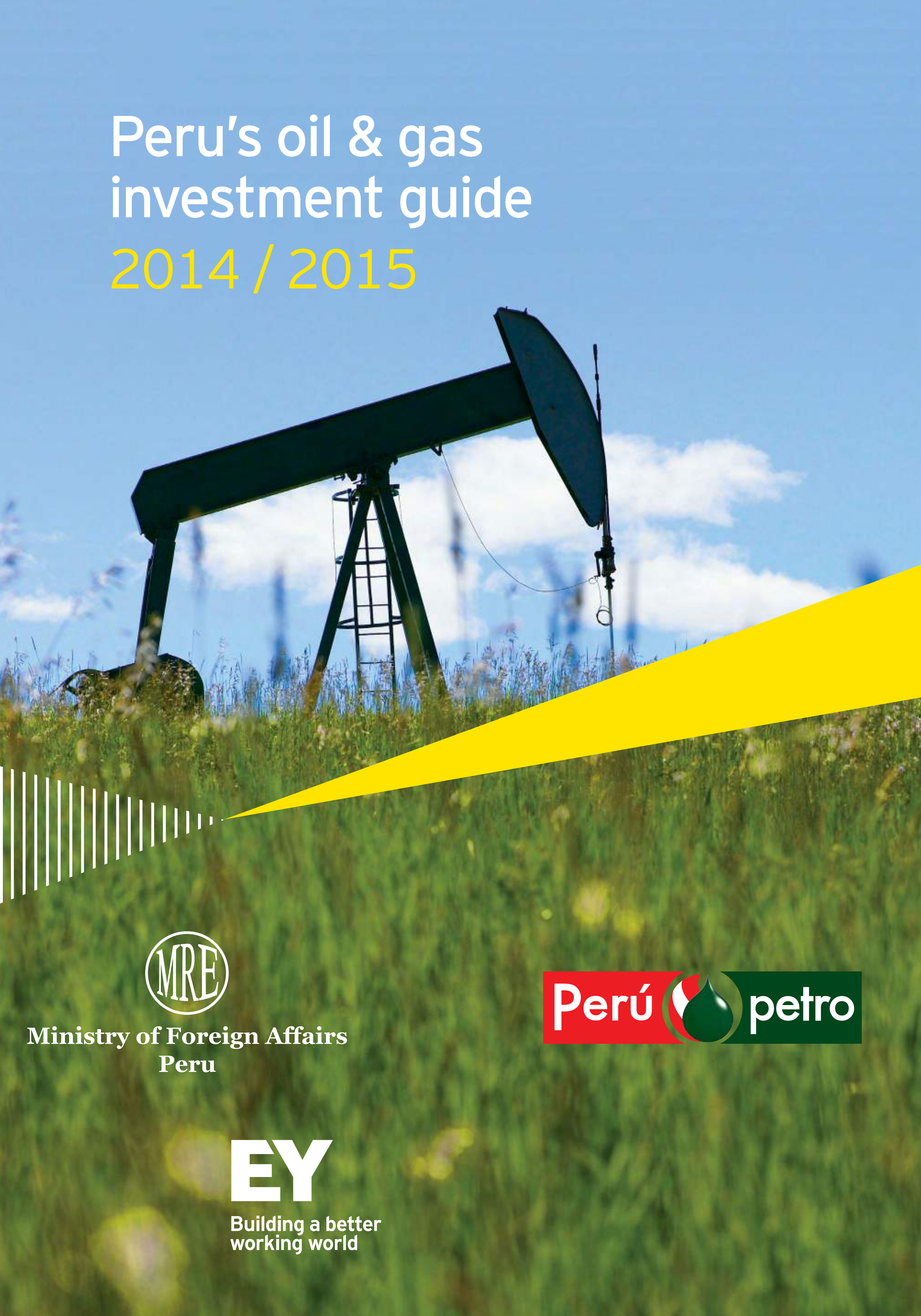
Peru's oil & gas investment guide 2014 / 2015



Ministry of Foreign Affairs
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EY Peru

About this **oil & gas** investment guide

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.

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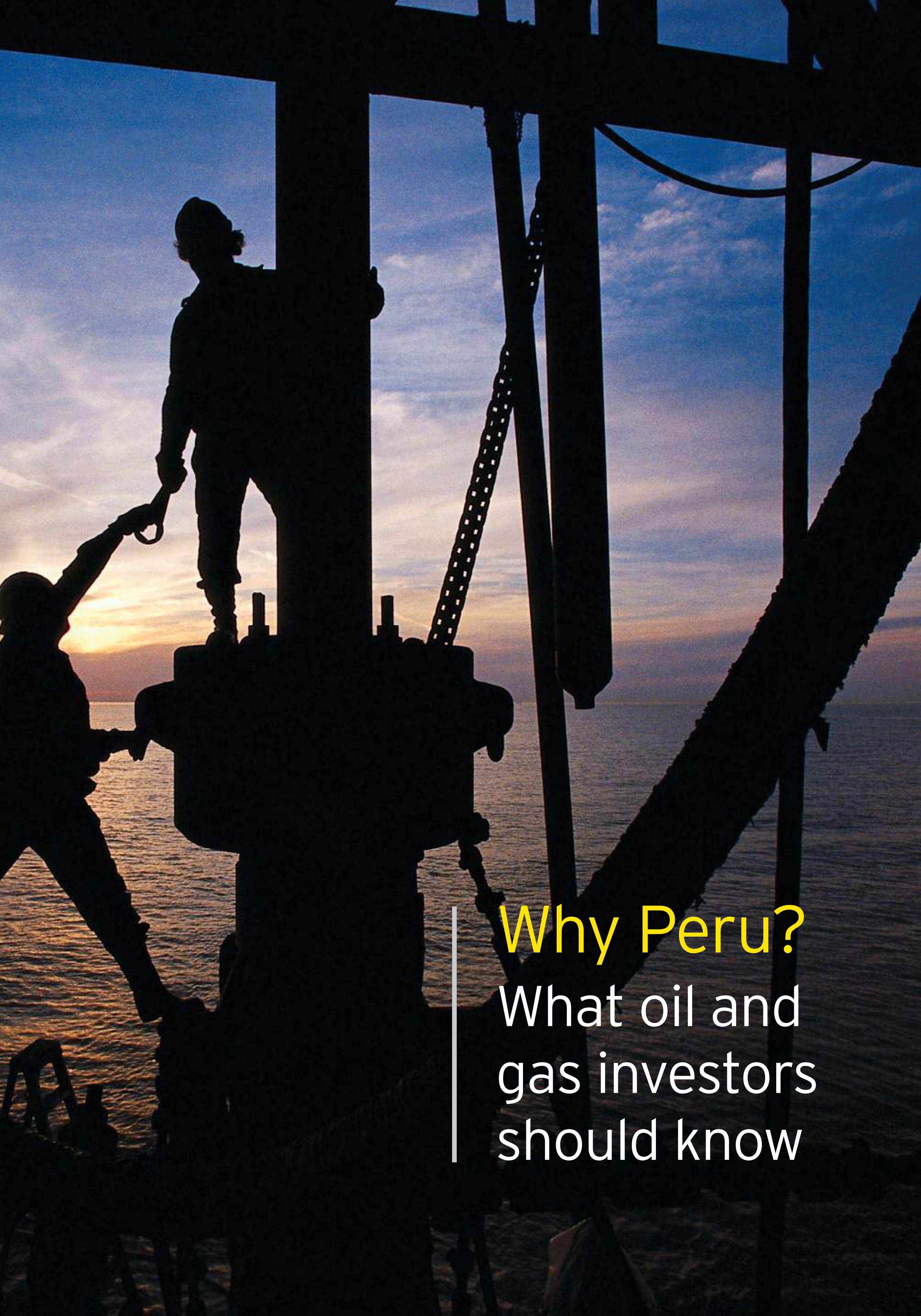
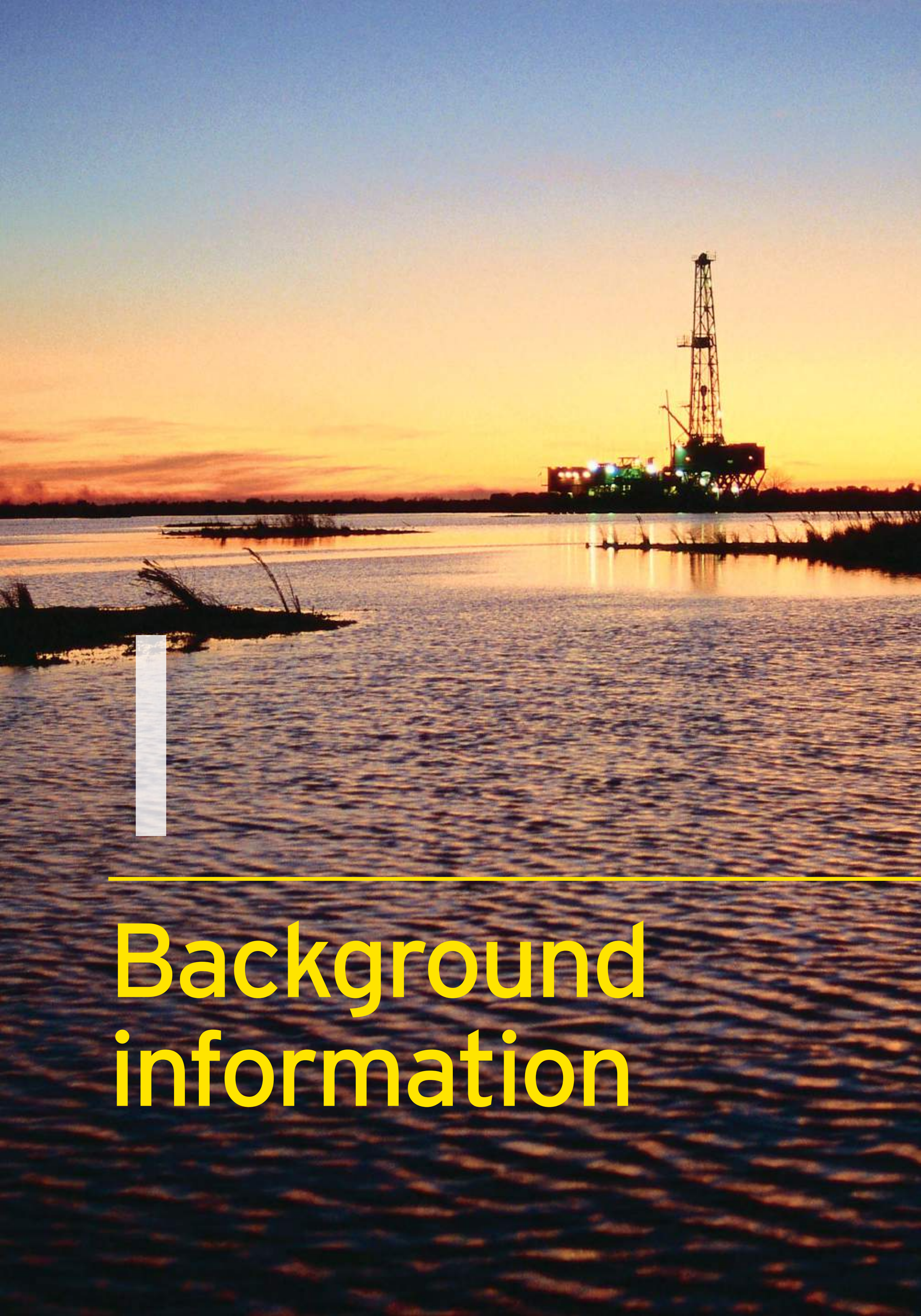
Why Peru?
What oil and gas investors should know





Background information

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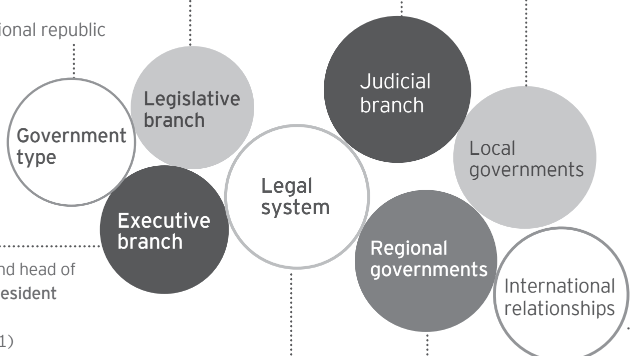
Form of government

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



Legislative branch:
- Unicameral congress
- 130 seats
- Members elected by popular vote, for a five-year term
- Next elections: April 2016

Judicial branch:
- Judges are appointed by the National Judge Selection and Evaluation Board

Local governments:
- 203 Provincial Municipalities (February 2014)
- 1,841 District Municipalities

Government type:
- Constitutional republic

International relationships:
- Member of the United Nations since 1945, member of the Security Council between 2006 and 2007
- Member of the World Trade Organization since 1995
- In 1998 became a member of the Asia Pacific Economic Cooperation (APEC) forum

Executive branch:
- Chief of state and head of government: **President Ollanta Humala** (since July 2011)
- Elections: Every five years by popular vote (non consecutive reelection) Next elections: April 2016
- Cabinet: Council of Ministers is appointed by the president

Legal system:
- Based on civil law

Regional governments:
- 25 Regional Governments (including the Constitutional Province of Callao)
- Metropolitan Municipality of Lima

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

02

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^2, 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 16.5 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 9.6 million inhabitants.
- The Amazon Jungle (Selva) is the largest region occupying 57.5% of Peru's territory, in which 4 million inhabitants reside. This region is rich in petroleum and forestry resources.

Peru's geographic information

Population
30.9 million
Urban 75.7%
Rural 24.3%

Area
1,285,215.60 km^2

Religion
Freedom of religion
Mostly Roman Catholic

Principal languages
Spanish / Quechua / Aymara

Currency*
Nuevo Sol (S/.)
S/.1 = US$ 0.355
US$1 = S/. 2.81

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 03/26/2014
Sources: BCRP / INEI / SBS

03

People

The estimated population of Peru for the year 2013 is 30.9 million, of which 9.5 million (approximately 31%) reside in Lima, the capital of the country. The labor force is estimated to be about 21.3 million.

The predominant religion is Roman Catholicism and the main official languages are Spanish and Quechua. Aymara is also spoken in some parts of the southern Highlands Region of the country. With respect to the literacy rate, it is expected that by 2015, 94.3% of the population under and over the age of 15 will be able to read and write.

People overview

Population	30.9 million people 75.7% resides in urban areas
Age structure	0 - 14 years 28.7% (2013) 15 - 64 years 65.0% (2013) 65 years and over 6.3% (2013)
Growth rate	1.13% (2012 - 2015)
Birth rate	19.4 births/1,000 population (2010 - 2015)
Death rate	5 deaths/1,000 population (2012)
Sex ratio	At birth 1.05 male/female
Life expectancy at birth	74 years (2012)

Sources: INEI / CIA Factbook

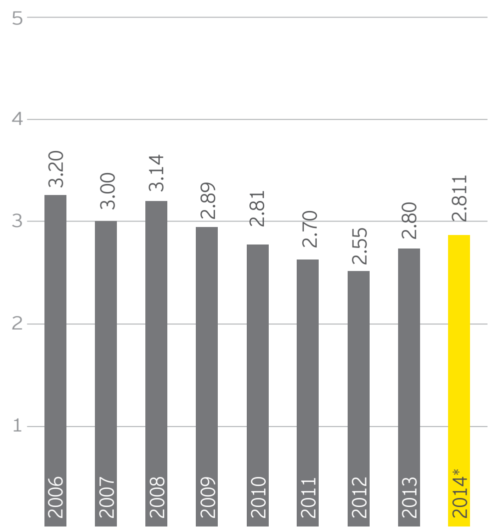
04

Currency

The Peruvian currency is the Nuevo Sol (S/. or PEN). Peru has a free-floating managed exchange rate regime. Banks are currently (March 26, 2014) buying US dollars at S/.2.811: US$1.00 and selling at US$1.00: S/.2.812. 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 Nuevo Sol to US Dollar (PEN / USD)



* Estimate: March 2014
Source: BCRP

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Economic overview

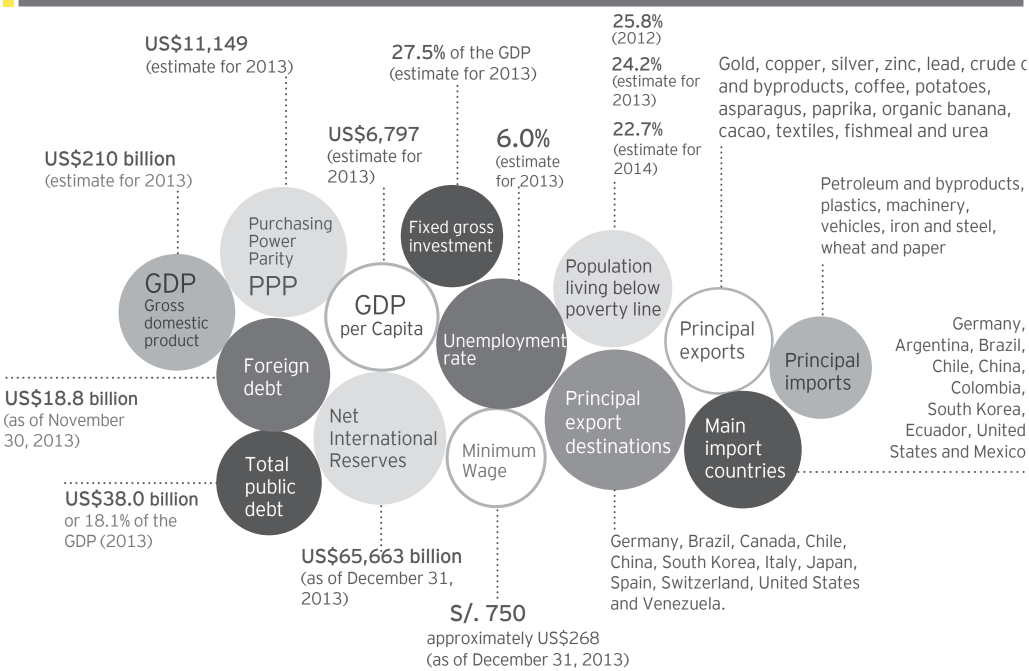
With a population of 30.9 million (estimate for 2013), and rich deposits of copper, gold, silver, lead, zinc, natural gas, petroleum and urea, Peru is a very diverse country due to the climatic, natural and cultural variation of its regions.

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.

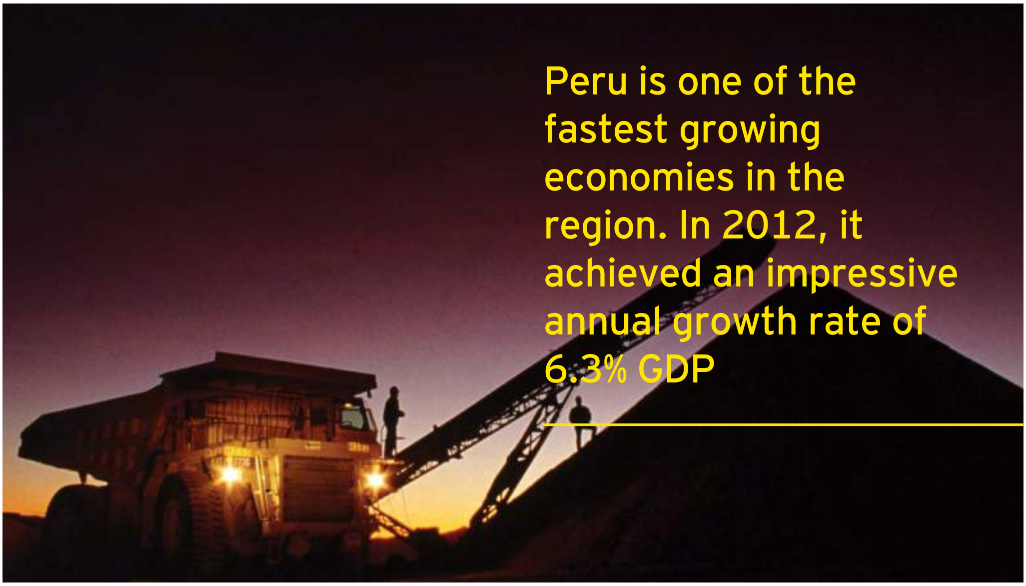
In recent years, Peru has achieved significant advances in social and development indicators as well as in macroeconomic performance, with very dynamic GDP growth rates, reduction of external debt, a stable exchange rate, low inflation which in 2013 was below the upper limit of the Central Bank target range of 1% to 3%.

The country has had continuous economic and political stability since the early 1990's. The Peruvian economy has been growing by an average 6.4% between 2002 and 2012 (the highest 10-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 remained strong in 2013, growing about 5%, down from 6.3% in 2012.

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 slowdown in 2013, Peru's economic growth will continue to be one of the strongest among peers, as the central bank now expects growth of around 6% in 2014. It is expected that the increase in mineral production will support Peru's economic growth over the next few years as metal prices have weakened. Peru's rapid expansion has helped to reduce the national poverty rate from 48.5% in 2004, to about 24.5% of its total population in 2013.

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 18.1% in 2013 and an estimated 17.2% in 2014) and ensuring consistent fiscal surpluses: 2.2% in 2012, and official estimates of 0.6% and 0.1% of the GDP for 2013 and 2014, 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 increase of private consumption by an estimated 5.2% in 2013 over the previous year (estimated at 5.2% and 5.4% for 2014 and 2015, respectively). Likewise, as of December 31, 2013, net international reserves stood at approximately 31% of the estimated GDP as of the same date.

The Peruvian economy for 2014 is expected to be the second fastest growing in Latin America, after Panama, and the first in South America. This is driven principally by private consumption (5.2% for 2014) domestic demand (6.0% for 2014) improved employment indicators, and the recovery of total exports. At the same time, the growth of fixed private investment in 2014 is expected to be situated at 6.3% (6.6% for 2015) while growth in public investment is estimated at 15.5% for 2014 and 14.6% for 2015.

As of December 31, 2012, the size of Peru's economy exceeded that of Chile in terms of purchasing power parity (PPP). The International Monetary Fund (IMF) has projected that the size of the Peruvian economy will surpass Chile's by 10.8% by 2018, due to its higher growth trend, rooted mainly in the greater size of energy sources which Peru possesses. Since 1991 -the last year in which the size of the Peruvian economy exceeded Chile's- the IMF has recorded that, thanks to the significant cumulative growth of the Peruvian economy, Peru has once again positioned itself as the fifth-largest economy in South America, as follows:

GDP and GDP per Capita (Purchasing Power Parity-PPP) of the Principal Economies of Latin America (2013)

	2013		2018
Country	GDP in US$ Billions (PPP)	GDP per Capita in US$ (PPP)	GDP per Capita in US$ (PPP)
Brazil	2,422	12,118	15,105
Argentina	771	18,582	22,188
Colombia	523	11,088	14,312
Venezuela	407	13,586	15,526
Peru	345	11,149	15,085
Chile	335	19,105	25,220
Mexico	1,845	15,608	19,495

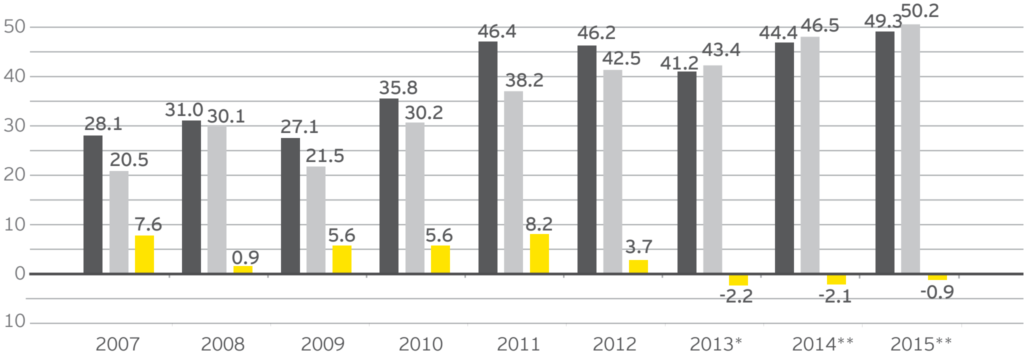
Source: International Monetary Fund (IMF), October 2013

Peru has signed a number of Free Trade Agreements (FTAs) covering approximately 95% of its exports as of December 31, 2013. Free Trade Agreements (FTAs) have been entered into with the United States, China, Thailand, the European Union, South Korea, Canada, Costa Rica, Chile, Mexico, Venezuela, Panama, Singapore, and Cuba. It also has 29 Bilateral Reciprocal Investment Promotion and Protection Agreements (BRIPPAs). Finally, Peru has commenced trade negotiations corresponding to the Trans-Pacific Partnership Agreement, which includes Chile, the United States, Singapore, Australia, and New Zealand, among others.

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.

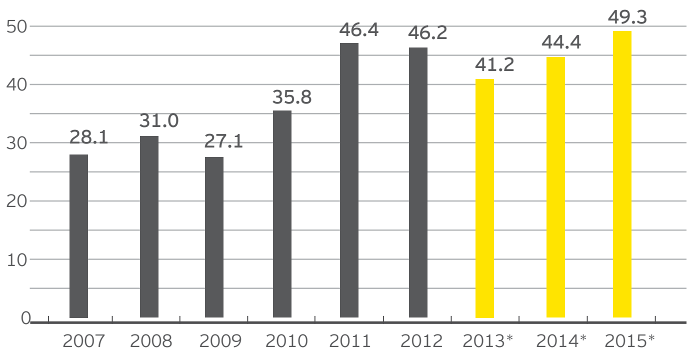
Peru's main exports are gold, copper, petroleum oil, natural gas, zinc, lead, iron, fishmeal, and coffee, and its principal trading partners are the United States, China, Brazil, Chile, Ecuador, Argentina, Switzerland, South Korea, Japan, Canada, Germany, Spain, Mexico, and Italy.

Trade balance in US$ billions



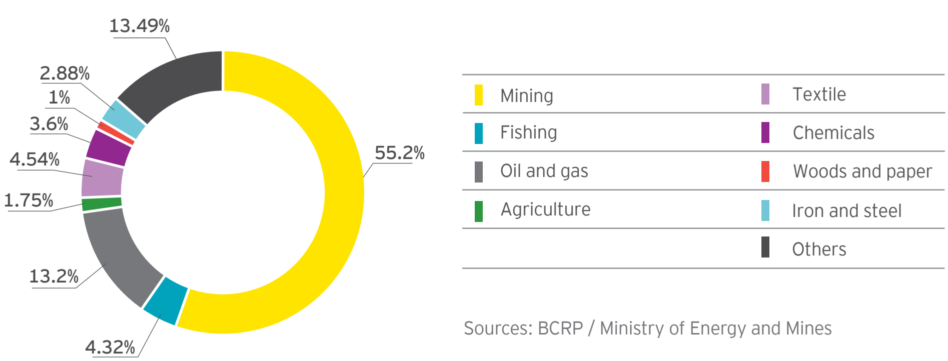
* Preliminary
** Estimate
Sources: BCRP / ComexPeru

Exports (in US$ billions)



*Estimate
Sources: BCRP / ComexPeru

Exports by economic sector



Sources: BCRP / Ministry of Energy and Mines

Peru's main economic activities

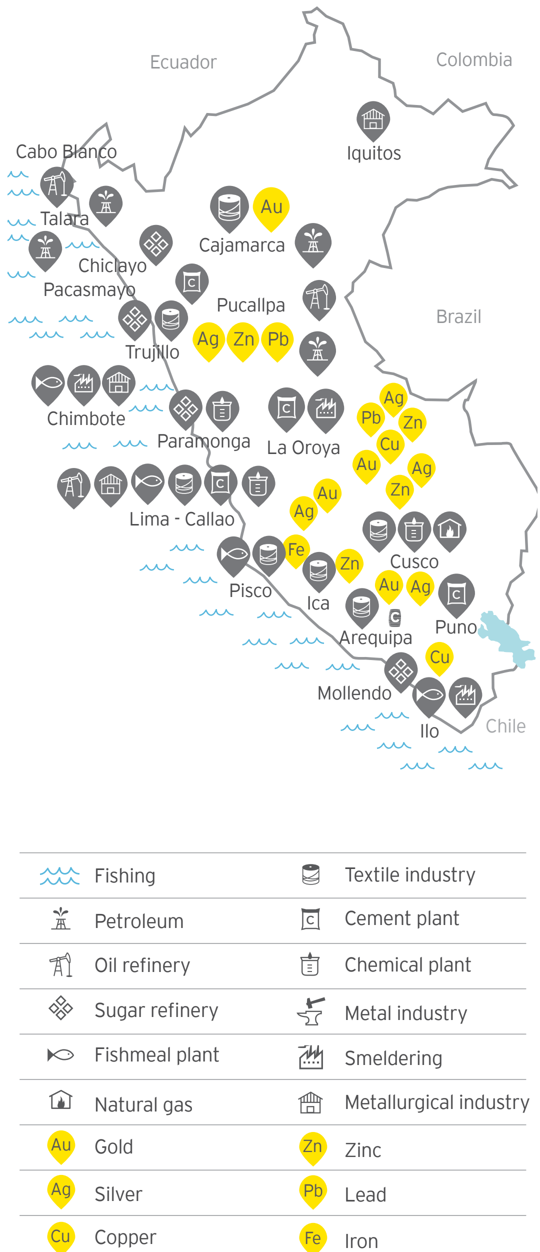
Peru's main economic activities include agriculture, fisheries, mining, the exploitation of petroleum and gas, and the manufacturing of goods, most notably textiles. The sharply contrasting geographical areas of Peru make it a particularly diverse country, with a wide variety of ecosystems, and thus,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

In 2012, Peru ranked as the world's top producer of fishmeal (US$1.341 billion exported as of December 2013); fresh asparagus (US$408 million exported as of December 2013); paprika and organic bananas; the world's second-largest producer of artichokes (US$85 million exported as of December 2013); it is the second-largest producer of fresh grapes (US$428 million as of December 2013); the sixth-largest producer in the world of coffee (US$1.013 billion exported in 2012); and the seventh-largest producer of avocado (US$137 million exported in 2012). On the other hand, mango exports in 2013 grew by 8.0% over the previous year, totaling US$127 million. In the case of avocado, exports totaled US$158 million in 2013. During 2013, exports of quinoa and its byproducts totaled US$72.2 million, representing a 132% increase over 2012. Natural calcium phosphates have reached the second most exported non-traditional product, with exports totaling US$413 million in 2013.

In mining, according to the Mineral Commodity Summaries Publication authored by the U.S. State Department, Peru ranked third in the world in 2012 in the production of silver, copper, tin and zinc, fourth in mercury and molybdenum, fifth in lead, 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 and Canada, and zinc and silver to China and South Korea.

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

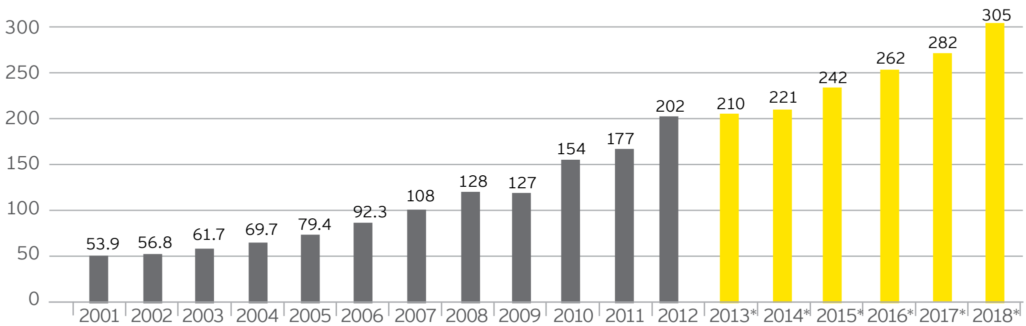


Source: University of texas - Perry Castaneda Library Map Collection

Gross Domestic Product (GDP) / Trade Balance

The Gross Domestic Product (GDP) estimate for 2013 is US$210 billion. It is estimated that at the end of 2013, total FOB exports came to US$41.221 billion, while imports totaled US$43.442 billion. The principal exports came from the mining, hydrocarbons, and agricultural and livestock industries.

Peru's real GDP (in US$ billions)



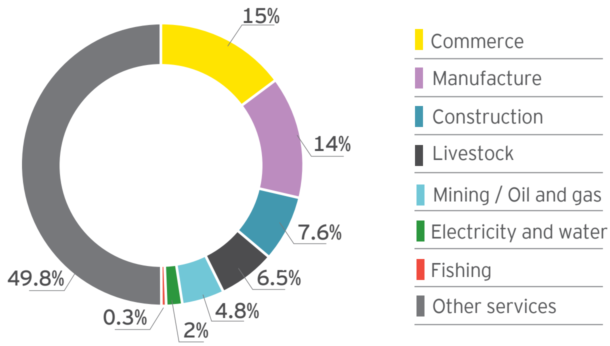
* Estimate
Sources: BCRP / Ministry of Economy and Finance / International Monetary Fund (IMF) / EY

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

	2008	2009	2010	2011	2012	2013*	2014*	2015*
Agriculture and Livestock	7.2	2.3	2.7	3.8	5.7	1.9	3.0	4.2
Fisheries	6.3	-7.9	0.3	29.7	-11.7	8.3	6.6	3.3
Mining	7.3	-1.4	-0.7	-1.1	2.2	2.0	9.1	13.0
Hydrocarbons	10.3	16.1	28.4	19.7	2.3	5.8	10.8	14.8
Manufacturing	9.1	-7.2	6.5	7.7	1.5	2.5	4.1	5.1
Electricity and Water	7.7	1.2	4.9	7.4	5.2	5.6	6.1	6.1
Construction	16.5	6.1	12.5	3.4	15.1	8.7	7.3	8.0
Commerce	13.0	-0.4	5.1	8.8	6.7	5.4	5.9	6.3
Other Services	9.1	3.1	5.4	7.3	7.1	6.1	6.2	6.5
GDP	9.8	0.9	8.8	6.9	6.3	5.0	6.0	6.5

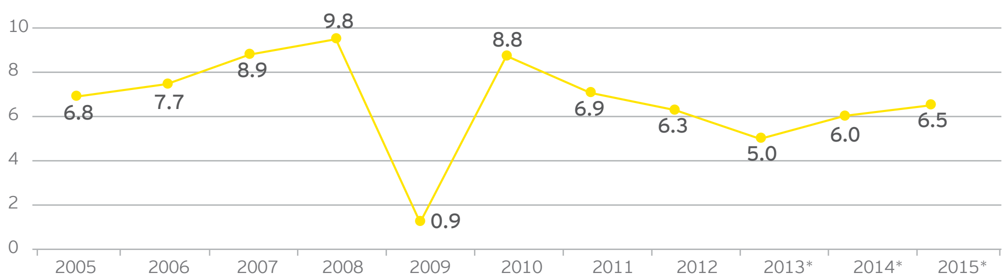
*Estimate
Sources: BCRP / EY

Peru's GDP by productive sector (2013)



Source: BCRP

GDP variations



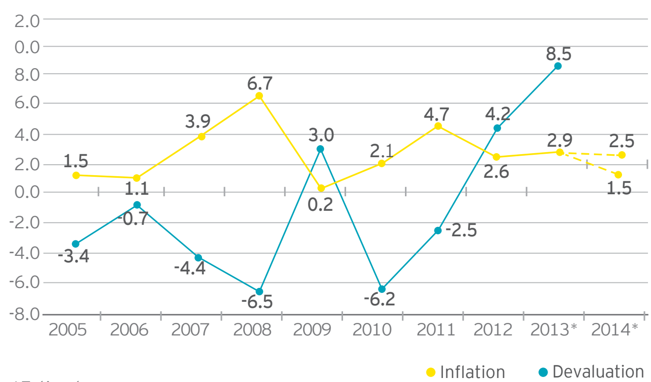
*Estimate
Source: BCRP

Devaluation and inflation

Exchange rate depreciation: the market value of the PEN (S/.) fell 9.72% against the US$ in 2013.

The annual inflation rate was 2.86% in 2013 (2.6% in 2012), which is within the Central Reserve Bank of Peru's annual target range. Peru's central bank aims to keep the annual inflation rate within a target range of 1% to 3%. The bank's officials had said they expected inflation to finish 2013 within the target range.

Devaluation and inflation



*Estimate
Sources: BCRP / EY

06

Infrastructure and services

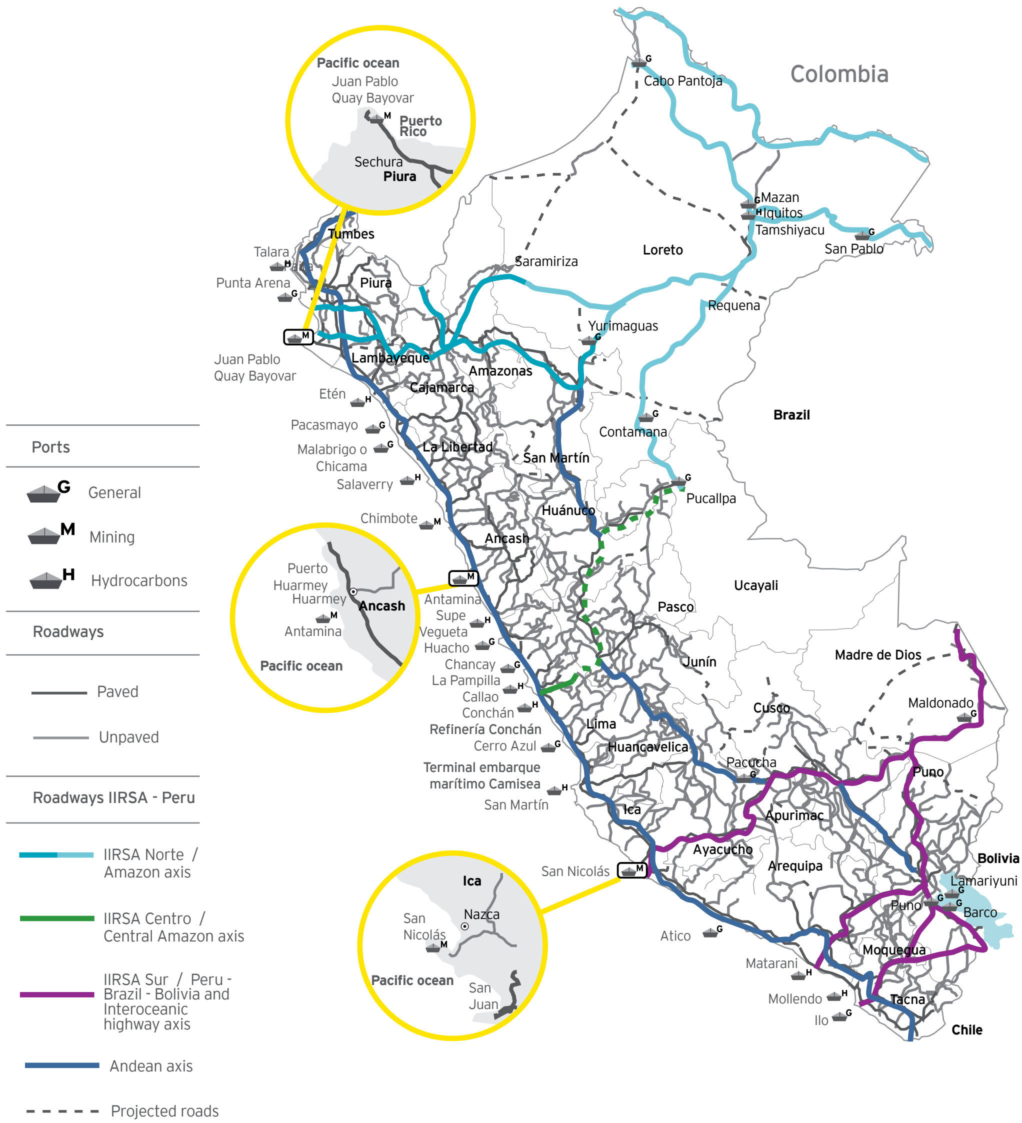
It is expected that Peru will only realize its full economic potential after reducing its infrastructure bottlenecks. Estimates vary, but the investment required runs into billions of dollars. In recent years, Peru has begun to take the necessary measures to improve its underprivileged infrastructure (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 Gasoducto Andino del Sur, or Southern Peruvian Gas Pipeline project, which is a 1,000-kilometer pipeline that has been planned by the government and private companies as a central piece for transporting natural gas to the south region of Peru.

The proposed pipeline would bring gas to many cities in the southern region of Peru and will enable the development of petrochemical facilities; the installation of electric power plants that will allow small and large industrial facilities, will permit residential customers to switch to a more efficient energy source, and will allow the distribution of compressed natural gas (CNG) in the southern region of Peru. Actually, the government is initiating a bidding to build the said pipeline, which will start approximately in the third trimester of 2013.

Infraestructure access map



Source: Ministry of Transport and Communications

07

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

Country	S&P	Fitch	Moody's
Chile	AA-	A+	Aa3
Peru	BBB+	BBB	Baa2
Mexico	BBB+	BBB+	A3
Brazil	BBB	BBB	Baa2
Colombia	BBB	BBB	Baa3
Uruguay	BBB-	BBB-	Baa3
Bolivia	BB-	BB-	Ba3
Paraguay	BB-	BB-	Ba3
Venezuela	B-	B+	Caa1
Ecuador	B	B	WR
Argentina	CCC+u	CC	B3

WR: Withdrawn Rating
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
D	Ca	Default

● Investment grade
Source: Bloomberg

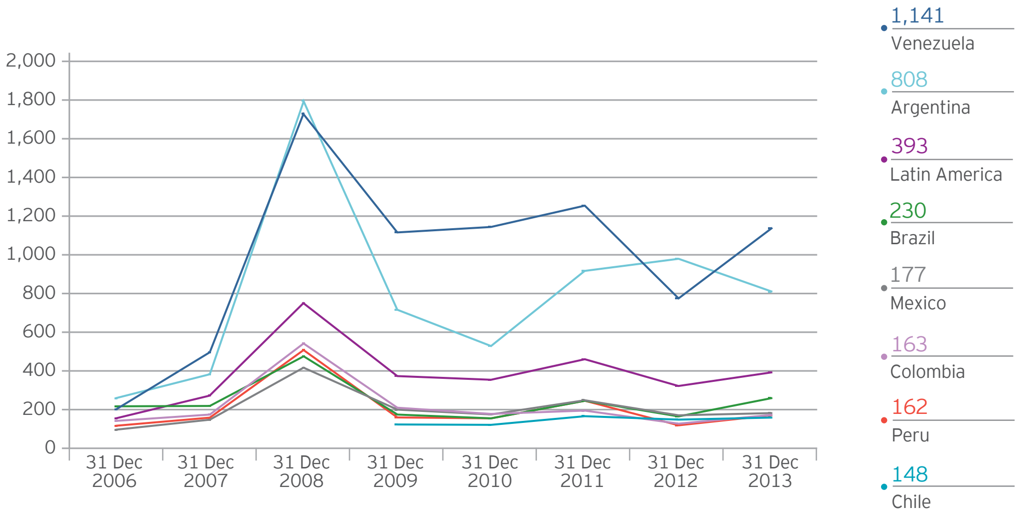
The same occurs with domestic investment. Local investors gain more self-confidence, thus allowing themselves to consider opportunities with lower rates of return. The impact is immediate, as consumers gain access to credit with more favorable terms.

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

Country risk

As of December 31, 2013, Peru had a country risk of 162 base points, ranking second-lowest in Latin America. This score is less than half of the regional average (393 points).

Country risk indicator

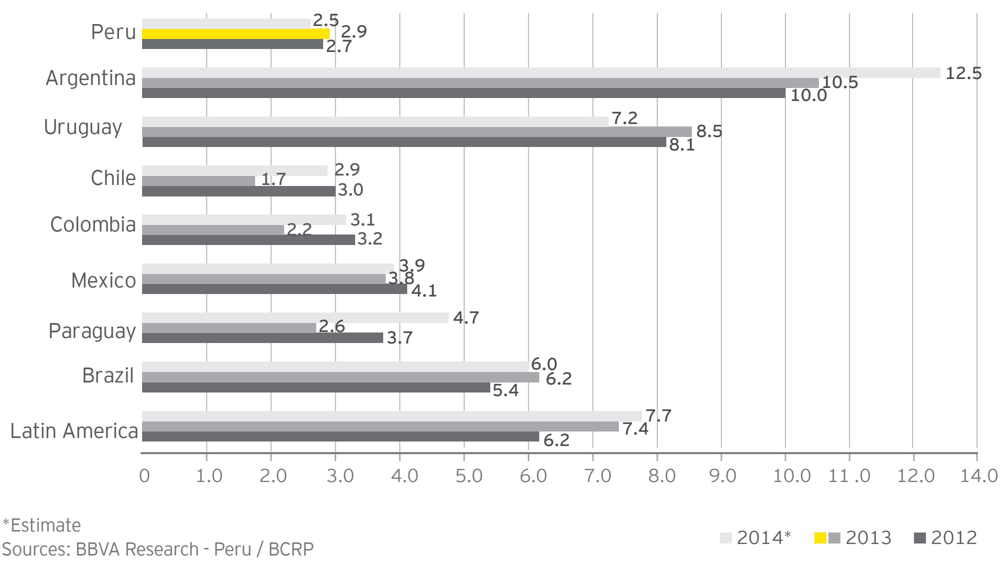


Source: BCRP

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 early February 2012 Bloomberg Markets positioned Peru as the third emerging market with the greatest international projection in 2012, based on the country's advantages, such as low share prices and their possible increase in the future.

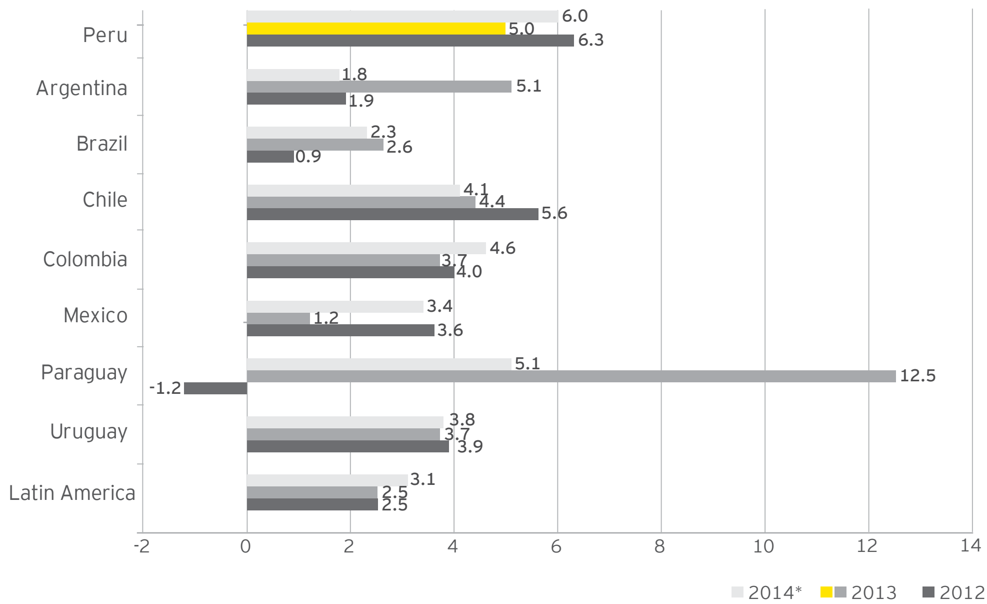
As may be seen in the following charts, Peru's level of inflation is one of the lowest in Latin America, with a rate of 2.86% in 2013, and an estimated range of 1.5% to 2.5% for 2014. In addition, over the past decade, the Peruvian economy had the lowest average annual inflation rate in Latin America, at 2.9%, below that of Chile (3.2%) Colombia (4.9%) and Brazil (6.4%). During the same period, it had one of the highest GDP growth rates, at 5.6%, above Argentina (5.4%), Ecuador (4.6%), Colombia (4.5%), Chile (4.4%), Uruguay (4.0%), Brazil (3.5%), and Mexico (2.3%).

Estimated inflation rates in Latin America



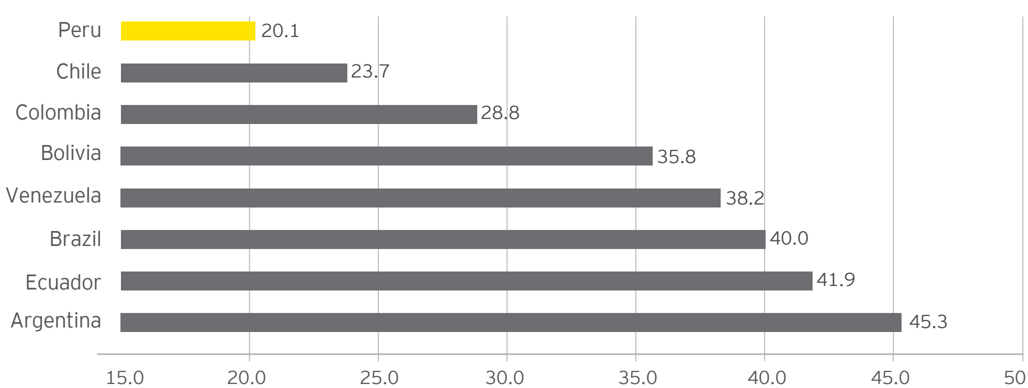
*Estimate
Sources: BBVA Research - Peru / BCRP

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

Public spending in South America in % of the Gross Domestic Product - GDP (2013*)



*Estimate
Source: APOYO

08

Investment promotion conditions

Foreign investment legislation and trends in Peru

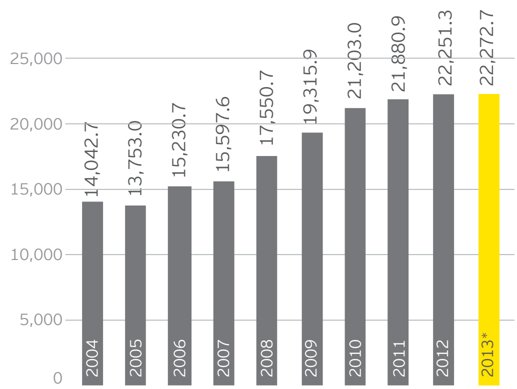
The Peruvian government is committed to pursuing an investor-friendly policy climate. It actively seeks to attract both foreign and domestic investment in all sectors of the economy. It has therefore taken the necessary steps to establish a consistent investment policy which eliminates all obstacles 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) reached US$22.2 billion in the first half of 2013. The United States, United Kingdom, The Netherlands, Spain, Brazil and Chile are Peru's leading foreign investors.

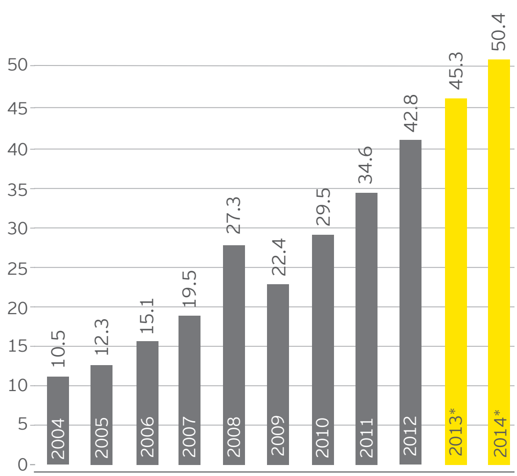
FDI is concentrated in mining, oil and gas, telecommunications, finance and electricity.

Foreign investment (US$ millions)



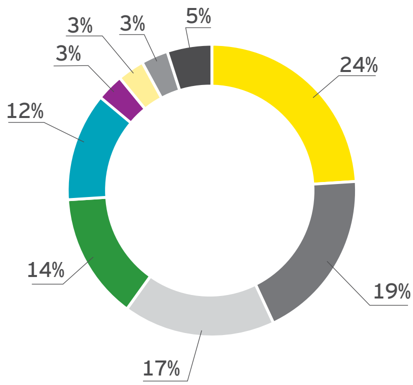
*Estimate
Source: Proinversion

Private investment (US$ millions)



*Estimate
Sources: MEF (Multiannual Macroeconomic Framework) / Proinversion

Foreign investment by industry (2013)



Mining	Energy
Finance	Commerce
Communications	Petroleum
Industry	Services
	Others

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 so long as the operator is in compliance with the relevant Peruvian tax legislation.

Recognition of Favorable Investment Climate

Peru climbed six positions in the global competitiveness report published by the World Economic Forum in 2012, compared to the previous year, and maintained its position in 2013.

According to this ranking, 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.

	2012 - 2013		2013 - 2014	
	Ranking	Score	Ranking	Score
Peru Total	61/144	4.28	61/148	4.25
SUB-INDEX:				
Basic Requirements	**69**	**4.57**	**72**	**4.53**
Institutions	105	3.44	109	3.36
Infrastructure	89	3.51	91	3.50
Macroeconomic Environment	21	5.95	20	5.91
Health and Primary Education	91	5.38	95	5.36
Efficiency Enhancers	**57**	**4.23**	**57**	**4.20**
Higher Education	80	4.05	86	4.01
Goods Market Efficiency	53	4.37	52	4.37
Labor Market Efficiency	45	4.56	48	4.50
Financial Market Development	45	4.46	40	4.50
Technological Readiness	83	3.57	86	3.39
Market Size	45	4.40	43	4.46
Innovation and Sophistication Factors	**94**	**3.31**	**97**	**3.35**
Business Sophistication	68	3.94	74	3.95
Innovation	117	2.69	122	2.76

Source: World Economic Forum 2013

Ease of Doing Business in Peru

According to Doing Business 2014, Peru ranks 42nd out of 189 countries in terms of ease of starting a company and doing business, and ranks second in Latin America, as corroborated by Forbes. Peru is especially notable for the following indicators: Investor Protection (16th place), Real Estate Registry (22nd) and Access to Credit (28th).

Doing Business (Ranking for Latin America)	
Position	Country
40	Puerto Rico (United States)
42	Peru
43	Colombia
53	Mexico
55	Panama
77	Dominican Republic
79	Guatemala
89	Uruguay
102	Costa Rica
109	Paraguay

Source: World Bank (WB) - Doing Business 2014

Forbes (Best Countries for Doing Business)	
Position	Country
22	Chile
52	Uruguay
53	Peru
55	Costa Rica
63	Mexico
66	Colombia
80	Brazil
92	Paraguay
93	Guatemala
96	Dominican Republic

Source: Forbes 2013

The following are the principal indicators for the investment climate:

	Indicators	Peru	Latin America and the Caribbean
Starting a business	‣ Number of procedures	5.0	9.0
	‣ Time (days)	25	36.1
	‣ Cost (% of per capita income)	10.1	33.1
	‣ Registration of minimum capital paid up (% of per capita income)	0.0	3.6
Construction permits	‣ Number of procedures	14.0	13.0
	‣ Time (days)	173.0	215.5
	‣ Cost (% of per capita income)	109.3	136.6
Property registration	‣ Number of procedures	4.0	7.0
	‣ Time (days)	6.5	65.0
	‣ Cost (% of property value)	3.3	6.0
Getting electricity	‣ Number of procedures	5.0	6.0
	‣ Time (days)	100	65
	‣ Cost (% of per capita income)	353.7	502.5
Access to credit	‣ Strength of legal rights index (0-10)	7	6
	‣ Depth of credit information index (0-6)	6	3
	‣ Coverage of Public Records Offices (% of adults)	31.7	12.8
	‣ Coverage of private entities (% of adults)	41.5	37.5
Protecting investors	‣ Extent of transparency and access to public information index (0-10)	9	4
	‣ Extent of director liability index (0-10)	6	5
	‣ Ease of shareholder legal proceedings index (0-10)	6	6
	‣ Strength of investor protection index (0-10)	7.0	4.9
Paying taxes	‣ Number of payments per year	9	30
	‣ Time (hours per year)	293	369
	‣ Profit tax (%)	23.1	20.5
	‣ Labor tax and contributions (%)	11.0	14.7
	‣ Other taxes (%)	2.3	12.1
	‣ Total tax rate (% of profit)	36.4	47.3
Trading across borders	‣ Documents to export (number)	5.0	6.0
	‣ Time to export (days)	12	17
	‣ Cost to export (US$ per container)	890	1,283
	‣ Documents to import (number)	7.0	7.0
	‣ Time to import (days)	17	19
	‣ Cost to import (US$ per container)	1,010	1,676
Enforcing contracts	‣ Time (days)	426	734
	‣ Cost (% of claim)	35.7	31.0
	‣ Procedures (number)	41	40
Resolving bankruptcy	‣ Time (years)	3.1	2.9
	‣ Cost (% of estate)	7	16
	‣ Recovery rate (cents on the dollar)	27.7	31.4

Source: World Bank (WB) - Doing Business 2014

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 31 bilateral investment treaties.

Investment treaties

Source: Proinversion

II

Starting a business in Peru

01

Requirements for foreign investors

Foreign investors will only 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 set their residence in the capital of Peru and appoint a Peruvian representative.

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

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

A corporation (Sociedad Anónima - S.A.) is composed of shareholders whose liability is limited to the value of their shares. The S.A. is managed by a board of directors and one or more managers. To form an S.A., investors (i.e. the shareholders) must sign the deed of incorporation before a public notary and file it in the Mercantile Registry. The registrar receives the public deed and proceeds to register the company. The registrar is also interconnected with the Tax Authority (SUNAT) to register the company as a taxpayer and obtain the tax identification number (Registro Único de Contribuyente, RUC). The bureaucratic and legal steps that an investor must complete to incorporate and register a new standard 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.); (e) the names of the initial directors, managers and agents; (f) the start-up date of operations; and (h) the capital structure (the shares of nominal value and the total number of shares), classes of shares, if applicable, and details of individual initial capital contributions (whether in cash or kind). Sufficient proof that a minimum of 25% of capital stock has been paid into a bank before registration must also be provided.

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

Capital

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

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 of the corporate 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. Different classes or series of shares may be issued, with different rights and/or obligations.

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

Disclosure

Legal entities with annual sales or total assets equal or above 15,000 tax units (at the end of 2013 each tax unit will be equivalent to PEN S/.3,800) must submit audited financial statements to the securities commission (Superintendencia del Mercado de Valores, former Conasev). Disclosure requirements are more stringent for publicly listed companies.

Management

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

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 need not be shareholders, and they serve one to three-year renewable terms.

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

Limited Liability Company

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 owners is two, the maximum 20, whose liability is limited to their capital contributions. At least 25% of each participant's contribution to capital must be paid upon founding.

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

As a general rule, an S.R.L. is managed and represented by all its partners. However, the partner's general meeting may entrust the company's management to one or more managers who do not need 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

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

A corporation will be considered "public" where either (i) it has undertaken an initial public offering (IPO) 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, each of whom owns at least 0.002% but no more than 5% of the shares representing the corporation's capital; (iv) it is incorporated as a public corporation; or (v) all the shareholders with voting rights agree unanimously to subject the company to the legal regime applicable to public corporations.

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 juridical personality distinct from its parent company. 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 must be previously deposited or wire transferred in a Peruvian Financial Institution. As for capital, the parent company remains fully liable for the obligations assumed by the branch.

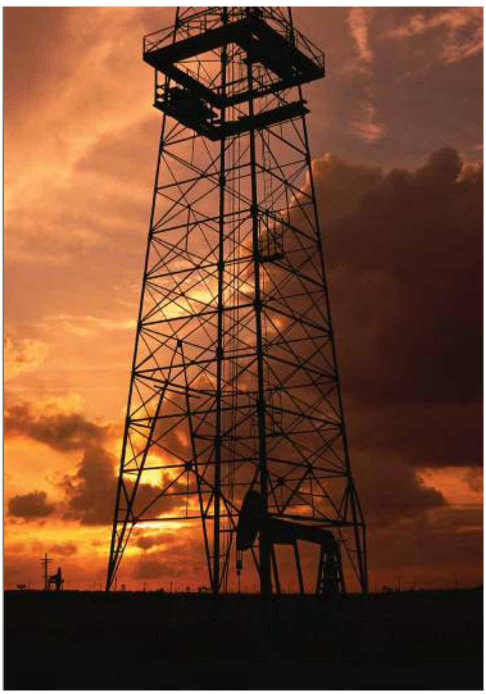
Procedures for organizing a branch in Peru are similar to the procedures applicable to organizing corporations or limited liability companies. It takes between two to three weeks to register a branch once the necessary documents have been submitted to the Peruvian notary.

These 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.

04

Associative agreements

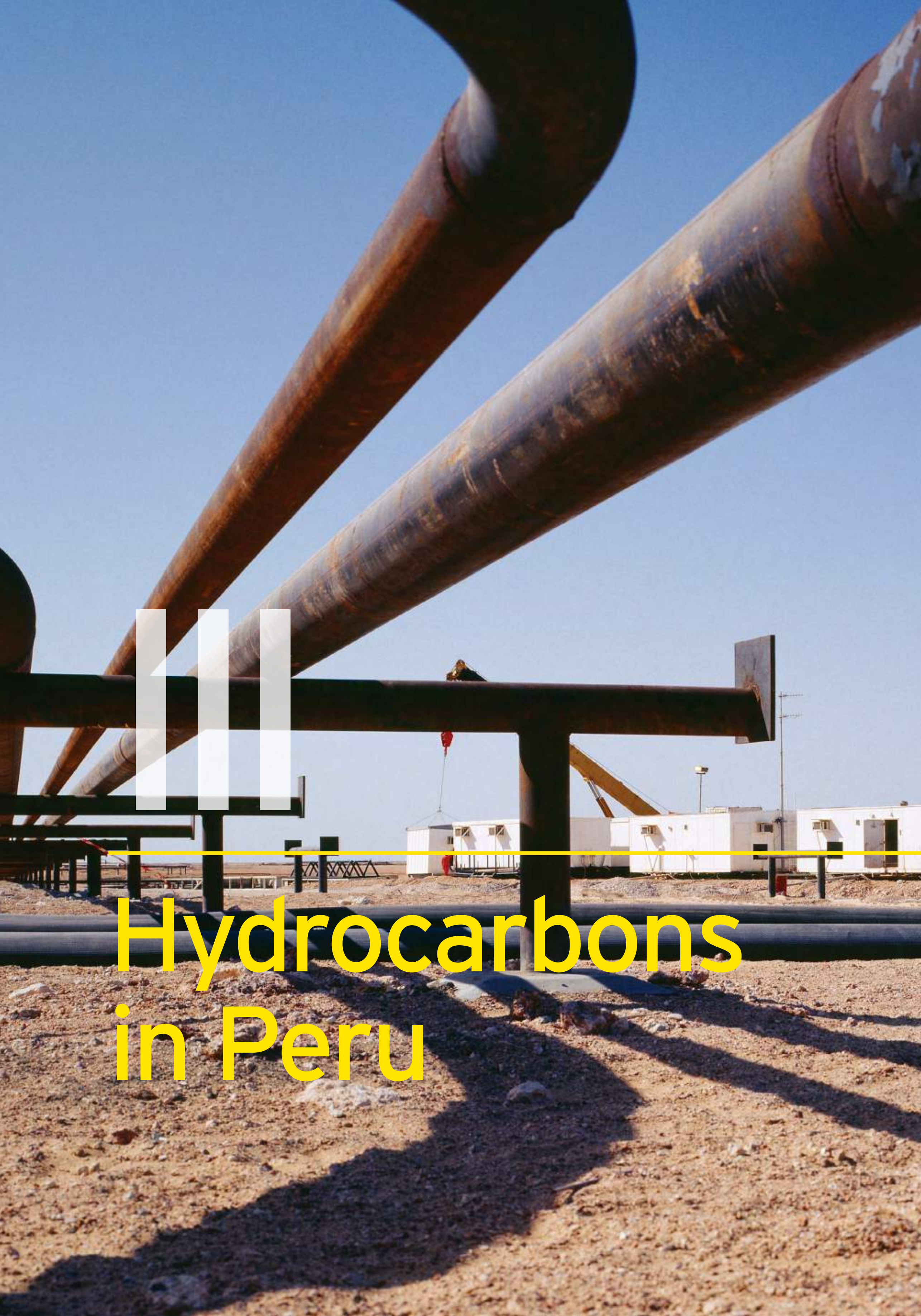
Associative agreements are another type of investment vehicle that allow different companies (and individuals) to jointly participate and integrate into certain specific businesses or enterprises for reaching a common purpose. This type of investment vehicle is very common in the hydrocarbon sector because 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 are not considered as legal entities, therefore, each of the parties keep their juridical and patrimonial independence.

There are three types of associative agreements: partnership contracts, consortiums, and joint ventures. 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. To have such qualification, they should be legally, technically, economically and financially qualified for engaging in obligations, rules 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 obligations.



III

Hydrocarbons in Peru

01

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 circumnstances, the military dictatorship 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 they were losing money, reserves and production. For this reason, the government in force in the 90’s decided to restructure the company and implement a privatization process, which ended in Petroperu’s monopoly.

As a result, Peru’s oil and gas sector became more competitive. From 1990 to 1997, the investment in the sector increased from $20 million to $4.3 billion. Areas under operation went 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 for 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.

As a result of 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 in environmentally and socially sensitive areas increase.

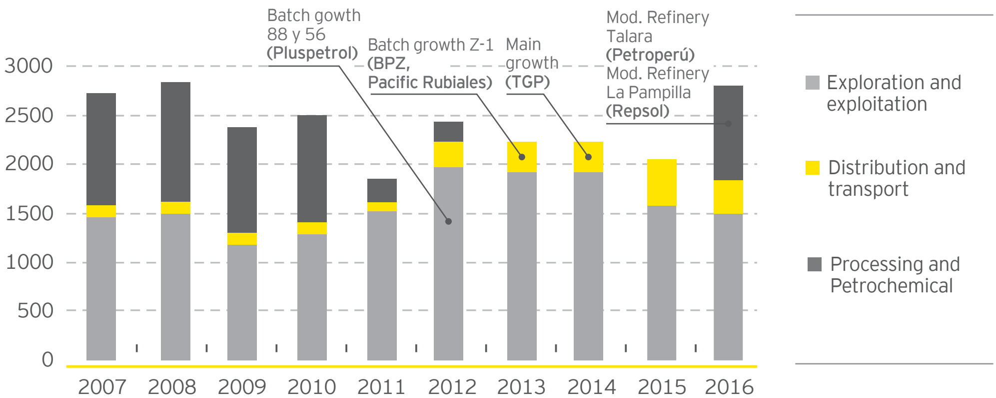
(*) The Camisea Project was discovered in 1989

Hydrocarbon Investment (exploration and exploitation phase)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Exploration	44.00	96.40	136.30	251.00	539.10	539.10	747.06	476.90	785.080	438.04
Exploitation	232.80	254.90	551.90	855.00	610.80	610.80	576.50	884.00	731.102	812.49
Total	276.80	351.30	688.20	1,106.00	1,149.90	1,149.90	1,323.90	1,360.90	1,516.182	1,250.53

Source: Perupetro
* The numbers shown for year 2013 only include the investments performed from January to November 2013.

Estimated hydrocarbon investment until 2016



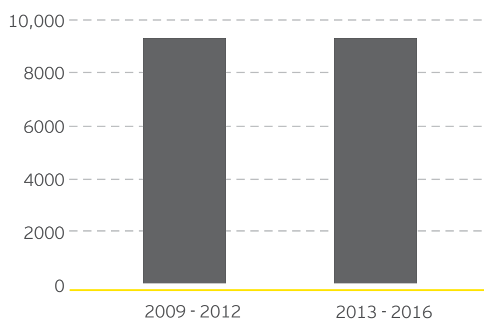
The historical investment on infrastructure is estimated. The projections made from year 2012 were made in January 2013. The chart makes the starting year for the investment on construction. Some projects duplicate the investment in the second or third year of construction.

Sources: Ministry of Energy and Mines / SNMPE / APOYO

The investment in oil and natural gas for the next 10 years is approximately US$23.000 millions. Around 70% of such investment will correspond to natural gas projects, 20% to oil projects and 10% to other investments related to the sector.

Peru has also mantained an important position in the international oil and gas market. In 2012, Peru ranked 94th out of 147 countries in a survey done by Fraser Institute. In 2013, it ranked 106th out of 157 countries. The government is working on making the appropriate improvements, especially in environmental and infrastructure matters.

Hydrocarbon investment



*US millions. Includes estimated investment in infrastructure. The numbers shown for the year 2012 are projections made in January 2013.

Sources: Ministry of Energy and Mines / SNMPE / APOYO

Ranking by Fraser institute

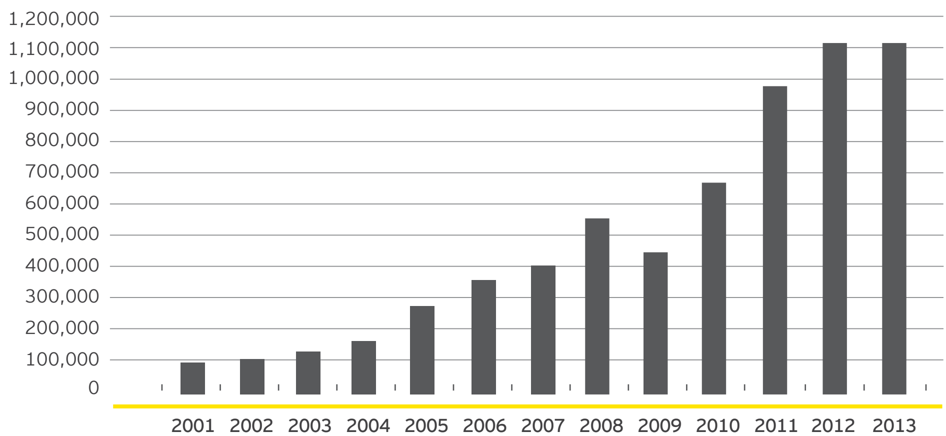
Ranking of countries made according to the scope of investment barriers (based on the composite index score of Fraser Institute).

	2013	2012	2011	2010
Countries	Ranking (Sample of 157)	Ranking (Sample of 147)	Ranking (Sample of 135)	Ranking (Sample of 133)
Guyana	90	48	97	n.d
Colombia	73	65	48	42
Brazil - Offshore CC	107	74	68	n.d
Brazil - Offshore presalt area PSC	115	75	66	n.d
Chile	26	76	20	22
Uruguay	63	81	52	27
Brazil - Onshore CC	105	88	67	n.d
Peru	**106**	**94**	**76**	**85**
Argentina - Neuquen	129	111	102	n.d
Argentina - Chubut	134	112	95	n.d
Argentina - Mendoza	136	119	88	n.d
Argentina - Tierra del Fuego	137	122	n.d	n.d
Argentina - Salta	147	126	82	n.d
Argentina - Santa Cruz	131	140	94	n.d
Ecuador	156	142	134	127
Venezuela	157	146	135	132
Bolivia	154	147	133	133

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

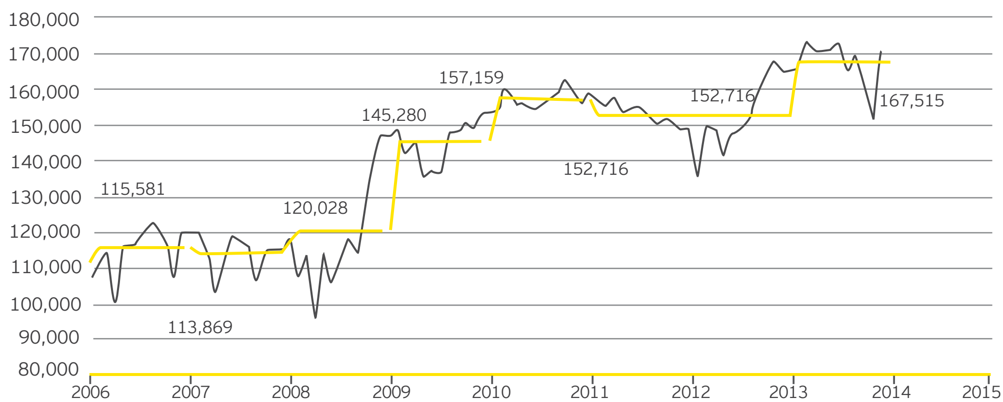
Source: Fraser Institute

Oil & Gas canon revenues



Source: Perupetro

Oil (liquid hydrocarbon) average audited production (2006 - 2013*)



* Includes petroleum and liquid natural gas
Source: Ministry of Energy and Mines

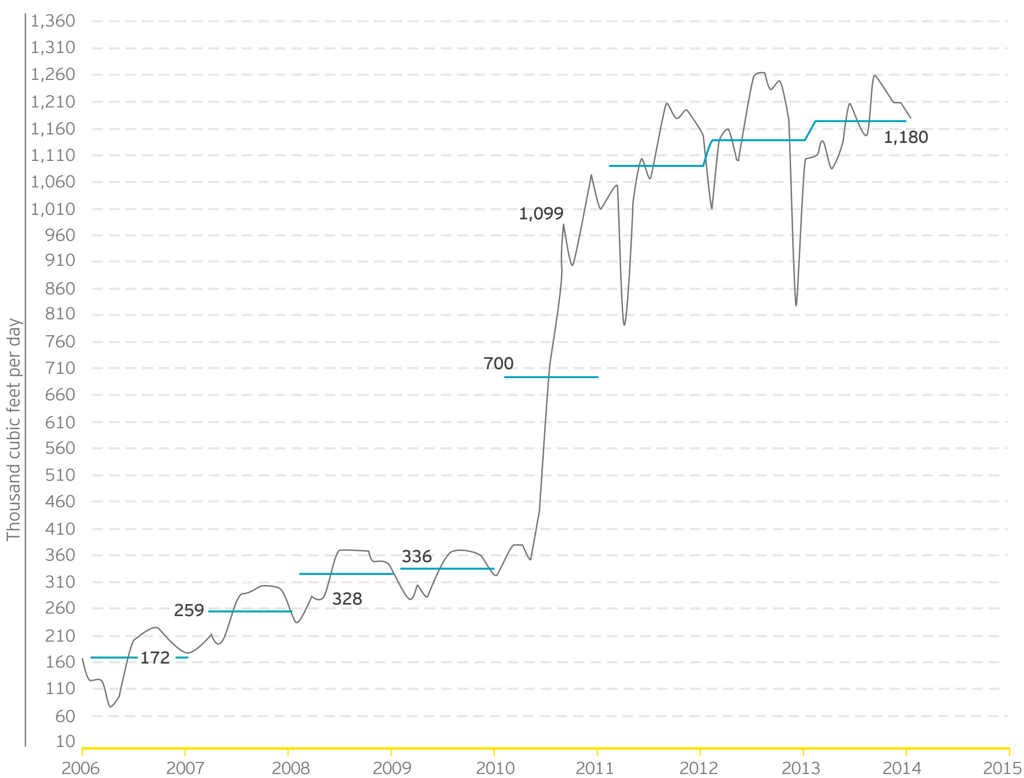
Fiscal revenues (2005-2013)

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. Indeed, since 2005 to 2013, fiscal revenues have been raising constantly, from US$ 586 million to US$ 2,020 million.

	2005	2006	2007	2008	2009	2010	2011	2012	2013
License contract	542.18	672.07	791.03	1,132.01	859.12	1,319.57	1,998.33	1,894.75	1932.66
Service contract	44.32	60.71	65.03	85.30	54.10	73.89	1.00	105.03	88.27
Total	586.50	732.78	856.03	1,217.31	913.22	1,393.46	1,999.33	1,999.776	2020.93

Source: Perupetro

Average natural gas audited production (2006 - 2013)



Source: Ministry of Energy and Mines

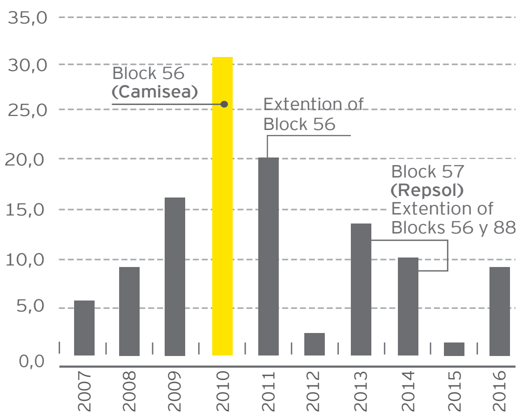
02

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. The hydrocarbon production in 2013 has been 50% higher than registered at the beginning of the decade, while the natural gas production has increased approximately more than 1,600% in the same period.

An emblematic example of this growth is the Camisea project. This project was not only a significant project to the country, but it also contributed on putting us on the map of natural gas producers.

Estimated GDP hydrocarbon growth until 2016

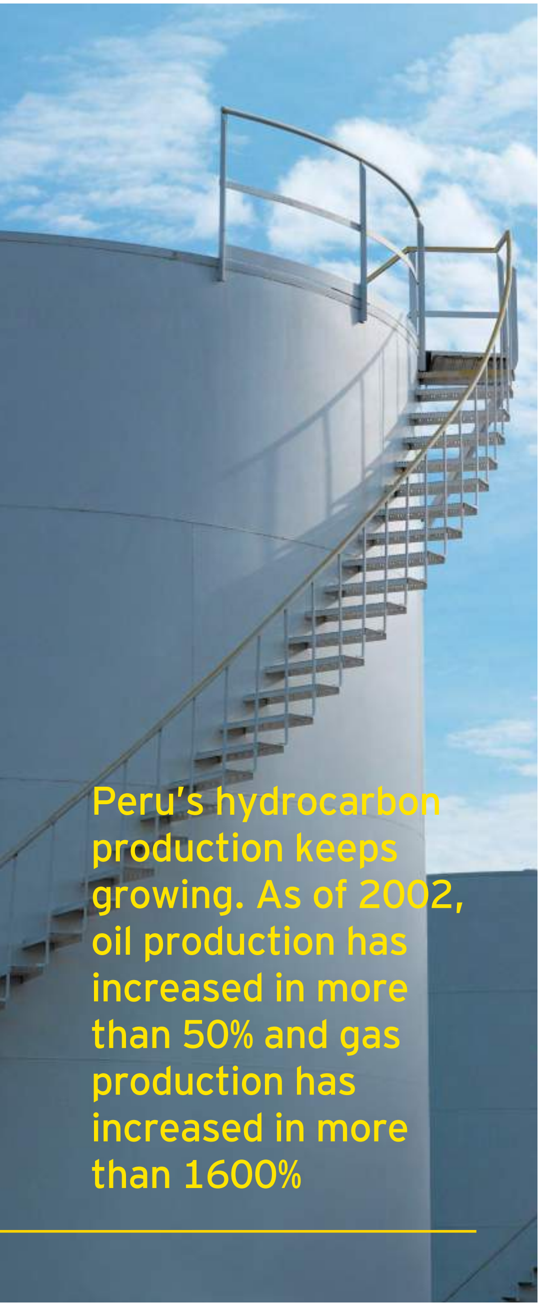


Sources: Ministry of Energy and Mines / APOYO

Hydrocarbons audited production (2006 - 2013)

	2006	2007	2008	2009	2010	2011	2012	2013
Liquid hydrocarbons (MBI$^{s/d}$)	115.50	113.83	120.00	145.20	157.16	152.72	152.98	167.51
Petroleum (MBI$^{s/d}$)	77.50	77.07	76.50	71.03	72.70	69.55	66.65	62.89
LNG (MBI$^{s/d}$)	38.00	36.76	43.50	74.25	84.50	83.16	86.83	104.62
Natural gas (MMS^{cfd})	171.70	258.85	327.70	336.11	700.30	1,099.09	1,144.248	11,79.61

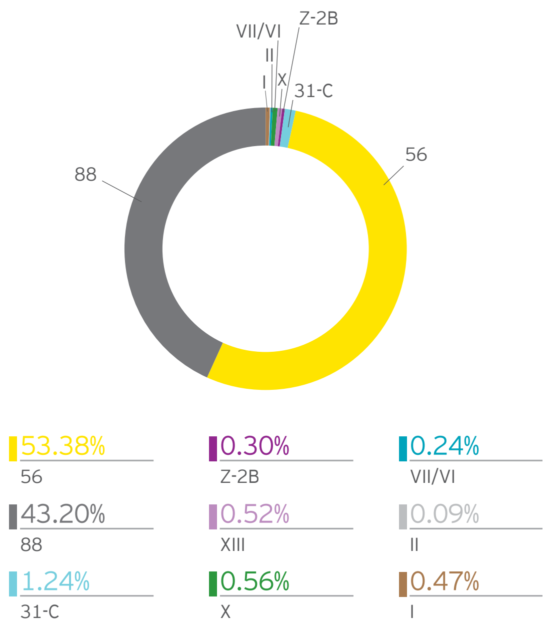
LNG: Liquified Natural Gas
Source: Perupetro



Peru’s hydrocarbon production keeps growing. As of 2002, oil production has increased in more than 50% and gas production has increased in more than 1600%

Natural gas audited production by oil well (2013)

	Block	Accumulated (MPC)*	%
GMP	I	2,029,212	0.47
Petromont	II	393,894	0.09
Sapet	VII/VI	1,029,381	0.24
Petrobras	X	2,411,841	0.56
Olympic	XIII	2,223,132	0.52
Savia	Z-2B	1,305,431	0.30
Aguaytia	31-C	5,333,354	1.24
Pluspetrol	56	229,823,411	53.38
Pluspetrol	88	186,009,487	43.20
Total		**430,559,143**	**100.00**



*MPC: Thousands of standard barrels
Source: Perupetro

03

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.

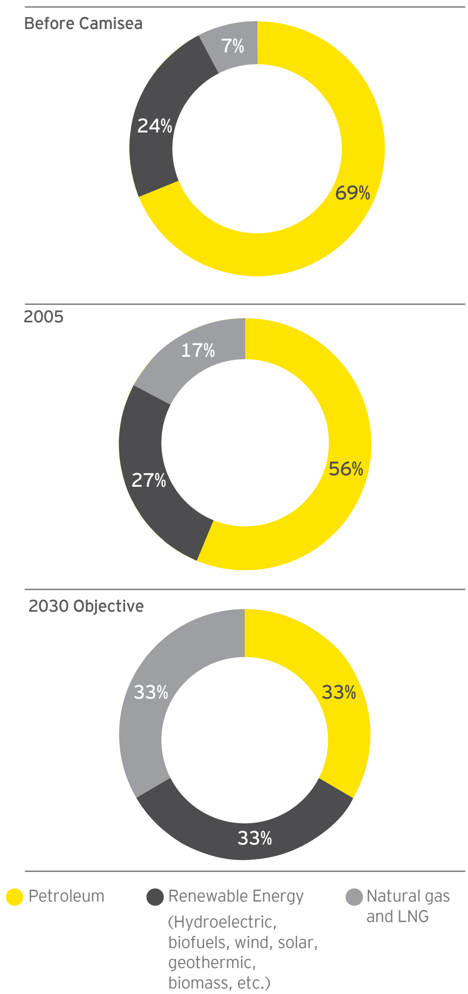
Before the arrival of natural gas, the energy matrix of Peru depended on liquid fuels – primarily imported diesel, coal, wood, and other traditional energetics. Nowadays, the consumption of liquid fuels has been reduced, in order to introduce different energy sources, such as LPG (Liquefied Petroleum 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

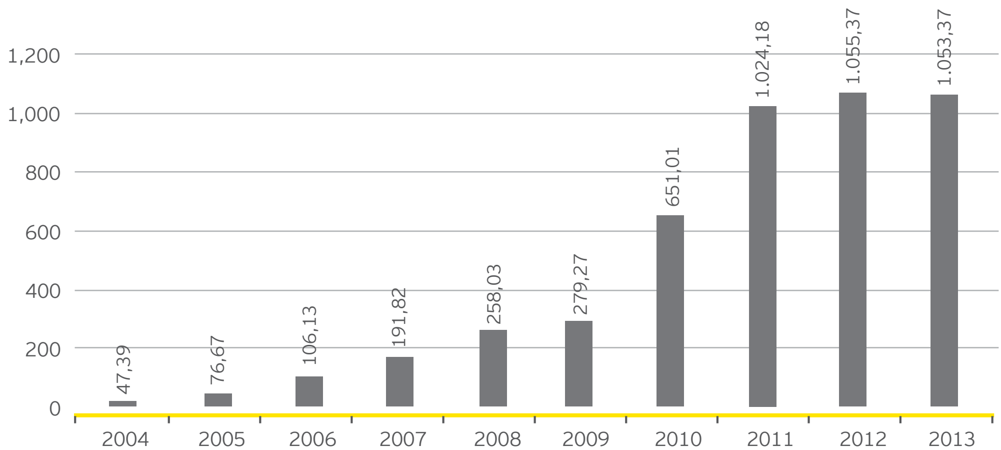
Camisea's estimated hydrocarbon reserves are around 13 million cubic feet of natural gas and 660 million liquid barrels. It is estimated that these reserves will reduce the cost of electricity and national fuel by the time they commercialize.

Energy mix objective



Source: Focus Report

Natural gas demand evolution (2004 - 2013)



Sources: Ministry of Energy and Mines

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 Pluspetrol - Hunt Oil - Sky Energy - Repsol Exploración Perú - Sonatrach Peru Corporation. 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.

04

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 19th 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.

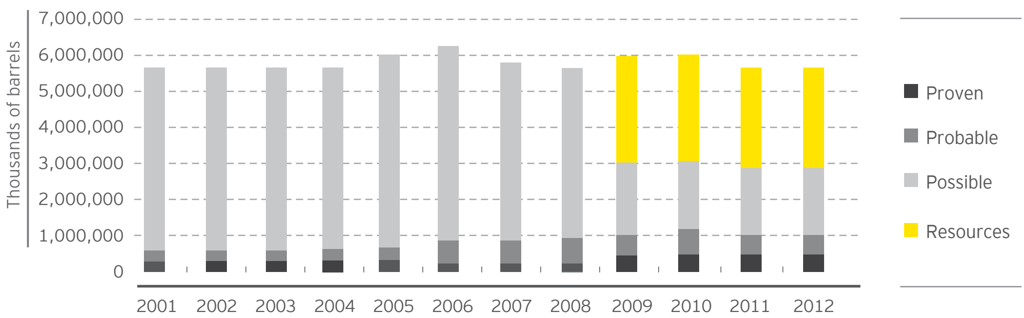
In the same sense, even though the Ucayali basin (northern and central) has not been explored yet, in the south zone are the Camisea fields, which are the principal natural gas deposits of Peru.

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 20th century. This area is still being under explored. In other basins located offshore, there have been only seismic surveys and drilling activities on a few wells.

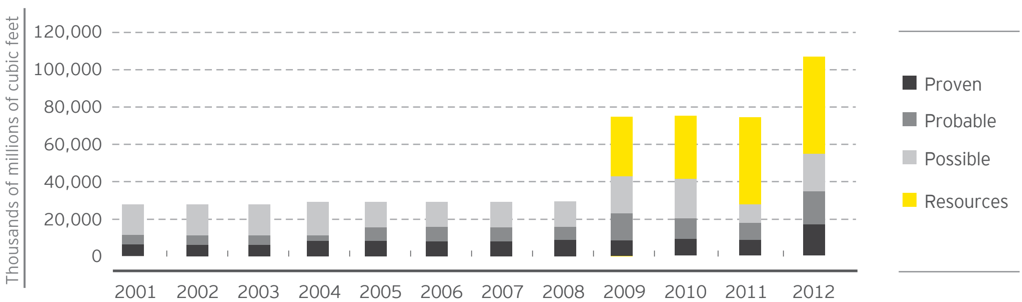
In the case of natural gas, during 2013 the Spanish company Repsol discovered new natural gas deposits in Ucayaly, at the block 57. It is estimated that it contains 2.5 trillion cubic feet of natural gas.

Oil reserves



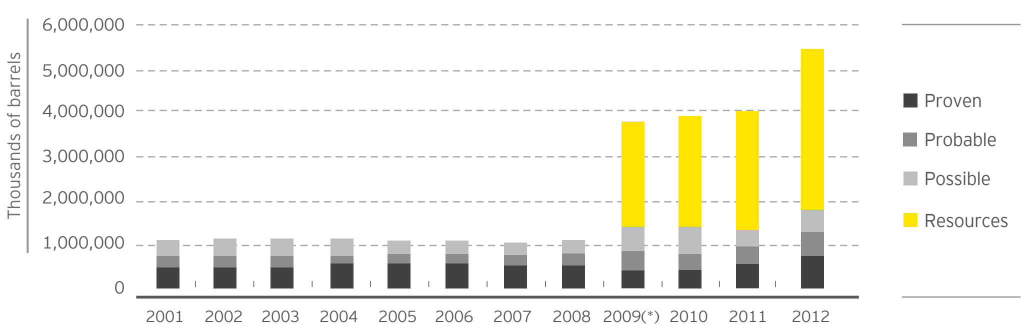
The resources come principally from a reclasification of possible reserves to resources as of 2009
Source: Ministry of Energy and Mines

Natural gas reserves



The resources come principally from a reclasification of possible reserves to resources as of 2009
Source: Ministry of Energy and Mines

Liquid natural gas reserves



The resources come principally from a reclasification of possible reserves to resources as of 2009
Source: Ministry of Energy and Mines

Mapa de Lotes
(reemplazar
hoja por archivo
illustrator)

Mapa sísmico
(reemplazar
hoja por archivo
illustrator)

Exploitation and exploration contracts (January to December 2013)

	Suscribed	Inforce	Investment (US$ millions)
Exploitation	-	24	812.49
Exploration	-	50	438.04
Total	0	74	1,250.53

Exploitation contracts	Block	Basin	Suscription date	Lot area / ha	Effective work area / ha
GMP	I	Talara	27.12.1991	6,943,250	339,00
Petrolera Monterrico	II	Talara	05.01.1996	7,707,420	136,00
Interoil Peru	III	Talara	05.03.1993	35,793,856	227,00
Interoil Peru	IV	Talara	04.03.1993	30,721,982	181,00
GMP	V	Talara	08.10.1993	9,026,032	42,00
Sapet Development Peru	VI/VII	Talara	22.10.1993	34,444,834	2,513,00
Empresa Petrolera Unipetro ABC	IX	Talara	17.06.1993	1,554,133	52,00
Petrobras Energía Perú	X	Talara	20.05.1994	46,952,342	2,252,00
Olympic Peru INC	XIII	Sechura	30.05.1996	263,357,845	29,00
Petrolera Monterrico	Xv	Talara	26.05.1998	9,999,772	10,00
Petrolera Monterrico	Xx	Talara	19.01.2006	6,124,207	131,00
Pluspetrol Norte	1-Ab	Marañón	22.03.1986	287,050,906	2,037,00
Pluspetrol Norte	8	Marañón	20.05.1994	182,348,210	541,00
Maple Gas Corporation Del Peru	31-B 31-D	Ucayali	30.03.1994	71,050,000	154,00
Aguaytia Energy Del Peru	31-C	Ucayali	30.03.1994	16,630,000	18,00
Pluspetrol Peru Corporation	56	Ucayali	07.09.2004	58,500,000	64,00
Perenco Peru Limited	67	Marañón	13.12.1995	101,931,686	378,00
Pluspetrol Peru Corporation	88	Ucayali	09.12.2000	143,500,000	129,00
Savia Peru	Z-2B	Talara	16.11.1993	199,865,223	318,00
Savia Peru	Z-6	Talara, Sechura	20.03.2002	528,116,614	15,552,00
Maple Gas Corporation Del Perú	31-E	Ucayali	06.03.2001	141,003,357	9,00
Repsol Exploración Perú	57	Ucayali	27.01.2004	287,102,800	12,00
Petroperú	64	Marañón	07.12.1995	761,501,001	66,00
Bpz Exploración & Producción	Z-1	Tumbes, Talara	30.11.2001	224,375,850	30,077.00
Total					55,267
Exploration contracts	**Block**	**Basin**	**Suscription date**	**Lot area / ha**	**Effective work area / ha**
Bpz Exploración & Producción	XIX	Tumbes, Talara	12.12.2003	191,441,161	36,00
Gold Oil Peru	XXI	Sechura	04.05.2006	303,331,200	44,00
Bpz Exploración & Producción	XXII	Talara, Sechura	21.11.2007	369,043,817	66,00
Bpz Exploración & Producción	XXIII	Talara	21.11.2007	93,198,956	543,00
Upland Oil And Gas	XXIV	Talara, Sechura	23.07.2007	88,825,396	301,00
Vetra Peru	XXV	Talara	21.11.2007	40,451,020	80,00

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‣ Exploration contracts	Block	Basin	Suscription date	Lot area / ha	Effective work area / ha
Savia Peru	XXVI	Sechura	21.11.2007	552,711,858	63,00
Faulkner Suits Exploration	XXVII	Sechura	16.04.2009	71,173,057	144,00
Pitkin Petroleum Peru Xxviii	XXVIII	Sechura	23.09.2011	314,132,582	000,002
Repsol Exploración Perú	39	Marañón	09.09.1999	745,141,204	119,00
Petrobras Energía Perú	58	Ucayali	12.07.2005	340,133,717	65,00
Hunt Oil Exploration And Production	76	Madre de Dios	02.05.2006	1'071,290,083	235,00
Gran Tierra Energy Peru	95	Marañón	07.04.2005	515,731,131	7,509,00
Compañía Consultora De Petróleo	100	Ucayali	26.03.2004	7,700,000	40,00
Pluspetrol E & P	102	Marañón	13.12.2005	126,676,114	50,00
Talisman Petrolera Del Perú	103	Marañón, Huallaga	09.08.2004	870,896,168	120,00
Siboil Del Perú	105	Titicaca	13.12.2005	443,213,167	9,00
Petrolífera Petroleum Del Perú	107	Ucayali	01.09.2005	252,232,329	114,00
Pluspetrol E & P	108	Ene	13.12.2005	1'241,675,952	36,00
Repsol Exploración	109	Marañón	16.12.2005	359,023,441	90,00
Cepsa Perú	114	Ucayali	14.07.2006	305,000,000	47,00
Pluspetrol E & P	115	Marañón	13.12.2005	241,226,680	63,00
Maurel Et Prom Perú	116	Santiago	12.12.2006	658,879,677	128,00
Burlington Resources Peru Limited	123	Marañón	29.09.2006	940,421,092	171,00
Petrominerales Perú	126	Ucayali	23.10.2007	1'066,955,807	12.00
Burlington Resources Peru Limited	129	Marañón	24.05.2006	472,433,684	90.00
Cepsa Perú	130	Marañón	16.04.2009	1'275,349,404	130.00
Cepsa Perú	131	Ucayali	21.11.2007	990,472,317	90.00
Petrolífera Petroleum Del Perú	133	Huallaga, Ucayali	16.04.2009	396,050,736	47.00
Pacific Stratus Energy	135	Marañón	21.11.2007	1'020,390,628	117.00
Pacific Stratus Energy	137	Marañón	21.11.2007	448,947,445	117.00
Pacific Stratus Energy	138	Ucayali	21.11.2007	414,220,398	93.00
Pan Andean Resources Plc (Peru)	141	Titicaca	21.11.2007	516,891,592	90.00
Kei (Peru 112) Pty	144	Marañón	16.04.2009	683,616,472	87.00
Olympic Peru INC	145	Bagua	16.04.2009	500,000,004	80.00
Grupo Petrolero Suramericano	156	Titicaca	16.04.2009	474,632,087	117.00
Kedcom Co - Cia, Consultora	160	Ucayali	16.04.2009	484,400,867	90.00
Tecpetrol Lote 174	174	Ucayali	23.09.2011	263,943,844	000.00
Hydrocarbon Exploration PLC	183	Marañón	28.09.2011	396,825,657	000.00
Savia Perú	Z-33	Lima, Pisco	01.09.2004	594,696,590	15,414

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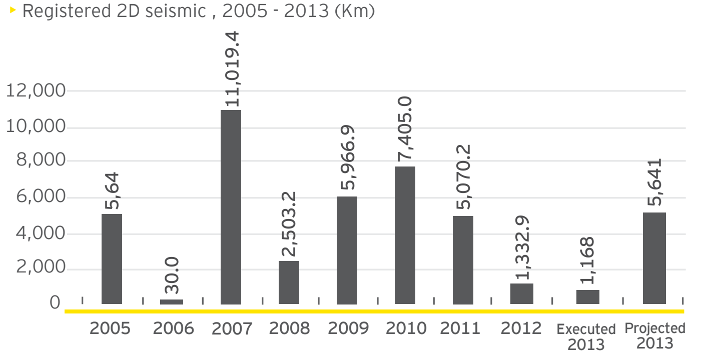
Exploration contracts	Block	Basin	Suscription date	Lot area / ha	Effective work area / ha
Gold Oil Peru	Z-34	Talara	08.03.2007	296,799,266	32,549
Savia Perú	Z-35	Salaverry, Trujillo	20.09.2005	1'081,517,478	20,549
Savia Perú	Z-36	Salaverry	14.07.2006	999,995,388	20,549
Kei (Peru Z-38 Pty LTD	Z-38	Tumbes, Talara	12.04.2007	487,545,511	112,555
Savia Perú	Z-45	Talara, Sechura	21.11.2007	1'092,048,347	546.00
Sk Energy	Z-46	Trujillo	21.11.2007	1'134,547,763	411.00
Savia Perú	Z-48	Salaverry	21.11.2007	720,106,442	411.00
Savia Perú	Z-49	Salaverry	21.11.2007	676,096,600	411.00
Savia Perú	Z-51	Lima	16.07.2010	849,413,879	000.00
Savia Perú	Z-52	Lima	16.07.2010	803,574,482	000.00
				19'014,008,367	214,193.00

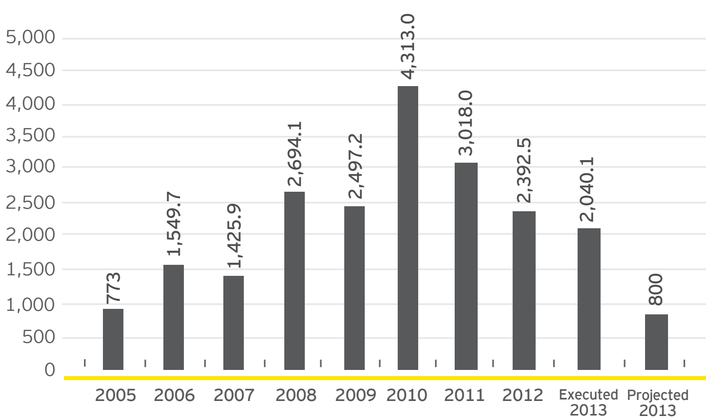
2D and 3D seismic

Registered 2D seismic , 2005 - 2013 (Km)



Source: Ministry of Energy and Mines

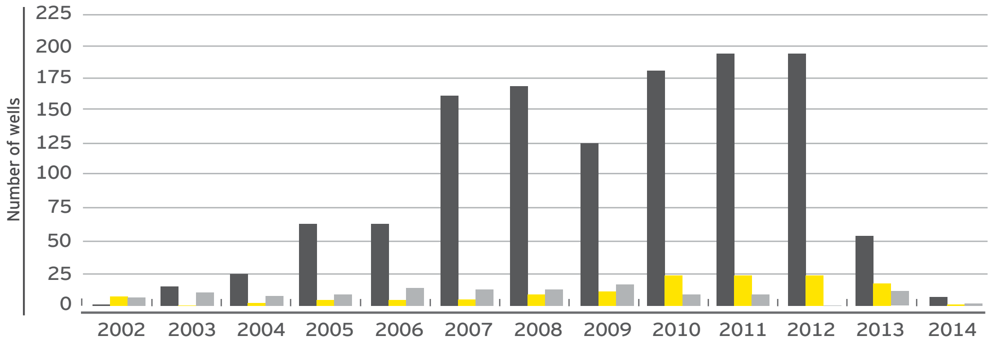
Registered 3D seismic , 2005 - 2013 (Km)



Source: Ministry of Energy and Mines

Develoment and exploratory drilling

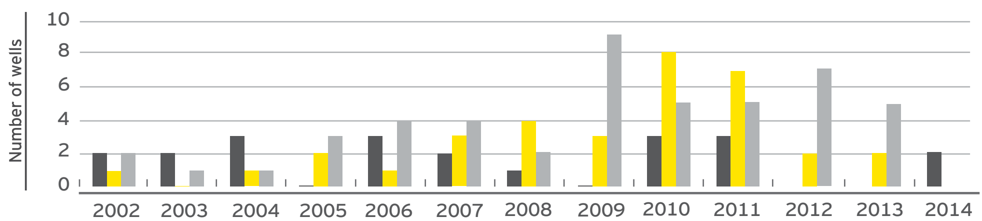
Development drilling ‣ Period: 2002 - January 2014



Northwest	1	16	25	59	65	165	170	128	185	197	177	55	4
Plinth	6	0	2	3	3	3	6	7	22	23	19	20	1
Jungle	5	10	7	7	10	9	9	12	7	7	1	10	1
Total	12	26	34	69	78	177	185	147	214	227	197	85	6

Source: Proinversión

Exploratory drilling ‣ Period: 2002 - January 2014



Northwest	2	2	3	0	3	2	1	0	3	3	0	0	1
Plinth	1	0	1	2	1	3	4	3	1	7	2	2	0
Jungle	2	1	1	3	4	4	2	9	5	5	7	5	0
Total	5	3	5	5	8	9	7	12	9	15	9	7	1

Source: Proinversión

05

Future trends in the oil and gas industry in Peru

Trends in hydrocarbons politycs

The actual energetic world demand, the new costs related to non conventional oil development, the vertiginous changes in the hydrocarbon prices, and the potential existing reserves place Latin America as a region with potential to be a significant potential long-term energy provider.

In general, it is estimated that the energy demand will rise 50% in the next two decades. This will be linked to the growth of the population worldwide, but overall, to the magnitude of the new emerging markets such as China, India and other Asian countries.

In this context, the opportunity that opens for Latin America, specifically for Peru, is very 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 Camisea project, but also in other locations. For example, the new gas deposit discovered by Repsol in Ucayali.

By 2014, Perupetro will is carring out an oil bidding round on Block 1AB (Located in the Marañon area) and Block 8, for exploration and production activities, and also other bidding rounds for oil wells for other contracts that are about to expire. On the other hand, the Ministry of Energy and Mines intends to promote the development of natural gas transport, the southern gas pipeline, and advance in the development of the petrochemical industry.

Regarding oil production, Business Monitor International forecasts that oil and liquids production will more than double over the

coming five years, from an estimated 166,170 barrels per day (b/d) in 2012 to 351,170 b/d in 2016, as investment in exploration and production continues to rise. Also, it estimates that over same period, strong economic growth is expected to see consumption rise from 201,480 b/d to 222,390 b/d.

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.

By 2016, Peru's oil and gas exports are set to yield approximately US$6.61 billion as oil import volumes of an estimated 36,500 b/d in 2012 are transformed into potential net exports of 128,780 b/d in 2016.

Biofuels and the petrochemical industry

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 2021 or 2030 Peru will have reached a diversified and equilibrated matrix (33% oil; 33% natural gas and natural gas liquids; and 33% 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 existance 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.

The petrochemical industry can also contribute to the modification of the actual energy matrix, as it will continue to expand the value chain, opening new production lines of higher value added to natural gas. The government's objective is to promote the creation of decentralized petrochemical poles that allow the disposal of industrial services, in order to adequately meet the scale economy factor and in that sense, attract investors into reaching the growth and development of petrochemical projects.

Nowadays, there are three large petrochemical projects working in the industry:

- **Nitratos Project:** Located in Pisco, Ica is a project initiated by Nitratos del Perú. It plans to produce ammoniac and ammonium nitrate, in order to obtain agricultural fertilizer.
- **Marcona Project:** Located in the district of Marcona, Ica, is a project initiated by CF Industries Perú. It plans to use natural gas as a supply for the production of ammoniac and urea.
- **Braskem Project:** Located in the department of Moquegua, this Project is intended to use natural gas resources in the production of ethylene and polyethylene.

IV

Oil and gas tax and legal framework

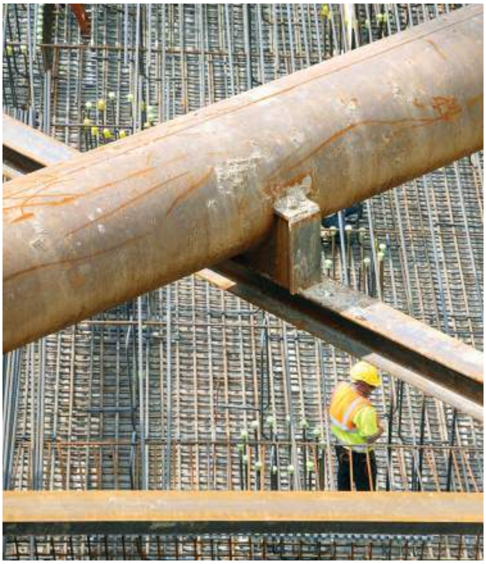
01

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.



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

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.

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 neccesarily result in carrying out their activities. If the exercise of such rights generates economic damages, they must be compensated.

Upstream and downstream activities

The activities performed in the hydrocarbon sector are divided into two stages: "upstream" and "downstream". The activities included in the "upstream" stage comprise the exploration and exploitation of hydrocarbon deposits, while the "downstream" stage refers to refining, transportation, distribution and commercialization of oil, gas and by-products.

Upstream Activities (*)

▸ 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.

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.

Downstream Activities

Downstream activities include all the activities associated with the transportation, refinery, distribution and/or commercialization of hydrocarbon and its by-products.

- Transportation

This activity is essential for carrying the hydrocarbon production (liquid hydrocarbons and natural gas) to the processing, consumption and distribution sites. Transportation can be done by ships or by pipelines. Contractors must be granted by a concession for transporting hydrocarbon products by pipeline. These concessions will have a maximum duration of 60 years.

- 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)
- Environmental Impact Study (EIS)
- Semidetailed Environmental Impact Study (SEIS)

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).

02

Peruvian oil and gas fiscal system

Overview

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.

Income Tax rate	32%(1)(2)
Hydrocarbon Royalties	5% imposed on the value of the hydrocarbons produced in certain block
Capital allowances	Ring-fence rules and preoperative investment amortization
Investment incentives	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
(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 Nuevos Soles (PEN).

The general corporate income tax rate is 30%. However, companies carrying out exploration and production activities under hydrocarbon agreements must apply 32% as income tax rate.

In addition, a Dividend Tax at a rate of 4.1% 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 31st. 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

Companies and branches must make monthly advance payments of their annual corporate income tax. Advance payments shall be calculated, in general terms, based on 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 derived by resident entities are subject to income tax at a rate of 30%. As general rule, capital gains derived by nonresident entities from Peruvian sources are also subject to 30%. However, with respect to the sale of stock or securities in a Peruvian company, the tax rate is reduced to 5% if the transfer is made within the local stock exchange.

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.

Valuation of inventory

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

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

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

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

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.

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 30% 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 or cash refund). 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 recovery 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 Enery and Mines. The validity of this regime has been extended until December 31, 2015.

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

Dividends

A dividend tax at a rate of 4.1% 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).

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 until is equivalent to PEN S/. 3,800).

- 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 16th, 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

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 1st 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)

As of January 1st, 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 percent 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

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 bilateral income tax treaties with Brazil, Chile, Canada, Mexico, South Korea and Switzerland (the last three will be in force as of January 1st, 2015). More recently, Peru has signed tax treaties with Spain and Portugal, which are still subject to ratification in accordance to the procedures of each country. In Peru, the procedure requires that the treaty signed is submitted by the Congress for its consent and approval before it is ratified by the President.

The principal purpose of this income tax treaty network is to prevent taxes from interfering with the free flow of international trade and investment by mitigating international double taxation with respect to certain income items. This, however, is not an 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 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

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

Value Added Tax

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.

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.

Customs 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.

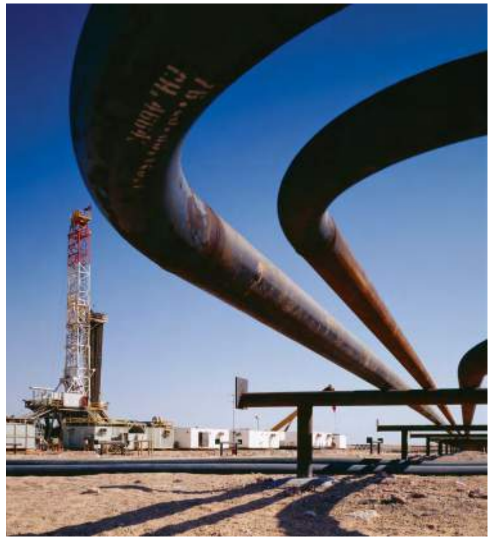
Southern Common Market (Mercosur):

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).

Peru has also concluded Free Trade Agreement negotiations with Guatemala.

Furthermore, Peru maintains negotiations with Honduras, El Salvador and is working to conclude the Trans-Pacific Partnership Agreement (Brunei Darassalam, Chile, New Zealand and Singapore) jointly with Australia, United States, Malaysia and Vietnam and recently with Mexico and Canada.



Peru, Mexico, Colombia and Chile have recently started the negotiations for the Pacific Alliance. In order to apply these preferential treatment, goods must meet, certain requirements including origin and direct expedition requirements.

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.

Worker's profit sharing

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)

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.

Other tax issues

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 31st 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

Oil and gas companies must pay a contribution to OSINERGMIN, which cannot exceed 1% (after VAT) of the annual invoicing obtained by all companies that are under its scope.

Stamp tax

Not applicable.

Exchange controls

Not applicable.

V

Miscellaneous matters

01

Labor legislation

Hiring personnel

Indefinite term contracts are the regulatory provision 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 service, 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.

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 a non term working agreement); and, one and a half months salary per pending month (under a fix term working agreement). 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 2014).
- **Vacation:** equivalent to 30 calendar days of rest, with one monthly remuneration.
- **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 until year 2014.
- **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 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/.7,600 during 2014) 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 is designed 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 must make contributions equal to an average of 13.15% of his 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 for approval their work contract to the Labor Authorities, and obtain their work visa. These employees have the right to receive the same benefits of 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/.19,000 during 2014).

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 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.
Work visa for service providers	Resident	Investment or independent work.
Immigrant	Resident	No restrictions.

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 non resident, 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 three cumulative income tax scale: 15% (for the first PEN S/. 102,600), 21% (for the next PEN S/.102,600) and 30% applicable to excess income, with an initial deduction of seven Tax Units.

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, and Brazil) 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 (v.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.

02

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 basically the standards issued by the International Financial Reporting Standards Board (IFRS) 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 IFRS, 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 IFRS and 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 Board issued by the International Federation of Accountants (IFAC).

Mandatory auditing has recently been approved for the financial reports of all companies with assets or annual income greater than 3,000 UITs (approximately US$4.1 million).

VI

Appendix

Hydrocarbons sector
Regulators and stakeholders

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)

- **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)

- **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)

- **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)

- **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)

- **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)

- **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)

- **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)

02

Stakeholders

- **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 and entity under de Ministry of Environment.
  (www.sernanp.gob.pe)

- **Petroperu**
  Petroperu is a state-owned company of private law engaged in promoting the exploration and exploitation of hydrocarbon activities.
  (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)

- **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)

- **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)

- **AMCHAM**
  The American Chamber of Commerce of Peru (AmCham Peru) is and independent and non-profit 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)

- **ComexPerú**
  ComexPerú 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.comex.org.pe)

Objectives and guidelines:

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

03
Proinversión

- **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)

- **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)

- **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)

- **Sociedad Peruana de Hidrocarburos – SPH**
  The SPH is the main hydrocarbons guild in Peru. Founded in 2013, it groups 17 of the main companies dedicated to exploration and exploitation activities in the country.
  (www.sphidrocarburos.com)

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

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

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

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- E-mail: contact@proinversion.gob.pe
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EY
Services for the oil and gas sector

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 has a global focus on hydrocarbons, with over 1,000 specialist global professionals including engineers, accountants 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:

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.

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

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

Transaction integration

Providing commercial and operational due diligence, integration planning and methodology development, synergy assessment, and integration program management, corporate strategy advice on market opportunities and areas to exploit along the 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.


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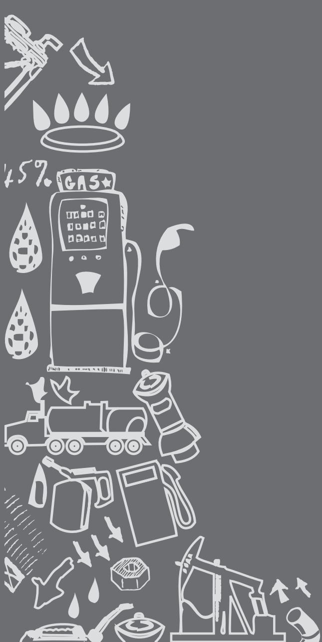
Notes

Notes

staff
oil & gas investment guide



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