

Session 5: Mining in Peru

Roque Benavides

President and CEO, Buenaventura

Thank you to the organisers for this invitation to speak in front of you. I will be speaking on mining in Peru. I was thinking that the first presentation was on consumption, the second on trading and the third one is, if I may say, on production of silver metal. Probably, it would have been better to do it the opposite way.

Why Peru? Peru is the largest silver producer in the world, and has been for the last seven or eight years. Why being in a country that has to do with silver and gold? Peru is the largest silver producer, the fifth-largest gold producer and, if I may make a comparison, making comments on the previous presentations, the difference between silver and gold is that the gold industry is finding it a more and more difficult time in replacing reserves, while silver essentially is produced as a bi-product and also as a main product. Its finding its way and that is why it's so important that consumption is increasing, but production will also increase in the future.

Why Buenaventura? Buenaventura is a Peruvian founded company that is listed in New York. We are absolutely unhedged both in silver and in gold, and we operate mines that have silver as the main product. As in the case of Uchucchacua, it is a mine that is producing close to 12 million ounces of silver as a main product. In depth, we are finding more and more lead and zinc values, but still it is a silver producer. Just to give you a flavour of the sort of by-products; a mine like Yanacocha, that is well known as a gold producer, produces less gold ounces than silver ounces. Yanacocha this year will be producing 2 million ounces of gold but will be producing probably 6 million ounces of silver. In number of ounces, a mine the size of Yanacocha, which is probably the largest gold mine in the world, is producing more silver in number of ounces than gold ounces.

Of course, Buenaventura is a proud member of the Silver Institute and we certainly support the Silver Institute as a way to promote the usage of silver, as a way to promote sustainable silver mining and as a way to improve the image of the industry.

Why Peru? It is the largest silver producer in the world. In Latin America, it is a leading producer of gold, zinc, tin and lead, and second producer of copper and Mawley. It is the second destination of the investment in exploration in Latin America and the sixth destination in the world for exploration in mining. We practically have all the world multinational mining companies operating in the country. 7.3% of our GDP depends on mining and in excess of 40% of net exports are mining products. We have a number of investments coming through, \$24 billion dollars in the next few years. Only 10% of our territory has been explored properly and

Peru still has a lot of potential for finding new deposits. Different to, for instance, our neighbour country of Chile, we in Peru have far more silver reserves than any other country in Latin America, and compared to Chile, certainly more than that, and of course, we have a lot of potential too for other mining products.

In terms of production, the figures for 2008, we produced 3,686 tonnes of silver and, being the largest silver producer, we have been increasing in terms of mining exports in most metals. You can see that in copper, we have increased close to 6 %; in silver, Peru increased from 2007 to 2008 more than 10%, and that is the case for most metals.

In terms of world ranking, Peru is the largest silver producer. It's the third in many metals such as tellurium, zinc, tin, copper and bismuth, and is an important lead producer as well.

In terms of macroeconomic figures, Peru has been growing steadily for the last 20 years. People may not realise this. It is a country that made proper reforms 20 years ago and we have continued growing steadily, and this has an importance for the silver market. With Peru and Mexico being the largest silver producers, the market can be sure that there will be a normal supply of silver and that is important for a balanced market. Certainly, we are enjoying private investment into the country, which means that Peruvian individuals have confidence in the country and in the economy. Public investment is also growing and inflation essentially has been very low. Last year, 2008, the financial crisis, of course impacted somewhat on Peru and inflation went to 6.7%, but this year, we expect to have less than 2% inflation. That has a very important impact in a poor country because inflation is nothing else than the tax to the poor. Those that have no assets, who live from a salary, are the ones that are the most impacted by inflation. So we are very interested and very aware that inflation in a poor country has to be as low as possible.

In terms of exports, we have also been growing. Capital goods imports have been growing steadily and strongly, that means the country is developing. Construction GDP has been growing and, of course, tax collection has been very strong too. Institutions in a small country such as Peru have been strong and are doing their role collecting taxes, which is a very important role.

Economic growth is not as good as China, but not far from that. It was 9.8% in 2008 and, this year, it's going to be more like 2% after the financial crisis, but we still are growing and we expect to grow at a rate of 5% in 2011.

Exports have grown substantially; mining has been leading these exports many times. This has to do with the whole industry and is what gets all of us together. We get complaints from the people within our country saying that we are exporting too much primary goods as metals. That, of course, may get into the industrialisation of this product, but for the time being, this is supporting substantially the commercial balance of the country, and certainly exports are growing in the country.

The private investment is also growing, which is also very good.

In terms of comparing Peru with other countries, it has been the fastest-growing economy in Latin America, including comparison with some very successful economies, and the exchange rate has been quite favourable, which probably doesn't mean much because it has been stable in terms of US dollars, but it has been doing alright and it has been a matter of balancing the whole economy.

Peru has exactly the same rating as Brazil; Brazil being a continent by itself, Peru being a small country. There are only four countries in Latin America that have investment grades and those are Chile,

Mexico, Peru and Brazil. You can imagine that Peru is a tiny country compared to those other larger countries. Many people don't realise that and I think that is a matter of pride for all of us Peruvians.

Certainly, we offer a favourable legal framework for foreign investment and for local investment. Our constitution contemplates that foreign investment is treated exactly the same way as national investment, and that has been one of the great successes in Peru. There is no discriminatory treatment, unrestricted access to most economic sectors, no performance requirements, free transfer of capital, free competition, guarantee of private property, freedom to purchase stocks from locals, freedom to access internal and external credit, freedom to pay royalties, net worth of investment agreements. Peru is a member of a number of international insurance institutions and is adherent to the Euro ECB Declaration on International Investment and Multinational Enterprises. We have legal stability contracts, which are contracts between the government and the investor, and that is in addition to the national laws that give additional stability to any investment that is done from abroad.

Taxation is as simple as it can be. There is certainly corporate profit taxes set at 30% for all industries. There is a repaying dividend tax of 4.10%, royalties pay 30% and interest on loans from abroad pay 4.99%. Then there is the VAT of 19%, which is under discussion in the country as to its reduction. The rest is nothing. Essentially, these are the taxes that are charged in the country.

There is a recovery of value added tax for those that export, such as the mining sector. An important feature of Peru that gives an additional stability is the free trade agreement with a number of different countries, including the US. In Latin America, there are only three countries with a free trade agreement with the US (Mexico, Chile and Peru), which means that there is

an insurance for American investment, but also for all investment in the world – you can't differentiate. There are some agreements that have been signed with Canada, China, Thailand and Singapore. We are negotiating a number of free trade agreements with other countries, with the European community and with Mexico, which all shows the openness of the Peruvian economy to free trade worldwide. Essentially, we have been number one in protecting the investor index in Latin America. We have been ranked number one by the World Economic Forum in terms of government readiness for private investment, and in Latin America, Peru has been ranked first regarding government receptiveness for private investment in infrastructure.

Mining investment makes possible the start-up of new projects and has been substantial in terms of investment, access to new and better technology, access to new and larger markets, and of course, a very positive economic impact in the country. Mining investment has also made possible a number of infrastructure improvements, encouraging business opportunities in the rural areas, promoting local economic development and decentralisation, which is very important. You have to bear in mind that Lima, the capital, has one-third of the population and the rest of the country two-thirds. So we need to decentralise the country, and mining promotes this aspect.

We have existing ability. Mining is one of the main industries in Peru and will continue to be the same for a number of years. People expect more than optimal operative and financial results. Mining projects must guarantee sustainable developments in the region, and today we are measured by the values that we adopt and the way we implement those – the same as any other industry.

In conclusion, we believe that mining is sustainable in Peru, and that means producing efficiently and competitively to share successes with the local communities,

increase benefits, develop those communities where we work, take care of the environment, of course, and apply sound practices of corporate governance, and reach with that sustainable development. So you can be sure that production from Peru with all these frameworks will continue to supply the world market.

Thank you very much.