



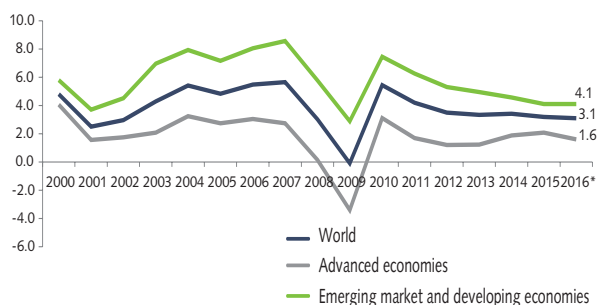
ECONOMIC OUTLOOK 2016

WORLD ECONOMIC OUTLOOK

2016 was another year of slow growth for the global economy. The International Monetary Fund (IMF) estimates it would have grown by 3.1%, less than 3.5% for the fifth consecutive year.

This reflects the deceleration in emerging economies

GDP: world, advanced and emerging economies
(real annual % change)



Source: IMF
*Estimate (IMF, January 2017)

and the challenges to boost (a still low) growth in developed economies. In 2016, the latter would have grown at a slower pace than in the previous year, particularly the United States, which, however, continued showing improvement signs in areas such as the labor market and, therefore, private consumption (the unemployment rate ended at 4.7% in December, according to the U.S Bureau of Labor Statistics).

It is worth mentioning that the U.S. presidential elections caused uncertainty in world markets, especially during the second half of the year. Nevertheless, according to the Peruvian Central Bank (BCRP, for its name in Spanish), after the initial volatility triggered by the elections results, expectations about the U.S. economy were more favorable because of news concerning boosts to public expenditure and the loosening of regulation under the new government. This contributed to the increase in the value of its currency, to the decision of the U.S. Federal Reserve (Fed) to raise its target interest rate in December, and even to price rises for base metals such as copper in the last quarter of 2016, as the Trump administration is expected to foster infrastructure works in the U.S. This, in turn, would encourage demand for inputs such as the red metal (whose price was also influenced by expectations of a lower world supply and a higher Chinese demand).

In Europe, there was uncertainty as well due to political decisions. Brexit raised concerns not only because of its possible economic implications for the United Kingdom and its trading partners, but also because of the risk of a rising preference for protectionist

political options across Europe and the West. However, at least in 2016, growth in the United Kingdom was close to that of 2015 (2.0% according to official preliminary data) and the same would have happened with large Eurozone economies, such as Germany (with an even higher growth), France, Italy and Spain (that is still recovering with 3% rates).

In the case of emerging economies, the World Bank states that during recent years they have been shaken by the weakening of investment and productivity growth, associated with issues such as a slowing foreign direct investment in some cases, lower commodity prices (e.g., oil) in other cases and political risks. Likewise, the slowdown in world trade over the last years also explains lower growth in these economies. This is related to an emerging “heavyweight” and great player in global trade: China. The economic deceleration planned by its government, in order for the Chinese economy to be more consumption- and service-driven than export- and investment-oriented, continues. Thus, China grew 6.9% in 2015 and 6.7% in 2016, according to preliminary data published by its statistics bureau.

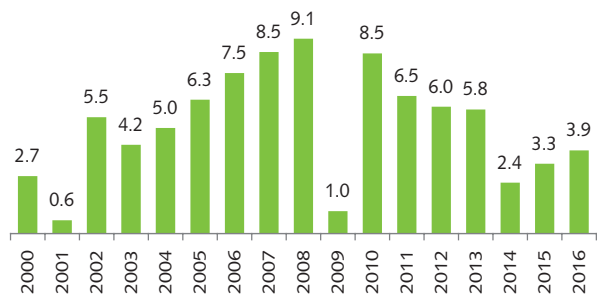
In general terms, that was the international economic outlook in 2016. In the following lines, we will focus on what happened with the Peruvian economy.

PERUVIAN ECONOMIC OUTLOOK

After falling for four consecutive years from 2010 to 2014, Peruvian economic growth seems to be recovering. It reached 3.3% in 2015 and 3.9% in 2016, according to the Peruvian National Institute of Statistics and Informatics (INEI, for its name in Spanish).

The main driver of GDP growth in 2016 was the metallic mining sector (+21.2%), which continued its recovery as some projects began operations in recent years. To a lesser extent, other sectors such as miscellaneous services (+4.1%), telecommunications and other information services (+8.1%) and finance and

Peruvian GDP
(real annual % change)



Source: BCRP, INEI



insurance (+5.5%) also fostered economic growth.

According to INEI, most sectors grew over the last year, though there were important exceptions, such as manufacturing, the most important sector in our economy, which continued to fall last year (-1.6%). This was due to a decline in canned fish, crustaceans and mollusks production; garments manufacturing; and in the output of metal products for structural use, among other manufacturing branches. In addition, construction also fell (-3.2%) and so did fishing (-10.1%).

Regarding domestic demand, between January and September (latest figures available) it grew by 1.1%, which marks the slowest growth since 2009. This happened because, despite private consumption (its main component) expanded by 3.6%, total investment kept falling (-7.8%) in line with private investment (-6.2%). According to the BCRP, this is partly explained by the end of the investment phase of mining projects that have recently started operations.

On the other hand, exports showed a better performance, influenced precisely by mining projects that began operations. The BCRP informed that total exports reached US\$ 36.8 billion in 2016, 7.6% higher than in the previous year. 2016 was the first year of export growth since 2012, an outcome that was largely driven by mining exports, rising up to US\$ 21.7 billion (+14.9%) and, to a lesser extent, by agriculture and livestock, which reached US\$ 5.5 billion (+8.9%), while most other sectors fell. Imports declined for the third year in a row with the decreasing purchase of inputs and capital goods by industries. Thus, in 2016 total imports accounted for US\$ 35.1 billion (-6.1%).

Concerning prices, in 2016 the National Consumer Price Index grew by 3.34% with higher prices for food and beverages, restaurants and hotels, and education, while communications prices fell, according to INEI.

Finally, another important price for the economy, the exchange rate of the Peruvian Sol against the U.S. dollar kept rising in 2016. The average interbank exchange rate reached a peak of S/. 3.54 by the end of February, a level not seen since the end of 2002. After that, it fell

and then increased again during the second half of the year, ending with an annual average of S/. 3.38 (+6% compared with 2015). This reflected continued global expectations of normalization of the Fed's interest rate, especially after the U.S. election.

THE PERUVIAN MINING SECTOR

Although mining production stood out in 2016 (with a 21.2% growth), there is still need to mention the complicated scenario in terms of conflicts that mining faces in Peru. Nowadays, this element is really important if we want to talk about competitiveness and, hence, about investments.

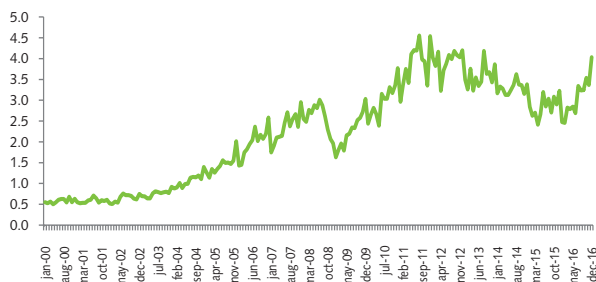
In that sense, the context of still recovering prices and costs adjustments observed by the end of 2016, together with the country's social climate, explain the low level of executed mining investment and its trend. According to the Ministry for Energy and Mines of Peru (MINEM), in 2016 mining investment plunged by 44.2% compared with the prior year, to US\$ 4.3 billion, going back to values observed in 2010. Furthermore, investment forecasts for 2017 show even lower numbers.

With regard to investment categories, in 2016 most of them declined, except for mining production expenses, which is understandable since there are no new major projects in the short term pipeline.

As we mentioned above, in 2016 mining was the economic activity that largely supported Peruvian GDP growth and it showed greater progress than in 2015, though fairly lower growth is expected for this sector in the next two years, according to BCRP forecasts.

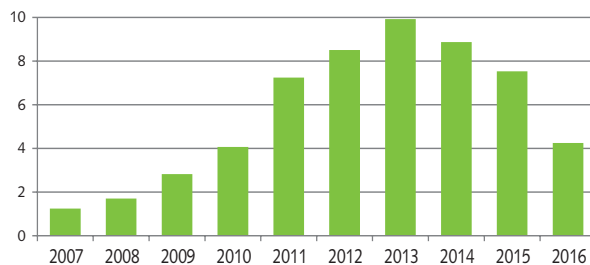
The positive outcome of the mining industry is mainly explained by copper production, which grew 38.4% in 2016 (MINEM) with the operations startup of Las Bambas mining project and the consolidation of other projects that started in recent years (Toromocho, Antapaccay and Constancia), together with a higher output from Cerro Verde's expansion. With these new operations, in 2016 Peru reached a new record in its copper production, with 2.35 million metric tons, which would allow the country to

Peruvian monthly exports (billions of US\$)



Source: BCRP

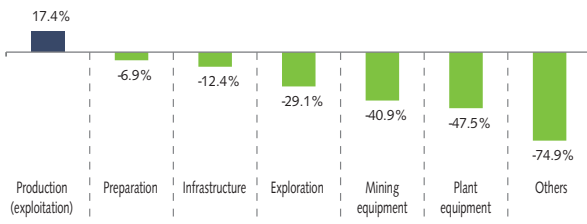
Mining investment in Peru (billions of US\$)



Source: MINEM



Mining investment in Peru
(2016 vs. 2015 % change)



Source: MINEM

establish itself as the second largest copper producer in the world.

Some details should be given regarding the aforementioned projects inaugurated in 2016. Las Bambas is an operation that involved an investment close to US\$ 10 billion, making it one of the largest mines in the country. Having started operations in May, it already accounts for 14% of Peruvian copper production and it is expected to reach 20% in the short term. It began operations with a mine life of more than 20 years, whose expansion will depend on the continuity of works and investment.

The other determining fact concerning copper production in 2016 was the expansion of Cerro Verde operations. With an investment of US\$5.2 billion, this project added 30 years of life to the mine and has positioned it as one of the five largest operations worldwide. Inaugurated in May 2016, the works included the installation of a new concentrator plant (240,000 MT per day capacity), a new leach pad, an electric transmission line and a wastewater

treatment facility, among others, which would allow the company to double its production. Today, Cerro Verde represents 22% of Peru's copper production.

Silver production also showed a positive result in 2016, with a growth of 6.7% explained by the higher yields obtained from mining units of Cia. De Minas Buenaventura, Cia. Minera Ares and Cia. Minera Antamina.

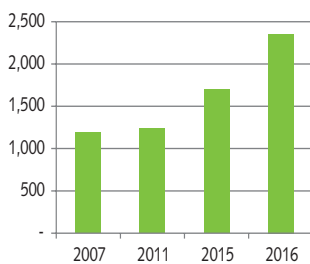
Gold and iron production grew as well, by 4.2% and 4.7% respectively. In the case of gold, this was due to the operations startup of Shahuindo and higher output at Cia. Minera Ares and Cia. Minera Poderosa. Meanwhile, iron production benefited from investments in the modernization and expansion of the only existing iron operation in Peru (Shougang Hierro Peru), which increased its production by 342,000 tons in 2016.

Another product showing a positive evolution was molybdenum, with a 27.8% growth in 2016. This is understandable since, in Peru, this mineral is usually obtained as a by-product of copper. On the other hand, lead production declined slightly.

There was a decrease of 5.9% in zinc production, because of a lower output at Los Quenuales, Grupo Volcan and Cia. Minera Antamina. In the case of tin, the 3.7% plunge resulted from the slow recovery of international prices, along with the fact that production costs remained high worldwide.

Concerning the world market, international metal prices had a positive performance during 2016 in most cases. The price of tin increased 12% reaching US\$ 17,000 per metric ton, but remained below the average price recorded in recent years. The price of silver grew 9%, accompanying

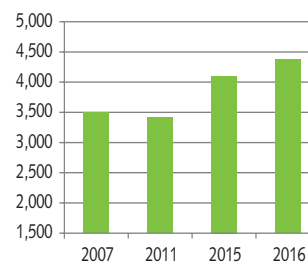
Copper production
(thousands of MT)



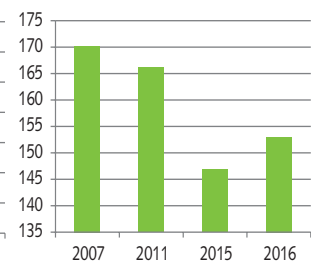
Molybdenum production
(thousands of MT)



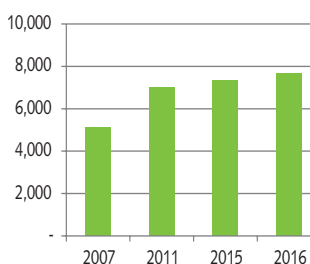
Silver production
(MT)



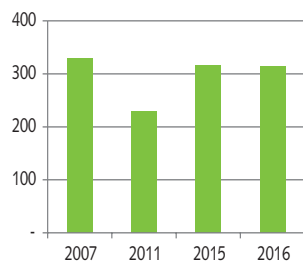
Gold production
(MT)



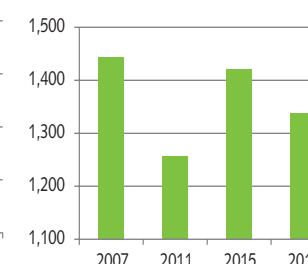
Iron production
(thousands of LT)



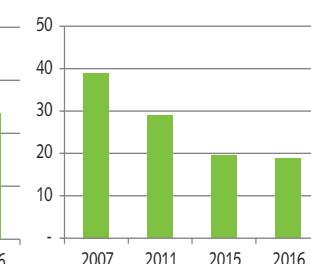
Lead production
(thousands of MT)



Zinc production
(thousands of MT)



Tin production
(thousands of MT)



Source: MINEM



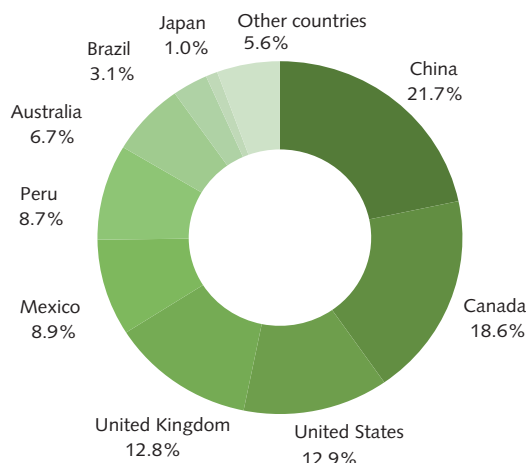
gold, whose 7% price growth responded to temporary expectations about the U.S. outlook (presidential elections and changes to its target interest rate). Zinc and lead prices rose by 8% and 5% respectively, as a result of supply factors. Finally, although by the end of 2016 the price of copper was 12% below 2015 levels, a significant recovery was observed since October 2016, such that in December 2016 the price was 22% higher than in the same month in 2015.

In this context, the performance of Peruvian mining exports was explained by both production and market factors. According to the BCRP, in 2016 mining exports reached US\$ 21.7 billion, accounting for 59% of Peru's total exports, a share greater than that of 2015 (55%). Once again copper and gold were our leading mining exports, representing 47.0% and 33.6% thereof, respectively.

Regarding transfers to regional and local governments (mining canon, standing fee and royalties), in 2016 these would have surpassed S/. 2.4 billion, a lower amount than that of 2015.

Finally, the latest portfolio of mining projects (estimated in January 2017) is close to US\$ 47 billion. New copper projects explain 61.3% thereof and the remainder is accounted for by other projects (polymetallic, iron, phosphates, gold, zinc, silver, uranium and tin). It should be noted that 53.4% of the total portfolio belongs to projects

Origin of investors in Peru's mining portfolio
(Total US\$ 47 billion)



Source: MINEM (January 2017)

that are in the exploration phase, 11.1% to expansions, 34.3% to new projects with approved Environmental Impact Assessment (EIA) and the remaining 1.3% to new projects with delivered EIA.

