

# PERU



## Entering A New Golden Age

Investment Series 2007



# Pathway to Success

With one of the fastest growing stock markets anywhere in the world and GDP expected to exceed 7.2% in 2007, Peruvian businessmen are confidently predicting a glittering future.

A number of factors have converged to make Peru a favored destination for international investment. Blessed with a wealth of minerals, natural gas, and other resources, Peru has become a major exporter to the US, China, and other fast-growing economies. President Alan García and his government won the July 2006 national elections on the promise to maintain fiscal responsibility and improve social conditions. The victory of García's center-left government over its pro-Chávez rivals was widely seen as a triumph for both business and moderate politics. The next elections are not due until 2011.

The country today enjoys one of the region's lowest sovereign risk ratings, and its steady economic and fiscal management are making it a strong foreign direct investment alternative to many other countries in Latin America.

## AN ATMOSPHERE OF TRUST

"The Peru of today is very stable," says Peruvian Prime Minister Jorge del Castillo. "We play by the rules of the game. It has a solid economy and it's a country with fiscal discipline. Foreign investment comes from the trust to know nothing can go wrong." Reaching out to her international trading partners, Peru has so far concluded 29 treaties protecting and promoting investment with countries in the Pacific Basin, Europe, and Latin America.

Creating an atmosphere of trust, stresses del Castillo, has been

vital to winning confidence both at home and abroad. With this aim, the government is pressing ahead with educational reforms in an effort to create a more highly skilled workforce and to create jobs. Since taking office last year, it has also launched Sierra Exportadora, a program focused on boosting job creation and economic development in Peru's southern and central highlands.

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Following three years of consistent economic performance, the future outlook for Peru appears bright: Annual inflation is now running at below 2% – among the lowest in the region – which is an achievement to be applauded anywhere; the country's currency, the Peruvian sol, is stable; and unemployment has fallen substantially to just over 7% in metropolitan Lima.

## A WEALTH OF RESOURCES AND ENERGY

Peru's economy reflects its varied geography with a dry coastal region, the peaks of the Andes further inland and tropical lands bordering neighboring Colombia and Brazil. Peru's coastal waters provide a bounty of fish while the mountains yield abundant sources of copper, zinc, silver, and gold. Economic growth has



been driven by exports of minerals, textiles, and agricultural products.

Most promising is the ongoing development of vast natural gas fields that can enable Peru to become one of the few countries in Latin America able to meet its own energy needs. Energy self-sufficiency, and the assurance of affordable electricity, provides major incentives for international companies to invest in Peru.

The Inter-American Development Bank is lending support to an ambitious \$1.7 billion project to tap natural gas reserves in the Camisea region of the Peruvian interior. Combining gas-well development, processing facilities, pipelines, liquefaction, and a marine terminal to dispatch liquid gas exports, Camisea is expected to add a full percentage point to Peru's GDP growth every year over the next 30 years.

While the Camisea project has raised concerns among environmental groups over its impact on Peru's rainforests, the economic benefits are undeniable. A local supply of natural gas means that electricity production costs will fall by 30%, stimulating industrial production and creating jobs. Consumers will also benefit from lower energy prices, and many automobiles will be converted to burn cheap and plentiful natural gas. ■

# Magical Destinations

Home to the ancient Inca civilization and abounding with natural wonders, Peru has long ranked among South America's most popular tourist destinations.

The Andes were home to a series of ancient civilizations who left their mark on the Peruvian landscape. The Nazca Lines, the Incan ruins at Machu Picchu and Cusco, and the Royal Tombs at Sipan are among the most impressive, invoking a sense of awe and wonder in those that visit them. The combination of ancient architecture and stunning landscapes remains unsurpassed anywhere in the world.

Tourism is thriving in Peru with 1.6 million international visitors arriving last year, up 10% from 2005. Tourists are drawn to the ancient magic of the country, but they also come to marvel at the high Andes wonder of Lake Titicaca, the world heritage maritime park of Paracas National Reserve, the majestic Colca Canyon, pristine beaches, virgin rainforests, and rolling hills laced with vineyards.

So far, however, the country has largely lacked the five-star, all-year-round luxury holiday accommodation that its mild climate allows. The seaside community of Asia, nicknamed 'the Hamptons of Lima' because of its beautiful beaches, genteel feel, and proximity to the capital, previously served mainly Peruvian holidaymakers and was limited to a four-month season, from December to March.

## FIVE-STAR LUXURY

Today, that is changing with Revolutions Peru's five-star beach resort, convention center, and spa currently under development in Asia, just 60 miles south of Lima. Named La Huaca, after the ancient Moche civilization pyramid, for the sense of magic it invokes, the resort features world-class

facilities for up to 3,000 visitors and is set among lush, landscaped gardens and traditional Peruvian buildings, walkways, and terraces.

La Huaca features an international spa and cosmetic surgery clinic, a full-service casino, convention center, retail mall, sports and entertainment areas, a wedding chapel, and soon it will even have its own airport. The facility will operate 365 days a year and plans to open by December 2008. Nearly 80% of condominiums sold so far have gone to American, British, Irish, and other international investors.

## MEDICAL TOURISM

La Huaca offers a unique combination of beach living, convention facilities, and high-quality, affordable cosmetic surgery and spa facilities. Investors buy into a combination of club living and medical treatment unavailable anywhere else in Peru, explains La Huaca President and Chief Executive Officer John Reynolds: "At present there are a lot of clients coming into the country, some even from as far away as Australia. But there

is no service at present that takes care of everything in one facility. That's our idea, the complete medical vacation package."

A few innovative Peruvian organizations have developed facilities to attract international and local medical tourists. Among the oldest and most developed is Clínica Ricardo Palma, established back in 1975, operating a number of private hospitals in the Lima region. Certified members of the American Hospital Association, Clínica Ricardo Palma offers quality medical services at very reasonable prices.

Medical tourism is a huge and growing industry. Cosmetic surgery, dental work, and medical check-ups are particularly popular at Clínica Ricardo Palma, because many insurance companies either don't cover them or impose price limits – and the cost of high-quality treatment in Peru is a fraction of that in the US or Europe.

"We have a very good check-up that even includes colonoscopy by board-certified doctors for around \$200," says Dr. César Villarán, Executive President at Clínica Ricardo Palma, "and we honor 100% of medical insurance from around the world, including Blue Cross Blue Shield."

More tourists every year are combining sightseeing, beach holidays, and cosmetic surgery and other medical treatment. Peru is today emerging as an important location for this growth industry. ■

Machu Picchu has been shortlisted to be one of the new seven wonders of the world.



Photo: Tannaz Etebarian

## THE COURAGE TO TRY SOMETHING DIFFERENT

**W**hile a record number of innovative companies and entrepreneurs are currently flourishing in Peru's buoyant economy, pioneering business models and practises are nothing new to the Peruvian business community.

Fifty years ago, two Peruvian companies – Cemento Andino and Cemento Pacasmayo – switched their production techniques from the 'wet system' for cement manufacturing to a highly innovative system called the 'heat exchanger' – a process developed by Mr. Müller of the German company Klöckner Humboldt Deutz, which was then brand new in Europe. Operating at a staggering 4,000 meters above sea

level in the Andes highlands, these Peruvian companies were among the first to try out the new procedure and Mr. Müller himself made the trip from Germany to see how his new technology coped at such dizzying heights.

The new technique was such a success that by 1961 both plants had doubled their efficiency, boosted their production and quality, and were able to maintain their cement prices for many years, despite Peru's high currency inflation rate.

However, the tremendous boon in production was to count against the two companies in years to come. In 1967 the companies merged to form Cementos Lima and in 1971, following a Price Waterhouse audit, the auditors reported that the merged company was capable of manufacturing cement at less than 50% of the average cost of regular cement producers

in Europe and the US. Such a lucrative operation proved too attractive for the then military government to resist and in 1974, the government illegally seized the company – and subsequently operated it for the next seven years. Despite the stagnation caused by the unconstitutional confiscation the company survived, and in 1981 its shareholders managed to recover majority ownership.

Today, Cementos Lima is the largest player in the Peruvian cement market – a market currently buoyed by a massive construction boom. And the company is also becoming a major player in the international markets, as earlier this year it opened its new US \$40 million cement plant in Arizona, the US state with the fastest growing population – and consequent demand for cement – in recent years.

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# Harvest of Plenty

Well known as a country blessed with natural resources, Peru is also home to a rich gastronomic tradition. With a stable political outlook and economic growth accelerating, many of Peru's national brands are competing well in both domestic and international markets.

Peru enjoys a varied and unique culinary legacy. Fresh agricultural produce, fruit, meat, and seafood, combined with organically produced beer and other beverages, have led to Peruvian cuisine being billed as "the best kept food secret in South America" by the respected *Food & Wine Magazine*.

The country is currently enjoying a boom, with sales of consumer goods and foodstuffs up 14% on last year.

Aided by a series of economic reforms, a pro-business government, and a stable currency, Peruvians have greater purchasing power than ever before, and they are investing and consuming more.

Lima's booming restaurant scene is one of the most vibrant anywhere in South America, serving dishes such as *Nikkei*, which uniquely blends Japanese and Peruvian styles, to *Chifa*, which mixes Chinese cuisine

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with local influences to create gastronomic masterpieces.

With the focus on quality and tradition, Peruvian food and beverage brands have become effective, high-performance competitors. Despite strong competition from foreign firms, the locally brewed Cusqueña beer is a super premium lager and remains the country's top-seller, also enjoying export success in the US, Britain, and other markets.

Brewed according to an ancient tradition using pure Andean

mountain water and a minimal amount of chemicals, "Cusqueña is an outstanding brand and it is prepared with a lot of attention to the detailed craftsmanship of the product in the same way the Incas did," says Robert Priday, General Manager of Backus & Johnston, the Peruvian operation of SABMiller, which produces Cusqueña and other quality beverages. Backus now runs six breweries throughout the country, along with a carbonated soft drinks facility.

Blessed with favorable weather conditions and as many as 27 microclimates reflecting the diverse geography and topography, Peru produces a variety of fruits and vegetables for global markets. The production of table grapes is growing rapidly and the industry now exports to the US, Britain, and diverse Asian markets. The country is able to harvest and export grapes at times of the year when competing US and Chilean vineyards are barren, providing distinct competitive advantage.

"Companies, supermarkets, wholesalers, and retailers around the world are looking for products available all year round to fulfill customers' needs," points out Rodolfo Pacheco Monteverde, General Manager of Fundo Sacramento, Peru's third-largest

The Andean foothills.



Photo: La Huaca

Given Peru's projected GDP growth of over 7% this year, the country's broader export market for agricultural products has a very promising future.

exporter of table grapes. "They are coming to Peru because of the good weather and the improving political situation."

Fundo Sacramento's production is expected to double this year and the company already sells up to \$4 million-worth a year through exports. It is also aggressively attacking the premium market for organic pomegranates and other fruit, and is diversifying into avocado cultivation and frozen fish production. Given Peru's projected GDP growth of over 7% this year, the country's broader export

market for agricultural products has a very promising future.

Like many of their South American cousins, Peruvians love to eat out and the country enjoys a diverse restaurant culture from seafood to fast food. The emphasis is on product quality and freshness. Local brands compete very effectively against foreign ones. The locally produced Inca Kola, for instance, outsells Coke. Bambos, the top Peruvian fast food chain, is the leader in the local hamburger fast food market, ahead of McDonald's and Burger King, with 30 outlets in Peru. It is currently expanding internationally with franchises in India and Central America.

With the best economic growth in a decade and little sign of inflation, Peru offers the stable market conditions for a thriving food and beverage industry. Domestic consumption is rising and exports have found substantial success in international markets.



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