as corroborated by Forbes.



Doing Business (presenting Latin America countries)	
Position	Country
38	Mexico
48	Chile
<b>50</b>	<b>Peru</b>
54	Colombia
57	Puerto Rico (United States)
58	Costa Rica
69	Panama
81	Guatemala
92	Uruguay
93	Dominican Republic
100	Paraguay

Source: World Bank (WB) - Doing Business 2016

Forbes (presenting Latin America countries)	
Position	Country
30	Chile
51	Uruguay
52	Costa Rica
53	Mexico
<b>55</b>	<b>Peru</b>
56	Panama
65	Colombia
86	El Salvador
89	Guatemala
90	Brazil
109	Paraguay

Source: Forbes 2015

The following are the principal indicators for the investment climate:

Indicators		Peru	Latin America and the Caribbean
Starting a business	▸ Number of procedures	6.0	8.3
	▸ Time (days)	26.0	29.4
	▸ Cost (% of per capita income)	9.8	31.0
	▸ Registration of minimum capital paid up (% of per capita income)	0.0	2.8
Construction permits	▸ Number of procedures	14.0	14.1
	▸ Time (days)	174.0	178.1
	▸ Cost (% of per capita income)	0.5	2.6
Property registration	▸ Number of procedures	4.0	7.0
	▸ Time (days)	6.5	63.0
	▸ Cost (% of property value)	3.3	6.1
Getting electricity	▸ Number of procedures	5.0	5.5
	▸ Time (days)	67.0	64.6
	▸ Cost (% of per capita income)	324.5	466.0
Access to credit	▸ Strength of legal rights index (0-10)	8.0	5.3
	▸ Depth of credit information index (0-6)	8.0	4.7
	▸ Coverage of Public Records Offices (% of adults)	35.2	12.3
	▸ Coverage of private entities (% of adults)	100.0	40.5
Protecting minority investors	▸ Extent of conflict of interest regulation (0-10)	7.0	5.2
	▸ Extent of shareholder governance index (0-10)	5.0	4.5
	▸ Strength of minority investor protection index (0-a0)	6.0	4.9
Paying taxes	▸ Number of payments per year	9.0	30.1
	▸ Time (hours per year)	260.0	361.0
	▸ Profit tax (%)	35.9	47.7
Trading across borders	▸ Time to export (days)	48.0	86.0
	▸ Cost to export (US\$ per container)	460.0	493.0
	▸ Time to export - Border Compliance (hours)	72.0	107.0
	▸ Cost to export - Border Compliance (US\$)	583.0	665.0
Enforcing contracts	▸ Time (days)	426.0	736.9
	▸ Cost (% of claim)	35.7	30.8
	▸ Quality of judicial processes (0-18) (number)	8.5	8.4
Resolving bankruptcy	▸ Time (years)	3.1	2.9
	▸ Cost (% of estate)	7.0	16.6
	▸ Recovery rate (cents on the dollar)	30.3	31.2

Source: World Bank (WB) - Doing Business 2016



## Settlement of investment disputes

Foreign investors are protected against inconvertibility, expropriation, political violence and other non-commercial risks through access to the corresponding multilateral and bilateral conventions such as the Overseas Private Investment Corporation (OPIC) and the Multilateral Investment Guaranty Agency (MIGA).

Also, Peru has joined the International Convention for Settlement of International Disputes (ICSID) as an alternative to settle disputes arising between investors and the government. In addition, Peru has signed 29 Bilateral Reciprocal Investment Promotion and Protection Agreements (BRIPPAs) and 11 Free Trade Agreements (FTAs).

## Bilateral Reciprocal Investment Promotion and Protection Agreements (BRIPPAs)



Source: Prolnversion

## Pacific Alliance

The Pacific Alliance is a mechanism for in-depth integration, established by the Declaration of Lima, signed by Peru, Chile, Colombia and Mexico on April 28, 2011. Its founding instrument is the Pacific Alliance Framework Agreement, signed on June 6, 2012 in Antofagasta Chile. Its profile is predominantly economic and commercial, and its fundamental purpose is to become an area that fosters greater growth, development and competitiveness of its economies with a view to improving its projection to the world and contributing to an economic rise with social inclusion.

The Pacific Alliance's Framework Agreement determines that, as a fundamental part of the plan to achieve its objectives, efforts should be directed towards the free trade of goods and services, the free movement of people and capitals, and the development of cooperation mechanisms to encourage investment, as well as the sustainable quality of life for its populations.

As part of this, the Pacific Alliance member countries are completing their legal framework in order to promote the achievement of their objectives, basing its actions on four main issues:

#### ► Trade and integration

The Alliance has focused on the fostering negotiations that translated into measures that will facilitate trade and customs cooperation between members. Efforts are focused towards eliminating tariff barriers, the cumulation of origin with regard to products that contain materials originating in one of the member countries, provided that the customs tariff is 0% everywhere, the reduction of technical obstacles to trade and the alignment with health and phytosanitary measures.

#### ► Capitals and services

Within the scope of capitals and services, the Pacific Alliance's actions are directed towards cooperation in investment, cross-border trade of services, financial services, telecommunications, air transport and maritime transport. It also seeks to strengthen the integration of the stock exchanges of the member countries.

Integrated Latin American Market -MILA  
The Lima Stock Exchange - BVL (Peru), the Santiago Stock Exchange - BCS (Chile), the Colombia Stock Exchange - BVC (Colombia) and, since, 2014, the Mexican Stock Exchange - BMV (Mexico) together with the central securities registers of each country have integrated their variable income market (shares) by establishing the Integrated Latin American Market (MILA) with which it intends to diversify, expand and make more attractive the negotiation of this type of securities in the four country members, as much for local as for foreign investors.

This integration seeks to develop the capitals market of the member countries, in order to provide investors with a greater offer of securities and issuers with wider sources of

financing. It is hoped that the unified market of these countries will become the leader in the region in number of issuers.

#### ► Movement of people

The free movement of people is one of the central pillars of the Pacific Alliance. This workgroup is focused on developing issues such as facilitating migratory transit, free movement of people, consular cooperation, student and labor cooperation, and the exchange of information on migration flows.

#### ► Cooperation

The Pacific Alliance seeks to encourage cooperation on aspects that significantly impact the comprehensive development of the population of member countries and the strengthening of technology of their industries. To achieve this, the main purposes of the cooperation work group are to consolidate a platform of student and academic movement, the structure of a scientific research network on climate change, the identification and use of synergies to increase competitiveness of medium, small and micro business, the execution of physical interconnection projects, and the creation of a cooperation Fund.

You can easily find more information in the EY's Pacific Alliance Business Guide at [ey.com/pe/EYPeruLibrary](http://ey.com/pe/EYPeruLibrary).



## Stabilization Fund for Prices of Oil's Fuel Derivatives

The Stabilization Fund for Prices of Oil's Fuel Derivatives is an intangible fund created in 2004. It aims towards soothing the high volatility of international oil prices, taking into consideration that Peru is a net oil importer. In so doing, the fund establishes maximum and minimum limits (price bands), in order not to let high volatility affect consumers. It is important to mention that there are price bands for fuels such as:

1. Fuel oil.
2. Liquified Petroleum Gas.
3. Gasoline 84 and 90 RON.
4. Gasohol 84 and 90 RON.
5. Diesel BX (mix of Diesel N° 2 and Biodiesel B100, wherein X is the percentage of B100 in the mix).

The fund enables the government to compensate producers and importers, so that they do not charge consumers above of the maximum limit whenever oil prices surpass it. The payments made by the government ("compensation factor") are the result of comparing import parity pricing with the maximum limit. Therefore:

$$\text{CompF} = \text{IPP} - \text{MaxLim}$$

Likewise, when oil prices fall below the minimum limit, producers and importers charge consumers with the minimum limit, and make payments to the fund ("contribution factor"), which are equal to the difference between the minimum limit and import parity pricing. Thus:

$$\text{ContF} = \text{MinLim} - \text{IPP}$$

The General Bureau of Hydrocarbons (DGH, in Spanish) manages the fund, whilst the Supervisory Body of Private Investment in Energy and Mines (OSINERGMIN, in Spanish) updates the price bands from time to time. The last update is dated as of December 31, 2015.







# Starting a business in Peru



# 01

## Requirements for foreign investors

Foreign investors shall be able to sign license and service contracts and therefore, carry out oil and gas exploration and production activities if they establish a corporation (subsidiary or affiliate) or a branch in Peru. Furthermore the investors shall appoint a representative, in the case of foreigners with alien registration card.

The most common types of legal organizations used by foreign investors for doing business in Peru are a corporation (Sociedad Anónima - S.A.) and a limited-liability company (Sociedad Comercial de Responsabilidad Limitada - S.R.L.). However, the Peruvian Corporation Act also provides other forms of legal entities, including two special forms of corporations: the closely held corporation (Sociedad Anónima Cerrada) and the open stock company (Sociedad Anónima Abierta).

In these cases, the legal, technical, economic and financial capacity for carrying out oil and gas exploration and production activities, evaluated by Perupetro, will lie in the parent company, who will be jointly and severally responsible for the capacity of their Peruvian branches and/or corporations. If there is no parent company, the qualification process must be followed by the applicant company.

Associative agreements, such as joint ventures, are also allowed.

# 02

## Establishing a Peruvian corporation

### Corporations

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A corporation (Sociedad Anónima - S.A.) is composed of shareholders whose liability is limited to the value of their shares. The board of directors and one or more managers manage the S.A. To incorporate an S.A., investors (i.e. the shareholders) shall sign a public deed of incorporation before a notary public and file it before the Public Registry of Legal Entities. Also, investors shall request the Tax Authority (SUNAT) the registration of the company as a taxpayer in order to obtain the tax identification number (Registro Único de Contribuyente - RUC). The bureaucratic and legal steps that an investor must complete to incorporate and register a standard S.A. normally take between 15-30 days.

The incorporation documents must include, at least, (a) the company's name; (b) business purpose and duration; (c) the company's domicile; (d) the name, nationality, marital status and residence of any individual shareholder and name, place of incorporation and address of any corporate shareholder (a minimum of two shareholders are required to set up an S.A.); and (e) the capital structure (the shares of nominal value and the total number of shares), classes of shares and details of individual initial capital contributions (whether in cash or kind). Sufficient proof that a minimum of 25% of capital stock has been paid into a Peruvian Financial Entity before the execution of the public deed of incorporations must also be credited.

### ► Capital

Capital is divided into shares which may be freely transferred with just a private agreement, unless such transfers are restricted by the corporate bylaws. There are no minimum or maximum capital requirements although issued capital must be fully subscribed and at least 25% thereof paid in upon incorporation. Nonetheless, Peruvian Financial Entities request a minimum deposit of approximately \$300.00 for the account opening. Capital may be supplied in cash or in kind. Value of non-monetary contributions must be reviewed and approved by a majority of the board of directors within 60 days of incorporation and may be challenged in court during the following 30 days.

### ► Founders, shareholders

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

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

### ► Types of shares

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

All shares of the same class shall have the same par value but may be issued at a premium or at discount from par. Corporations may purchase their own shares subject to certain limitations. Bylaws restrictions on transfer of shares are permitted.

### ► Disclosure

Legal entities with annual sales or total assets equal or above 5,000 tax units (in 2016 tax unit is equivalent to PEN S/3,950) must submit audited financial statements to the securities commission (Superintendencia del Mercado de Valores). Disclosure requirements are more stringent for publicly listed companies.

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

### ► Management

One or more managers are appointed (and removed) by the board of directors, unless bylaws stipulate appointment by a general shareholders meeting. Managers could be a natural person or a legal entity. When only one manager is appointed, he/she will be the general manager. There are no nationality requirements.

### ► Control

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

### ► Board of directors

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

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



## Limited Liability Company

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

Although to incorporate a S.R.L no minimum capital is specified, entities of the national financial system request a minimum deposit of approximately US\$300,00 for the account opening.

The S.R.L.'s capital is divided into and represented by participating interests which cannot be denominated shares and which are not freely negotiable certificates. Capital holdings may be transferred outside the company only after they have been offered through the management to other partners or the company itself and they have declined to purchase the offered interests. Further restrictions on transfers may be set out in the bylaws.

The partner's general meeting shall entrust the company's management to one or more managers who are not required to be partners in the S.R.L. or Peruvian citizens. Decisions are determined by the majority of capital contributions.

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

- ▶ Limited liability. Partners are not personally liable for the corporation's liabilities.
- ▶ Centralized management. Partners general meeting and one or more managers (no board of directors is required).
- ▶ Transfer of interest. Transfer of partners interest to third parties is subject to approval by the existing partners and must be registered in the public register.



- ▶ Continuity. Death, illness, bankruptcy, retirement or resignation of any partner does not cause the dissolution of the entity.

## Closely held corporation

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

## Public corporation

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A corporation will be considered "open stock" when either (i) it has undertaken an initial public offering (OPP) or stock market launch to sell its stock to the public; (ii) it has more than 750 shareholders; (iii) at least 35% of its shares are held by at least 175 shareholders; (iv) it is incorporated as an open stock corporation; or (v) all the shareholders with voting rights agree unanimously to subject the company to the legal regime applicable to open stock corporations. This form of corporation is subject to the Securities Market Act as well as to certain specific regulation on minority shareholders protection, public disclosure, among others.

# 03

## Establishing a branch

Branches are another type of investment vehicle foreign investors can establish for carrying out oil and gas exploration and production activities. The branch does not have legal independence or legal personality distinct from its parent company, except for tax purposes. Therefore, the branch will be regulated by the parent company's bylaws and its activities must be within the parent company's corporate purpose.

In the case of branches, the capital assigned by the parent company does not have any limitation, but it shall be deposited or wire transferred in a Peruvian Financial Institution, nevertheless there is no obligation to credit the transfer for registry purposes. The parent company remains fully liable for the obligations assumed by the branch.

The branch operates through its legal permanent representatives with sufficient powers.

Procedures for organizing a branch in Peru are similar to the procedures applicable for organizing corporations or limited liability companies. It takes between two to three weeks to register a branch once the necessary documents, such as the certificate of existence of the parent company, apostille documents, among others, have been submitted to the Peruvian notary public.

These documents include copies of the parent firm's corporate charter and bylaws, minutes of the shareholders agreement to set up a branch in Peru, certification of the branch's address, assigned capital and line of business, notifications of the appointment and powers of a legal representative in Peru and a Peruvian consul's certification that the parent company is duly constituted in the country of origin and entitled to set up a branch in a foreign country.



Procedures for organizing a branch in Peru are similar to the procedures applicable to organizing corporations or limited liability companies

## Associative agreements

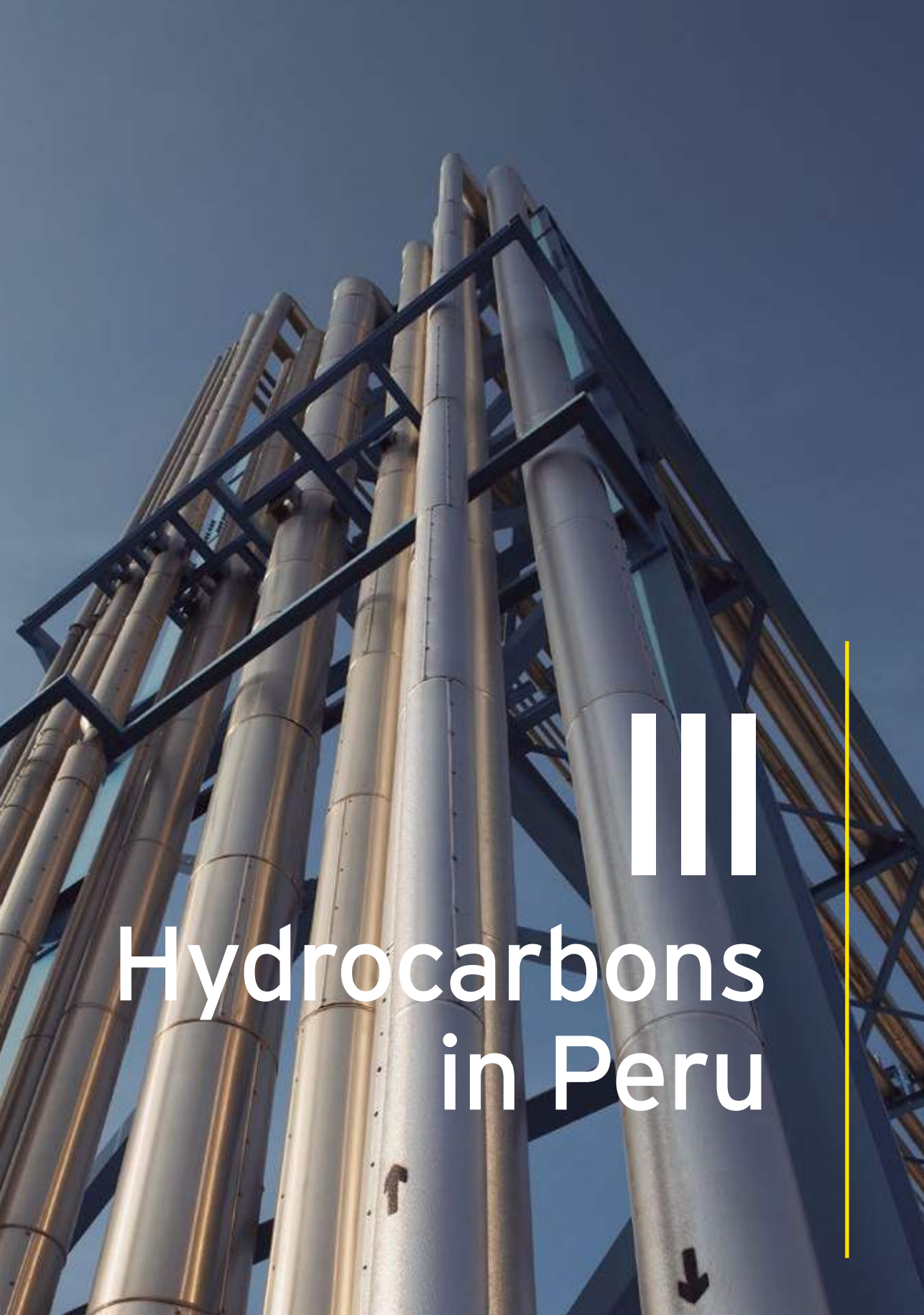
Associative agreements are another type of investment vehicle that allow different companies (and individuals) to jointly participate and integrate into certain specific businesses or enterprises for reaching a common purpose. This type of investment vehicle is very common in the hydrocarbon sector because of the great risk involved in carrying out this type of activity. This makes sense due to the large amount of investment normally incurred in the exploration and production phase.



Unlike the other types of investment vehicles, an associative agreement does not create a corporation or legal entity different from its associates. Indeed, even though they have a common purpose in developing a business activity together; associative agreements do not create legal entities, therefore, each of the parties keep their legal personality and patrimonial independence.

There are three basic types of associative agreements that could be applied in Peru: partnership contracts, consortiums, and joint ventures; the latter no being regulated in the Peruvian Corporations Act. Resources assigned to the aforementioned contracts will be considered as foreign investment provided these contracts grant foreign investors a participation in the production capacity, which does not qualify as a capital contribution. Also, these investment vehicles should correspond to contractual commercial transactions through which a foreign investor provides goods or services, obtaining a participation in the physical production, the global sales amount or the net profits of the company that receives the investment.

To carry out hydrocarbon activities, each of the parties should be qualified as a contractor by Perupetro. To have such qualification, they should be legally, technically, economically and financially qualified for engaging in obligations, regulations and investments required for developing the hydrocarbon activity. One of the parties must be assigned as the operator responsible for conducting the activities; however, all of the parties will be jointly and severally liable before Perupetro for the assumed contractual obligation.



# Hydrocarbons in Peru



## Importance of Peru's oil and gas sector

The oil and gas sector in Peru has gone through a transformation, from an industry in decline to a major contributor to the economic growth in Peru.

Historically, Peru became an importer in the late 1980s and early 1990s. The combination of a state-dominated turn in Peru's energy sector in the 1960s (political interference such as policies that changed from government to government, refusal by various governments to grant new contracts, and fixed petroleum prices) and a lack of significant discoveries over the years, set Peru on a path of dwindling reserves. The implementation of such policies caused a decline in private investment.

Under these circumstances, the military regime decided to expropriate the International Petroleum Company and created a state-owned oil company named Petroperu, which controlled the sector for approximately 25 years. Nevertheless, their management did not result in an improvement of the sector as revenues, reserves and production started declining. For this reason, the government in force through the 90's decided to restructure the company implementing a privatization process, ceasing Petroperu's downstream operations, and assigning Perupetro (newly created governmental agency) the commercial faculties to negotiate and subscribe license and service contracts with investors (see more detail about Petroperu in page 55).

As a result, Peru's oil and gas sector became more competitive. From 1990 to 1997, investment in the sector increased from \$20 million to \$4.3 billion. Areas under operation hiked from 1 million to 23 million hectares in the same period. Prices were set by the market, not the State.

This growth increased significantly in 2004-2005, when the major reserve of natural gas near the Camisea River in the Amazon began producing (which now is known as the "Camisea Project"). From that moment on, Peru has entered into a takeoff stage, explained not only by the Camisea discovery and the geological potential, but also by the economic and political stability that it has achieved during the last years. This situation boosted the oil and gas sector, as well as the oil and gas discoveries in several locations of the country. The rising investment in Peru during the last years reflects such growth.

Due to smarter energy management, Peru began to diversify its energy use, reduce its dependence on imports, and position itself as an exporter of liquefied natural gas (LNG). Still, challenges remain, particularly as exploration and development activities show resilience in a context of low prices.

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(\*) The Camisea Project was discovered in 1989

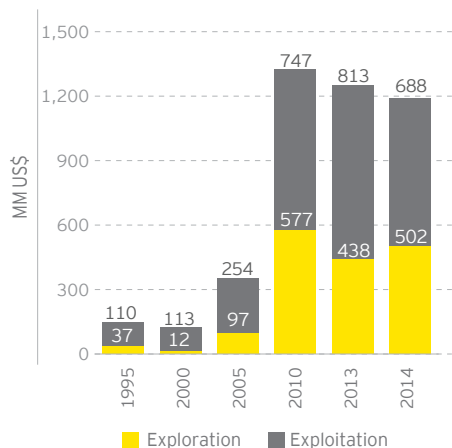
### Hydrocarbon Investment (exploration and exploitation phase in millions of US\$)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*
Exploration	44.00	96.40	136.30	251.00	539.10	539.10	747.06	476.90	785.080	438.04	501.70	299.40
Exploitation	232.80	254.90	551.90	855.00	610.80	610.80	576.50	884.00	731.102	812.49	688.01	382.87
<b>Total</b>	<b>276.80</b>	<b>351.30</b>	<b>688.20</b>	<b>1,106.00</b>	<b>1,149.90</b>	<b>1,149.90</b>	<b>1,323.90</b>	<b>1,360.90</b>	<b>1,516.18</b>	<b>1,250.53</b>	<b>1,189.77</b>	<b>682.28</b>

Source: Perupetro

\*The numbers shown for year 2015 only include the investments performed from January to November 2015.

## Oil exploration and exploitation investments evolution



Sources: Ministry of Energy and Mines / OSINERGMIN

## Estimated investment by sector US\$ millions (2015-2017)

Sector	2015 - 2017
Mining	7,888
Oil & Gas	3,912
Electricity	3,016
Industry	1,564
Infrastructure	3,452
Other sectors	4,784
<b>Total:</b>	<b>24,616</b>

Source: BCRP / OSINERGMIN

According to Peru's Central Bank, an estimate of US\$3,912 million investments in the oil & gas sector is projected until 2017.

Some of these investments correspond to ongoing projects that may lead to new opportunities.

In relation to upstream projects, the most important investments are focused in the northern and southeastern regions. The first

ones show promising results in off-shore blocks, while the latter are taking advantage of the infrastructure developed for the Camisea Project (gathering systems, facilities, among others).

Midstream projects are, without a doubt, the most promising projects nowadays. The estimated investments are above US\$7.5 billion (Southern Peruvian Gas Pipeline and the TGP's Third Expansion) in transportation by pipelines.

Downstream activities have also renewed interest of investors and the government. Indeed, the Talara and La Pampilla Refineries' Modernization Projects aim towards complying with the need to supply cleaner fuels to consumers, as well as refining heavy oil more efficiently. And that is just a glimpse of how much downstream projects have drawn attention lately: there are almost three distribution concessions of natural gas by pipelines scheduled to begin operations in the following years, which could also lead to the development of other industries such as Natural Gas Vehicles.

In 2012, Peru ranked 94th out of 147 countries in a survey done by Fraser Institute, which focused on the attractiveness for global oil & gas investment. In 2015, it ranked 43rd out of 126 countries, and in 2014 it ranked 78th out of 156 countries.

The government is working on making the appropriate improvements, especially in social, environmental, and infrastructure matters.





## Ranking by Fraser institute

Ranking of countries made according to the scope of investment barriers (based on the composite index score of Fraser Institute).

	2015	2014	2013	2012	2011
Countries	Ranking (Sample of 126)	Ranking (Sample of 156)	Ranking (Sample of 157)	Ranking (Sample of 147)	Ranking (Sample of 135)
Guyana	n.d.	51	90	48	97
Colombia	36	65	73	65	48
Brazil - Offshore CC	34	76	107	74	68
Brazil - Offshore presalt area PSC	n.d.	101	115	75	66
Chile	n.d.	25	26	76	20
Uruguay	n.d.	21	63	81	52
Brazil - Onshore CC	n.d.	80	105	88	67
<b>Peru</b>	<b>43</b>	<b>78</b>	<b>106</b>	<b>94</b>	<b>76</b>
Argentina - Neuquen	107	107	129	111	102
Argentina - Chubut	106	137	134	112	95
Argentina - Mendoza	114	120	136	119	88
Argentina - Tierra del Fuego	113	118	137	122	n.d
Argentina - Salta	111	113	147	126	82
Argentina - Santa Cruz	112	134	131	140	94
Ecuador	51	154	156	142	134
Venezuela	13	156	157	146	135
Bolivia	110	155	154	147	133

### Notes:

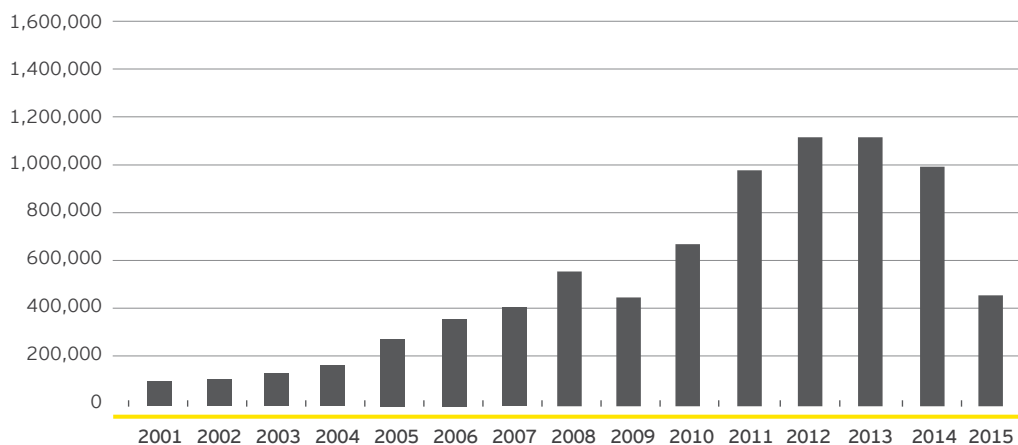
- n.d: not determined
- CC: Concession Contract
- PSC: Profit Sharing Contracts

Source: Fraser Institute



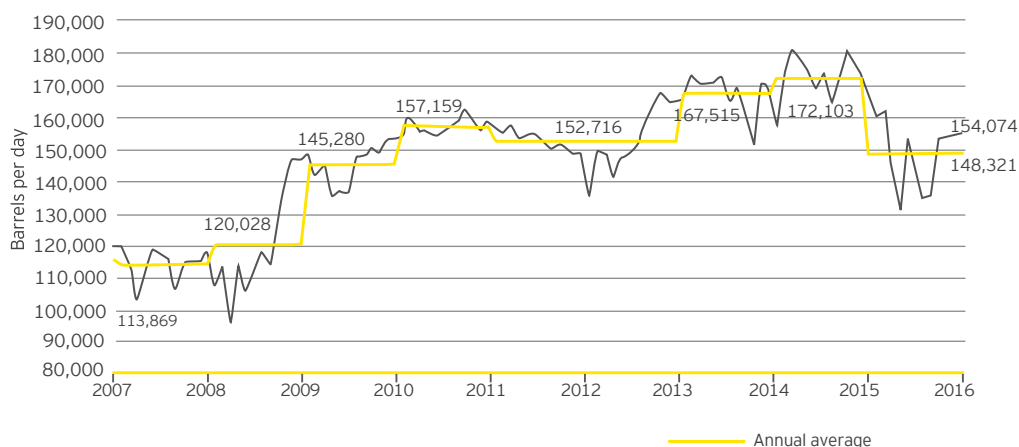


### Oil & Gas canon revenues (US\$)



Source: Perupetro

### Oil (liquid hydrocarbon) average audited production (2007 - 2016)



\*Includes petroleum and liquid natural gas. \*\*BPD: Barrels per day.  
Source: Ministry of Energy and Mines

## Fiscal revenues (2005-2015 in millions of US\$)

The oil and gas industry represents one of the main sources of fiscal revenues which comes not only from the activities carried out in the Camisea Project (Blocks 56 and 88), but also from the activities executed in other blocks.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*
License contract	542.18	672.07	791.03	1,132.01	859.12	1,319.57	1,998.33	1,894.75	1,932.66	1,608.19	728.98
Service contract	44.32	60.71	65.03	85.30	54.10	73.89	1.00	105.03	88.27	85.01	39.96
<b>Total</b>	<b>586.50</b>	<b>732.78</b>	<b>856.03</b>	<b>1,217.31</b>	<b>913.22</b>	<b>1,393.46</b>	<b>1,999.33</b>	<b>1,999.78</b>	<b>2,020.93</b>	<b>1,693.21</b>	<b>768.94</b>

Source: Perupetro

\*Estimate as of December 31, 2015

## Average natural gas audited production (2007 - 2016)



Source: Ministry of Energy and Mines

## Transparency in oil & gas activities

EITI (Extractive Industries Transparency Initiative), a global coalition of governments, companies and civil society, is an international organization that is working together to improve openness and accountable management of revenues from natural resources.

By joining EITI, countries implement the EITI Standard to ensure full disclosure of taxes and other payments made by oil, gas and mining companies to governments, which are disclosed annually in the EITI report, so that citizens can be aware and informed of how much their

governments receive from the exploitation of natural resources and also where such funds are destined.

Peru joined EITI in 2005, given the importance of oil and gas and mining activities in the national income, and its meaningfulness in the Latin American and global production. Thus, Peru became the first Latin American country to join the initiative, ensuring transparency and stability of the rules related to the incomes from extractive industries.

Lima will be host to the 2016 EITI Global Conference in February.

## Hydrocarbon production and exports

The investment and work involved in the sector contributed to the recovery and the positive evolution of the hydrocarbon national production. An emblematic example of this growth is the Camisea project. This project was not only significant to the country, but it also contributed on putting Peru on the map of natural gas producers.

The hydrocarbon investment for years 2015-2017 is estimated in approximately US\$3.9 billion and the growth of the sector is estimated in an 8.1% for 2016 which could be based in the investment portfolio and Peru's geological potential.

Estimated GDP Hydrocarbon growth until 2017



\*Estimate as of December 31, 2015  
Source: BCRP



Hydrocarbons audited production (2005-2015)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Petroleum (MBLS)	27,541	28,314	28,146	28,027	25,927	26,531	25,387	23,984	22,956	25,296	21,173
NGL (MBLS)	13,082	18,873	13,416	15,903	27,100	30,832	20,354	31,596	38,187	37,751	33,360
Natural Gas (MMCF)	54,331	63,556	96,206	122,230	125,300	255,609	401,169	418,795	430,559	456,407	441,244

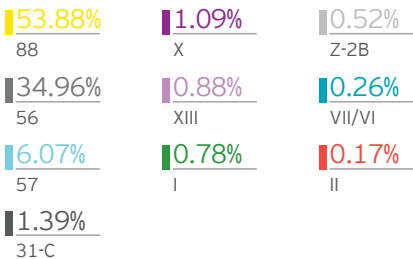
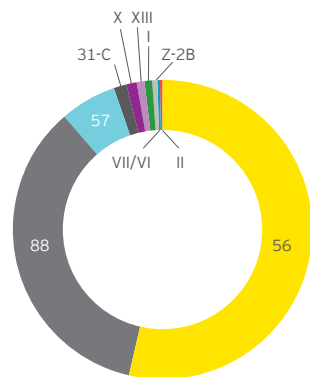
NGL: Natural Gas Liquids  
Source: Perupetro



The scenario for Peru for the following years is neither daunting nor uncertain. The growth for the Oil & Gas industry for 2016 is estimated in 8.1%.

Natural gas audited production by oil well (2015)

	Block	Accumulated (MCF)	%
► Pluspetrol	88	237,744,748	53.88
► Pluspetrol	56	154,238,435	34.96
► Repsol	57	26,776,367	6.07
► Aguaytia	31-C	6,141,634	1.39
► CNCP	X	4,827,307	1.09
► Olympic	XIII	3,880,938	0.88
► GMP	I	3,461,295	0.78
► Savia	Z-2B	2,281,149	0.52
► Sapet	VII/VI	1,127,323	0.26
► Petromont	II	764,575	0.17
<b>Total</b>			<b>100.00</b>



\*MFC: Thousands Cubic Feet  
Source: Perupetro

## Infrastructure and refineries

### Southern Peruvian Pipeline

In June 2014, ProInversion awarded a 34-year concession of the Southern Peruvian Pipeline, which is expected to cover a length of more than 1,000 Km. with a total investment of approximately US\$7,330 million, out of which an estimated of US\$3,600 to US\$4,000 million correspond to the investment in infrastructure.

It will run from the Camisea gas fields to the most southern regions of the country. It is aimed towards providing those regions with a clean and low-cost energy source, and being a reliable source of gas to the upcoming petrochemical and energy projects involved in the southern power node.

The pipeline is expected to be finished by 2018, and during the construction stage it will create and estimate of 7,000 job opportunities.

### Northern Peruvian Gas Pipeline

The Government is studying the possibility of connecting the Camisea gas reservoirs with central and northern regions of the country (probably through Cusco), in order to satisfy the increasing demand for natural gas in the northern region of the country.

### Talara Refinery

The Talara refinery is located in the northern region of Piura, an area in which hydrocarbons have been exploited since the early twentieth century, and it is operated by Petroperu. It is the second most important in the country, next to La Pampilla refinery, located in Lima and owned by Repsol.

In order to make its refining activities more competitive, Petroperu signed a deal with a Spanish contractor (Técnicas Reunidas) by



means of which the aforementioned refinery will undergo a complete optimization process, including an upgrade in the refining capacity from 65,000 bpd to more than 95,000 bpd, and a desulfurization tower in order to comply with current environmental standards.

This project will implicate an investment of an amount up to US\$3,500 million, creating around 14,000 direct and indirect jobs. Likewise, it will provide support to refine the increasing hydrocarbon's production in the northern and northeastern blocks.

### La Pampilla Refinery

La Pampilla refinery is owned by Repsol and is the most important refinery in the country by refining capacity and strategic location near Lima, the capital of Peru.

This project contemplates the construction of six new processing units that will produce low-sulfur diesel in order to comply with environmental standards set forth in Law No. 28694, which forbids commercialization of diesel with a content of sulfur above 50ppm.

The optimization process is estimated to last 47 months and includes the construction of fuel storage tanks, for a total investment of US\$800 million.

## Diversifying the energy matrix: Natural gas

The development of natural gas and condensates from the Camisea project have created a new strategic option for the energy sector in Peru. The development has contributed to increase the reserves and hydrocarbon production and, therefore, the supply and demand patterns of such energetic matrix.

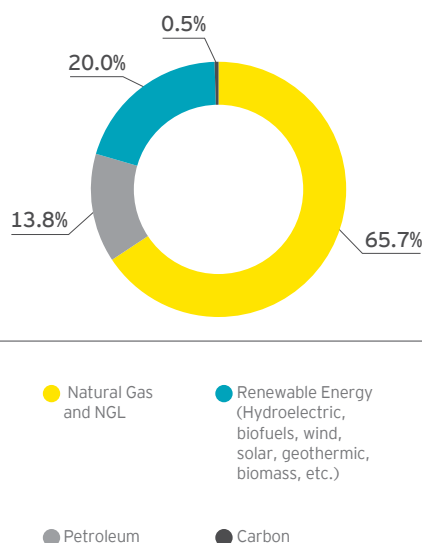
Before the arrival of natural gas, the energy matrix of Peru depended on liquid fuels - primarily imported diesel, coal, wood, and other traditional energetics. Nowadays, the consumption of liquid fuels has been reduced, in order to introduce different energy sources, such as LPG (Liquefied Petroleum Gas) and VNG (Vehicle Natural Gas). In the future, Peru intends to generate a matrix based not only on petroleum, but equally to renewable energy and natural gas.

The global trend, in terms of fuel oil is to replace oil with other sources that are cleaner and cheaper. So by the time Camisea is completed, Peru will be energetically integrated into all corners. The development of this industry will trigger the possibility of progressing in the domestic and foreign markets, which will contribute to a future advance on petrochemical, fertilizer and other projects.

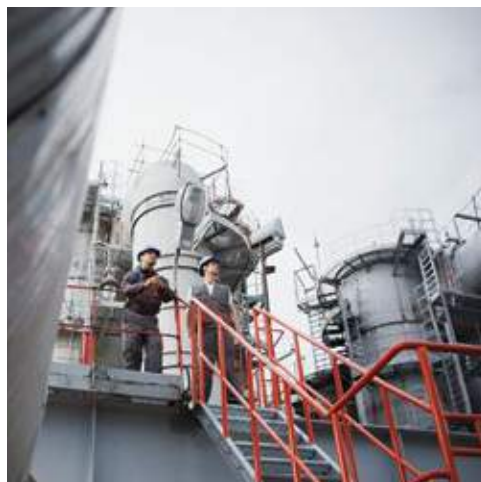
### Camisea Project

Camisea's estimated hydrocarbon reserves are around 13 million cubic feet of natural gas and 660 million liquid barrels. It is estimated that these reserves will reduce the cost of electricity and national fuel by the time they commercialize.

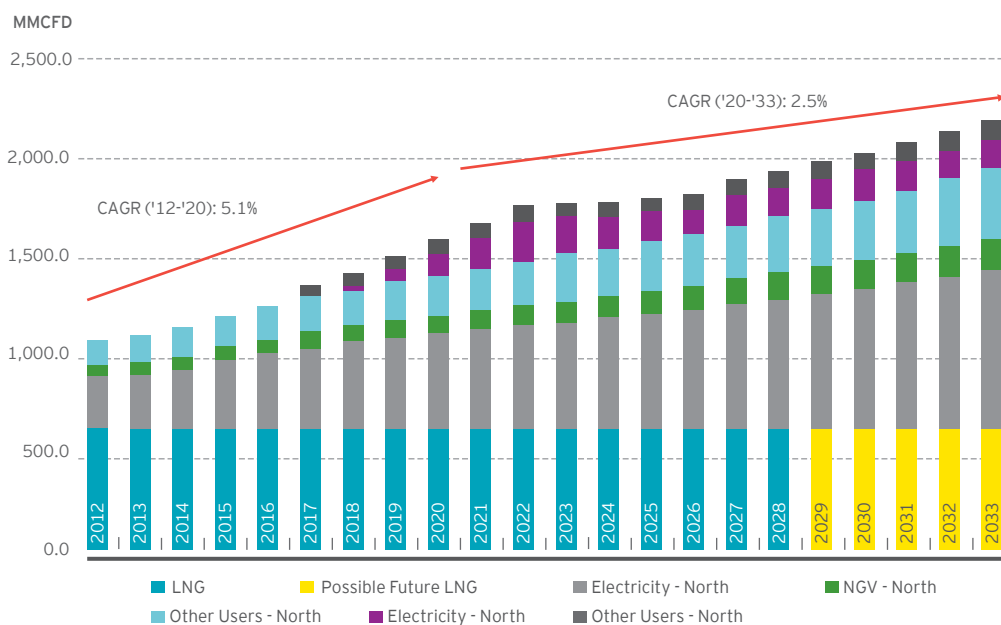
Energy mix objective (%) 2025



Source: Ministry of Energy and Mines



## Natural gas demand forecast (2013 - 2033)



Sources: Wood Mackenzie's analysis / COES

These deposits are large enough to satisfy the actual energy needs of the country for more than a decade. This is why this deposit is one of the most important energy sources of the country.

The Camisea zone is located approximately 500 kilometers to the east of the city of Lima, the capital of Peru, on the eastern slopes of the Andes in the region of Cusco. It is located in the Bajo Urubamba valley, one of the areas with the major natural biological diversity in the world.

The major part of the reserves are located in two main gas fields, San Martín and Cashiriari, located in opposite banks of the Camisea River. Blocks 88

and 56 are known as the blocks of the Camisea project.

Three main actors are involved in the management of the natural gas industry in the Camisea project, at different stages. The production stage has been granted by the government to The Consortium integrated by Pluspetrol (operator) - Hunt Oil - SK Innovation - Repsol Exploración Perú - Sonatrach Peru Corporation - Tecpetrol. The transportation and distribution stages have been granted to Transportadora de Gas del Perú S.A and to Gas Natural de Lima y Callao S.A (Calidda), respectively.



Camisea's Gas is also currently available in Ica, a region to the south of Lima, by the distribution concession awarded to Contugas, and it will be available in the short term to the northern and southern regions through the recently awarded distribution concessions to Gases del Pacífico and Fenosa.

### **National Energy Programme 2014-2025**

In November 2014, the Ministry of Energy and Mines presented the National Energy Programme 2014-2025. This document forecasts the energy demand of the country until 2025. It also sets down how this demand could be satisfied through the offer of alternative and traditional energy sources.

The provision set forth in the energy planning for the country through 2025 expect an increase in the consumption of liquid hydrocarbons from 209,000 bpd to 285,000 bpd or, in other scenario, from 212,000 bpd to 339,000 bpd, stressing the necessity of new infrastructure. Therefore, the optimization projects of the Talara and La Pampilla refineries will gain special importance in order to reach those expectations.

Another relevant topic regarding demand of hydrocarbons is that of the massification of natural gas, which is looking forward consolidation with the on-going and upcoming projects of gas pipelines in the southern and northern regions of the country, respectively. It is expected that the national demand for natural gas will rise from 1900MMscfd to 2400MMscfd by 2025, making it necessary to develop a national pipeline system for its supply.

On the other hand, taking into consideration that Peru had a negative balance of trade rounding US\$3 billion as of 2014, exploration and refining activities become indispensable so that the demand is satisfied in the mid and long term.

Looking forward achieving this goal, minimum annual goals will be established, so that oil production can be increased from 62 Mbpd to 153 Mbpd by 2025. It is worth mentioning that the optimization of the Talara and La Pampilla refineries and the biddings of new blocks will be crucial to complete this task.



## Main investment projects

The total private capital investment projects that are expected for years 2015-2017 are calculated to be worth approximately US\$24,616 million. Almost 16% of that amount is focused directly in the hydrocarbons sector, considering the development of the following projects:

- Southern Peruvian Gas Pipeline, headed by Enagas, Odebrecht, and Graña y Montero.
- Refurbishment of Blocks III and IV, carried out by Graña y Montero Petrolera.
- Exploration of Blocks 88 and 56, headed by Pluspetrol Perú Corp.
- Gas distribution, headed by Callida Gas Natural del Perú.
- Exploration of Block Z-38, executed by Karoon Gas Australia and Vietnam American Exploration Company.

It is also important to mention that there are some other projects that are being developed in sectors related to renewable resources such as biofuels, and wind and solar power. Given the importance of supporting investment in these areas, the government has issued legal instruments (such as Legislative Decree No. 1002).

Regarding wind power projects, Marcona and Tres Hermanas Wind Farms, located in Nazca (Ica), are the first wind farms ever built in Peru. The energy produced there will be sold to the National Electric Network and the National Interconnected Electrical System, for electricity supply purposes, according to the agreements signed with the Peruvian Government.



## Growing potential

Peru has 18 sedimentary basins with hydrocarbon exploration potential. However, only three of them have been exploited, which shows that an important part of the national territory with hydrocarbon potential has not been explored yet, especially in the jungle and in the coast. According to Perupetro, Peru is one of the few countries in the world whose territory is relatively under developed, which means that it has an almost intact hydrocarbon potential.

Ten basins are located in the continental zone of Peru (in the coast and in the south and north jungle), and the rest are located offshore.



The basins located in Talara, Marañon and Ucayali are the best known. Further studies have been conducted at these basins, especially in the Talara basin, that has been explored and has had production fields since the 19<sup>th</sup> century. On the other hand, the Marañon basin (northern jungle) already has production oil wells and new structures have been discovered, but still this basin is only partially exploited.

In the same sense, even though the Ucayali basin (northern and central) has not been explored yet, in the south zone are the Camisea fields, which are the principal natural gas deposits of Peru.

Regarding the other 15 basins whose potential have not been explored in detail, we have the Santiago and Huallaga basins, where abundant crude samples have been found, inferring in the existence of active oil systems. We also have the Madre de Dios basin, where preliminary studies confirm the presence of gas deposits.

A case that may call attention is the Titicaca basin, which produced light oil in very antique fields at the beginning of the 20<sup>th</sup> century. This area is still being under explored. This area is still being under explored. In other basins located offshore, the Government has announced that results from seismic tests will be available in the first quarter of 2015.

In the case of natural gas, in 2014 the Chinese company CNPC acquired Petrobras' assets in the country, therefore compromising to an investment of US\$1.4 billion in exploration activities in block 58, near Camisea fields. It was estimated up to 8 trillion cubic feet of natural gas.

## Petroperu

Even though Petroperu, a state-owned company of private law, initially was not actively involved in exploration and exploitation of hydrocarbon activities, which occurred as a consequence of the privatization process during the 90's; nowadays it is re-assuming its participation in the hydrocarbon production scenario.

In 2006, Peruvian Congress passed Law No. 28840, which allowed Petroperu to return to participate in all stages of hydrocarbon activities, especially in exploration and production. Thus, it could be a competitor in every activity of the industry.

The first step into reinserting Petroperu into upstream activities was taken in October 2014, when Petroperu associated with a private company looking forward exploring and producing hydrocarbons in Block 64 (association still pending on approval by the Peruvian government). This operation meant

a step further into the modernization plan for Petroperu, which is aimed towards channeling private equity for further projects, or associating with oil companies in order to boost exploration.

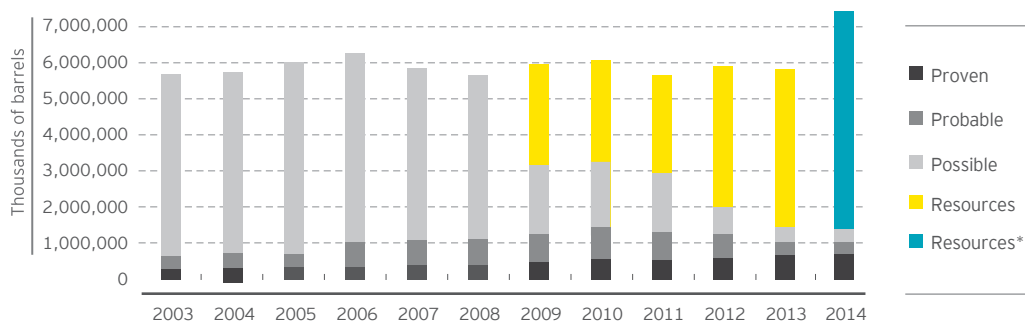
In January 2016, Petroperu was authorized to participate in Talara Refinery Modernization Project and in the exploitation of Block 192 developing upstream activities. Nevertheless, Petroperu has a legal mandate to give priority to the Talara Refinery Modernization Program, which could lead to negotiating partnerships with national and international investors in order to start exploration or exploitation activities.

The authorization on the modernization of Talara Refinery will allow them to adopt all the necessary measures to assure the correct engineering, procurement and construction of the new assets that will let it be able to produce LPG, oils and 50 ppm sulfur diesel, making the Peruvian north region dynamic, and assuring the total nationwide supply through the Petroperu fuel distribution grid.



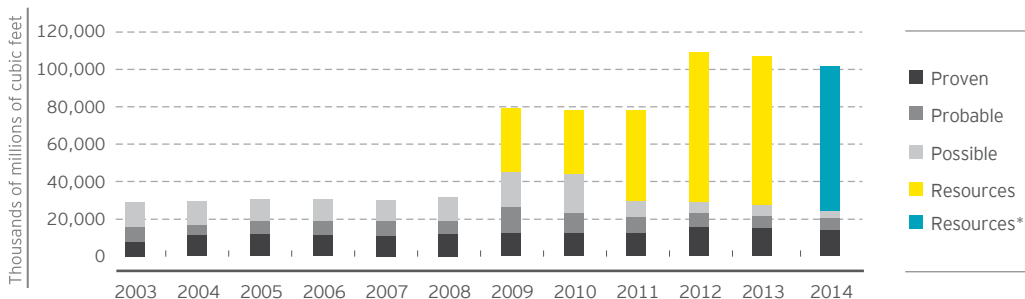
**Oil and gas companies  
must fulfill all the  
requirements needed to  
develop exploration and  
production activities  
under a license or  
service contract**

## Oil reserves



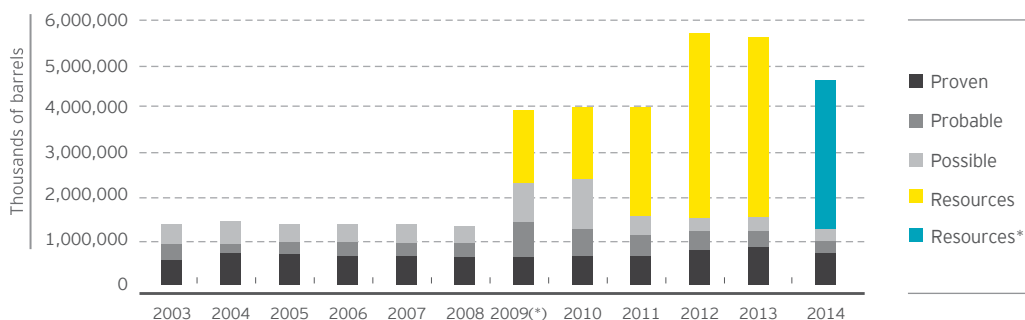
\* Includes contingent and prospective resources. Data updated up to December, 2014.  
 The resources come principally from a reclassification of possible reserves to resources as of 2009  
 Source: Ministry of Energy and Mines

## Natural gas reserves



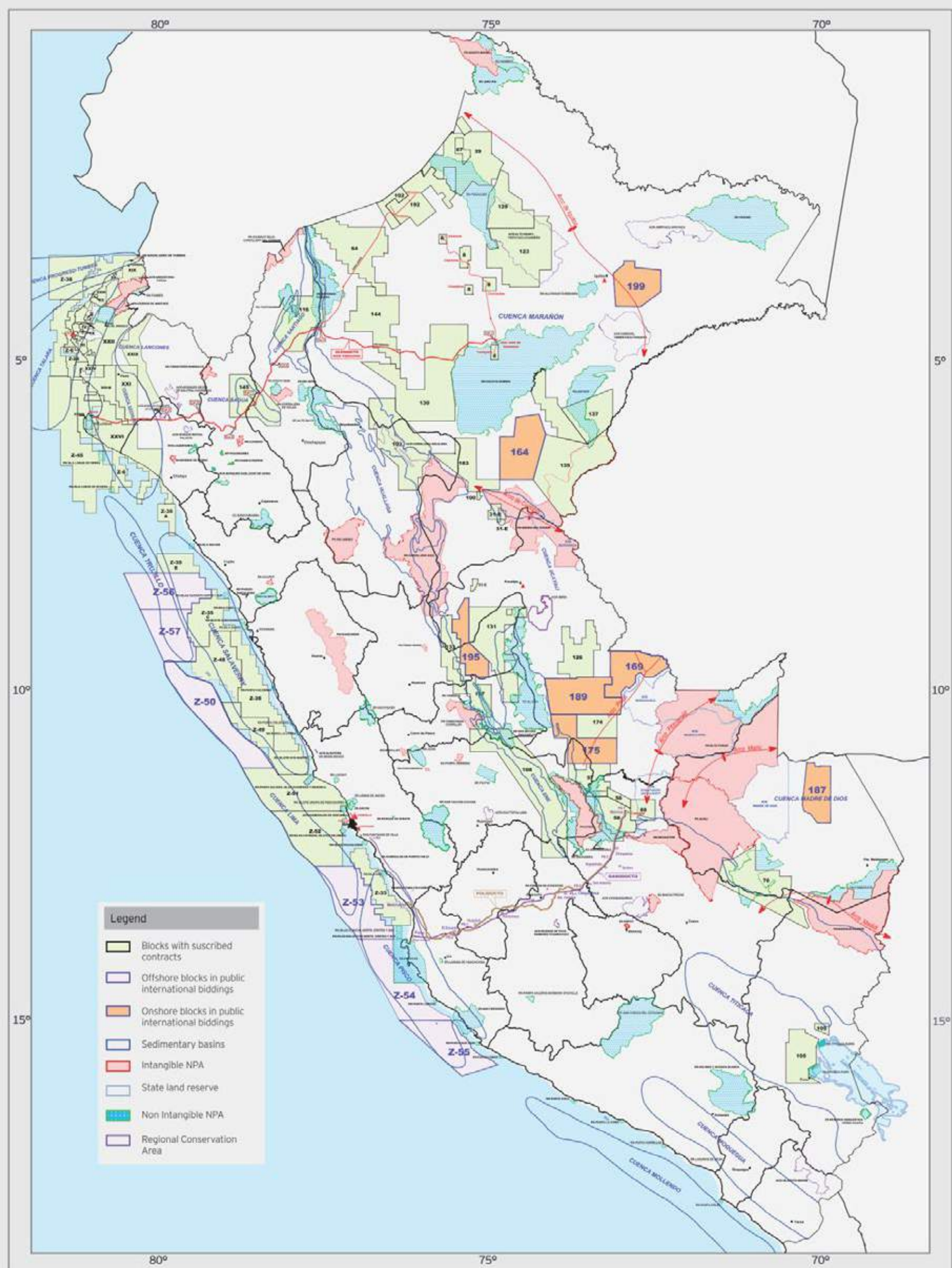
\* Includes contingent and prospective resources. Data updated up to December, 2014.  
 The resources come principally from a reclassification of possible reserves to resources as of 2009  
 Source: Ministry of Energy and Mine

## Natural gas liquids reserves



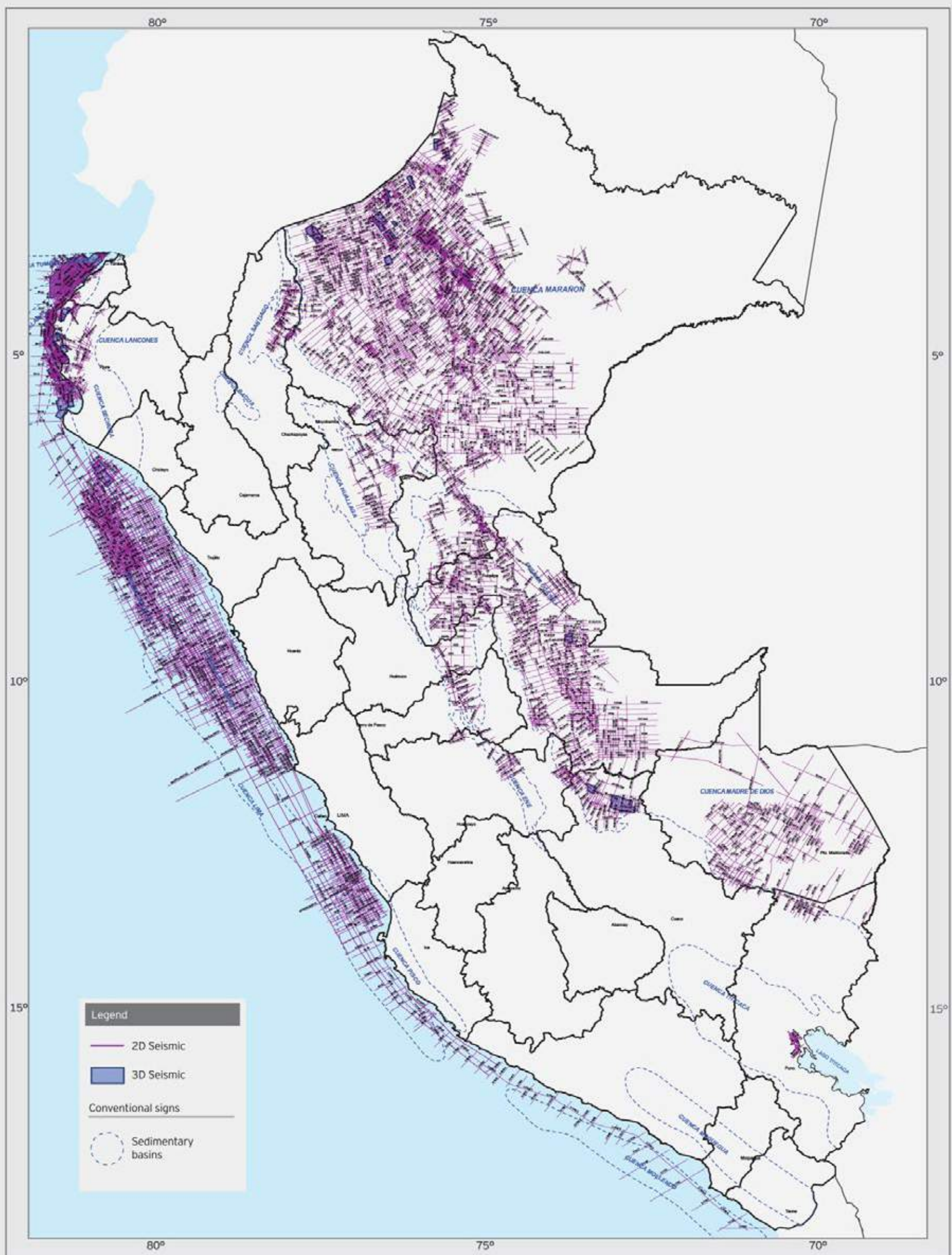
\* Includes contingent and prospective resources. Data updated up to December, 2014.  
 The resources come principally from a reclassification of possible reserves to resources as of 2009  
 Source: Ministry of Energy and Mines













## Exploitation and exploration contracts (January to December 2015)

	Suscribed	Inforce	Investment (US\$ millions)*
► Exploitation	0	25	382.87
► Exploration	-	41	299.40
<b>Total</b>	<b>0</b>	<b>66</b>	<b>682.28</b>

► Exploitation contracts						
Zone	Operator	Block	Basin	suscription date	Lot area / ha	Effective work area / ha
North Rainforest	Pacific Stratus Energy	192	Marañon	30-ago-15	512,347.24	2,037.00
	Pluspetrol Norte	8	Marañon	20-may-94	182,348.21	541
	Petroperu	64	Marañon	07-dic-95	761,501.00	66.00
	Perenco	67	Marañon	13-dic-95	101,931.69	378.00
Central Rainforest	Maple	31B y 31D	Ucayali	30-mar-94	71,050.00	154.00
	Aguaytia	31C	Ucayali	31-mar-94	16,630.00	18.00
	Maple	31-E	Ucayali	6-mar-01	10,418.93	9.00
	Cepsa	131	Ucayali	21-nov-07	778,403.37	90.00
South Rainforest	Pluspetrol Peru Corp.	56	Ucayali	7-sep-04	58,500.00	64.00
	Pluspetrol Peru Corp.	88	Ucayali	09-dic-00	143,500.00	129.00
	Repsol	57	Ucayali	27-ene-04	287,102.80	12.00
North-West	GMP	I	Talara	27-dic-91	6,943.25	339.00
	Petrolera Monterrico	II	Talara	05-ene-96	7,707.42	136.00
	GMP	III	Talara	31-mar-15	35,799.31	227.00
		IV	Talara	31-mar-15	29,521.99	181.00
		V	Talara	8-oct-93	9,026.03	42.00
	Sapet(*)	VI/VII	Talara	22-oct-93	34,444.83	2,513.00
	Unipetro ABC	IX	Talara	16-jun-15	2,754.13	52.00
	CNPC	X	Talara	20-may-94	46,952.34	2,252.00
	Olympic Peru Inc	XIII	Sechura	30-may-96	263,357.85	29.00
		XV	Talara	26-may-98	9,999.77	10.00
Continental Shelf	Petrolera Monterrico	XX	Talara	19-ene-06	6,124.21	131.00
	Savia	Z-2B	Talara	16-nov-93	199,865.22	318.00
	BPZ	Z-1	Tumbes, Talara	30-nov-01	224,375.85	30,077.00
	Savia	Z-6	Talara, Sechura	20-mar-02	528,116.61	15,552.00

► Exploration contracts						
Zone	Operator	Block	Basin	subscription date	Lot area / ha	Effective work area / ha
North Rainforest	Perenco Peru Limited	39	Marañon	9-sep-99	745,141.20	119.00
	Gran Tierra Energy Peru S.R.L.	95	Marañon	7-apr-05	345,281.67	7,509.00
	Pluspetrol E&P	102	Marañon	13-dec-05	126,676.11	50.00
	Pacific Stratus Energy S.A., Sucursal Del Peru	116	Santiago	12-dec-06	658,879.68	128.00
	Gran Tierra Energy Peru S.R.L.	123	Marañon	29-sep-05	940,421.09	171.00
	Gran Tierra Energy Peru S.R.L.	129	Marañon	11-apr-05	472,433.68	90.00
	Cepsa Peru	130	Marañon	16-apr-09	1,275,349.40	130.00
	Pacific Stratus Energy	135	Marañon	21-nov-07	1,020,390.63	117.00
	Pacific Stratus Energy	137	Marañon	21-nov-07	448,947.45	117.00
	Kei Peru	144	Marañon	16-apr-09	683,616.47	87.00
	Andean Exploration Peru S.A.C.	145	Bagua	16-apr-09	500,000.00	80.00
	Hydrocarbon Exploration Plc., Sucursal del Peru	183	Marañon	28-sep-11	396,825.66	0.00
Central Rainforest	Compañía Consultora de Petroleo	100	Ucayali	26-mar-04	7,700.00	40.00
	Talisman	103	Marañon, Huallaga	9-aug-04	870,896.17	120.00
	Petrolifera Petroleum del Peru	107	Ucayali	1-sep-05	252,232.33	114.00
	Petrominerales Peru	126	Ucayali	23-oct-07	424,419.24	12.00
	Petrolifera Petroleum del Peru	133	Huallaga, Ucayali	16-apr-09	309,309.20	47.00
South Rainforest	Hunt Oil	76	Madre de Dios	2-may-06	837,237.78	235.00
	Pluspetrol E&P	108	ENE	13-dec-05	1,241,675.95	36.00
	Tecpetrol S.A.C.	174	Ucayali	23-sep-11	263,943.84	0.00
	CNPC	58	Ucayali	12-jul-05	340,133.72	65.00

► Exploration contracts (*continues*)

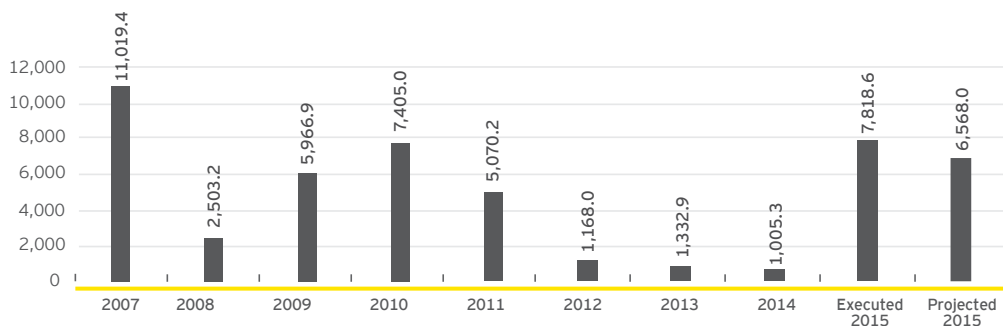
Zone	Operator	Block	Basin	suscription date	Lot area / ha	Effective work area / ha
Highlands	Siboil del Peru Sierra	105	Titicaca	13-dec-05	443,213.17	9.00
North-West	BPZ	XIX	Tumbes, Talara	12-dec-03	191,441.16	36.00
	Gold Oil	XXI	Sechura	4-may-06	303,331.20	44.00
	BPZ	XXII	Talara, Sechura	21-nov-07	369,043.82	66.00
	BPZ	XXIII	Talara	21-nov-07	93,198.96	543.00
	Upland	XXIV	Talara, Sechura	23-jul-07	88,825.40	301.00
	Savia	XXVI	Sechura	21-nov-07	552,711.86	63.00
	Petro Bayovar Inc., Sucursal del Peru	XXVII	Sechura	16-apr-09	49,821.14	144.00
	Ricoil S.A.	XXIX (*)	Lancones	18-sep-15	303,802.34	0.00
Continental Shelf	Savia	Z-33	Lima, Pisco	1-sep-04	424,783.28	15,414.00
	Gold Oil	Z-34	Talara	8-mar-07	296,799.27	32,549.00
	Savia	Z-35	Salaverry, Trujillo	20-sep-05	765,635.90	20,549.00
	Savia	Z-36	Salaverry	14-jul-06	699,996.77	20,549.00
	Kei Peru	Z-38	Tumbes, Talara	12-apr-07	487,545.51	112,555.00
	Savia	Z-45	Talara, Sechura	21-nov-07	1,092,048.35	546.00
	Moche Energy S.A.C.	Z-46	Trujillo	21-nov-07	898,585.22	411.00
	Savia	Z-48	Salaverry	21-nov-07	576,053.88	411.00
	Savia	Z-49	Salaverry	21-nov-07	540,496.55	411.00
	Savia	Z-51	Lima	16-jul-10	849,413.88	0.00
	Savia	Z-52	Lima	16-jul-10	803,574.48	0.00





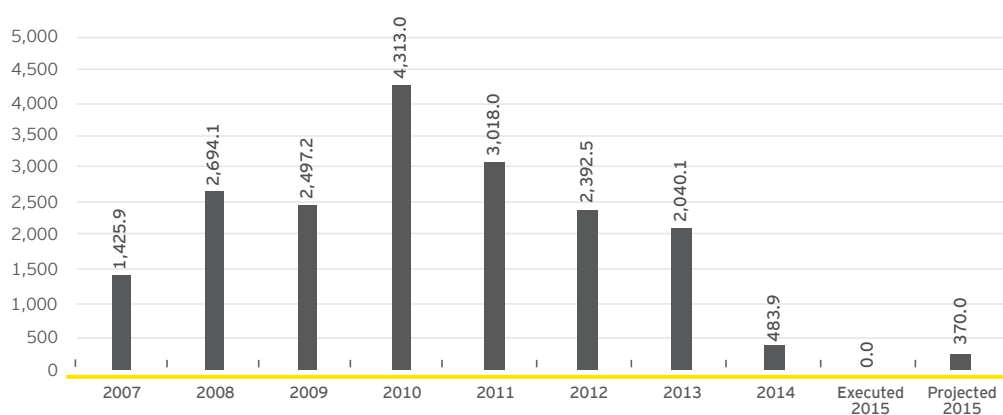
## 2D and 3D seismic

▶ Registered 2D seismic, 2008 - 2015 (Km)



Source: Perupetro  
As of December, 2015

▶ Registered 3D seismic, 2008 - 2015 (Km)

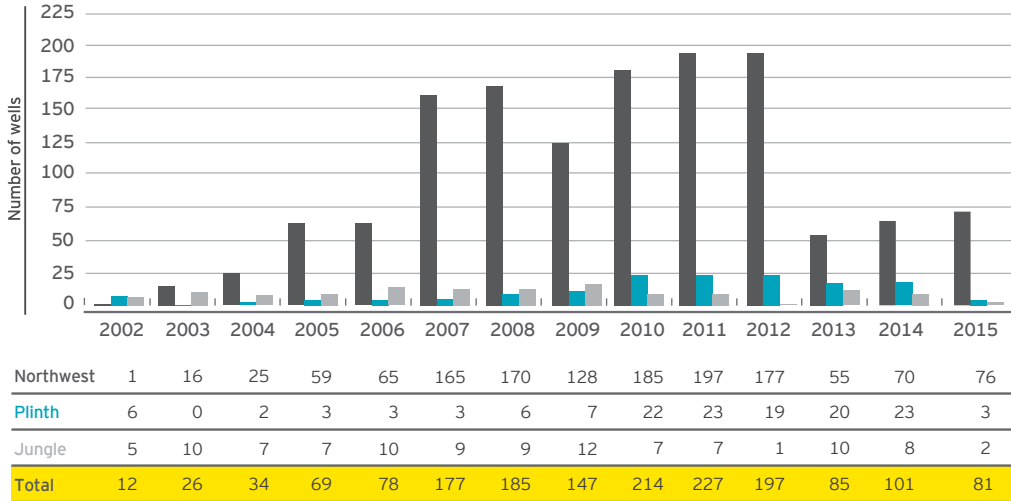


Source: Perupetro  
As of December, 2015



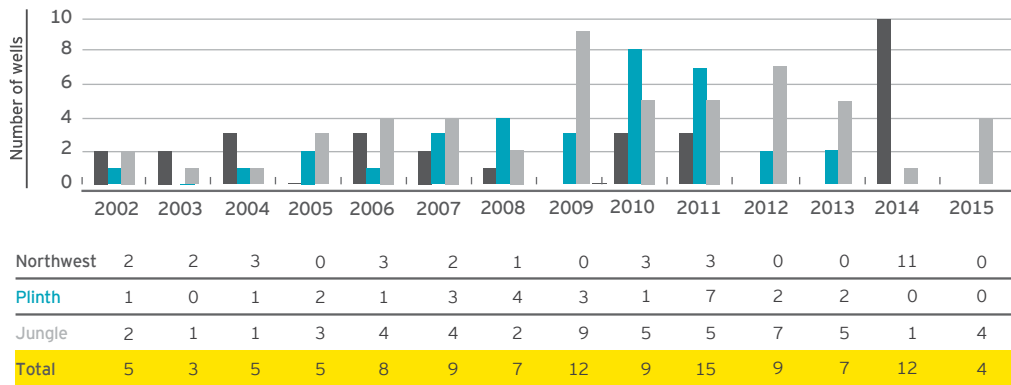
## Development and exploratory drilling

### Development drilling ▶ Period: 2002 - 2015



Source: Perupetro

### Exploratory drilling ▶ Period: 2002 - 2015



Source: Perupetro



## Prior consultation

In order to start an investment project which may require the exploration and/or exploitation of natural resources, the government and/or the community may require following a process of consultation with the indigenous peoples who might be directly affected by it.

Indeed, such process has to be done taking into consideration that Peru has endorsed Convention No. 169 of the International Labour Organization, Law No. 29785, Law of the Indigenous and Native Peoples Right to Prior Consultation, was passed by Peruvian Congress in August 2011, while its Regulations were approved by Supreme Decree No. 001-2012-2012-MC, in force since April 4th, 2012.

The aforementioned Law and its Regulations set the beginning of a new approach to be observed between the Government and indigenous peoples in the context of natural resources' exploitation projects, such as those in the hydrocarbons industry.

The prior consultation process is triggered every time indigenous or native peoples identifies by the Government which could be directly affected in their collective rights by legislative or administrative means.

This process is meant not only to protect the rights of the indigenous or native peoples', but also to prevent eventual social conflicts in the investment projects that may affect them directly. Hence, this legal instrument's goal is aimed towards achieving consensus between the promoting entities, such as the Presidency of the Cabinet, Ministries or Administrative Organisms, and the indigenous or native peoples' representatives.

The General Bureau of Energetic Environmental Affairs of the Ministry of Energy and Mines has been chosen as the authority in charge of some of the Administrative Proceedings that are part of the Prior Consultation regarding oil and gas activities.

As the process' Regulations state, it has seven stages, which are:

- i. Identification of the legislative or administrative mean matter of consultation.
- ii. Identification of the indigenous peoples and their representative organizations.
- iii. Publicity of the legislative or administrative mean matter of consultation.
- iv. Information.
- v. Internal evaluation by the indigenous peoples.
- vi. Dialogue between the Government and indigenous peoples.
- vii. Decision.

It must be noted that if a consensus is not met in the last stage of the process, the promoting entities will do their best effort in order to adapt the legislative or administrative means so that it guarantees the indigenous peoples' rights and the improvement of their living conditions. Thus, the lack of consensus does not imply a veto right in favor of the latter.

The decision must take into consideration the following aspects: (i) Be in accordance to the promoting entity's competences; (ii) respect the Constitutional and legal frame; (iii) comply with the environmental legislation; (iv) preserve the survival of the indigenous peoples and their collective rights; (v) guarantee communal property and land rights of the indigenous peoples.

## Trends in the oil and gas industry in Peru

Once a decision is achieved, a report of all the process is submitted to the Interculture Viceministry, which is the public entity in charge of supervising all the process.

As of December 31, 2015, more than 20 prior consultation processes have taken place. Ten of them directly related to the hydrocarbons industry have already finished successfully, and there are about five new prior consultation processes announced to finish in 2016.



### Trends in the hydrocarbons industry

The actual international context, in which oil prices have slumped more than 60% of its value compared to 2014, truly puts companies into a stage in which it will be necessary to produce more efficiently. But it also brings an opportunity to discuss new policies that may help to develop new projects.

In particular, this means that governments will have to step up in order to prevent negative consequences in economies which rely heavily on oil. Certainly, countries like Mexico and Colombia have taken decisions towards reducing the tax burden of oil companies. Meanwhile, Peru is looking forward following those steps, especially regarding the reduction of royalties.

If the timing is right, the opportunity that opens for Peru is important, even more if we consider that the majority of the oil sedimentary basins have not been explored yet. Also, there are large natural gas reserves not only in the area surrounding the Camisea project, but also in other locations, such as Piura and Tumbes.

Perupetro is planning to carry out oil bidding rounds on several on-shore and off-shore blocks (Blocks 177, 165, 197, 198, 181, 157, 190, 191), during the coming years. It is also evaluating the possibility of starting direct negotiations with companies willing to explore, especially by associating with Petroperu.

The outlook for the country's gas sector is similarly bright. Gas production is projected to jump from an estimated 9.3 bn cubic meters (bcm) in 2012 to 13.0 bcm in 2016. Gas

consumption, meanwhile, is expected to grow steadily, rising from 6.37 bcm in 2012 to 8.19 bcm by 2016. The gas export potential therefore increases to 4.81 bcm, with scope for a further rise to 5.74 bcm by 2021.

## Biofuels

The development of the natural gas industry in Peru is contributing to create new industrial opportunities around this resource, such as the biofuels or petrochemical industry. This will contribute to reaching the energy matrix diversification objective, so that by 2025 Peru will have reached a diversified and equilibrated matrix (13.8% oil; 65.7% natural gas and natural gas liquids; and 20.0% renewable resources).

In this context, biofuels are a clean and renewable alternative against the contaminating oil industry, especially for its contribution to the diversification of the availability of liquid fuels for transport.

In Peru, there is no significant production of biodiesel and ethanol, but some processing plants have been installed during recent years.

Some of the companies that have made investments in this industry are: Pure Biofuels, Biodiesel Peru International, Herco Combustibles, among others.

Peru has some advantages related to biofuel production, due to the existence of great potential for the development of several oil crops, for obtaining fats and oils from animal origin. The existing potential crops show high production yields.

## Petrochemical Industry in Perú

Petrochemical Industry is an important economical segment in many countries, especially in the ones that own available raw material in competitive quantities such as Peru.

Petrochemical Industry is divided into three:

- First generation basic industry (for example: gas of synthesis, ethylene)
- Second generation industry (for example: ammonia, urea, polyethylene, and polypropylene)
- Transformation industry or third generation (for example: fertilizers NPK, MAP, plastics)

### Competitive integration

#### Extraction / Raw material



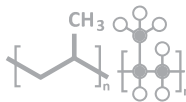
Nafta  
Gas  
Ethanol  
Salt

#### 1<sup>st</sup> Generation / Basic Petrochemical



Ethylene  
Propylene  
Cloro/Soda

#### 2<sup>nd</sup> Generation



Polyethylene  
Polypropylene  
PVC  
Ammonia  
Urea

#### 3<sup>rd</sup> Generation



Plastics  
Fertilizers

Source: EY

The vision that needs to be concretized in the case of Peru, is to have a planned petrochemical development for the southern part of the country that will not only supply the country but also allow earning an export market for its products mainly in the Pacific Coast of Latin America.

Nevertheless, Petrochemical Industrial Planning in a country such as Peru, in which investment is linked to decisions of private companies, requires an important agreement between sector authorities of the Government and potential investors.

In this sense, the implementation of laws, including the ones affecting energy security and the future of petrochemical industry (Laws No. 29163, 29690, and 29970) demonstrates a great opportunity for private companies willing to invest.

Having raw material (offer) and a developing market (demand) worldwide are some of the variables that today make it attractive to start a competitive petrochemical industry in Peru.



## Added value and investment opportunities

The arrival of natural gas to the southern part of the country is a unique opportunity for developing investment projects in petrochemical, which will add value to the chain of natural gas.

### Natural Gas

Natural gas has many components that can be transformed into other derivatives

#### Propane $C_3$

- ▶ Propylene
- ▶ Polypropylene (plastics)

#### Ethane $C_2$

- ▶ Ethylene
- ▶ Polyethylene
- ▶ Ox. of ethylene

#### Methane $C_1$

- ▶ Ammonia
- ▶ Urea (fertilizers)
- ▶ Ammonia Nitrate (fertilizers, ANFO)
- ▶ Methanol (paints)

As mentioned before, the Southern Peruvian Pipeline (SPP) project is expected to be finished by 2018, when it will transport natural gas from the gas zone called Camisea to the regions of Cusco, Puno, Arequipa, Moquegua and Tacna. It will be ready to transport up to 1,500 MMSCFD.

## Petrochemical Complex

The development of a Peruvian Petrochemical Industry must search for a synergy between the SPP, first and second generation Industrial Petrochemical Complex and third generation industrial complex: plastic transformation industry (bags, containers, etc.).

Competitive availability of raw material is the main factor to make this Project feasible. In this case, the existence of a reasonable gas flow at the end of the SPP is very important. This hypothesis will only be possible if a new LNG unit is developed in the region, since it is the only project that can add natural gas demands.

The planning of a petrochemical complex involves a number of important other decisions. Not only the ones that guarantee raw material supply, but also location, access to transportation (highways, sea ports and airports), supplies such as water, electricity and of course human resources.

The above mentioned are great opportunities for investors visualizing this synergistic interrelationship with benefits to them, for the government and for the population in general.

A list of integrated units in a petrochemical complex, with their respective investment estimations, demonstrates that they all could be more than US\$15,000 million:

Project	Investment US\$ Millions
LNG	5,000
Ammonia Urea	1,800
Ethylene Polyethylene	5,000
Methanol	1,500
Infrastructure and services	1,000
Energy	1,000

## Benefits for the country

The installation of a petrochemical industry in the country will not only increase added value to nonrenewable resources such as natural gas, with the following decrease of imported petrochemical products (improving trade balance), but will also contribute to improve national and regional economy growth. This growth will create qualified jobs, new road and port infrastructure, among other significant benefits for the country but especially to the Southern region. Benefits for the country considering taxes will be significant.

## Opportunity to join several stakeholders to achieve the desired goals

It is appropriate to consider that the development of a Petrochemical Industry is one of the objectives on the Energy policy of the Peruvian Government. To achieve this goal, it is necessary to establish a Strategic Plan together with the Government and regional and private sectors that will allow this megaproject to develop in the short term.







# IV

## Oil and gas tax and legal framework

## Hydrocarbon terms

### Hydrocarbons agreements

Oil and gas exploration and production activities are conducted under license or service contracts granted by the Government. Under a license contract, the investor pays a royalty, whereas under a service contract, the Government pays remuneration to the contractor.

As stated by the Peruvian Constitution and the Organic Law for Hydrocarbons, a license contract does not imply a transfer or lease of property over the area of exploration or exploitation. By virtue of the license contract, the contractor acquires the authorization to explore or to exploit hydrocarbons in a determined area, and Perupetro (the entity that holds the Peruvian state interest) transfers the property right in the extracted hydrocarbons to the contractor, who must pay a royalty to the state.



License and service contracts are approved by supreme decree issued by the Peruvian Ministry of Economy and Finance, and the Peruvian Ministry of Energy and Mining, and could only be modified by a written agreement signed by the parties.

Before initiating any negotiation, every oil and gas company must be duly qualified by Perupetro, in order to determine if it fulfills all the requirements needed to develop exploration and production activities under the contract modalities mentioned above.

It must be noted that the terms and conditions under which license contracts are negotiated and subscribed remain the same for on-shore and offshore blocks.

On the other hand, contractors will have the right to use water, grit, wood, and other construction materials, and to negotiate permissions, easements and the right to use water and surface rights, that necessarily result in carrying out their activities. If the exercise of such rights generates economic damages, they must be compensated.

### Upstream, midstream and downstream activities

The activities performed in the hydrocarbon sector can be divided into three stages: “upstream”, “midstream” and “downstream”. The activities included in the “upstream” stage comprise the exploration and exploitation of hydrocarbon deposits while the “midstream” and “downstream” stage refers to refining, natural gas processing, transportation, distribution and commercialization of oil, gas and by-products.



## Upstream Activities (\*)

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### ► Exploration phase

The exploration phase is aimed at discovering areas with oil potential. To reach that objective, oil companies must plan, execute and evaluate every type of geological, geophysical, geochemical activity and carry out other studies, geophysical activities, drilling exploring oil wells and other related and necessary activities for oil discoveries.

This phase will have a maximum duration of 7 years, counted from the effective date of the contract (60 days after the signing date) established on each contract. This term can be divided into several periods as agreed in the contract.

Exceptionally, the Ministry of Energy and Mines can authorize an extension of three years for this stage, if the contractor has fulfilled with the minimum working program established in the contract, and also commits to fulfill an additional working program that justifies such extension.

The contractor shall be responsible for providing the technical and economic resources required for the execution of the operations of this phase.

### ► Exploitation phase

The exploitation phase is comprised of development and production activities related to oil and gas extraction, in order to transport it to relevant markets. These activities include, among others, drilling of exploitation wells, the construction of pipelines to transport the extracted hydrocarbon production and any other activity for extracting hydrocarbon.

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(\*) Peru's Oil & Gas Investment Guide is mainly focused on upstream activities

This phase will have a maximum duration of 30 years for crude oil, and 40 years for non associated natural gas and condensates, both counted from the contract effective date.

## Midstream Activities

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These activities can be considered as a crucial part of the oil and gas sector activities, as they consist of the transport by pipelines, and storing of hydrocarbons. In order to start activities related to the transportation of hydrocarbons by pipelines, a company must be granted a concession, whilst it will only need to comply with specific requirements according to Peruvian regulations so as to store them.

Midstream related activities can also be related to the operation of gas processing plants and gas treating and conditioning facilities in order to make it transportable, the operation of fuel pipelines systems, maritime transportation by tankers, and operating oil storage terminals.

Investment projects in gas processing facilities can be subject to the benefits granted to upstream projects. In this regard, a contract shall be signed by the investor and government, and it can only be modified by mutual agreement.

## Downstream Activities

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### ► Refinery

This activity involves the construction of industrial facilities, in which crude oil, natural gasoline or other hydrocarbon sources are transformed into fuel products, such as liquefied petroleum gas (LPG), gasoline, diesel and industrial fuels. Contractor must obtain an authorization from the General Hydrocarbons Bureau for executing such construction.

### ► Distribution and commercialization

Liquid fuels and other hydrocarbon byproducts obtained as a consequence of the activity of refinery are distributed to wholesalers, who in turn, dispatch them to oil stations, to retailers and/or direct consumers, etc. In the case of liquid hydrocarbon and similar hydrocarbon byproducts, contractors must obtain an authorization from Ministry of Energy and Mines (MEM). In the case of natural gas, distribution must be granted by a concession.

### Government policies on the sale of natural gas

Contractors must consider that the authorization to explore or to exploit proven natural gas reserves requires them to guarantee the supply of the national market, for a specific period stated in the contract.

### Assignment of an oil interest

The contractor can partially or totally transfer its interest or associate with any other qualified investor, provided that the operation is approved by the Ministry of Energy and Mines (MEM).

The transfer of the contractor's interest will lead to the maintenance of the same responsibilities regarding the guarantees and obligations assumed by the contractor. In this sense, the stabilized tax regime applicable to the contractor will also apply to the transferee.

### Environmental obligations

Before initiating any hydrocarbon activity (e.g. seismic exploration, drilling of exploration wells, etc.) the contractor must fill and obtain an approval for an Environmental Impact

Study (EIS), which incorporates technical, environmental and important social matters that contribute to evaluate and determine the necessary mechanisms for preventing, minimizing, mitigating and remediation of the possible negative environmental impacts that the hydrocarbon activity will trigger.

Depending on the type of hydrocarbon activity the contractor is intended to execute, it should fill the following types of environmental studies:

- Environmental Impact Statement (EIS)
- Detailed Environmental Impact Study (DEIS)
- Semi detailed Environmental Impact Study (SEIS)

Environmental Certification National Service for Sustainable Investment (in spanish, called SENACE), is the public and technical entity in charge of approving the DEIS of projects that involves activities, structure implementation works and other commercial and service activities that may cause significant environmental impacts. It is the organization part of the Ministry of Environment.

For this purposes, SENACE reviews environmental plans presented for large investments projects, seeks for technical opinions, makes proposals to enhance environmental evaluation processes and manage the National Registry of Environmental Consultants, among other activities.

Notice that the competent authority for protection and environmental conservation in the case of hydrocarbon activities, is the MEM (Ministry of Energy and Mines), through the General Bureau of Energetic Environmental Affairs (GBEEA).

## Peruvian oil and gas fiscal system

The economic attractiveness of exploring a country is strongly influenced by the fiscal system that applies to deposits that are discovered and subsequently developed. If tailored properly, fiscal terms are able to achieve the overall objective of collecting an adequate share of the economic benefit generated by the oil and gas industry for the government while maintaining high levels of exploration and production activities.

Keeping in mind those objectives and considering that the levels of investment required in the exploration stage in itself involves a great associated risk, Peru has established several tax incentives in order to reduce the tax impact that arise to those operations by establishing a tax stability regime, VAT exemption on the import of goods and supplies for the exploration stage, and early-definitive VAT recovery regimes.



### At a glance

The fiscal regime that applies in Peru to the oil and gas industry consists of a combination of corporate income tax, royalties and other levies.

<b>Income Tax rate</b>	28% <sup>(1)(2)</sup>
<b>Hydrocarbon Royalties</b>	5% imposed on the value of the hydrocarbons produced in certain block
<b>Capital allowances</b>	Ring-fence rules and preoperative investment amortization
<b>Investment incentives</b>	Tax losses can be carried forward for 4 years or indefinitely; stabilization agreements; VAT recovery; VAT exemptions on imports of goods for exploration activities

(1) Oil and gas companies with license or service agreements are subject to a 2% premium. This 2 points should be added to the current Income Corporate Tax rate (28% in 2015-2016, 27% in 2017-2018 and 26% in 2019 onwards), resulting in an Income Tax rate of 30%, 29% and 28% for Oil and Gas companies as of the date they signed license or service contracts.

(2) In addition, they must pay a 5% employee profit sharing.

### Fiscal regime Corporate Income Tax

In general terms, oil and gas companies are subject to the general corporate income tax regime; nevertheless, there are certain special tax provisions for the oil and gas sector.

### Basic aspects

Resident companies (incorporated in Peru), are subject to income tax on their worldwide taxable income. Branches and permanent establishments of foreign companies that are located in Peru and nonresident entities are taxed on income from Peruvian sources only.

Taxable income is generally computed by reducing gross revenue by cost of goods sold and all expenses necessary to produce the income or maintain the source of income. Certain types of revenue, however, must be computed as specified in the tax law and some expenses are not fully deductible for tax purposes. Business transactions must be recorded in legally authorized books of account that are in full compliance with the International Accounting Standards (IAS). Contractors (Peruvian corporations and branches) are entitled to keep their accounting records in foreign currency, but taxes must be paid in Peruvian Soles (PEN).

The general corporate income tax rate for the fiscal year 2015 - 2016 is 28%. The tax rate applicable for the taxable years 2017-2018 will be 27% and for the taxable year 2019 onwards will be 26%. However, companies carrying out exploration and production activities under hydrocarbon agreements must apply an income tax rate of 30% (2015-2016), 29% (2017- 2018) or 28% (2019 onwards), the current tax rate plus 2 points. In addition, a Dividend Tax at a rate of 6.8% (years 2015- 2016), 8% (years 2017-2018), and 9.3% (years 2019 onwards), is imposed on distributions of profits to non residents and individuals by resident companies and by branches, permanent establishments and agencies of foreign companies.

This tax is generally withheld at source. However, in certain circumstances, the company must pay the tax directly.

The mandatory closing date for business enterprises is December 31<sup>st</sup>. Tax returns must be filed by between March and April according to the schedule established by the Tax Administration. Taxes and related penalties not paid by the due dates are subject to interest charges, which are not deductible for corporate income tax purposes.

### Advanced payments

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Companies and branches must make monthly advance payments of their annual corporate income tax. Advance payments will be equal to the amount that results greater from comparing the quotas obtained from the application of the following methods:

- Percentage method: by applying 1.5% to the total net revenue of the month.
- Ratio method: by dividing the tax calculated in the previous year by the total accrued net revenue of the same year and applying the ratio to the net accrued revenue of the month.



Income Tax prepayments apply as a credit against the annual income tax obligation or they are refunded at the end of the fiscal year (once the tax return is filed) if requested by the taxpayer.

### Capital gains

Capital gains are treated as ordinary income. Capital gains determined by resident entities are subject to a 28% tax rate in fiscal years 2015-2016, 27% in 2017-2018, and 26% from 2019 onwards.

As from January 1, 2016, capital gains derived from the sale of shares and other securities representing shares (i.e. ADR, GDR, and ETF) carried out through the Lima Stock Exchange are Income Tax exempt. To claim the exemption, a taxpayer must meet the following conditions:

- ▶ In any given 12-month period, the taxpayer and its related parties must not transfer more than 10% of the shares or "securities that represent shares" issued by the company whose shares are sold.
- ▶ Shares should meet a liquidity threshold: 180 working days prior to their sale, they should have been traded at least in 27 days (not necessarily consecutive) for a daily fee of US\$4,647 (equivalent to 4 Tax Units).

The exemption is effective until December 31, 2018.

### Capital allowances

#### Trade or business expenses

In general terms, all corporate expenses incurred in the generation of taxable income or in maintaining its source shall be allowed as a deduction for corporate income tax purposes. This rule is subject to certain exceptions and limitations expressly provided in the income tax law.

### Tax depreciation

Depreciation rates are applied to the acquisition cost of fixed assets. The following are some of the maximum annual depreciation rates allowed by Law:

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

\*This is a fixed rate rather than a maximum rate.

Taxpayers may apply any depreciation method for their fixed assets other than buildings and constructions, as long as the resulting depreciation rate does not exceed the maximum rates stated above. In general, except for buildings and constructions, tax depreciation must match financial depreciation.

Recently, the government has approved an exceptional and temporary depreciation regime applicable for years 2015-2016, which allows taxpayers to depreciate buildings and edifications by applying an annual rate of 20%, for Income Tax purposes. This regime only applies if the goods are used only for business purposes and if the following conditions are met:

- i) The construction of the building or edification had begun from January 1<sup>st</sup> of 2014; and,
- ii) If until the December 31<sup>st</sup> of 2016, the construction has been at least 80% completed.

## Valuation of inventory

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Inventory is valued for tax purposes at the acquisition or production cost. Financial charges are not allowed as part of the cost. Taxpayers may choose any one of the following methods to calculate annual inventory for tax purposes, provided that the method is consistently used: first-in, first-out (FIFO), daily, monthly or annual average, specific identification, detailed inventory, and basic inventory.

## Pre-operative expenses

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Pre-operative expenses may either be expensed in the year production commences, or may be amortized over a period of up to ten years from the year in which production commences.

## Special rules for investments on hydrocarbon activities

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Hydrocarbon law provides that exploration and development expenditures, including the investment contractors may make up to the production date (when the commercial extraction of hydrocarbon starts) can be accumulated in an account. At the contractor's option and regarding each contract, the amount is amortized using either of the methods below:

- On the basis of the production unit
- Through lineal amortization deducting the expenditures in equal portions during a period of no less than five fiscal years

Any investments in a contract area that did not reach the commercial extraction stage and that were totally released, can be accumulated with the same type of investments made in another contract that is in the process of commercial extraction. These investments are amortized in accordance with the amortization method chosen in the letter contract.



If the contractor has entered into a single contract, the accumulated investments are charged as a loss against the results of the contract for the year of total release of the area for any contract that did not reach the commercial extraction stage, with the exception of investments consisting of buildings, power installations, camps, means of communication, equipment and other goods that the contractor keeps or recovers to use in the same operations or in other operations of a different nature.

Once commercial extraction starts, all amounts corresponding to disbursements with no recovery value are deducted as expenses for the fiscal year. Expenses with no recovery value occur as of the start of commercial extraction for the following purposes:

- Investments for drilling, completing or producing start-up wells of any nature, including stratigraphic ones, and excluding acquisition costs of surface equipment.
- Exploration investments, including those related to geophysics, geochemistry, field geology, gravimetry, aerophotographic survey and seismic surveying, processing and interpreting.

The Manual of Accounting Procedures to be filed before Perupetro must detail the accounts considered as expenditures without any recovery value.

### Ring-fence rules for oil and gas contracts

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The contractor determines the tax base and the amount of the tax, separately and for each contract. If the contractor carries out related activities (i.e., activities related to oil and gas, but not carried out under the terms of the contract) or other activities (i.e., activities not related to oil and gas), the contractor is obligated to determine the tax base and the amount of tax separately and for each activity.

The corresponding tax is determined based on the income tax provisions that apply in each case (subject to the tax stability provisions for contract activities and based on the regular regime for the related activities or other activities).

The total income tax amount that the contractor must pay is the sum of the amounts calculated for each contract, for both the related activities and for the other activities. The forms to be used for tax statements and payments are determined by the tax administration.

If the contractor has more than one contract, it may offset the tax losses generated by one or more contracts against the profits resulting from other contracts or related activities. Likewise, the tax losses resulting from related activities may be offset against the profits from one or more contracts.

It is possible to choose the allocation of tax losses to one or more of the contracts or related activities that have generated the profits, provided that the losses are depleted or are compensated to the limit of the profits available. This means that if there is another contract or related activity, the taxpayer can continue compensating tax losses until they are totally used.

A contractor with tax losses from one or more contracts or related activities may not offset them against profits generated by the other activities. Furthermore, in no case may tax losses generated by the other activities be offset against the profits resulting from the contracts or from the related activities.

### Hydrocarbon Royalty

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As mentioned before, oil and gas exploration and production activities are conducted under license or service contracts granted by the Government. Under a license contract, the investor pays a royalty, while under a service contract, the Government pays remuneration to the contractor.

In both cases, however, the distribution of the economic rent (royalty or remuneration) between the Government and the investor is determined based on the following methodologies:

#### ► Production scales

This methodology establishes a percentage of royalty (or brackets of royalties starting at 5%) over certain scales of production (volume of barrels per calendar day) for the fiscalized liquid hydrocarbons and the fiscalized natural gas liquids, and other royalty percentages for the fiscalized natural gas for each valuation period.

Note that the fiscalized hydrocarbons (i.e. liquid hydrocarbons, natural gas, etc.) means those produced and measured in a specific fiscalized production point set between the investor and the Government in order to establish the quality and volume of hydrocarbons, according to API (American Petroleum Institute) and ASTM (American Society for Testing and Materials) regulations.



Based on the scales of production, the percentage of royalty is:

Scales of production (per barrels per calendar day)	Percentage of royalty
< 5	5%
5-100	5% to 20%
> 100	20%

► **Economic results (RRE)**

According to this methodology, the royalty percentage is the result of adding the fixed royalty percentage of 5% to the variable royalty percentage. The variable royalty percentage is calculated once the ratio between revenues and expenditures, as of the previous year, is at least 1.15. The variable royalty will be applicable in a range between 5% and 20%.

► **Other Methodologies**

“R” Factor and Cumulative Production per Oil Field with price adjustments are alternative methodologies. In the case of “R” Factor, the royalty is calculated by applying a ration between revenues and expenditures within a certain period established in the Contract. For these purposes, the minimal percentage of royalty is:

“R” Factor	Percentage of royalty
► From 0.0 < 1.0	15%
► From 1.0 < 1.5	20%
► From 1.5 > 2.0	25%
► From 2.0 or more	35%

The definitive percentages will be negotiated and established in each Contract.

On the other hand, in the case of Cumulative Production per Oil Field with price adjustments, the royalty is calculated based on a specific percentage per Oil Field of a Contract. The royalty is adjusted based on two factors: the cumulative production of each Oil Field and the average price per barrel of such production.

Hydrocarbon royalties paid by oil and gas companies shall be considered a deductible expense for income tax purposes.

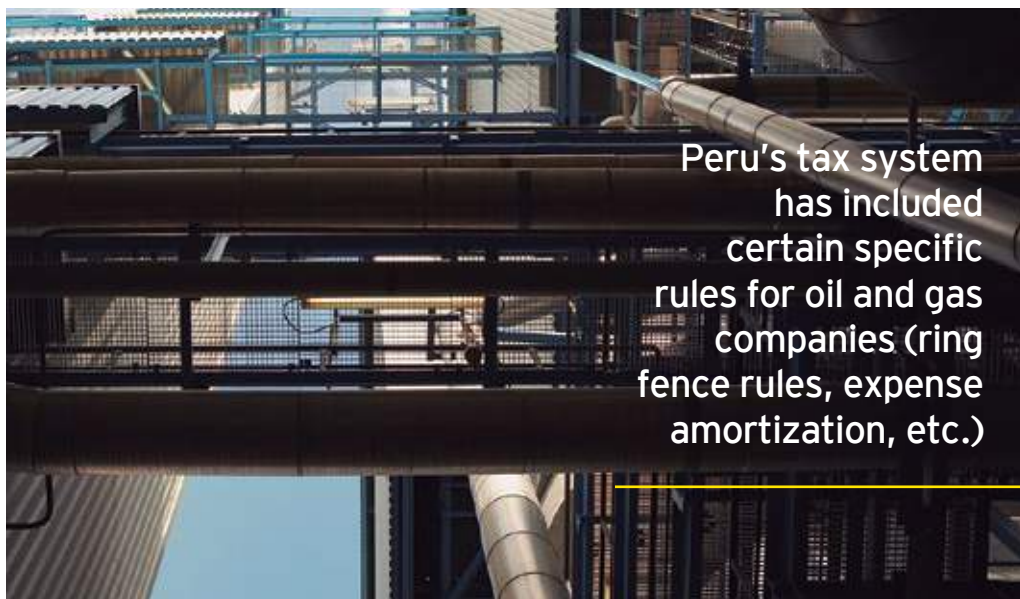
**Incentives**

► **Relief for losses (consolidation of losses on hydrocarbon activities):**

Tax losses can be carried forward and offset against net income derived in future fiscal years. The provisions currently in force require the taxpayer to elect one of the following procedures to offset the tax losses:

- Offset the total net tax losses from Peruvian sources incurred in a tax year against net income derived in the four fiscal years following its generation. The amount of losses not offset after this term are cancelled.
- Offset the total net tax losses from Peruvian sources obtained in the tax year against 50% of the net income obtained in the following years, without limitation.





Peru's tax system  
has included  
certain specific  
rules for oil and gas  
companies (ring  
fence rules, expense  
amortization, etc.)

The election should be made when the annual income tax return is filed and it cannot be changed until the accumulated losses are fully utilized.

Loss carrybacks are not allowed.

► **Special incentives for hydrocarbon investors:**

*Stability regime*

The Organic Law for Hydrocarbons and the related tax regulations foresee that the signing of an oil and gas agreement implies the guarantee that the tax regime in effect at the date of signature will not be changed during the life of the contract. This is intended to preserve the economy of the contract so that no further tax costs are created for the contractors.

The signing of an agreement for the exploration or exploitation of a block freezes the tax regime in force at the date that the contract is signed for the entire life of the contract. Taxes covered by this provision are the taxes in which the responsibility rests on the contractor as a taxpayer.

In specifically, tax stability covers the following:

- Income Tax, but an additional two percentage points must be applicable to the rate in force at the signing date (i.e. current Income Tax rate of 28% plus 2%). Taxes that affect profit distributions arising from the contract activities (i.e., dividend tax or branch profits tax) are also covered by the tax stability.
- Indirect taxes (Value Added Tax, Municipal Promotion Tax, and Selective Consumption Tax), but only as to its transferable nature.
- Tax exemptions and other tax benefits, but subject to the term and conditions established in the provision that contain such benefits.
- Tax recovery regimes, temporal admission regimes, export regimes and other related regimes.

It is important to note that tax stability is, in essence, granted for the contract activities

and not directly for the entities that signed the contract. Therefore, changes in the contractor's ownership will not affect the tax stability. The tax stability only covers the contract activities (i.e., the exploration and exploitation of hydrocarbons) and no other related or distinct activities that may be performed by the legal entity (e.g., downstream activities). Revenues obtained from the sale or exports of the extracted hydrocarbon are included in the activities covered with tax stability.

#### *Early recovery VAT system*

The early recovery VAT system allows obtaining an early recovery of the VAT paid on the acquisition of goods, services, construction contracts, importations, etc., executed for carrying out taxable operations or exports. VAT is reimbursed through negotiable credit notes (which are redeemable in exchange for a check). This system prevents waiting to recover such amount from a client when the invoice, including VAT, for the sales of goods, services or construction contracts is issued to the client.

In other words, this regime provides relief of financial costs (cost of money) for projects with a significant pre-operating stage and for which no advance invoice (transferring the VAT burden) can be issued periodically to the client.

The law provides a general and a specific early recovery system; each one with its own scope and requirements:

- General early recovery VAT system: This regime applies to companies that are in a preoperative stage, allowing them to recover the VAT paid on the acquisition of capital goods. This regime does not require companies to sign an investment contract, nor specific amount of investment.
- Specific early recovery VAT system: This regime applies to companies that are in a preoperative stage, and that also meet the following conditions: (i) they enter into investment contracts with Peruvian government, to invest in economic Industry; and (ii) they make a minimum investment commitment of US\$5 million for projects with a preoperative phase of at least 2 years.

If the previous conditions are met, companies will be able to recover VAT paid on the acquisition or imports of capital or intermediate goods, services, and construction contracts. The use of one system does not preclude the possibility of using the other, as they have a different scope (items).



### *Definitive recovery VAT system*

Under this regime, VAT paid on the acquisition of goods and services used directly in oil and gas exploration activities can be recovered without having to wait until a commercial discovery takes place or production begins. This regime will be applicable from the contract signing date until the end of the term of the exploration phase.

Goods and services included in the regime should be incorporated in a list and approved by the Ministry of Energy and Mines. The validity of this regime has been extended until December 31, 2018.

### *Amazon promotion investment regime*

- ▶ VAT and ISC exemption on the sale of hydrocarbon products: oil and gas companies (principally companies dedicated to oil refining and storage activities) located in the regions of Loreto, Ucayali and Madre de Dios will be VAT and ISC exempted when selling oil, natural gas and by-products to retailers or to direct consumers. Retailers must also be located also in the regions of Loreto, Ucayali and Madre de Dios, and should perceive third category income mainly from commercializing oil, natural gas and/or its byproducts. Direct consumers include corporations and individuals located in the regions of Loreto, Ucayali and Madre de Dios, that perceives third category income due to activities different from hydrocarbons commercialization.

The law also states that retailers will only be allowed to sell the exempted hydrocarbon product to the public, or for its own consumption; and that the direct consumer will also be limited to use the exempted hydrocarbon product only for the activities carried out in the regions of Loreto, Ucayali and Madre de Dios.

- ▶ ISC reimbursement on oil products acquisitions: oil and gas companies located in the region of Madre de Dios can obtain a reimbursement on the ISC that levied their oil products

acquisitions.

In both cases, oil and gas companies should be located in the mentioned regions, be inscribed in the Public Registry of such location, and must have more than 70% of its shares and/or activities in the Amazon region. These requirements do not apply for oil and gas extractor and refining companies.

## **Withholding taxes**

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### ▶ Dividends

A dividend tax at a rate of 6.8% (years 2015-2016), 8% (years 2017-2018) and 9.3% (years 2019 onwards), applies to profits distributed to nonresidents and individuals. The dividend tax applies to distributions by Peruvian companies, as well as to distributions by Peruvian branches, permanent establishments and agencies from foreign companies. Peruvian Income Tax Law specifies various transactions that are considered as profit distributions for the purposes of the dividend tax, including the distribution of cash or assets, the reduction on the capital of the company or the liquidation of the company.

This law also provides that if a resident company or branch, permanent establishment or agency, pays expenses that are not subject to further tax control or does not report income, the amount of the payment or income will be subject to dividend tax (i.e. it will be treated as a deemed dividend distribution).

It should be noted that the effect of the increase of the dividend tax rate combined with the reduction of the corporate tax rate results in a total tax burden of 31% (approximately) in each fiscal year.

### ▶ Interest

Interest paid to non residents is generally subject to a withholding tax at a rate of 30%. For interest paid to unaffiliated foreign lenders, the rate is

reduced to 4.99% if all the following conditions are satisfied:

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

#### ▶ Technical Assistance Services

Payments for technical assistance services used within Peru are subject to withholding tax at an effective rate of 15%, regardless of the country the services are rendered. To ensure the application of the 15% rate, the local service recipient must obtain and present to the Tax Authorities upon request a report issued by an audit firm certifying that the technical assistance was effectively provided. However, this is only required when the fees under the corresponding agreement for the technical assistance exceed 140 tax units (each tax unit is equivalent to PEN S/3,950 or approximately US\$1,170).

### Royalties

Peruvian source royalties paid for the use of intangible property are subject to withholding tax at an effective rate of 30%.

### Indirect transfer of shares

As of February 16, 2011, Law No. 29663 introduced a new category of Peruvian sourced income that may lead to a scenario under which a nonresident will be levied with income tax. Broadly, Law No. 29663 provides that 30% income tax is imposed on any capital gain realized upon the transfer of the shares of a company located outside Peru that, directly or indirectly, holds shares (or participation interests) in one or more Peruvian subsidiaries (i.e., an "indirect transfer") on one of the following situations:

- ▶ Where 50% or more of the fair market value of the nonresident holding company's shares is derived from the shares or participations representing the equity capital of one or more Peruvian subsidiaries at any time within the 12 months preceding the disposition.
- ▶ The overseas holding company is located in a tax haven or low-tax jurisdiction, unless it can be adequately demonstrated that the scenario described in above did not exist.

New Law No. 29757, which amends Law No. 29663, clarifies that the transaction described



in the preceding paragraph will only be taxable where shares or participation interests representing 10% or more of the nonresident holding company's equity capital are transferred within the 12-month period. This means that transfers of shares (or participations) representing less than 10% of the nonresident holding company's equity capital are not subject to taxation in Peru even when 50% or more of the fair market value of those shares is derived from the shares (or participations) representing the equity capital of one or more Peruvian subsidiaries at any time within the 12 months preceding the dispositions.

### Transfer pricing

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Peru has adopted transfer pricing guidelines, based on the arm's-length principle. The accepted methods are the comparable uncontrolled price (CUP) method, the resale price method, the cost plus method and the transactional net margin, as well as other related methods based on margins. The OECD guidelines can be used as a complementary source of interpretation. Advance Pricing Agreements (APA) may be negotiated with the tax authorities.

In Peru, these rules do not only apply to transactions between related parties, but also to transactions with entities that reside in tax havens; note that adjustments to the value agreed between the related parties would have place only in case it would had lead to the payment of fewer taxes under certain specific criteria.

One or more legal entities are related parties if one of them participates directly or indirectly in the management, control or equity of the other entity, or whenever the same person participates directly or indirectly in the direction, control or equity of diverse related entities.

As of January 1, 2013, Peru has introduced certain specific parameters to be taken into account to determine the fair market value of import and export transactions of goods (i.e. hydrocarbons and their by-products) between related parties carried out from, towards or through tax haven jurisdictions. This allows the intervention of an international intermediary other than the effective recipient of those goods or those import and export transactions.

According to these rules, the fair market value (i.e. arm's length price) for Peruvian income tax purposes shall be determined by considering the following:

- For products (i.e., commodities) traded on the international market, regulated commodity exchanges or similar markets, the value at which they are exchanged in such markets.
- For agricultural products and their byproducts, hydrocarbons and byproducts fishmeal and mineral concentrates whose prices are fixed taking as a reference the price of the commodity in the international market, regulated commodity exchanges or similar markets, the price established taking the commodity trading price as a reference.





The commodity price/quote or the price set taking the commodity trading price as a reference, irrespective of the transport modality, shall be based on:

- ▶ The end date of the shipment or landing of the goods.
- ▶ The average of quotations of a period of time comprised between one hundred twenty (120) calendar days or four (4) months prior to the end of the shipment of the products until one hundred twenty (120) calendar days or four (4) months after the end of the landing of the products.
- ▶ The date the agreement is entered into.
- ▶ The average quotation from a period of time comprised between the day following the date of execution of the agreement until thirty (30) calendar days after that date.

### Controlled Foreign Corporation Rules (CFC Rules)

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As of January 1, 2013, the “International Fiscal Transparency Regime” is applicable to all Peruvian residents who own a “controlled foreign corporation” (CFC). Under these rules, passive income earned by CFC’s in other jurisdictions, must be included and recognized in the taxable income of resident taxpayers in Peru, even though there has been no effective distribution.

A non-resident subsidiary company will constitute a CFC of a Peruvian company if:

- ▶ The Peruvian company owns more than 50 percent of the subsidiary’s equity, economic value or the righting votes.

- ▶ The non-resident entity must be a resident of either: i) a tax haven jurisdiction; or, ii) a country in which passive income is either not subject to CIT or is subject to a CIT that is equal or less than 75% of the CIT that would have been applicable in Peru.

For the application of this Regime, the Law has established an exhaustive list of items that qualify as passive income (i.e. dividends, interest, royalties, capital gains from the sale of properties and securities, etc.).

### Tax treaties

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Peru has entered into a multilateral tax treaty with the Andean Community countries (Bolivia, Colombia and Ecuador), which calls for exclusive taxation at source and double tax treaties with Brazil, Chile, Canada, Mexico, South Korea, Portugal and Switzerland (the last four have entered in force as of January 1, 2015).

The principal purpose of this double tax treaty network is to prevent taxes from interfering with the free flow of international trade and investment by mitigating international double taxation with respect to certain income items.

This, however, is not a static list. Some existing treaties are being renegotiated and others are in various stages of negotiation with countries such as France, Italy, Thailand, Sweden, Singapore and the UK.

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

Each of the treaties currently in force between Peru and other countries deals with the same matters. Many of the treaties contain common provisions addressing the same issue. It should, however, be noted that Peru’s tax treaties show

a remarkable degree of individuality, considering that almost every treaty is different in at least some respects. For that reason, it is essential to analyze the specific treaty that may apply to a particular tax issue.

### Financing considerations

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#### ► Thin capitalization

Debt to equity rule: Interest on loans from related parties in excess of a 3:1 debt to equity ratio is not deductible.

### Indirect taxes

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



- Sale of goods within Peru.
- Services performed or used within Peru.
- Construction contracts performed within Peru.
- First sale of real estate by the builder.
- Importation of goods from outside Peru, regardless of the status of the importer.
- VAT paid upon acquisition of goods or services can be deducted from VAT related to the sale of finished products or services.

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

#### ► Selective Consumption Tax (i.e. Luxury Tax or "Impuesto Selectivo al Consumo")

The selective consumption tax (ISC) applies to luxury goods such as jewelry, cars, cigars, cigarettes, liquor, soft drinks, fuel, etc. ISC rates range from 10% to 100%, generally based on the CIF (imports) or sale value, depending on the goods. However, for certain goods, such as soft drinks and fuel, the ISC is calculated on a specific basis depending on the amount of goods sold or imported.

Selective Consumption Tax	Tariff heading	Products	S/ per gallon	US\$ per gallon*
	2710.12.13.10 2710.12.19.00 2710.12.20.00 2719.20.00.90	Gasoline for motors with Research Octane Number (RON) less than 84	0.93	0.27
	2710.12.13.21 2710.12.19.00 2710.12.20.00 2710.20.00.90	With RON equal or over 84, but less than 90 and engines of 7.8% volume of fuel alcohol	0.88	0.25
	2710.11.13.20 2710.11.19.00 2710.11.20.00 2710.20.00.90	With RON equal or over 84, but less than 90	0.93	0.29
	2710.11.13.30 2710.11.19.00 2710.11.20.00 2710.20.00.90	With RON equal or over 90, but less than 95 and engines of 7.8% volume of fuel alcohol	0.99	-
	2710.12.13.39 2710.12.19.00 2710.12.20.00 2710.20.00.90	Other fuels with RON over or equal to 90 but less than 95	1.05	0.30
	2710.11.13.40 2710.11.19.00 2710.11.20.00	With RON equal or above 95, but less than 97 and engines of 7.8% volume of fuel alcohol	1.07	0.31
	2710.12.13.49 2710.12.19.00 2710.12.20.00 2710.20.00.90	Other fuels with RON over or equal to 95 but less than 97	1.14	0.33
	2710.11.13.50 2710.11.19.00 2710.11.20.00 2710.20.00.90	With RON equal or above 97 and engines of 7.8% volume of fuel alcohol	1.13	0.33
	2710.12.13.59 2710.12.19.00 2710.12.20.00 2710.20.00.90	Other fuels with RON equal or above 97	1.19	0.35
	2710.19.14.00 / 2710.19.15.90	Kerosene and Jet Fuels (Turbo A1), except certain sales in the country or imports of airships.	1.94	0.65
	2710.19.15.90	Jet Fuels (Turbo A1) only for: ► Certified air operators according to Law 27261. ► Certified aviation fuel marketers.	0.26	0.09
	2710.19.21.10 / 2710.19.21.90	Gasols, except Diesel B2	1.47	0.49
	2710.29.21.20	Diesel B2	1.44	0.48
	2710.19.22.10	Residual 6, except sales in the country or imports by certified seacraft fuel marketers.	0.52	0.17
	2710.19.22.90	Other fuels	0.50	0.17

\*US\$1 = S/3.4

Taxable persons for ISC purchases are producers and economically related enterprises engaged in domestic sales of listed goods, importers of listed goods, importers and economically related enterprises engaged in domestic sales of listed goods and organizers of gambling activities.

Liability to ISC arises under the same rules that apply to VAT.

To avoid double taxation, a credit is granted for the ISC paid on imports and in other specific cases.

**Custom Duties**

► **Rates and Tax bases**

The applicable customs duties and taxes are summarized below:

Tax	Rate	Tax bases
Custom Duties*	0%, 6% and 11%	CIF Value**
VAT	18%	CIF Value + Customs Duties + Excise Tax (if applicable)

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

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

► **VAT exemptions on import of goods for the exploration phase**

The import of goods and supplies required for carrying out exploration activities in the exploration phase is exempted from all taxes. The list of goods to which this exemption applies is published by the Ministry of Economy and Finances (MEF).

This exemption will not be applicable if the imported goods are used in other activities rather than exploration or if they are sold to third parties, unless:

- They are sold or delivered to third parties for its use in exploration activities.
- They are re-exported with the previous authorization of Perupetro.
- They are used in exploration activities during the exploration phase of another hydrocarbon contract for the same contractor.
- They are sold or delivered to a company authorized to imports those goods free from all taxes.

► **Temporary importation**

Goods required for the execution of hydrocarbon contracts may be brought into Peru on a temporary basis for a period of 2 years without the payment of duty or taxes and re-exported afterwards in the same state as they were at import. This term can be extended for a one-year period, for up to two times.

There are conditions placed on temporary imports. The most important condition is that you export the goods within the time limits approved. In addition, a guarantee needs to be filed at the time of import.

The guarantee is an amount equal to the duty and taxes that would have been payable at import. If the goods are not exported within the time limit you will have to pay an amount equal to the duty and taxes that would have been payable when you first imported the goods, as if the goods had not been treated as temporary imports, plus interests.

## ► International Trade Agreements

The main agreements executed by the Peruvian government in order to gain access to international markets are the following:

### *Andean Community (CAN):*

Peru fully enjoys the benefits from the free trade zone established by this agreement for all its member countries (Bolivia, Colombia, Peru and Ecuador). Since Venezuela is no longer a member of the CAN, Peru has celebrated a Bilateral Agreement with Venezuela, which is in force since August, 2013. Also, Peru, as member of the Andean Community, has other obligations and commitments regarding other topics besides the free trade zone.

### *Southern Common Market (Mercosur):*

Partial agreements executed by the Peruvian government with each of the member countries (Brazil, Argentina, Paraguay and Uruguay) are in effect. By means of the aforementioned agreements, Peru and Mercosur's member countries have reciprocally granted each other preferential customs duty rates.

Bilateral Free Trade Agreements with the United States, Canada, China, Chile, EFTA States (Iceland, the Principality of Liechtenstein, the Kingdom of Norway and the Swiss Confederation), Mexico, Japan, Singapore, Thailand, Republic of Korea, Panama, European Union (in force since March, 2013) and Costa Rica (in force since June, 2013) are already in force. In addition, Peru has celebrated the Partial Agreement with Cuba (ACE 50). In order to apply these preferential treatment, goods must meet, certain requirements including origin and direct expedition requirements.

Peru has also concluded Free Trade Agreement negotiations with Guatemala and Honduras, as well as with the Trans-Pacific Partnership (Australia, Brunei Darussalam, Canada, Chile, Japan, New Zealand, Singapore, United States, Malaysia, Vietnam and Mexico).

Furthermore, Peru maintains negotiations with Turkey and El Salvador.

Peru, Mexico, Colombia and Chile are members of the Pacific Alliance, which will grant their goods preferential treatment as long as they meet certain requirements, including origin and direct expedition. Up to date, only the framework agreement is in force, which describes the objectives of the Alliance. Market access, origin rules between other measures are not in force yet.

Finally, it is important to mention that Peru is a founding member of the World Trade Organization (WTO). Therefore, the WTO's regulations regarding antidumping practices, subsidies, countervailing duties and service market liberalization, among others, are applicable in Peru.

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## Worker's profit

Employers are required to distribute a share of their profits among their employees. The rate depends on the company's activity, as follows:

- Fishing – 10%
- Telecom – 10%
- Industry – 10%
- Mining – 8%, including exploitation of coal mines; production of petroleum and natural gas; and extraction of iron, uranium, thorium, iron-free minerals, construction stone, clay, talc, sand and gravel, feldspar and salt.
- Commerce and restaurants – 8%
- Other – 5%, including farming, stockbreeding and forestry; production and distribution of electricity; production of gas; transportation services and services related to air transportation (such as travel agencies, storage and deposit); financial services of insurance and real estate; legal, audit and accounting activities; business consulting, consulting related to informatics and data processing; and advertising, health and medical services, and education.

Many oil and gas companies calculate this employee benefit using the 5% rate that applies to the “other” group of activities. This has been a matter of discussion at the judiciary level. Profit sharing is calculated on pretax income, and the amount is deductible as an expense for determining income tax. An example of the combined-effect calculation using a 5% profit-sharing rate is as follows:

- ▶ Net income: 100
- ▶ Profit sharing: 5
- ▶ Net income for CIT purposes: 95
- ▶ Income tax (30%\* of 95): 28.5
- ▶ Combined effect:  $28.5 + 5 = 33.5$  (33.5% of net income)

\*Tax Rate plus 2% premium

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

### General Anti-Avoidance Rule

As of July 19, 2012, an anti-avoidance rule has been introduced in the Peruvian Tax Code to assist the Tax Administration in responding to situations of tax avoidance and simulated transactions.

Indeed, when facing tax avoidance situations, the Tax Administration will be able to coercively request the corresponding tax debt, reduce tax credits, tax losses or eliminate a tax benefit (including the restitution of the taxes unduly refunded). To exercise powers under the GAAR, Tax Administration must determine that the taxpayer has: a) performed artificial or improper acts to achieve a specific tax result - whether individual or jointly with others; and, b) the use of such artificial or improper acts creates legal or economic results different than regular tax savings obtained from the routine or proper acts.

Despite the aforementioned, recently the government has suspended the application of the General Anti-avoidance Rule, with exception of the provisions of the first and last paragraphs, to acts, facts and situations produced prior to July 19, 2012.

### Other tax issues

#### ▶ Tax Unit (UIT)

The UIT is the reference value employed for tax purposes to determine the taxable income, deductions and penalties, between others. This value is modified every year. To the year 2016, the UIT amounts to PEN S/3,950.00 (US\$1,170 aprox.)

#### ▶ Temporary net assets tax

A so called Temporary Net Assets Tax (ITAN) is equivalent to 0.40% of the value of total assets determined as of December 31<sup>st</sup> of the previous year over PEN S/1,000,000. The amount paid is usable as credit against the Corporate Income Tax, or subject to refund.

Pre-operative entities are exempt from of this tax, during their first year of operations, but will be subject to the tax the following year.

#### ▶ Tax on financial transactions

A 0.005% tax is generally imposed on debits and credits in Peruvian bank accounts.

#### ▶ Osinergmin Contribution

This contribution must be paid by Oil and Gas companies that import or produce fuels, including liquefied petroleum gases and natural gas, or carry out transportation and distribution activities. The rate of this contribution is 0.37% (for import or production activities) and 0.58% (for transport and distribution activities) and it is based on their monthly billing, deducting VAT.



► **OEFA Contribution**

Oil and Gas companies that import or produce fuel, including liquefied petroleum gases, or carry out transport and distribution activities should pay OEFA Contribution to the Enviromental Audit and Evaluation Agency (Organismo de Evaluación y Fiscalización Ambiental "OEFA"). The rate of this contribution is 0,12 (for import or production activities) and 0,15 (for transport and distribution activities) and it is based on their monthly billing, deducting VAT.

► **FISE Contribution**

The Energetic Social Inclusion Fund (Fondo de Inclusión Social Energético "FISE") must be paid by oil and gas producers and importers for the sale of liquid hydrocarbons and natural gas liquids. This surcharge for each sale will be equal to US\$1 for each barrel of the mentioned products.

► **Stamp tax**

Not applicable.

► **Exchange controls**

Not applicable.





V

Miscellaneous  
matters

# Labor legislation

## Hiring personnel

Indefinite term contracts are the legal default scheme for hiring in Peru, although as an exception, fixed term contracts can also be signed. The fixed term contracts requires an objective cause established by the law to enter into this type of contracts (for example, start-up of a new business, works or specific services, substitution, etc.) and its validity is subject to compliance with certain formal requirements. These contracts provide employees with all the rights and benefits granted to employees hired for an indefinite term.

There are also other types of hiring schemes that grant different benefits, such as Labor Training Modalities or the Law that Promotes Youth Access to the Labor Market and Social Protection, among others.

The trial period is counted from the first day of the labor relationship and must be a maximum term of: i) three months for all employees in general; ii) six months for qualified or confident personnel, and iii) 12 months for management personnel.

Once this period is completed, the employees are regarded as permanent and can only be dismissed under circumstances concerned with their behavior at work or ability to carry out their duties.

## Termination of employment contract

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

In the event of unjustified dismissal, an employee may demand a severance payment equivalent to one and a half months salary per year of service (under an indefinite term working contract); or, one and a half months salary per pending month (under a fixed term work contract). The maximum severance payment is twelve salaries. Alternatively, the employee can demand the restitution to the same job he had. The law allows collective dismissals under certain circumstances such as acts of God or force majeure, financial or technical streamlining, dissolution, bankruptcy or operating downsizing without having to grant the severance payment.

## Employees' benefits

Employers are required to provide the following benefits for employees:

- ▶ **Family allowance:** equivalent to 10% of the Minimum salary (PEN S/.75 for 2016).
- ▶ **Vacation:** equivalent to 30 calendar days of paid rest.
- ▶ **Legal bonuses:** 2 bonuses per year, one paid in July and one in December, each one equivalent to one monthly salary approx. Additional Extraordinary Bonus equal to 9% of the legal bonus must be paid.



- **Compensation for Time of Services (CTS):** equivalent to 1.16 months salary per year. 50% has to be deposited in May and the remaining 50% in November, in the bank elected by the employee.
- **Profit sharing:** the amount to be distributed ranges between 5% and 10% of the taxable income, depending on the activity of the employer. This benefit does not apply to companies employing less than 20 individuals.

All these benefits are deductible for income tax purposes.

Employers can negotiate with employees earning a monthly salary higher than 2 tax units (PEN S/7,900 during 2016, approximately US\$2,324) of the total annual compensation, including all the benefits described above, except for the profit sharing.

## Social contributions

- **Health Care Contribution:** This contribution is paid by the employer and its purpose is to finance the social health system (EsSalud, in Spanish), which provides health care services and pay subsidies in case of employees disability. It is collected by the Peruvian Tax Administration (SUNAT). The amount contributed is equal to 9% of the employee's remuneration.

If the company provides health coverage to its employees using its own resources or through an EPS (in Spanish, Entidad Prestadora de Salud) it can request a credit of up to 25% of the Health Care contribution, subject to certain limits established by law.



- **Pension System Contribution:** The employee can alternatively join the Government Pension System (GPS) or the Private Pension System (PPS). In the GPS, the employee must make contributions equal to 13% of his remuneration. In the PPS, the employee has to make contributions equal to an average of 12.90% of his monthly remuneration paid in cash. Regardless of the system chosen by the employee (GPS or PPS), the employer is responsible to withhold employees' contributions from their salaries.
- **Mandatory Life Insurance:** This is a mandatory insurance paid for employees with four years of services with the same employer. It is also possible for it to be granted by the employer on a voluntary basis to employees that have three months of service. The premium depends on the number of insured employees, the risk of the work they carry out, and in general, on the terms agreed with the insurance company.
- **High Risk Labor Insurance (SCTR):** This is a mandatory insurance to be paid by companies whose activities have a certain level of risk such, as fishing, construction, air transport, manufacturing, among others described in

Appendix 5 of Supreme Decree No. 009-97-SA and provides additional coverage for health and pension plans. The contract for health services may be entered with EsSALUD or with a Private Health Care Provider (EPS); a contract for the pension coverage can be entered with the Government Agency for Pension Fund (ONP, due to its acronym in Spanish) or with a private insurance company. The rates depend on the type of activity and/or the terms agreed on with the insurance entity.

- **Other contributions:** Additional contributions are applicable based on the company's activities, such as the Complementary Retirement Fund, which applies for mining, metal and steel companies; among other contributions.

## Expatriates

Foreign individuals that enter into Peru to perform dependant activities for a local employer need to submit their work contract for approval to the Labor Authorities, and obtain their work visa. These employees have the right to receive the same labor benefits as Peruvian employees, and are subject to the same taxes and contributions. As a general rule, foreign employees should not exceed 20% of total personnel. Additionally, wages paid to foreign employees should not exceed 30% of total payroll cost. Such limits can be waived for professionals and specialized technicians or management personnel of a new entrepreneurial activity or in case of a business reconversion, among others.

No restrictions apply to foreign individuals working in Peru with Peruvian immigrant visa, individuals married to Peruvians or having Peruvian children, parents or siblings and foreign investors with a permanent investment in Peru of at least 5 tax units (PEN S/19,750 during 2016 approximately US\$5,809). This also applies to Spanish citizens and countries members of the CAN, which is a regional organization that aims Andean Integration of their members such as Bolivia, Ecuador, Colombia and Peru.

## Immigration

Foreigners can enter Peru under the following migratory qualifications, among others:

Visa	Rate	Tax bases
Tourist visa	Temporal	This visa does not allow the holder to perform paid activities.
Business visa	Temporal	This visa does not allow the holder to perform activities that can be considerate Peruvian source income. This visa allows the expatriate to sign contracts.
Work visa	Resident or Temporal	This visa allows the holder to work in Peru. In the case of a work contract with a Peruvian company, it should be duly registered / approved by the labor ministry.
Designated employee visa	Temporal	This is a visa that applies to an employee of a foreign company. The service agreement and assignment letter must be submitted to the migratory authority. Those documents must be legalized by the Peruvian consulate and the Peruvian foreign minister.
Visa for independent foreign national	Resident	Investment or independent work.
Immigrant	Resident	This visa is granted to foreign nationals who get into the country with purpose to develop activities on a permanent basis in Peru.

## Individual taxes

According to Peruvian Income Tax Law, the compensation received for services rendered within Peruvian territory will be considered as Peruvian Source Income regardless of the location of the entity or individual that is paying the income. Hence, the salary received by the employees or the expatriate for services rendered in Peru, will be taxable basis for Peruvian Income Tax.

It must be noted that the employers will be liable to withhold and remit to the Tax Authorities the employee's income tax. For such purpose, it must determine the amount debt and withhold the appropriate amount on a monthly basis, and pay the income tax to the Tax Authorities, based on the tax resident condition of the individuals and procedure established by law.



In case the employee is considered as non resident for tax purposes, a tax rate of 30% will be applicable over the salary received for his work in Peru, as of the first day of service, regardless where it is paid.

In the case of tax residents, apply a five cumulative income tax scale: 8% (for the first PEN S/19,750), 14% (from S/19,751 to S/79,000), 17% (from S/79,001 to S/138,250), 20% (for S/138,251 to S/177,750) and 30% applicable to excess income of more than S/177,750. Note that the tax unit used in fiscal year 2016 is S/3,950.

However, non-resident individuals entering the country temporarily to perform the following activities are not taxed for revenues obtained in their home country, since they are not considered as Peruvian source income:

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

If foreigners come from countries that have agreements with Peru in order to avoid double taxation (Chile, Canada, Brazil, Mexico, South Korea, Switzerland and Portugal) or countries from the Andean Community (Ecuador, Colombia and Bolivia) other tax regulations may apply.

Finally, notice that domiciled individuals will be liable to file a tax return, provided they receive income other than employment income and the law establishes such obligation (i.e. a domiciled individual who receives remuneration and interest from a bank account abroad). Hence, there is no obligation to file a tax return if domiciled individuals receive only employment income.



## Accounting standards

The Peruvian Business Corporation Act (LGS) establishes that the financial statements of companies incorporated in Peru must follow the general accounting principles accepted in Peru and other applicable legal provisions. The Peruvian Accounting Standards Board (CNC) has established that the general accounting principles are the standards issued by the International Accounting Standards Board (IASB) and the specific provisions approved for particular businesses (banks, insurance companies, etc.). Likewise, on a supplementary basis, the U.S. - General Accounting Principles (GAAPs) are applicable.

The Peruvian Accounting Standards Board (CNC) is responsible for issuing the accounting standards and methodologies that apply to both private business and government entities. The CNC adheres to the standards approved by the IASB, which are explicitly approved by the CNC and published in the official gazette El Peruano, indicating their date of approval.

Companies that issue debt or shares in the capital market are subject to regulation by the Stock Exchange Superintendency (SMV).

Companies supervised by this institution must issue their financial statements in accordance with the International Financial Reporting Standards (IFRS), issued by IASB; they are as effective in Peru as they are worldwide.

The annual financial information given by companies supervised by the SMV must be audited and include the previous year for comparative purposes. Quarterly reports do not need to be audited. The audit must be conducted according to regulations of the International Auditing and Assurance Standards issued by the International Federation of Accountants (IFAC).

For companies not supervised by the SMV, IFRS implementation is based on a gradual process, according to specific ranges determined by the amount of sales revenue or services rendering or total assets of the company (SMV Resolution No. 002-2016-SMV/01):

UIT(*)	Soles - S/ (*)	Liability	Fiscal Year
8,000 10,000	31,600,000 39,500,000	Financial statements audited in accordance with GAAPs	2015
		Financial statements audited in accordance with IFRS	2016
5,000 8,000	19,750,000 31,600,000	Financial statements audited in accordance with PCGA	2016
		Financial statements audited in accordance with IFRS	2017
3,000 5,000	11,850,000 19,750,000 (referential)	Financial statements audited in accordance with PCGA	2017
		Financial statements audited in accordance with IFRS	2018

(\*) Ranges are based on sales or services rendering or total assets of the company



The background image shows two male workers in an industrial setting. They are wearing bright orange high-visibility safety suits with reflective silver stripes and red hard hats. The worker on the left is looking at a clipboard held by the worker on the right. They are standing in front of large, red-painted industrial structures, possibly part of a drilling rig or offshore platform. The scene is brightly lit, suggesting daylight. The overall color palette is dominated by the red of the structures and the orange of the safety gear.

# VI Appendix

# Hydrocarbons sector

## Regulators and stakeholders

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# 01

## Regulators

### ► Perupetro

Perupetro is the state-owned Company that promotes, negotiates, signs and supervises exploration and production contracts, on behalf of the Peruvian State.  
([www.perupetro.com.pe](http://www.perupetro.com.pe))

### ► Ministry of Energy and Mines - MINEM

This is the central and governing body for the Energy, Hydrocarbons and Mining Sector, a part of the Executive Branch. Its purpose is to formulate and assess national policy in matters of sustainable development in mining-hydrocarbon-power activities. It is the governing authority in environmental matters in reference to hydrocarbons-mining-energy activities.  
([www.minem.gob.pe](http://www.minem.gob.pe))

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

This is the regulatory, supervisory body that regulates, enforces and oversees the activities undertaken by internal public-or-private-law legal entities and individuals in the electricity, hydrocarbons and mining sub-sectors.  
([www.osinergmin.gob.pe](http://www.osinergmin.gob.pe))

### ► National Environmental Certification Service for Sustainable Investment - SENACE

The SENACE is a public specialized entity in charge of the review and approval of the detailed Environmental Impact Studies (EIA-d) related to nationwide public, private or mixed capital investment projects which contemplate activities, constructions, building sites and other commercial activities or services that may cause significant environmental impacts. This entity is under the Ministry of Environment.  
([www.senace.gob.pe](http://www.senace.gob.pe))

### ► General Bureau of Environmental Health - DIGESA

This is the technical-regulator body in aspects related to basic sanitation, occupational health, hygienic food, zoonosis and environmental protection. It issues regulations and assesses environmental health processes in the sector. It is an entity under the Ministry of Health.  
([www.digesa.sld.pe](http://www.digesa.sld.pe))

### ► Ministry of Agriculture - MINAG

This is the entity that promotes the development of organized agrarian producers in productive chains, in order to achieve an agriculture that is fully developed in terms of economic, social and environmental sustainability.  
([www.minag.gob.pe](http://www.minag.gob.pe))

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

This is the body governing labor in Peru, with all powers necessary to lead the implementation of policies and programs for generating and improving employment, and also responsible for enforcement of legislation for labor matters.  
([www.mintra.gob.pe](http://www.mintra.gob.pe))

### ► Ministry of the Economy and Finance - MEF

The Ministry of the Economy and Finance is an entity of the Executive Branch responsible for planning, directing, and controlling matters related to the budget, treasury, debt, accounting, fiscal policy, public spending, and economic and social policies. It also designs, establishes, performs, and supervises national and sector policies under its competence, assuming a guiding role therein.  
([www.mef.gob.pe](http://www.mef.gob.pe))

► **National Service for Natural Areas under State Protection - SERNANP**

This is a public specialized entity responsible for directing and establishing the technical and management criteria for the preservation of Protected Natural Areas (ANPs), and overseeing the conservation of biological diversity. It is an entity under the Ministry of Environment.

([www.sernanp.gob.pe](http://www.sernanp.gob.pe))

► **Petroperu**

Petroperu is a state-owned company of private law that carries out exploration, exploitation, transport, and refining activities.

([www.petroperu.com.pe](http://www.petroperu.com.pe))

► **Ministry of Environment - MINAM**

This is the nation's environmental authority, the overseeing entity of the National Environmental Management System (SNGA), and a part of the Executive Branch. Its main functions are focused in promoting environmental sustainability by preserving, protecting, recovering and securing the environment, ecosystems and natural resources.

([www.minam.gob.pe](http://www.minam.gob.pe))

► **Environmental Assessment and Supervisory Board - OEFA**

The OEFA is the guiding entity of the National Environmental Assessment and Supervisory System (SINEFA) and is responsible as such for the evaluation, supervision, and auditing of the compliance with environmental laws nationwide, integrating the efforts of the State and society in a coordinated and transparent manner to ensure the effective management and protection of the environment.

([www.oefa.gob.pe](http://www.oefa.gob.pe))

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

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

([www.sunat.gob.pe](http://www.sunat.gob.pe))

► **Presidency of the Cabinet - PCM**

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

([www.pcm.gob.pe](http://www.pcm.gob.pe))

► **National Water Authority - ANA**

This is the nation's water authority. Its purpose is the conservation and development of the hydric resources within a hydrographic river basin.

([www.ana.gob.pe](http://www.ana.gob.pe))

► **Ministry of Culture**

This is the nation's cultural authority in charge of the establishment, execution and supervision of national policies related to cultural matters. It is also in charge of the arrangement and coordination of the national policy of the prior consultation right.

([www.cultura.gob.pe](http://www.cultura.gob.pe))

## Stakeholders

► **Sociedad Peruana de Hidrocarburos - SPH**

The SPH is the main hydrocarbons guild in Peru. Founded in 2013, it groups the main companies dedicated to exploration and exploitation activities in the country. ([www.sphidrocarburos.com](http://www.sphidrocarburos.com))

► **CONFIEP**

The National Confederation of Private Business Institutions (CONFIEP) brings together and represents private business activities within Peru and abroad. Its principal objective is to contribute to the process of sustained economic growth, based on investment and job creation from the perspective of individual effort and initiative, and the promotion of entrepreneurship and private property.

### Objectives and guidelines

- **Business unity:** strengthen the union between Peruvian business entrepreneurs to build an order in which free enterprise and market economy are the distinguishing features.
- **Representation:** act as the principal spokesperson for the entrepreneurs nationwide before the State, and public and private forums.
- **Services:** promote greater communication and coordination between business sectors, support, back, and provide advice to the business community.

► **Sociedad Nacional de Minería, Petróleo y Energía - SNMPE**

This is a nonprofit organization, which groups the companies related to the mining, oil & gas and energy related activities in the country. ([www.snmpe.org.pe](http://www.snmpe.org.pe))

► **AMCHAM**

The American Chamber of Commerce of Peru (AmCham Peru) is an independent and nonprofit organization, founded on January 17, 1968, that represents Peruvian, American and foreign companies. It has about 3,000 members representing more than 580 associated companies. ([www.amcham.org.pe](http://www.amcham.org.pe))

► **COMEXPERU**

COMEXPERU is the private association that groups the leading companies involved in foreign trade in Peru. Its main purpose is to contribute to the improvement of competitive conditions within a free market, which will make Peru an attractive destination for private investment. ([www.comexperu.org.pe](http://www.comexperu.org.pe))

### Objectives and guidelines:

- Promote the development of foreign trade
- Defend the free market
- Encourage private investment

# 03

## ProInversion

### ► National Society of Industries – SNI

The SNI is a non-profit private organization created to promote the development of manufacturing industry in Peru, guaranteeing the freedom and responsibility required to perform business activities according to Peruvian market economy assurance. ([www.sni.org.pe](http://www.sni.org.pe))

### ► Lima Chamber of Commerce – CCL

The CCL, founded in 1888, is a private entity that promotes free enterprise and business development by enforcing its legitimate rights, facilitating new business opportunities, providing assistance and services and improving their competitiveness. It is one of the most representative business associations that has more than 13,500 associated companies. ([www.camaralima.org.pe](http://www.camaralima.org.pe))

### ► Peruvian Chamber of Vehicular Natural Gas-CPGNV

The CPGNV, founded in 2004, is a private nonprofit institution that promotes the development and use of natural gas for vehicles in Peru, providing facilities to companies dedicated to the production, transportation, distribution, supply and marketing of the vehicular natural gas and related products. ([www.cpgnv.org.pe](http://www.cpgnv.org.pe))

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

Likewise, its vision is to be considered by investors and by the public as an efficient and strategically for the development investments in Peru.

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

#### Contacts:

- Web page: [www.proinversion.gob.pe](http://www.proinversion.gob.pe)
- E-mail: [contact@proinversion.gob.pe](mailto:contact@proinversion.gob.pe)
- Address: Sede Principal (Lima): Paseo de la República N° 3361, piso 9, San Isidro - Lima 27.
- Phone: +51 1 612 1200.
- Fax: +51 1 221 2941.

#### Offices:

- Arequipa: Pasaje Belén N° 113 - Vallecito, Arequipa.  
Phone: +51 54 608 114 / +51 54 608 115  
Fax: +51 54 246 607.
- Piura: Av. Chirichigno Mz. A - Lote 2, Urb. San Eduardo, Piura.  
Phone/Fax : +51 73 310 081 /  
+51 73 309 148 / +51 73 305 082.



## 01

## Our strength in the hydrocarbon sector

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

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

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

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

## 02

## Our services

EY Peru has a global focus on hydrocarbons, with over 1,300 specialist global professionals including engineers, accountants, economists, administrators and lawyers. Our global team is closely networked and share industry and technical knowledge to provide our clients with seamless global service. Some of our specialist hydrocarbon based services include:

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### Environment and sustainability

Providing an extensive range of services in areas such as sustainability reporting and assurance, sustainability strategy, reputation issues, environmental risk management, greenhouse gas emissions advisory, renewable energy and emissions trading.

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### Hydrocarbons advisory

Improving supply chain responsiveness to demand volatility; delivering core business re-engineering (e.g., merging a number of blocks mines into one management structure), and delivering projects aimed at reducing costs or increasing production.

---

### Mergers and acquisitions advisory

Mergers and acquisitions, at either the holding company or asset level, require specific knowledge and skills in order to complete transactions. The knowledge and skills required

relate to the regulatory environment, including the rules and regulations of each country's stock exchange, accounting, legal, structuring and taxation disciplines, in addition to an understanding of transaction value-drivers.

#### **Valuation and business modeling (V&BM)**

---

Providing a range of services to companies in the hydrocarbon sector including valuations for purchase price allocation / acquisition accounting, tax planning, finance and stamp duty purposes and has specialists with extensive skills ranging from valuations of businesses and intangible assets to specialized oil and gas capital equipment and real estate. Further V&BM has deep expertise in model builds and reviews and is able to construct or review life of mine cash flow models as part of an acquisition strategy.

#### **Project finance advisory**

---

Advising on the development, optimization and implementation of finance plans covering the full range of project financing options for resources projects, non and limited recourse debt and tax effective leasing, as well as a number of associated infrastructure projects such as preparation plants, conveyor systems and gas pipelines.

#### **Transactions advisory**

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Our global transaction capability covers over 80 countries and comprises over 7,000 professionals. These transaction professionals work across many elements of the transaction life cycle in the deal critical areas of financial due diligence, tax due diligence and structuring, valuation and business modeling and transaction integration.

#### **Transaction integration**

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







# staff oil & gas investment guide

**Editor:**

Beatriz De La Vega

**Co - editors:**

Andrés Reyes

Melissa Ruiz

Martín Aliaga

Maria Cecilia Gamero

Flavia Dyer

**Design and layout:**

Carlos Aspiros

Karla Ramirez

**Additional collaborators:**

Paulo Pantigoso

Jose Ignacio Castro

Marcial García

Giancarlo Riva

Simona Settineri

Miya Mishima

Juan Carlos Cáceres

Ramón Cáceda

Carlos Cárdenas

Samuel Chauca

Maria Eugenia Chiozza

Mishel Espinoza

Andrea Florián

Juan Carlos Gamarra

Juan Carlos Hurtado

Helga Irazola

Fabiola Jimenez

Óscar Miró Quesada

Antonio Rodrigo

Estefanía Ochoa

Silvana Olcese

Maria Angela Ortecho

Lorena Osoreo

Claudia Perea

Leyla Perez

Renzo Valera

Winston Wusen

Marco Zaldivar Chauca

Rafael Zoeger Núñez

Mitra E. Ghaemmaghami (EY Houston)

Aparna Konerv (EY Houston)

Ministry of Foreign Affairs

Perupetro S.A.



The background image shows an oil pumpjack in a desert landscape. The pumpjack is yellow and black, with a long arm extending upwards. The sky is a vibrant blue, filled with numerous small, white, fluffy clouds. The ground is dry and dusty, with some low-lying vegetation in the distance. The overall scene is a typical oil field environment.

## Declaration

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgement. Neither the local EY entity nor any other member of the global EY organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.



EY | Assurance | Tax | Transactions | Advisory

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Scan and get Peru's oil & gas  
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