

Doing Business in Peru

2009



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1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering a business operation in Peru has been provided by the office of UHY's representative there:

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UHY Sandoval Aliaga y Asociados S.C. has been established since October 2006 and specializes in activities of a public accountant including audit, accounts advice, tax advice, legal inspection and all general administrative, economic and financial activities governed by Law No. 13253, its amendments and extensions, as well as by the bylaws and regulations of the Public Accountant's Association of Lima. Clients includes: Private entities (companies of commerce, industrial companies, others) and Government entities (ministries, non profit entities, electrical companies, executors of expenses, others).

Information in the following pages has been updated so that it is effective at the date shown, but inevitably it is both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions.

This publication is current at January 2009



We look forward to helping you do business in Peru.

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2. Business environment

General

Peru is the third biggest country of South America and covers 1,285,215 square kilometres. Peru has three natural regions: the coast, highlands and jungle. The Peruvian population for 2008 was 28.2 million. Around 75.9% of the population lives in urban areas and 24.1% in rural areas.

The administrative divisions of the country include 24 Departments and one Constitutional Province, Callao. Each Department consists of provinces, which total 180 (Callao included), and these are divided into districts, which total 1,747. The capital city is Lima.

The Peruvian State is organized administratively into the Executive Power, composed by the President of the Republic, who is the Chief of State and is elected by direct voting for a five-year term. Legislative Power is centred in a unicameral Congress. One hundred and twenty congressmen are directly elected. Power over the administration of justice is held by the Judiciary. Its highest body is the National Counsel of Magistrates.

The official language is Castilian, but in many regions of the country the Quechua language is in use (a dialect inherited from the Inca culture), Aymara is a language of a part of highlands. The currency is the New Sun (Nuevo Sol).

Peruvian Economy

The main objective of the Peruvian Government's economic program, established by the Ministry of Economy and Finance (MEF: www.mef.gob.pe), is to optimize the financial and economic activity of the State, to establish the macroeconomic activity, and to achieve a sustainable growth of the economy in the country.

Gross Domestic Product (GDP) grew by 9.7% in the first quarter and 11% in the second quarter compared to the corresponding periods of 2007. Thus, many analysts project growth over 6% for 2009.

The acceleration of investment, which reached 32.9% in the third quarter of 2008, is specially highlighted. Among other pro-cyclical factors, reciprocal strengthening between economic growth and investment is leading to enhanced economic forecasts for this year.

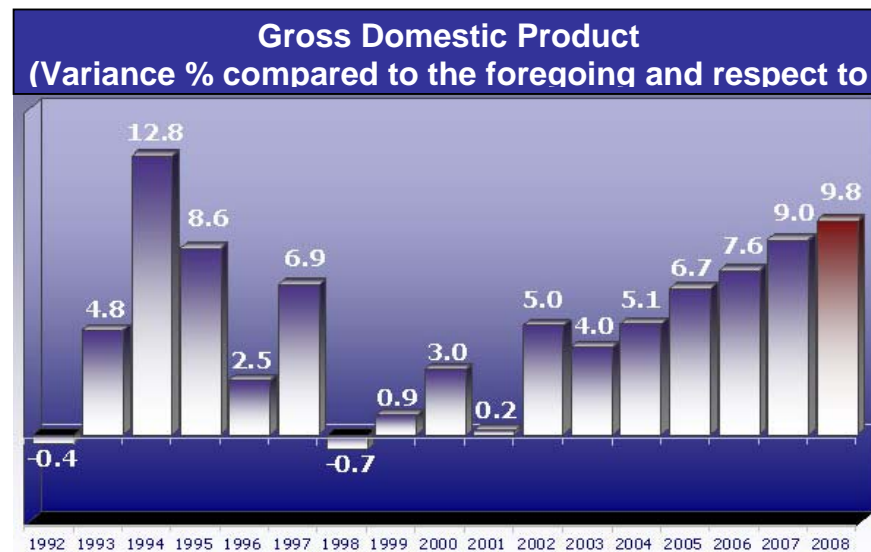
Global demand for Peruvian exports

	2007	2008-(Q1)	2008- (Q2)	2008 (Q3)
I. Global Demand	122,4	125,4	126,1	129,6
1. Domestic demand	93,5	97,0	99,1	99,3
a. Private consumption	61,5	63,2	63,8	62,6
b. Public consumption	9,1	8,3	8,1	9,1
c. Gross domestic consumption	22,9	25,5	27,1	27,7
Fixed gross investment	21,2	22,8	24,0	28,0
i. Private	18,2	20,3	20,7	23,7
ii. Public	3,1	2,5	3,3	4,4
2. Exports	28,9	28,4	27,0	30,3
II. Global Supply	122,4	125,4	126,1	129,6
1. GDP	100,0	100,0	100,0	100,0
2. Imports	22,4	25,4	26,1	29,6

Source: Central Bank of Peru and National Statistics Institute

Global Demand and Supply (As a percentage of GDP)

Meanwhile, Central Bank figures show total exports reached US\$ 16.2 billion from January to June, or 29.6% higher in dollars, and 15% larger in real terms compared to a year ago (www.bcrp.gob.pe). During 2007, exports reached a record level of US\$ 27,588 million, registering a growth of 16.3% over the previous year, after having grown by over 35% for 3 consecutive years. This reflects the growth in international demand derived from rising international prices and increasing quantities being demanded, from which the local private business sector is able to benefit.



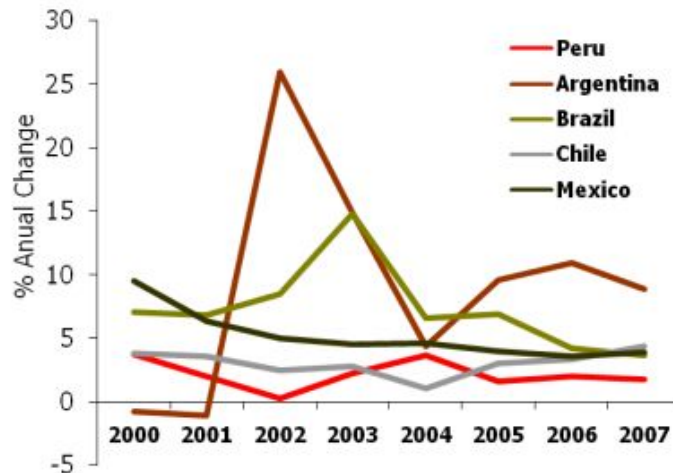
Source: Ministry of Economy and Finance.

Price and Exchange Rate Stability

As a result of good economic management, Peru continues to have one of the lowest rates of inflation in Latin America. Its exchange rate, left free to non-speculative market forces, is also one of the most stable in Latin America.

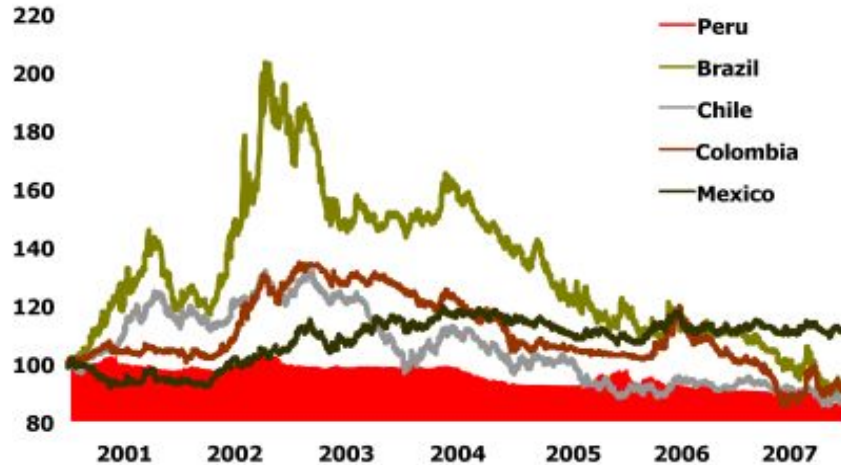
Economic growth has been helped by the stability in exchange rates and prices that Peru has recorded for more than ten years. As a result of the strong commitment of economic authorities to the need for fiscal balance and a conservative monetary policy, Peru has achieved a permanent stability in its general price level and its exchange rate.

Inflation in Latin America



Source: Banco Central de Reserva del Perú, Chile, Mexico and Argentina
Data as of December 2007

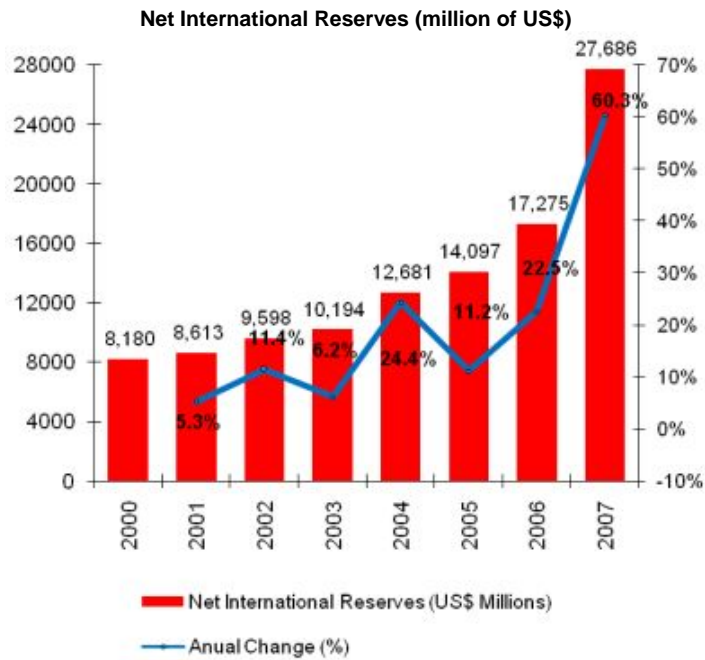
Exchange Rates in Latin America (Index January 2001)



Source: Bloomberg

Peru's currency, the nuevo sol, appreciated an average of 7.0% over the U.S. dollar in 2007. This evolution of the exchange rate is explained by the trade surplus, increased remittances from Peruvians living abroad and changes in the portfolio of institutional investors.

In 2007, Peru continued to demonstrate a solid international liquidity position, thanks to its high level of net international reserves, which reached US\$ 27,686 million, a figure equivalent to seventeen months of imports. The high level of reserves also ensures Peru's compliance with its international.

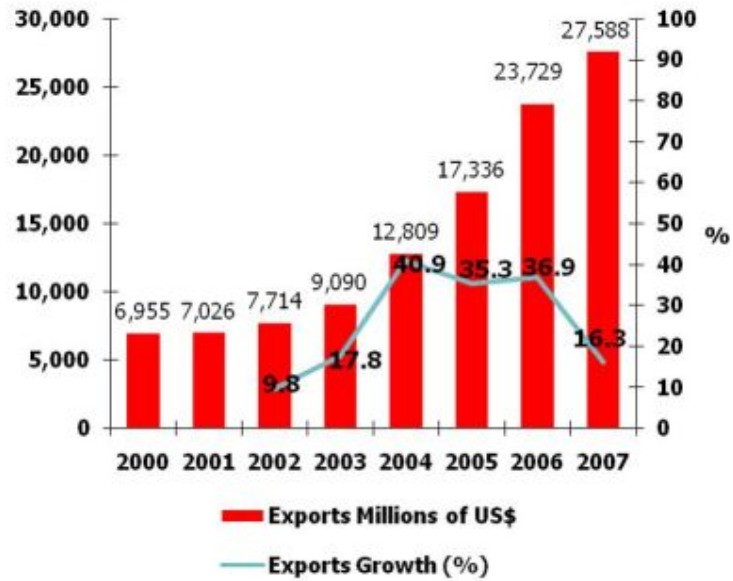


Source: Banco Central de Reserva del Perú

Export growth

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Exports 2007



Source: BCRP and SUNAT.

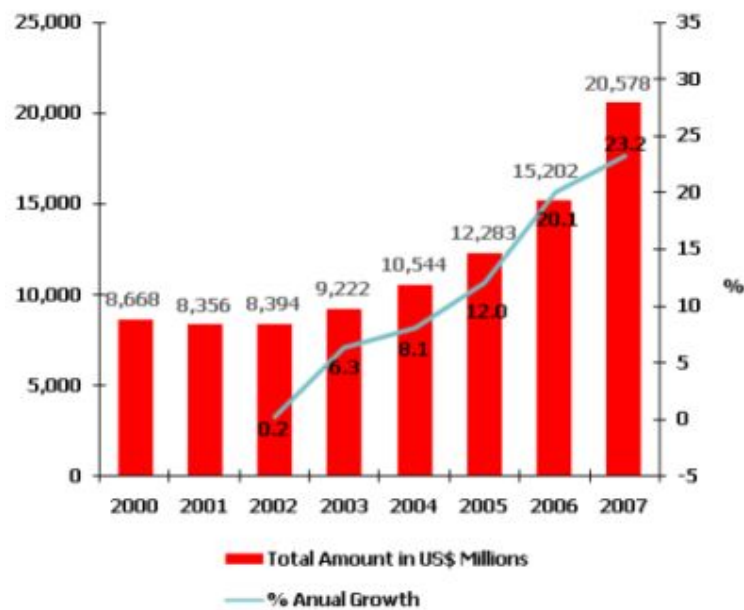
Traditional and Non Traditional Exports (US\$ Millions)

SECTOR	2006	2007	VAR. %
Traditional	18,444	21,296	16
Mining	14,638	17,031	16
Petroleum	1,899	2,348	24
Fishing	1,334	1,456	9
Agriculture	574	460	(19)
Manufactured Products	5,284	6,293	19
Textile	1,472	1,730	18
Agrofarming	1,220	1,503	23
Fishing	440	502	14
Chemicals	601	803	34
Iron-metals	717	803	12
Wood and Paper	333	360	8
Metal-mechanical	164	215	31
Non Metallic Minerals	135	165	22
Others	201	211	5
TOTAL	23,728	27,587	16

Source: BCRP and SUNAT.

Private investment in the country increased by 24% during 2007, after having risen by 20.1% during 2006. It is expected to maintain similar rates in the coming years due to a significant increase in investor and consumer confidence in the country, reinforced by the recent qualification of the Peruvian economy as "investment grade." Thus, the flow of private investment in Peru should grow to more than US\$ 20,000 million annually. Public investment will benefit from the high levels of revenue (tax revenue increased 15% during 2007 and 27.8% in 2006), which will permit an increase in financing of public works to 4% or 5% of GDP.

Private Investment Growth (%)



Source: MEF and BCRP.

Key Investment Variables

	2004	2005	2006	2007
GDP (%change)	5.1	6.4	7.6	8.9
Private Investment (%change)	8.1	12.0	20.1	23.2
Public Investment (%change)	5.7	12.2	13	19.7
CPI (%change)	3.5	1.5	1.1	3.9
Jobs in companies with 10 or more workers (% change)	2.7	4.5	7.3	8.7
Exports (% change)	40.9	35.3	36.9	16.3
Capital goods imports (% change)	19.6	29.6	35.4	41
Construction GDP (% change)	4.7	8.4	14.7	16.5
Tax collection (% change)	13.6	14.3	27.8	15

Other relevant characteristic of growth in Peru is that now it also builds on livelier domestic demand, stemming from growing incomes and more jobs. Sectors that stand out are construction, manufacturing and services. It is noteworthy that construction depends greatly on dynamic local investment. Other areas of strong investment growth are local manufacturing of capital goods and imports of capital goods (41% larger).

International Ranking – Peru

(By exported metals)

	Worldwide	Latin America
Copper	3	2
Gold	5	1
Zinc	3	1
Silver	2	2
Lead	4	1
Tin	3	1
Molibdenum	4	2
Iron	17	5

Source: Ministry of Energy and Mines

Monetary and Fiscal Flexibility

One of the most important indicators of macroeconomic stability is a low inflation rate. This analysis is completed with indicators on the independence of Central Banks (so they limit their availability of funds to the State), flexible foreign currency exchange regimes, the strength of the financial sector and the capitals market, all of which must be under appropriate supervision.

Low inflation rates in Peru since the nineties and its efficient scheme of explicit inflation targets (between 1.5% and 3.5% p.a.) are among the main pillars of macroeconomic stability. Another critical issue is the high degree of dollarization in the Peruvian economy, which might increase the country's vulnerability to an eventual external shock. Dollarization nonetheless has decreased from 82% in 1999 to 60% in 2006.

We must underscore Peru's ever more robust financial system (delinquency is at an historical low), and that private companies more and more frequently issue bonds in the local market, the Private Pension Fund System (SPP) keeps growing (the fund under administration grew 40% in 2006) and the Lima Stock Exchange ranked as the world's most profitable last year.

A look at the fiscal accounts shows the main evaluation categories of rating firms relate to the evolution of income, expense and general government balance indicators. Rating agencies favor countries with a large tax payroll and low tax rates.

Peru has made great strides in balancing its fiscal accounts. In 2005 it recorded a deficit of 0.4% of GDP and, what is most remarkable, a 1.9% surplus in 2006. This puts Peru into an even better position compared to other investment grade countries. Tax pressure (tax revenues to GDP) may grow, and the quality of public expenditure is expected to improve through a new wave of state reforms and unyielding and effective austerity measures.

Peru: a country with "Investment Grade"

In April 2008, the credit risk agency Fitch Ratings granted investment grade to Peru by raising the long-term Peruvian foreign currency debt to "BBB-" from a level of "BB+" (speculative grade). This reclassification joins that previously granted in the third quarter of 2007 by the Canadian agency Dominion Bond Rating Service.

This improvement in the classification of the Peruvian debt responds to its strong economic growth, reduction of the degree of “dollarization,” improved fiscal accounts and reduction of the debt burden, as well as the accumulation of reserves as a result of a marked trade surplus.

Credit Classification - Latin America Comparison

Country	S&P	Fitch	Moody's
Chile	A+	A	A2
Mexico	BBB+	BBB+	Baa1
Peru	BBB-	BBB-	Ba1
Brazil	BBB-	BBB-	Ba1
Colombia	BB+	BB+	Ba1
Venezuela	BB-	BB-	B2
Argentina	B+	RD	B3
Bolivia	B-	B-	B3
Ecuador	B-	CCC	B3

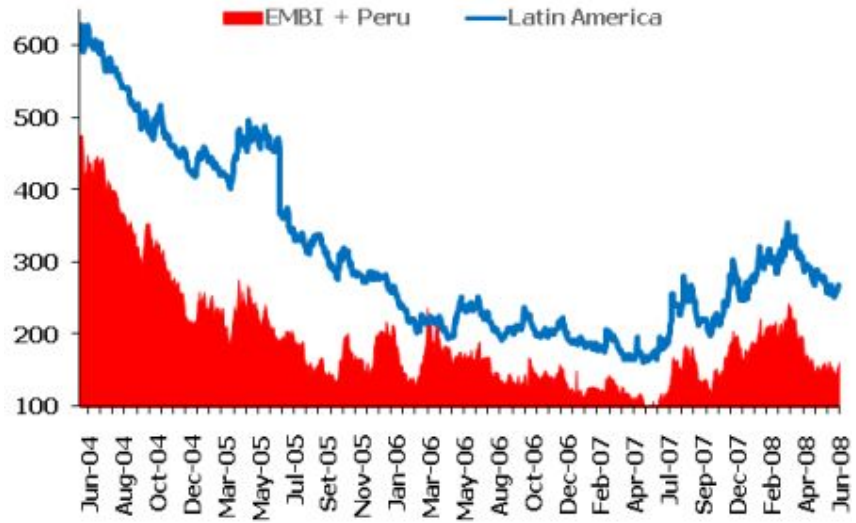
Source: Standard & Poor's, Moody's and Fitch Rating August 2008

Country Risk

The high growth of the Peruvian GDP and, in general, the capacity of the national economy to escape contagion from the various crises affecting other Latin American countries, are variables considered by the international financial market as a point in favor of Peru.

The comparison with U.S. Treasury bonds is the yardstick used by investors to approximate country risk. We can see clearly that Peruvian risk remains below the regional average and tends to lie between 1 and 2 percentage points above the rate payable by the U.S. Treasury.

JP Morgan EMBI+ Index
(Basic Points, differential above U.S. Treasury bonds)



updated June 2008

3. Foreign investment

Peru offers the following advantages:

- Stable macroeconomic climate
- Monetary stability
- Less country-risk than in other countries in the region
- Investment opportunities
- Variety of human and natural resources
- Excellent geographic location
- Andean Trade Promotion and Drug Eradication Act (ATPDEA) and other integration incentives.
- Political will which favours attracting investment attraction and sustaining responsible economic administration.

Peru offers investors several sectors with clear comparative advantages, such as:

- Mining - It is the sector that it contributes more to the total of the Peruvian exports;
- Agriculture - With a series of projects, and with capacity for agricultural cultures, the climate allows it to be harvested throughout the year;
- Fishing and aquaculture - offering a great diversity of sustainable resources;
- Textile and apparel production - specialising in the high quality, with raw materials like cotton and wool of alpaca, among others; offering contributions to manufacturing industry;
- Tourism - With different archaeological sites, cultural centers and natural sites to visit;
- Other important areas with development expectations are the forestry industry and use of Peruvian biodiversity. Also important is the supply of a skilled workforce at competitive prices.

With the arrival of the natural gas of Camisea, Peru hopes to obtain a reduction of the deficit of the trade balance of hydrocarbons of around US\$ 500 million. It also expects to consolidate the project of export of the natural gas. Camisea is an important change in this Sector, increasing significantly the local supply of fuels, delivered to a group of industrial clients by means of a network of natural gas distribution in Lima.

Investment opportunities in infrastructure have been promoted by Proinversion (approximately USD 5 billion), especially through the

construction of roads, and the operation of ports and airports (www.proinversion.gob.pe).

Sustained growth in foreign investment can be seen, even though expected growth peaks have still not been reached.

Negotiations for a Free Trade Area for the Americas between Peru and the US are under way. In addition, most Peruvian exports have a zero tariff to enter the European Union as well as other Latin American countries.

Peru is also a member of APEC to improve its trade in the Pacific Basin. It also has an active policy of negotiation of international trade agreements with American, European and Asian countries and economic groups.

Peru has a modern legislative framework for foreign investment. For detailed information on legal matters regarding foreign investment, see: www.proinversion.gob.pe.

To consolidate the judicial framework protecting investments, Peru has also actively negotiated bilateral treaties for reciprocal promotion and protection of investments. Currently, 32 treaties have already been concluded with countries of the Pacific Basin, Europe and Latin America. An agreement with the Overseas Private Investment Corporation (OPIC) has also been signed. OPIC grants coverage to US investments developed in Peru.

Sectors for investment

Statistics for foreign investment are given in appendix II.

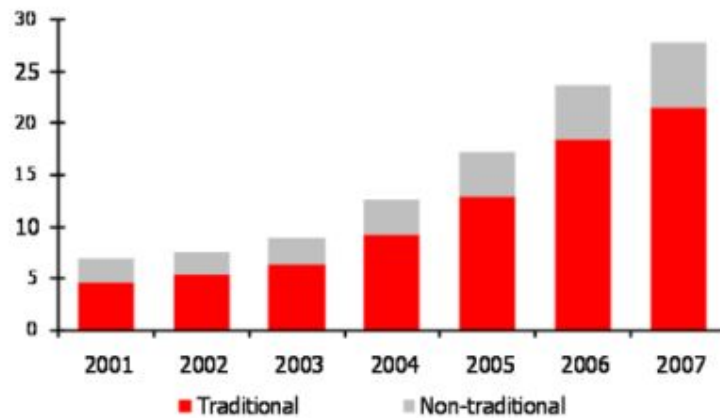
Exporting Industries

The 16.3% increase in exports in the year 2007 was made possible through a combination of factors, including the maintenance of high international prices, a strong demand for Peruvian products, especially in countries with which it has commercial agreements, and the expansion of supply and Peruvian capacities to participate in the competitive international market, which reached US\$ 27,586 million, a figure 3.5 times higher than 5 years ago.

62% of Peruvian exports were in mining, but these include many different metals including copper, gold, molybdenum, silver, zinc, etc. To that, one must add increasing exports of hydrocarbons, of which Peru is projected to become a net exporter in a few years. The country has also substantially increased most of its non-traditional exports, however, and in the case of agribusiness, Peru is currently the leading exporter in the world of asparagus, organic coffee and dried paprika. Forestry, fishing, textiles and

garments, manufacturing, jewelry, metal, and service exports also increased. Non-traditional exports had a total growth of 22.5% compared to 2006.

**Traditional Exports And Non Traditional
(US\$ millions)**



Source: Central Bank (BCRP)

Peru is the largest producer of gold, silver, zinc, lead and tin in Latin America, and is second in copper and molybdenum, while also producing lesser-known metals. Mining exports amounted to about US\$ 17,031 million during 2007, growing 16% over the previous year. The increase in the value of exports reflects, in addition to the increase in international prices of metals, a sustained pace in exploration, discovery, mine construction and exploitation, which permitted a continual increase in mineral production. It should be stressed that a disproportionate decline in international prices is not anticipated, given the sustained demand from both the developed economies and from countries with large and rapidly growing population, such as Brazil, Russia, India and China (BRIC countries).

Among the many manufacturing activities in Peru, the textile and clothing sectors stand out, with over US\$ 1,730 million in exports in 2007, an increase of 18% over the previous year. In textiles, a long and efficient chain has been formed that specializes in "full package" orders that range from agricultural activities to weaving, dyeing, knitting, and the assembly and finishing of garments.

The remarkable part of the process of opening to international trade chosen in Peru is that in recent years it has generated multiple regional exporting poles that require - and also justify - increasing investments in public and

productive infrastructure, an area in which the country has been promoting a variety of projects in the form of Public-Private Partnerships (PPP).

The fishing sector also permits Peru to be highlighted as the world's leading producer and exporter of fishmeal and oil. Fishing is one of the major economic activities in Peru, and among the sectors with the highest level of exports. Considering both traditional and non-traditional products, Peruvian fishing exports reached US\$ 1,958 million in 2007.

Main exports' destinations

Nineteen percent of Peruvian exports went to the United States, a country with which Peru has tariff preferences through the ATPDEA, and with which Peru has signed an FTA that is expected to enter into force at the beginning of 2009. Other important markets are the Asian bloc countries, including China and Japan, destination of 11% and 8%, respectively, of Peruvian exports.

Trade by Countries 2007
(US\$ millions)

	Country	Amount (US\$ MM)
1	United States	5,250
2	China	3,041
3	Switzerland	2,335
4	Japan	2,184
5	Canada	1,785
6	Chile	1,693
7	Spain	979
8	Brazil	938
9	Germany	928
10	South Korea	883

Source: SUNAT

Mining

The sector that contributes most to Peruvian exports is mining. It represents an important source of foreign currency (more than 40%) and a large part of investment made in the country in recent years. In 2003, mining registered exports of USD 4.5 billion (46% of total exports). At the moment

Peru occupies the eighth place of production in the gold world and first in Latin America.

The main companies in the mining sector exports are: Yanacocha, with 25% of total mining exports; followed by Southern Peru Copper Corporation (15%); Antamina (10%); Doe Run (8%); and Barrick Misquichilca (7%).

The main metals produced by Peru are gold, copper, zinc, tin and silver.

Peruvian mining in the World

Place by product		
Metal	World	Latin America
Silver	2	2
Tin	2	1
Lead	4	1
Zinc	3	1
Copper	5	2
Gold	7	1

Fishing

Peru has great hydrobiological resource diversity. The following have been identified in our sea to date:

- 750 Fish species
- 872 Mollusk species
- 412 Crustacean species
- 45 Equinoderm species
- 240 Algae species
- Besides there are chelonians, cetaceans and mammals.

Peru is the second fishing country in the world according to The Food and Agriculture Organization of the United Nations – FAO.

Strategic geographic location that facilitates access to markets like Asia, the United States of America, Europe and Latin America.

Favorable geographic and climatic conditions:

- Peru has 3080 km of coast and 900 thousand km² of territorial sea.
- Plankton abundance (both phytoplankton and zooplankton).

- Sea currents, especially the Humboldt Current that allows for the upwelling phenomenon.

Government promotion: Law for the promotion and development of Aquaculture- Law 27460, grants the following benefits:

- Income tax discounts (Tax rate: 15%).
- IGV (Sales Tax) anticipated recovery (Productive stage).
- Suspension of aquaculture duty payment.

Agro-industry

Peru is a mega-diverse country having 84 out of the 104 life zones recognized in the world. This, plus the diversity of its ecological levels, give it the advantage that practically every product can be planted the year round. Peru has about 8 million hectares apt to cultivate crops, 17.9 million hectares that can be destined for pastures and 48.7 million hectares apt for forestry production.

In Peru, most of the companies developing crops for exports are logistically organized for production in the fields and in plants (if they work with processed products) and to carry out product exports. These companies can also work with small producer organizations to comply with the quantity of product required for their markets, but there are also some exporting companies that only have industrial plants and need small producer organizations in different areas to get primary product supplies.

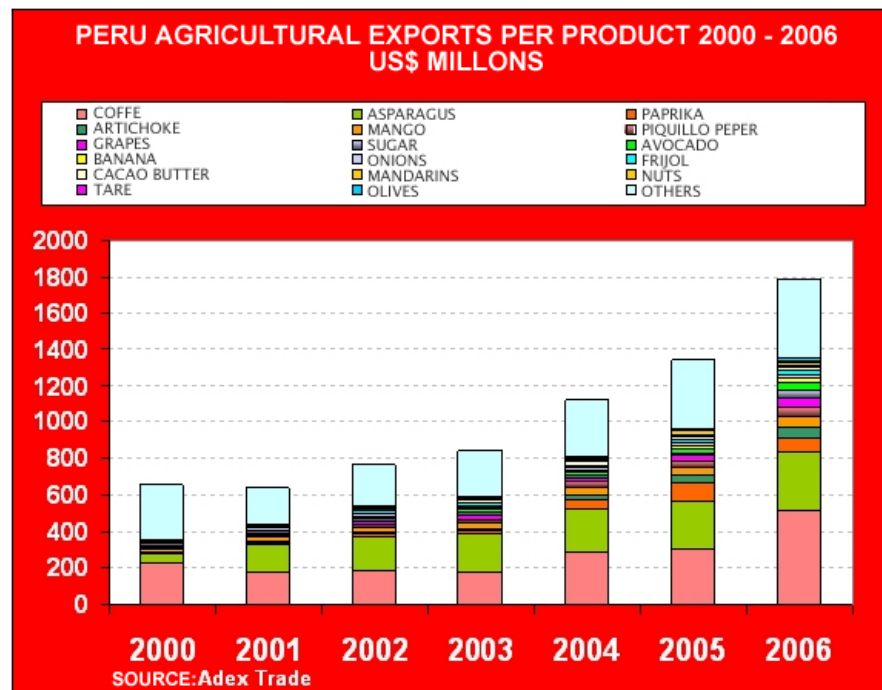
An important characteristic of agro-exporting companies is its offer diversification as a result of both their business knowledge and of the need of using industrial plant at full capacity. Let us quote the four larger non-traditional farming product exporters where horticulture products are the most relevant ones.

Camposol exports fresh, preserved and frozen asparagus, piquillo pepper and preserved chili, preserved artichokes, avocados, fresh and preserved mango, onion, as well as other preserved, frozen vegetables and other fresh fruits. Agricola Virú exports preserved asparagus, preserved artichokes, piquillo pepper and preserved chili, preserved ground garlic and other preserved fruits and vegetables. Alicorp mainly exports balanced foods, products related to the oil industry (edible oils, soaps, mayonnaise, shortening, ketchup) and products derived from the wheat milling industry (pasta, cookies and crackers, flours, wafers) and Drokasa exports fresh and frozen asparagus, grapes and figs.

Agricultural exports had shown a progressive growth in the last years, going from US\$ 643 million in 2000 to US\$1.963 million in 2007, which meant an average annual growth rate of 17.3%. This relevant increase was achieved thanks to the development of highly diversified supply of Peruvian agriculture. Therefore, differently from former years in which just a few products exceeded US\$ 10 million in exports, in 2007, more than 30 products which exports are above of said amount.

Among the main agricultural products the list is led by coffee (US\$ 427 million) and asparagus (US\$ 422million, including fresh, preserved and frozen), followed by paprika (US\$ 88millions), artichoke (US\$ 78 million), mango (US\$ 74 million), grapes (US\$ 55 million), avocado (US\$ 47million), beans (US\$ 33 million), bananas (US\$ 31 million), piquillo pepper (US\$ 31 million), mandarins (US\$ 30 million), cocoa (US\$ 29 million), tara (US\$ 27 million), onions (US\$ 25 million) olives (US\$ 19 million), sugar (US\$ 19 million) and nuts (US\$ 14 million.)

Given the current agro-exporting drive, there is no doubt that the list will substantially increase in the following years. In 2007, agricultural exports accounted for 7.1% of Peruvian exports (US\$ 27,588).



Textiles

Fine textile tradition in Peru dates back to Pre Inca times and is supported in the high quality of inputs used, such as alpaca and Pima cotton fibres. Textile and apparel production have evolved in techniques and designs becoming one of the best quoted products in their respective types worldwide.

The textile development of the country has been possible thanks to the farming of exceptional quality fibres such as the Peruvian Pima cotton (extra long fibre) and the Tangüis cotton (long fibre).

Besides, Peru is the largest world producer of the finest fibres from South American camelidae, among which alpaca and vicuña. The latter exceeds cashmere fibre quality.

Thus, Peru has achieved good positioning as a reliable supplier with a well developed textile sector that goes all the way from excellent quality cotton growth to rearing and shearing of vicuñas and alpacas, to spinning, weaving, dyeing and finishing fabrics and the manufacturing of garments. This is how it can rapidly respond to complete orders from world leader brands.

Advantages

Peruvian textile exports exceeded US\$ 343 million in 2007, with an increase of 18.7% as compared to 2006. Peruvian apparel industries exported US\$ 1.391 billion in 2007 which meant a 15% growth compared to 2006.

Tourism

Peru is heir to thousand-year old cultures and a rich colonial tradition that make it a magic enclave harbouring one of the largest biodiversity in the planet.

The biggest attractions available are the ruins of Machu Picchu one of the seven new wonders in the world, Chavín de Huantar, and the Kuélap Fortress, among others. The handicrafts, the popular holidays and rites, the native music and dance, as well as its gastronomy that please and satisfy the growing arrival of visitors, make Peru a country with big opportunities for development of tourism investment.

The city of Cusco, the ancient capital of the Incan Empire, was placed on the World Cultural Heritage List by UNESCO in 1983, and is without a doubt one of the most important destinations in Peru. There are Incan buildings waiting for you to discover them among its cobble-stoned streets, ones like the Koricancha and the palace of Inca Roca as well as Andean Baroque structures from the Colonial Period like the Cathedral and the Church of the Company of Christ. In addition, you can visit the picturesque neighbourhood of San Blas where the best artisans in the department have set up their workshops. This magical city also has an exciting nightlife with cafes, restaurants, and bars for all tastes. Just ten minutes away from the city, there are the massive walls of the Sacsayhuamán fortress, and a few kilometres from there, you find the archaeological sites of Qenko, Pukapukara, and Tambomachay, Incan buildings constructed completely with stone.

There are also the towns of Písac, Maras, Chinchero, and Ollantaytambo, which are spread throughout the Sacred Valley of the Incas, one hour from Cusco. From there, it is possible to catch the train to Machu Picchu. Another way of getting to the citadel is by following one of the Inca Trails, a spectacular network of pathways that snake their way among the snow covered mountains, rivers, and overwhelming countryside. This is one of the best trekking routes in the world, since scattered throughout it, you find remarkable archaeological sites and areas rich in unique plant and animal species.

The enigmatic complex of Machu Picchu, “The Lost City of the Incas” elected in the 7 New Wonders of the World the most important and beautiful legacy of the ancient Peruvian, is part of the Historic Sanctuary of the same name, which is also one of the few places in the Americas placed on both the World Cultural and Natural Heritage Lists by UNESCO. It is located high on top of a mountain and complements the exuberant nature that surrounds it, creating a one of a kind place in the world.



4. Labour market

The Peruvian Legislation has different modalities of labour recruiting, including contracts to certain term of temporary, occasional and of work or service.

Local companies are entitled to hire foreigners to comprise up to 20% of their workforce, provided that their salaries do not exceed 30% of the total wages paid by the company. Employers shall be exempt from the limiting percentage in the case of highly skilled technical and professional personnel. Foreign workers' contracts should be written and subscribed for a specific term, which can be renewed for a maximum period of three years.

Employers may hire temporary workers through Co-operatives of Job Encouragement and labour intermediation companies. In these cases, there is no direct labour link between the worker and the employer. A maximum percentage of 20% applies, related to the number of workers with a direct labour link.

Companies may also hire people aged from 16 to 25 years old through the Youth Labour Formation Programme. In this instance, the number of young people should not exceed 10% of the total staff. This limit may be increased, provided the percentage is exclusively composed of handicapped young men or by young women with family responsibilities.

Also the work regime establishes that the shift is of eight daily hours or 48 hours per week for older workers that 18 years, with overtime paid for surplus hours. This surplus must not be lower than 25% of the value of every normal hour during the first two hours and 35% during the remaining hours. The worker will be entitled to a rest of a minimum of 24 consecutive hours per week, and resting days for holidays established by law.

Workers are entitled to:

- Coverage by social health insurance (ESSALUD). The employer shall contribute to ESSALUD at a rate equivalent to 9% of the worker's income;
- Affiliation with the National Pension System (NPS) or the Private Pension System (PPS). In the first instance, a worker shall contribute 13% of their wage; in the second, approximately 8% to the chosen pension fund private manager;
- Life insurance hired by the employer once the worker has a continuous four-year labour period;

- Compensation for arbitrary discharge. The amount paid shall total one and a half times remuneration for each year worked, amounting to up to 12 remunerations;
- Severance Payment (CTS). Considered a social benefit as provision for contingencies derived from work stoppage. Severance payment shall be made twice a year, in May and November;
- Vacation period: 30 days for each full year worked;
- Bonus: two annual bonuses in July and December, equivalent to one monthly wage for each bonus;
- Company profit sharing: percentage of participation ranges from 5% to 10% of a company's net income, according to the economic activity in which the company is engaged (companies with no more than 20 workers are not compelled to share profits between their workers).

LABOUR BENEFITS IN PERU AND LATIN AMERICA

ITEM	PERU	LATIN AMERICA
Vacations	30 days	Maximum 20 days in Uruguay. 15 days average.
Bonus	2 wages per year	1 wage average. In Chile, bonus is voluntary.
Payment for Time of Service	1 wage per year	This payment does not exist. Unemployment insurance exists.
Profits	Between 5% and 10% of net income, according to activities.	Ecuador 15%. Bolivia 1 wage. Others, it is optional.
Labour Stability	In case a worker is unduly fired, he/she is to be returned to his/her job. Compensation of 1.5 wages per year, maximum 12 wages.	Except Bolivia, which recently has regulated this subject, other countries compensation is paid.
Maternity Leave	90 days. Also exist more than 12 laws protecting motherhood and children.	Venezuela and Chile grant 126 days for maternity leave. In other countries, the average is 84 days.
Negotiation by economic activity	Only in civil work. The General Labour Act will apply this benefit to all the activities.	The International Labour Organization does not recognize this subject. The negotiation by sector is voluntary.

Source: Centro de Estudios Jurídicos y Legales, Chamber of Commerce of Lima

5. Taxation

Income tax

Income tax is an annual tax levied on all income earned by taxpayers resident in country, regardless the nationality of individuals, companies' place of incorporation, or location of the income source. Non-resident taxpayers are subject to income tax only with respect to their Peruvian-source income.

In the case of enterprises, the aforementioned tax applies to any gains or profits derived from transactions with third parties, as well as from the exposure to inflation calculated at the end of each fiscal year.

For purposes of this tax, taxable incomes are classified in the following categories:

- Income generated by leasing, subleasing or transfer of goods.
- Income generated by other capital.
- Income generated from trade, industries and other income as explicitly indicated by law.
- Income generated by independent work.
- Income generated by dependent work and other income from independent activities as explicitly indicated by law.

1. Income tax rates

1.1 Resident Taxpayers

1.1.1 Tax to be paid by resident corporate bodies will be determined by applying a 30% rate to their net income. In addition to this, they will pay a 4.1% on every amount charged as expenditure that turns out to be actually an indirect disposal of profit not subject to subsequent tax control.

1.1.2 Tax to be paid by individuals will be determined by applying to their total net annual income the following cumulative and progressive scale (dividends and income received under other forms of profit sharing is excluded):

Up to 27 UIT (2).....	15%
For the amount in excess of 27 UIT and up to 54 UIT	21%
For the amount in excess of 54 UIT	30%

1.1.3 Dividends and other profit distribution schemes as received from corporate bodies: 4.1%, withheld by payer in a final manner.

Shares received by individuals for concept of profit capitalization, reserves, primes, adjustments for change of business, revaluation surplus or any other equity account, shall neither be considered as dividends nor as other profit distribution scheme.

1.2 Non-resident Taxpayers

1.2.1 Interest from external credits: 4.99%, provided they fulfil the following requirements:

- a. Cash loans shall be proven with the entry of currency to the country through the national financial system.
- b. The credit shall not accrue an annual interest rate on balance due higher than the preferential rate prevailing in the market of origin, plus 3 points.

1.2.2 Interests paid abroad by multiple operation companies established in country, resulting from the local use of their foreign lines of credit: 1%.

1.2.3 Dividends and other profit distribution schemes as received from artificial persons: 4.1%, withheld by payer in a final manner.

1.2.4 Shares received for concept of profit capitalization, reserves, primes, adjustments for change of business, revaluation surplus or any other equity account shall neither be considered as dividends nor as other profit distribution scheme.

1.2.5 Royalties: 30%

1.2.6 Technical assistance: 15%

1.2.7 Other income including interest derived from external credits that does not fulfil any of the requirements set up in paragraph 1.2.1, or that portion of income in excess of the maximum rate established under b. in paragraph 1.2.1; as well as interest paid abroad by local companies for credits granted by an external company with which they have economic ties, except for stipulations in paragraph 1.2.1: 30%

1.2.8 Individuals shall calculate their tax by applying a 30% rate to pension amounts or remuneration for personal services rendered in country, including royalties and other income.

2. Some exemptions

2.1 Any type of fixed or variable rate interest, in national or foreign currency, paid for deposits in the Financial System or bonds purchased in Public Offers made under the Stock Exchange Law. Likewise, any type of fixed or variable rate interest, in national or foreign currency, from Mortgage Securities and Negotiable Mortgage Credit Bonds.

2.2 Interests derived from development loans granted directly or through suppliers or financial agents by international institutions or foreign government organizations.

2.3 Interests received or paid by saving and credit cooperatives for operations made with their partners.

2.4. Income generated by the companies incorporated or established in the Centers for Export, Transformation, Industry, Trading and Services (CETICOS) of Ilo, Matarani and Paita is exempted up to December 31, 2012.

2.5 Capital earnings derived from the following items are exempt up to December 31, 2012:

2.5.1 Transfer of real property registered with the Public Registry of the Securities Market through centralized negotiations mechanism referred to in the Securities Market Law. Likewise, earnings coming from any use by individuals.

2.5.2 Transfer of representative titles and contracts on goods and services rendered in the Goods Market.

2.5.3 Redemption of real property securities issued directly through public offer, by corporate bodies or established in the country.

2.6 Likewise, interests and readjustment of capital coming from mortgage bills, according to the pertaining legislation, are exempted up to December 31, 2008.

3. Income of foreign citizens entering the country

3.1 Foreign citizens who carry out activities entailing generation of Peruvian source income during their stay in country shall give one of the following documents to the migration authorities at the time of leaving country.

3.1.1 Income and Withholding Certificate (Form 1492): This certificate is issued by the taxpayer, employer or the pertaining legal representative. It will be in force during thirty (30) calendar days as from the issuance date. The issuance date of the last certificate given to the foreigner and used by him at the time of leaving country.

3.1.2 Income and Withholding Certificate generated by SUNAT - On Line Operations: This is self issued and signed by the taxpayer, employer or the pertaining legal representative. It will be automatically generated, and, once signed; it could be used by foreign citizen. Many certificates could be printed, according to foreign citizens' number of voyages. It will be in force during thirty (30) calendar days as from the day of submission through SUNAT.

The issuance of those certificates shall take into account the period between the date of the last certificate given to foreign citizen and the date of issuance of the new certificate.

In case, foreign citizen does not have a previous certificate, he must include in the new certificate all income tax paid or calculated up to the issuance date of this certificate. In no case such certificate must include incomes corresponding to periods over twelve (12) months previous to the issuance date.

If foreign citizen during his stay in Peru have generated Incomes from two or more persons, companies or entities, he must request from each one of them the corresponding certificate. Foreign citizen must submit many certificates as employers or taxpayers he had.

3.2 Sworn Statement

Foreign citizens shall present Sworn Statement in the following cases:

3.2.1 When Income Tax has not been withheld because taxpayer was a non-domiciled entity. For that purpose, foreign citizens shall submit Form N° 1494, "Sworn Statement of Direct Payment of Tax"; as well as the corresponding voucher.

3.2.2 When foreign citizen entered the country with visa of artist, religious, student, worker, independent or immigrant, and he carried out activities not entailing Peruvian source income.

For that purpose, he shall submit Form N° 1495, "Sworn Statement of Making Activities not entailing Peruvian Source Income."

4. Income tax in the Amazon region

4.1 For Income Tax purposes, the Amazon Region comprises the departments of Loreto, Madre of Dios, Ucayali, Amazonas and San Martín, as well as some provinces in adjacent departments, as indicated in Law 27037.

4.2 The aforementioned law sets up a special regime for Income Tax on the condition that requirements pursuant to Supreme Decree 103-99-EF are complied with, one of which is that the domicile of the taxpayer's home office, its registration in Public Records and his assets and/or production are located and carried out in the Amazon Region, in a percentage no less than 70% of his total assets or production.

4.3 A 10% rate shall be applied for Third Category Income Tax purposes by taxpayers located in the Amazon Region who are mainly devoted to economic activities such as: lumber extraction, farming, aquaculture, fishing, tourism as well as manufacturing activities related to processing, transformation and trading of primary products derived from the aforementioned activities provided they are carried out in the region.

4.4 By exception, taxpayers located in the departments of Loreto, Madre de Dios and the districts of Iparia and Masisea in the province of Coronel Portillo and the provinces of Atalaya and Purús in the department of Ucayali, who are mainly devoted to the activities detailed in previous paragraph, shall apply a 5% rate for the purposes of Third Category Income Tax.

4.5 Taxpayers in the Amazon Region that are mainly engaged in agricultural activities and/or transformation or processing of products qualified as native crops and/or alternate crops for that environment, shall be exempted from Income Tax.

4.6 For purposes of stipulations in the previous paragraph, products considered as native and/or alternate crop are: yucca, soja, arracacha, uncucha, urena, palmito, pijuayo, aguaje, anona, caimito, carambola, cocona, guanabano, guayabo, marañon, pomarosa, taperiba, tangerine, grapefruit, zapote, camu camu, cat's claw, annatto tree, rubber, pineapple, sesame seed, chestnut, jute, barbasco, coarse cotton, garaná, macadamia and pepper.

In the case of oil palm, coffee and cacao, the benefit referred to in paragraph 4.5 above shall be applicable only to the agricultural production. Transformation or processing companies for these products shall apply a 10% rate as Income Tax, provided they are located in the zone indicated in paragraph 4.1 or a 5% rate if they are located in the zone indicated in paragraph 4.4.

4.7 Companies devoted to trading activities in the Amazon Region that reinvest no less than 30% of their net income on investment projects **(4)** may apply a 10% rate for Third Category Income Tax purposes. By exception, individuals located in the departments of Loreto, Madre of Dios and the districts of Iparia and Masisea in the province of Coronel Portillo as well as the provinces of Atalaya and Purús in the department of Ucayali, shall apply a 5% rate.

5. Taxation stability

The State may guarantee taxation stability for contract holders by entering into law agreements with them.

There is a regime of judicial stability of a general nature, which includes the income tax system and to which both national and international investors may have access as well as those companies receiving their investments provided they comply with minimum requirements for investment.

In order to promote development of productive investments, there are also promotion regimes at sector level such as those existing for mining and hydrocarbons.

6. Agreements to prevent double taxation

In order to solve problems derived from international double tax burden, Peru is pursuing bilateral negotiations to enter into "Agreements to prevent Double Taxation". Up to day, agreements with Chile, Canada, Brazil and Spain have been already subscribed. The agreements with Chile and Canada are into force since 2006. The Congress of Brazil and Spain shall ratify their respective agreements.

For investments made among member countries of the Andean Community, there is the regime contained in Decision 578 issued by this organization.

7. Some International Taxation Matters

Several provisions have been introduced in the law governing the Income Tax with the aim of regulating the application of transfer prices as well as operations through fiscal heavens.

Value Added Tax

The Value Added Tax (VAT) levies the added value in each transaction carried out at different stages of the economic cycle, based on debit and credit scheme that works as follows: the VAT paid for all purchases of goods and services is deducted from the gross income tax calculated for each taxpayer ("tax credit"), so that only the balance between these two amounts is paid to the State.

1. Levied operations

This tax is applied to consumption of goods and services effected in our country as follows:

- 1.1 Local sale of goods.
- 1.2 The rendering or use of services in country.
- 1.3 Construction contracts.
- 1.4 The first sale of real estate carried out by its constructors.
- 1.5 The import of goods.

2. Rate

The total VAT rate is 19%. **(6)**

3. Non-Affected and exempted items

3.1 Some non-affected items

- 3.1.1 Export of goods.
- 3.1.2 Export of services as provided by Law.
- 3.1.3 Transfer of goods resulting from the reorganization of companies.

3.1.4 Transfer of second-hand goods made by individuals or corporate bodies that do not engage in business activities.

3.1.5 Leasing and other forms of usufruct of real estate provided revenues make up first or second category income levied with the Income Tax.

3.1.6 The amount equivalent to the CIF value in the transfer of goods manufactured abroad, when said transfer is made before the goods are released from Customs.

3.1.7 The exclusive allocation to each contracting party of goods obtained from execution of entrepreneurial cooperation contracts that do not carry independent bookkeeping, as based on the contractual proportion, provided information is supplied to the National Super-intendancy of Tax Management-SUNAT as established for the purpose.

3.1.8 The allocation of resources, goods, services and construction contracts made by the contracting parties in de-facto associations, consortia, joint ventures and other forms of entrepreneurial cooperation agreements that do not carry independent bookkeeping, to carry out business or joint work derived from an obligation stipulated in the contract, provided they comply with requirements as established by SUNAT.

3.1.9 The allocation made by the operator, in entrepreneurial cooperation agreements that do not carry independent bookkeeping, of tangible and intangible shared goods, construction services and contracts, acquired to carry out a joint business or work as stipulated by contract, in the proportion corresponding to each contracting party, pursuant to regulations.

3.1.10 Taxpayers located in the Amazon Region (Z) when performing the following operations:

- a. Sale of goods effected in the region for consumption therein.
- b. Services rendered in the region; and
- c. Construction contracts or the first sale of real estate made by its constructors.

Taxpayers shall apply the AVT to all operations not falling under the above conditions and pursuant to the general rules for this tax.

3.1.11 Companies located in the departments of Loreto, Ucayali and Madre of Dios for sales made in said departments and for consumption therein.

3.2 Some exemptions

3.2.1 Operations indicated in Annexes I and II to the Unique Text of the General Sales Tax and Consumption Selective Tax Law are exempted until December 31, 2009. 8/

3.2.2 Industrial companies located on Border Zones.

3.2.3 Companies incorporated or established in the Centers for Export, Transformation, Industry, Trading and Services (CETICOS) of Ilo, Matarani and Paita

4. Advanced recovery regime

4.1 General Regime

This regime consists in the return of VAT paid in imports and/or local purchase of capital goods carried out by individuals or corporate bodies locally engaged in production of goods and services intended for export or which sale is levied with the VAT and who have not started their commercial activities yet.

4.2 Special Regime of Anticipated Recovery of Value Added Tax (VAT)

Legislative Decree N. - 973, published in the Official Gazette El Peruano on Saturday 26th March, 2007, established that a Special Regime of Anticipated Recovery of Value added Tax (VAT) is applied to investments of any economic sector that generates third-type income tax. This regime consists in the return of VAT paid in imports and/or local purchase of new capital goods, new intermediate goods, services and construction contracts, carried out in the pre-operative stage to be used by the beneficiaries of this Regime directly for the execution of the projects planned in the Investment Contracts for the operations burdened with the VAT or the export tax.

4.2.1 Enjoy the Regime

Individuals or corporate bodies investing in any economic activity that generate third-kind activity (companies) and that fulfil the following requirements:

- Subscription of an Investment Contract with ProInversión and the Ministry of the pertaining sector, on behalf of the State to invest in public infrastructure works and utilities for a minimum amount of US\$ 5,000,000.00 (Five million and 00/100 Dollars of the USA) as total investment included the pre-operative stage. Said amount does not include VAT payment.
- To have the Supreme Decree that entitles to enjoy the regime, issued by the Ministry of Economy and Finances, with the approving vote of the Cabinet.
- To be in the pre-operative stage of the public infrastructure work and public utility matter of the pertaining Investment Contract.

4.3 VAT refund

This Regime consists of the refund of the tax that has been transferred or paid in the import and/or acquisition operations of local intermediate goods, capital goods, services and construction contracts during the pre-operative stage of the public infrastructure works and utilities, provided that these goods or services have been destined to operations not burdened with that tax and be directly used in the execution of the investment projects in infrastructure works and public utilities. This regime shall apply as of the subscription date of the pertaining Investment Contract.

4.3.1 Enjoy the Regime

Corporate bodies that have subscribed a Concession Contract under Supreme Decree N°059-96-PCM and modifying regulations and those who fulfil the following requirements are allowed to enjoy the regime:

- Subscription of an Investment Contract with ProInversión and the Ministry of the pertaining sector, on behalf of the State to invest in public infrastructure works and utilities for a minimum amount of US\$ 5,000,000.00 (Five million and 00/100 Dollars of the USA) as total investment included the pre-operative stage. Said amount does not include VAT payment.
- To have the Supreme Decree that entitles to enjoy the regime, issued by the Ministry of Economy and Finances, with the approving vote of the Cabinet.
- To be in the pre-operative stage of the public infrastructure work and public utility matter of the pertaining Investment Contract.

5. Credit in favour of exporters

Exporters are entitled to request return of VAT that may have paid in the purchase of goods or services used in manufacturing of exported goods. In this regard, a procedure similar to drawback is used as explained further on.

Excise Tax

The consumption selective tax levies the local sale at manufacturer level and the import of goods such as cigarettes, alcoholic beverages, soft drinks, mineral water, other luxury items, fuels, casino and games of chance.

Tax rates range from 0% and 300%, according to type of good or service. Payment of fixed amounts is considered in some cases according to the levied product or service.

Some exemptions to the Consumption Selective Tax are detailed below:

- Companies located in the departments of Loreto, Ucayali and Madre of Dios for sales made in said departments for consumption therein;
- Companies incorporated or established in the Centers for Export, Transformation, Industry, Trading and Services (CETICOS) of Ilo, Matarani and Paita.

Financial Transactions Tax

It is a temporary tax that levies with a 0.08% proportional rate banking operations in national or foreign currency (both debits and credits). This tax will be in force up to December 31, 2007. It will be deductible for Income Tax purposes. The following are exempted from the Financial Transaction Tax, among other operations:

- Transactions made between accounts of the same holder;
- Credits to bank accounts for concept of salaries, retirement pensions and Service Time Compensation, as well as any disbursement made from these accounts;

Tax on Casinos and Slot Machines

The tax on casinos and slot Machines burdens the operation of these games and is a monthly tax. The aliquot is 12% of the taxable base.

The taxable base is the result of the difference between the monthly net income and the expenses for maintenance of the slot machines and casino facilities. The monthly net income is the result of the difference between the total amount received by bets or money destined to gambling and the total amount delivered by the prizes granted in the same month.

To fix a taxable base, a 2% of the monthly net income will be considered for the expenses of maintenance of slot machines and casino facilities. For that purpose, a reserve for that item should be made. If within one month, the amount of prizes exceeds the amount of income received, the balance will be deducted from the income of the next months, up to the full payment.

The taxable base is fixed independently for each activity and each establishment. Tax on casino gambling and slot machines will be deducted to determine the income of third-category class.

Custom Duties

Customs Duties levy the import to country of foreign goods and are calculated on the import CIF value (CIF Ad Valorem Duties).

The following tariff structure includes 5 levels: 0, 9, 17 and 20%, totalling 7, 351 items.

PERU: TARIFF STRUCTURE				
TARIFF LEVELS	TARIFF ITEMS		IMPORTS 2006	
	AD-VALOREM + OVERRATES	Number	Percentage (%)	CIF VALUE
Millions US\$				Percentage (%)
0%	3,943	53.6	15,318	74.8
9%	2,616	35.16	4,542	22.2
17%	792	10.8	607	3.0
20%	13	0.2	11	0.1
Total	7,351	100.0	20,467	100.0
SIMPLE AVERAGE APPLIED TARIFF RATE				5.0
TARIFF STANDARD DEVIATION				5.9
AVERAGE TARIFF 1_/				2.0

1_/ Effective Tariff = (Ad valorem CIF total collection amount / Total import amount CIF)

Tariff Improvement Regimes

1. Temporary entry regime

This regime involves the suspension of tariffs and every type of taxes applicable to the import of goods intended for “active improvement” for subsequent export.

It is called “active improvement” the physical and/or chemical transformation applied to raw materials, materials, ingredients, intermediate products and, in general, all kinds of goods, with the purpose of manufacturing or transforming a good; the assembly of two or more goods and the operations undergone by packages, package materials and package linings of goods to be exported.

- Goods to be imported shall be devoted to operations and/or processes of “active improvement”; and
- The requesting company must be formally incorporated in the country and registered in the sectorial registries corresponding to its economic activity.

This regime covers all kinds of goods such as raw materials, materials, ingredients, intermediate products, parts and pieces, as well as goods for conditioning, packaging and crating, which shall be actually contained in goods to be exported.

The regime duration is 24 months and requires a guarantee for suspended tariffs and taxes.

2. Drawback or tariff refund

This Customs Regime allows, as a result of export of goods, for total or partial refund of tariffs that may have been paid to import goods contained in exported goods or consumed during their production. The refund rate amounts to 5% of the FOB export value up to the first US\$ 20,000,000.00 (Twenty million dollars of the United States of America) by tariff item or by non-related exporting company. That amount could be modified by the Ministry of Economy and Finance.

Exporting companies that have imported through third parties the materials included or consumed in manufacture of the exported good, as well as goods manufactured with imported consumables or raw materials purchased from local suppliers, pursuant to legal provisions on the matter, may benefit from this regime.

The Ministry of Economy and Finance annually approves the list of goods excluded from this benefit.

3. Replacement of exempted goods

It is the regime under which goods are imported with automatic tariff exemption and all other taxes levied on imports, which are equivalent to those that were imported and transformed in a final product for export.

The term to enjoy this benefit is one year after having imported the goods to be replaced.

Exchange regime

The state guarantees the free availability, use and disposal of foreign currency by individuals and corporate bodies resident in Peru. Likewise, the state guarantees free convertibility of foreign currency at a unique exchange rate.

Free competition and protection to intellectual property

The state facilitates and supervises free competition, fights any limiting practice, regulates the exercise of dominance in the market, and protects intellectual property.

The National Institute of Protection of Intellectual Property (INDECOPI) is the agency in charge of enforcing legal provisions on the defence of competition and protecting market from monopolistic practices, which may control and restrict competition in the production and commercialisation of goods and rendering services, as well as practices that may generate illegal competition and those affecting market agents and consumers.

INDECOPI also controls and punishes application of dumping and subsidies practices; defends consumers' rights, looks after the fulfilment of regulations that punish practices against commercial good faith, defends regulations on free trade and controls provisions establishing non-tariff restrictions. It also revises actions and provisions of public administration entities, included within municipal or regional scope, which may impose bureaucratic obstacles impeding or hindering, unlawfully or irrationally, the access or permanence of economic market agents.

In addition, INDECOPI shall protect intellectual property rights, under any expression, and shall act as a registration office of intellectual property.

6. Accounting & reporting

NIC are technical specifications adopted by the accounting profession to register transactions and financial statement formulations, which are approved by the Accounting Regulating Committee. The overall application of NIC makes financial statements more significant and reliable as tools for decision-making.

Accounting principles generally accepted in Peru include the International Financial Reporting Standards (IFRS) officially issued through resolutions issued by the Accounting Standards Board. The IFRS incorporates to the International Accounting Standards (IAS) and to the pronouncements of the Interpretations Committee (SIC). At the date of the Financial Accounting Standards, the mandatory application of IFRS's has been formalised from 1 to 5 of IAS SP from 1 to 21 and 13 SIC (like 7, 10, 12, 13, 15, 19, 21, 25, 27, 29, 30, 31 and 32).

The following is a summary of accounting practices and the main situations that can affect the formulation of financial statements in Peru.

Voluntary appreciation

Voluntary appreciation of assets due to merger or reorganisation: the legal ruling allows for the appreciation of assets of companies that have been absorbed. As there is no definition of this, it is considered that assets subject to appreciation are non-monetary ones, such as inventories, investments and fixed assets. Appreciation incorporated by a merger in the absorbing company is not valid for taxing purposes, except in the case that the resulting IR is paid.

Voluntary appreciation of fixed assets (outside the scope of a merger or reorganisation): in this case, the registry of voluntary appreciation of fixed assets must comply with the following conditions:

- Existence of a clear sub-appreciation of assets
- Appreciation is based on appraisals carried out by independent accountants qualified in Peru with professional experience in this type of work
- The reasonable assurance of future recovery of appreciated assets must be taken into account, i.e. when annual depreciation charges can be absorbed by incomes generated by the entity.

The effect of voluntary appreciation outside the scope of a merger or reorganisation is not valid for taxing purposes. Consequently, all its effects must be withdrawn for the corresponding tax assessment.

Financial statements consolidation

The purpose of the preparation of consolidated financial statements is to know the financial situation, results of operations and cash flows of a group of companies economically linked as one company. It is assumed that consolidated information is more useful in decision-making.

In this regard, CONASEV issued order no 103-99-FF/94.10, in which it points out that the parent company of economically linked companies is bound to submit duly audited consolidated financial statements with its subsidiaries. In addition, if any of the companies of the group is registered with the Lima Stock Exchange, the parent company must submit non-audited quarterly consolidated financial information.

It is worth noting that according to effective IR laws it is not allowed to assess tax in a consolidated way – therefore companies make this assessment individually.

Business mergers

The accounting treatment of business mergers is ruled by NIC 22 and aimed mainly at registering company acquisitions or company mergers in which the buyer cannot be identified. The methods for the accounting treatment of business mergers are:

- The buying method
- The interest merger method.

Construction agreements

NIC 11 regulates journalisation of construction agreements for the formulation of construction companies' financial statements. This regulation includes detailed guidelines in reference to the determination of the agreement's income components and costs, as well as aspects in reference to amendments to the labour agreement, contractor's complaints and payment of incentives.

However, it also requests the acknowledgement of incomes and costs by applying the work progress percentage method. When the agreement results can be reliably estimated, incomes and costs must be acknowledged with reference to the work progress percentage method, to balance date.

In those cases in which the agreement results cannot be reliably estimated, incomes must be acknowledged only to the extent of costs incurred which can be recovered. In this case, costs must be acknowledged in results of the period incurred.

In those cases where it is possible that the total agreement costs exceed the total income of the same, the known expected loss must be acknowledged in the results.

According to the effective tax laws, the IR is determined based on results of each of the completed works, i.e. based on the finished contract method.

Journalisation of income tax

The IR reserve is estimated according to legal requirements established by taxing authorities. In many circumstances, these rules differ from accounting policies applied in determining financial profit. Temporary differences between IR rules and accounting policies are registered according to NIC 12.

Financial leasing agreements

According to what is established by NIC 17, financial leasing agreements must be shown in the lessee's general balance through the registration of a good (asset) and an obligation (liability) of equal amounts at the beginning of the agreement. This registration must be made to the reasonable value of the good received in leasing, net subsidies and tax loans received by the lessee; or, if less, to the current value of minimum leasing payments.

Investments

Companies that distinguish between current and non-current assets in their financial statements must classify their investments (with the exception of investments in associations or subsidiaries) in these categories depending on the purpose for which said investments were acquired.

Investments classified as current must be shown either at market value or at the lower value between cost and market value. If current investments are shown at the lower value between cost and market value, the balance could be determined based on the portfolio, either global or by investment category, or based on individual investments.

Investments classified as non-current must be registered in the general balance at: i) cost; ii) appreciated sums; or iii) in the case of negotiable share certificates, at the lower value between cost and market value, established based on the entire portfolio.

Long-term investment balance must be reduced to acknowledge non-temporary decreases in its value. The reduction shall be established and carried out individually for each investment.

In addition, NIC 40, Real Estate Investments, effective in Peru since 1 January 2002, establishes rules for the acknowledgement, gauging and dissemination of information on real estate investments.

Joint ventures

Joint ventures adopt different forms and structures. The following are the most common: jointly controlled operations; jointly controlled assets; and jointly controlled entities. These three types of ventures have the following

common characteristics: two or more partners are joined by a contractual arrangement; and the contractual arrangement establishes a joint control. The accounting acknowledgement is regulated by NIC 31.

Information on segments

Companies that quote their assets and other important economic entities must describe activities by significant industrial segments, and indicate the composition of each significant geographic segment in which they operate according to what is established by NIC 14.

Accounting treatment of investments in joint venture companies

According to NIC 28, the investor can register the investment in joint ventures using the following methods:

Capita participation method: a method through which the investment is initially registered as cost and is later adjusted to changes subsequent to their acquisition in the investor's share in the company's equity invested in. The statement of results shows the investor's share in the joint venture's operations results.

Cost method: a method by which the investment is registered as cost. The statement of results shows the investment profit only for the amount of accrued net profit distributions the investor receives from the company in which he invests, originated after acquisition date.

Surplus distributions received from those profits are considered as an investment recovery and are registered as a reduction of the investment cost according to NIC 25. If an investor has 20% or more of voting powers of the company in which they invest, directly or indirectly through subsidiaries, it is assumed they have an important influence, unless they can clearly prove this is not the case.

Investments in a joint venture must be registered in financial statements consolidated by the capital participation method, except when a) the investment is acquired and maintained exclusively with the intention of selling it in the near future; and b) the investment operates under long-term severe restrictions that considerably affect its capacity to transfer funds to the investor; the cost method must be used in these cases.

A joint venture investment is journalised by using the capital participation method from the date the company obtains the joint venture definition. When an investment is acquired, any difference between the acquisition cost and the investor's share in the reasonable values of identifiable net assets is journalised according to NIC 22, 'Accounting treatment of business combinations'.

Inter-company transactions

NIC 24 requires that the existing relationship between the related parties in which a link is shown must be explained, even in the case that no operations have been carried out between them. In the case that there have been operations, the informing company must explain the nature of the relationship of the related parties as well as the type of operations and the necessary elements for a better understanding of the financial statements.

Financial instruments

At present, financial instruments constitute basic tools for tasks carried out by the board of directors, management and auditing committees of companies and are frequently the centre of attention of shareholders' meetings. Management and supervision of these instruments go beyond the accounting issue and, in many cases, have an important repercussion in company funds' future flows.

Financial instruments used in Peru are mostly bonds in all their modalities (convertibles, subordinates, financial leasing, etc), financial futures agreements and forward agreements, among others.

Accounting disclosure and treatment of these operations in financial statements is established in NIC 32, 'Financial instruments'. These standards establish certain requirements for the submission of financial statements and identify the information that must be disclosed on acknowledged (journalised) and non-acknowledged (non-journalised) instruments in financial statements.

Submission requirements refer to classification of financial instruments in liabilities and equity, acknowledgement of interests, dividends, related profit and loss, and circumstances in which financial assets and liabilities must be compensated. The information to be disclosed refers to factors that affect the amount, opportunity and certainty of future fund movements of a company in relation to its financial instruments and accounting policies applied to the same.

Likewise, this standard recommends the disclosure of information on the nature and scope of the use of a company's financial instruments, business objectives and associated risks (prices, loans, liquidity or cash flow), as well as management policies to control them.

In addition, NIC 39, 'Financial instruments: acknowledgement and gauging', establishes rules for the acknowledgement, gauging and disclosure of information on financial assets and liabilities owned by companies, including accounting of coverage operations. In Peru, NIC 39 was obligatorily applied from 1 January 2003.

Share profits

The application of NIC 33, which establishes guidelines for the disclosure of share profits, was approved in Peru in September 1997 and has been effective since 1 January 1998. The basic purpose of this standard is to disseminate principles for the determining and submission of share profits applicable to all companies whose shares remain in a security market, or are in the process of issuing shares to be quoted in a security market, and for those companies that without quoting shares wish to disclose their share profits. This submission allows making comparisons of the profit per share of different companies in an established period of time or of the same company during various fiscal years.

To determine profit shares, it must be taken into account whether net profits will be divided among ordinary shares, or whether the effects of any potential share dilution will be taken into account.

For comparative purposes, share profits must be submitted according to the type of share and, equally, from one period to the other.

7. UHY firms in Peru

UHY Sandoval Aliaga y Asociados S.C.,
Cura Muñecas 181 San Isidro
Lima
Peru

Tel: +51 1 422 3884
Email: gerencia@uhyperu.com
Web: www.uhyperu.com

8. UHY offices worldwide

For contact details of UHY offices worldwide, or for details on how to contact the UHY executive office, please visit www.uhy.com

Appendix I - Links

Governmental and non-governmental links

Ministries

Ministerio de Defensa (MINDEF) (Ministry of Defence)	www.mindef.gob.pe
Ministerio de Educación (MED) (Ministry of Education)	www.minedu.gob.pe
Ministerio de Justicia (MINJUS) (Ministry of Justice)	www.minjus.gob.pe
Ministerio de la Mujer y Desarrollo Social (MIMDES) (Ministry for Women's Affairs and Social Development)	www.mimdes.gob.pe
Ministerio de la Producción (Ministry of Production)	www.minproduce.gob.pe
Ministerio de Relaciones Exteriores (RREE) (Ministry of Foreign Relations)	www.rree.gob.pe
Ministerio de Salud (MINSA) (Ministry of Health)	www.minsa.gob.pe
Ministerio de Vivienda, Construcción y Saneamiento (VIVIENDA) (Ministry of Housing, Construction and Sanitation)	www.vivienda.gob.pe
Ministerio del Interior (MININTER) (Ministry of the Interior)	www.mininter.gob.pe
Presidencia del Consejo de Ministros (PCM) (Chairmanship of the Ministers Board)	www.pcm.gob.pe
Ministerio de Agricultura (MINAG) (Ministry of Agriculture)	www.minag.gob.pe
Ministerio de Economía y Finanzas (MEF) (Ministry of Economy and Finances)	www.mef.gob.pe

Ministerio de Energía y Minas (MEM) (Ministry of Energy and Mines)	www.minem.gob.pe
Ministerio de Trabajo y Promoción del Empleo (MTPE) (Ministry of Labour and Employment Promotion)	www.mtpe.gob.pe
Ministerio de Transportes y Comunicaciones (MTC) (Ministry of Transportation and Communications)	www.mtc.gob.pe
Ministerio de Comercio Exterior y Turismo (MINCETUR) (Ministry of Foreign Trade and Tourism)	www.mitinci.gob.pe
Public institutes	
Instituto Geofísico del Perú (IGP) (Peruvian Geophysical Institute)	www.igp.gob.pe
Instituto Nacional de Estadística e Informática (INEI) (National Institute of Statistics and Data Processing)	www.inei.gob.pe
Congreso de la República del Perú (Congress of the Republic of Peru)	www.congreso.gob.pe
Instituto Peruano de Energía Nuclear (IPEN) (Peruvian Institute of Nuclear Energy)	www.ipen.gob.pe
Instituto Nacional de Desarrollo (INADE) (National Institute for Development)	www.inade.gob.pe
Poder Judicial (The Judiciary)	www.pj.gob.pe
Ministerio Público-Fiscalía de la Nación (Public Ministry – Prosecutor’s Office)	www.mpf.n.gob.pe
Tribunal Constitucional (Constitutional Court)	www.tc.gob.pe
Oficina Nacional de Procesos Electorales (ONPE) (National Office for Electoral Processes)	www.onpe.gob.pe

Superintendencia Nacional de los Registros Públicos (SUNARP) (National Public Registry Superintendency)	www.sunarp.gob.pe
Banco Central de Reserva (BCR) (Central Reserve Bank)	www.bcrp.gob.pe
Superintendencia Nacional de Aduanas (SUNAD) (National Customs Superintendency)	www.aduanet.gob.pe
Superintendencia Nacional de Administración Tributaria (SUNAT) (National Taxing Administration Superintendency)	www.sunat.gob.pe
Comisión de Promoción del Perú (PROMPERU) (Committee for Promotion of Peru)	www.peru.org.pe
Comisión para la Promoción de Exportaciones (PROMPEX) (Committee for Export Promotion)	www.prompex.gob.pe
Consejo Superior de Contrataciones y Adquisiciones del Estado (CONSUCODE) (Board for State Contracting and Acquisitions)	www.consucode.gob.pe
Consejo Nacional de Ciencia y Tecnología (CONCYTEC) (National Science and Technology Board)	www.concytec.gob.pe
Regulating entities	
Instituto Nacional de Defensa de la Competencia y Protección a la Propiedad Intelectual (National Institute for Defence of Competition and Copyright Protection)	www.indecopi.gob.pe
Organismo Supervisor de Inversión Privada en Telecomunicaciones. (OSIPTEL) (Telecommunications Private Investment Supervisory Entity)	www.osiptel.gob.pe
Organismo Supervisor de la Inversión en Energía (OSINERG) (Energy Investment Supervisory Entity)	www.osinerg.org.pe
Comité de Operación Económica del Sistema	www.coes.org.pe

Interconectado Nacional (COES-SICN) (Economic Operation Committee of the National Interconnected System)	
Organismo Supervisor de la Inversión Privada en Infraestructura de Transporte (OSITRAN) (Supervisory Entity of Private Investment in Transportation Infrastructure)	www.ositran.gob.pe
Superintendencia Nacional de Servicios de Saneamiento (SUNASS) (National Superintendency of Sanitation Services)	www.sunass.gob.pe
Superintendencia de Banca y Seguros (SBS) (Superintendency of Banking and Insurance)	www.sbs.gob.pe
Comisión Nacional Supervisora de Empresas y Valores (CONASEV) (National Supervisory Committee of Companies and Securities)	www.conasevnet.gob.pe
Instituto Nacional de Recursos Naturales (INRENA) (National Natural Resources Institute)	www.inrena.gob.pe

Investment banks

Apoyo SA	www.apoyo.com
Banco de Crédito del Perú	www.viabcp.com
Banco Wiese Sudameris	www.wiese.com.pe
Bank Boston NA	www.bankboston.com.pe
Bank of Nova Scotia	www.scotiabank.com
BBVA Banco Continental	www.continental.grupobbv.com
BNP Paribas	www.bnpparibas.com
Citibank NA Corp Trust	www.citibank.com
Credit Commercial de France	www.ccf.es/Principal.htm
Credit Lyonnais	www.creditlyonnais.com
Interinvest	www.interbank.com.pe
JP Morgan	www.jpmorgan.com
Macroconsult	www.macroconsult.com



PricewaterhouseCoopers	www.pwcglobal.com
Salomon Smith Barney	www.salomonsmithbarney.com
Santander Central Hispano Investment SAP	www.bsch.com.pe
Urbach Hacker Young International	www.uhy.com
UBS Financial Services Group	www.proinversion.gob.pe/ www.ubs.com

State-owned companies

EGASA	www.egasa.com.pe
Empresa de Generación Eléctrica del Sur SA (EGESUR) (Electric Power Company)	www.egesur.com.pe
Private associations	
Confederación Nacional de Instituciones Empresariales Privadas (CONFIEP) (National Confederation of Private Companies)	www.confiep.org.pe
Asociación de Empresas Privadas de Servicios Públicos (Adepsep) (Public Utilities Private Company Association)	www.adepsep.org
Sociedad Nacional de Industrias (SNI) (National Industries Association)	www.sni.org.pe
Cámara de Comercio de Lima (Lima Chamber of Commerce)	www.camaralima.org.pe
Cámaras de Comercio Regionales (Regional Chambers of Commerce)	www.camaralima.org.pe/nacionales.htm

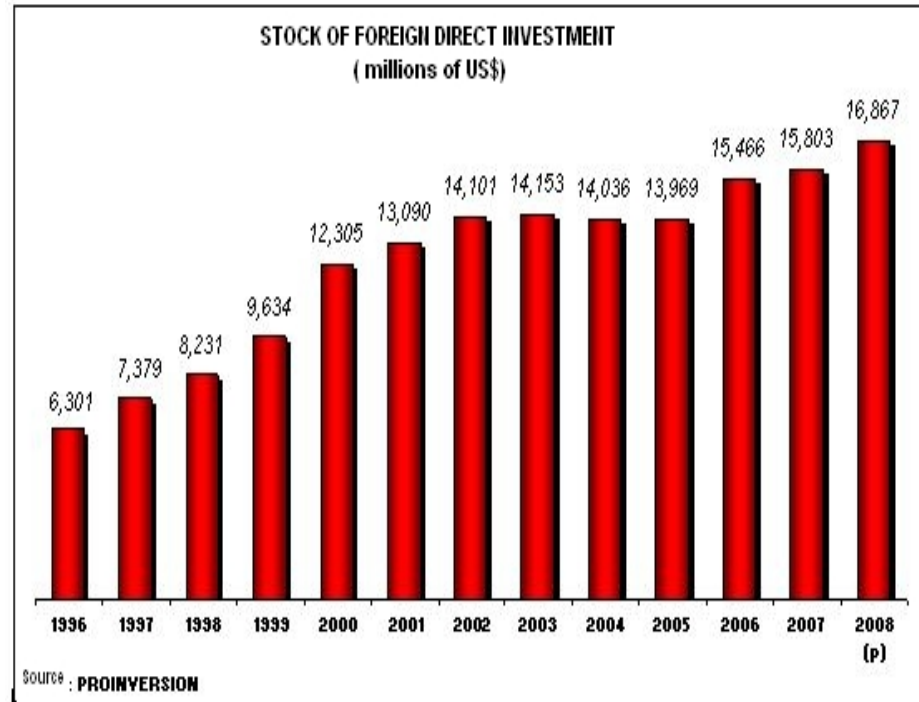
Bi-national chambers of commerce

American Chamber of Commerce in Peru	www.amcham.org.pe
Italian Chamber of Commerce	www.cameritpe.com
Peruvian-Japanese Chamber of Commerce and Industry	www.apjp.org.pe/ccipj
Canadian-Peruvian Chamber of Commerce	www.canadaperu.org
Peruvian-British Chamber of Commerce	www.bpcc.org.pe
Official Chamber of Commerce of Spain in Peru (COCEP)	www.cocep.org.pe

Others

Multilateral Investment Guarantee Agency (MIGA)	www.miga.org
Multilateral Investment Fund (MIF)	www.iadb.org/mif
Asia-Pacific Economic Cooperation (APEC)	www.apecsec.org.sg
Investment Promotion Network (IPANET)	www.ipanet.net
United Nations Conference on Trade and Development (UNCTAD)	www.unctad.org
Portal del Estado Peruano (Peruvian State Portal)	www.perugobierno.gob.pe
Centro de Inversiones y Desarrollo Industrial del Ministerio de Asuntos Económicos de Taiwán (Investment and Industrial Development Centre of the Ministry of Economic Affairs of Taiwan)	www.investintaiwan.nat.gov.tw

Appendix II - Foreign registered investment



FDI STOCK BY MAIN COUNTRIES
(US\$MILLION)

COUNTRY	2008 (p)	%
SPAIN	3,729.9	22.11%
UNITED KINGDOM	3,419.6	20.27%
USA	2,762.6	16.38%
HOLLAND	1,404.4	8.33%
CHILE	990.8	5.87%
PANAMA	869.2	5.15%
COLOMBIA	725.9	4.30%
MEXICO	439.2	2.60%
BRAZIL	341.9	2.03%
SWITZERLAND	275.0	1.63%
CANADA	274.6	1.63%

ITALY	195.4	1.16%
BAHAMAS	187.6	1.11%
URUGUAY	177.6	1.05%
GERMANY	159.4	0.94%
JAPAN	158.4	0.94%
SINGAPORE	123.5	0.73%
OTHERS	631.9	3.75%
TOTAL	16,867.0	100%

**FDI STOCK BY DESTINATION SECTORS
(US\$ MILLIONS)**

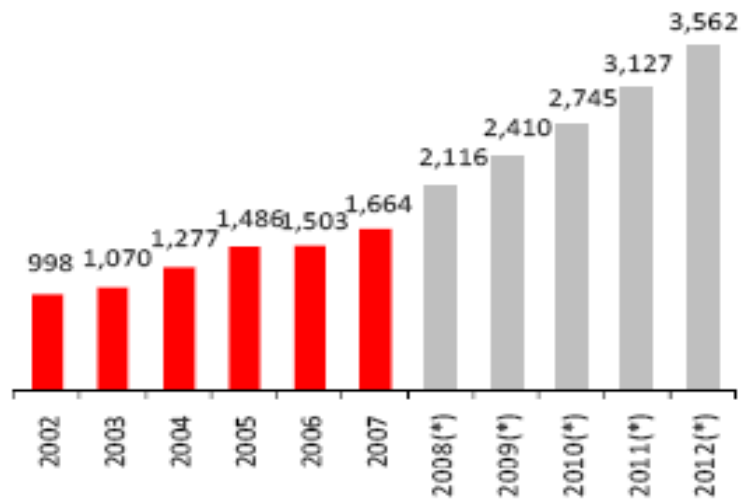
COUNTRY/2	2008 (p)	%
SPAIN	4,343.4	25.75%
USA	2,674.9	15.86%
SOUTH AFRICA	1,804.8	10.70%
CHILE	1,450.6	8.60%
SWITZERLAND	925.3	5.49%
MEXICO	852.6	5.05%
CANADA	715.5	4.24%
UNITED KINGDOM	613.2	3.64%
JAPAN	413.9	2.45%
BRAZIL	363.9	2.16%
CHINA	261.7	1.55%
ITALY	258.8	1.53%
COLOMBIA	256.4	1.52%
HOLLAND	241.6	1.43%
ARGENTINA	233.6	1.38%
PANAMA	210.9	1.25%
AUSTRALIA	204.9	1.21%
OTHERS	1,040.9	6.17%
TOTAL	16,867.0	100%

Source. Prolnversion
(p) FDI stocks as of June, 2008
2/ origin of investment by head office.

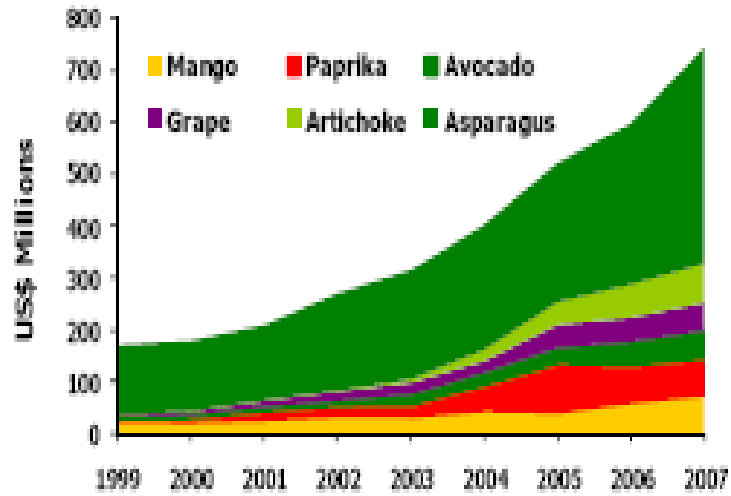
FDI STOCK BY MAIN COUNTRIES
(Millions US\$)

SECTOR	2008(P)	%
AGRICULTURE	44.4	0.26%
COMMERCE	713.9	4.23%
COMMUNICATIONS	3,756.4	22.27%
CONSTRUCTION	159.7	0.95%
ENERGY	1,674.5	9.93%
FINANCE	2,598.6	15.41%
INDUSTRY	2,736.9	16.23%
MINING	3,510.4	20.81%
FISHING	163.0	0.97%
OIL	207.9	1.23%
SERVICES	425.3	2.52%
SILVICULTURE	1.2	0.01%
TRANSPORT	285.5	1.69%
TOURISM	63.5	0.38%
HOUSING	525.8	3.12%
TOTAL	16.867.0	100%

Tourist Arrivals
(Thousands of persons)



Exports of main products



Source: PromPex, Adex Data Trade and Custom