"DECADE OF THE DISABLED IN PERU"
"YEAR OF PERUVIAN SOCIAL AND ECONOMIC CONSOLIDATION"

MINISTRY OF ECONOMY AND FINANCE

ANNUAL PROGRAM OF INDEBTEDNESS AND DEBT MANAGEMENT

2010

"DECADE OF THE DISABLED IN PERU"
"YEAR OF PERUVIAN SOCIAL AND ECONOMIC CONSOLIDATION"

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ANNUAL PROGRAM OF INDEBTEDNESS AND DEBT MANAGEMENT 2010

CONTENTS

INTRODUCTION

In recent years, the efforts made to administer the public debt have been contributing to reduce the vulnerability of public finances and to reinforce trust among investors with respect to the soundness of the country's macroeconomic fundamentals. The changes experienced in the structure of the public liabilities portfolio, including the significant increase in the Nuevos Soles denominated debt contracted on a fixed rate basis, as well as an amortizations profile with a lesser payment concentration in the coming years, have been highlighted as some of the key factors considered by the credit risk rating agency Moody's to grant Peru an investment grade rating, a recognition which is added to the rating previously conferred by Dominion Bond Ratings (DBRS), Fitch and Standard & Poor's.

This quality change in the structure of public liabilities, added to the important reduction of debt as a percentage of the GDP, which has been gradually achieved, allowed that in the context of the international financial crisis, the debt did not become an additional vulnerability factor for public finances, but rather, an element of strength that has made it possible for the country to better face the turbulences in the financial markets.

Aware of the importance of offering transparency and predictability to the economic agents with respect to the main guidelines of the debt policy, so as to guide their investment decisions the 2010 Annual Program of Indebtedness and Debt Management (PAEAD) is published. Both the principles of responsibility and prudence in debt contracts and proactivity in the management of the portfolio's risks will be maintained and the development of the local capital market will continue to be encouraged during this fiscal year.

In addition to reflecting the willingness of the debt policy orientation, the Program contains quantitative goals to be achieved, depending on market conditions.

Section One features a brief diagnosis of the debt obligation's portfolio risks. Section Two announces the objectives of the Program's guidelines, which represent the fundamental principles of the strategy to be adopted. Section Three conducts a brief analysis of the context of the external and internal financial market and a definition is made of the goals to be achieved by December 2010.

Section Four quantifies the refinancing risks and market portfolio's risks for the year 2010; and Section Five presents some additional indicators helpful to analyze the behavior of the medium- and long-term public debt. Finally, a preliminary evaluation is made on compliance with the goals scheduled for the closing of the 2009 fiscal period.

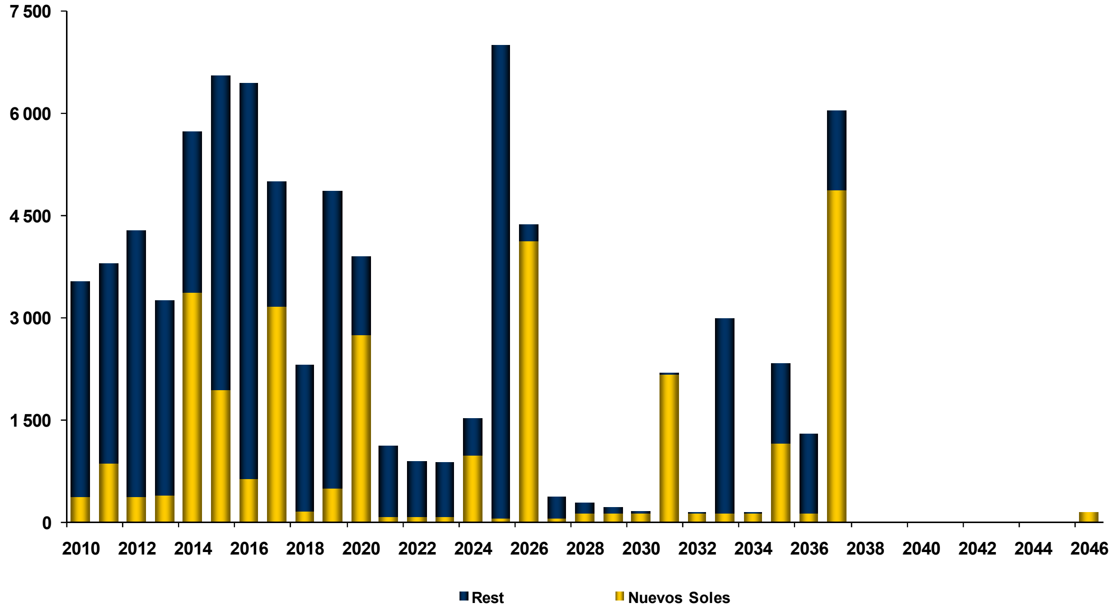
1. PUBLIC DEBT RISKS

The analysis of risks associated with public debt portfolio is conducted mainly taking into consideration refinancing and market risks.

The **refinancing risk** exists due to the possibility of refinancing maturities debt at high cost, or in the extreme case that certain debt cannot be roll over at all. This risk increases whenever there is a concentration of amortizations in the closer periods and it becomes more demanding due to their currency structure.

The average life[1] of the public debt portfolio, indicator which is used to quantify part of the refinancing risk, as of September 30, 2009, is 11,29 years (9,41 years for external obligations and 15,89 years for internal obligations), becoming one of the longest, with respect to other countries in the region.

Chart Nº 1
Public Debt: Amortizations flow by currency
(Nuevos Soles million)



In absolute terms, there is still a concentration of maturities for the next six years, especially between 2014 and 2016, thus, priority will continue to be given to actions aimed at reducing amortization payments for the upcoming years. Since the projections and goals for the economy as a whole, specified in the Revised 2010-2012 Multi-Annual Macroeconomic Framework (MMM) has a temporary three-year horizon[2], it has been deemed convenient to consider the payment of amortizations

[1] It is defined as the weighted average term (in years) when the borrower must reimburse its creditors the amortizations, in nominal terms, of the loans received.

[2] It should be mentioned that in accordance with Article 9 of Law 27245, Law of Fiscal Prudence and Transparency (amended by Law 27958 - Law of Fiscal Responsibility and Transparency), the Ministry of Economy and Finance should prepare and publish, each year, the MMM, which includes macroeconomic projections, understanding the assumptions upon which they are based, covering three years, the year for which the budget is being prepared, plus the two following years.

for that period[3], as being the relevant payment for the analysis and for the execution of liability management actions[4].

74,6% of the principal maturities (approximately US$ 3,0 billion[5]) relate to Multilateral Organizations and to the Paris Club, credit sources, which, due to their nature, make unlikely the execution of liability management operations that would allow for the softening of the payments profile. The room for maneuver to try to reduce the service would be limited to the remaining 25,4%[6].

However, a broader analysis, in relative terms, of the service[7] to be paid with in those years, results in this representing an average of approximately 2,0% of the estimated GDP for the period, consistent with the decreasing historical path shown by this ratio (see Chart Nº 2). A measurement of the ratio of this variable with respect to government's non-financial expenses[8], reveals the same behavior (See Chart Nº 3). A reduction in the relative weight of these payments on the treasury and the higher access by the country to alternative financial sources to gather resources necessary to refinance our obligations has the effect that unlike previous years, the debt service may be considered as an ever more manageable variable. This situation is possible, thanks to prudence in the handling of the public finances, the important growth of the country's revenues and the relief obtained in the payment of amortizations resulting from the execution of liability management operations.

Chart Nº 2
Debt Service / GDP
(%)

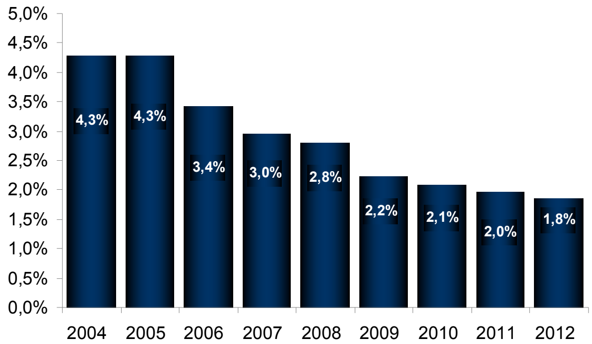
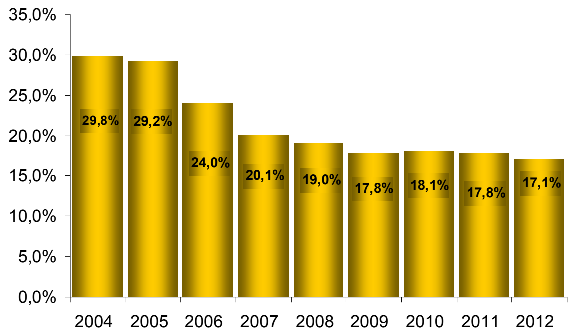


Chart Nº 3
Debt Service / Non-financial expenses
(%)



3 US$ 1, 232 billion for 2010, US$ 1, 314 billion for 2011 and US$ 1, 477 billion for 2012. For further details about the payments to be made, the relief of the 2011 sovereign bond interchange was incorporated.

4 This does not mean that proactive actions will be taken on maturities greater than that period.

5 53,2% corresponds to principal maturities with the Multilateral Organizations and 21,4% to Paris Club member countries.

6 Of this percentage, 19% belongs to the group of market debts, such as internal bonds by approximately US$ 0,354 billion (US$ 0,227 billion from the 2011 sovereign bonds) and external bonds by US$ 0,402 billion (2012 global bonds). In theory, these instruments could be involved in exchange operations to which the investors decide to voluntarily opt.

7 This entails the payment of amortizations and interest of the public debt. It does not include any payments made with respect to liability management transactions, considering their exceptional nature.

8 In order to standardize the notion of the measurement, it was decided to use the service (amortization and interest) of the external and internal debt and the Central Government's non-financial expenses.

Concerning the **market risk,** it is defined as the exposure of the debt portfolio and the cost of its service to the variations in interest rates and exchange rates. To this effect, according to the structure by currency of the maturities included between 2010 and 2012, 56,7% (approximately US$ 2,286 billion) corresponds to US Dollar denominated obligations (See Chart Nº 4). Under different circumstances, this position could represent a vulnerability factor and an additional refinancing risk element[9]; however, this apparent weakness would be mitigated by the effect of the appreciating trend of our currency with respect to the US Dollar, expected by the market, especially in 2010.

Concerning the interest rate risk, the fixed rate debt represents 79,8% of the total obligations to be complied with during the period (See Chart Nº 5), which would provide a high level of predictability in the scheduling of payments of the debt service and therefore an exposure of little significance to the volatility of this variable. An indicator which can help complement this risk analysis, at the portfolio level, is the average life to refix the interest rates (VMR), which expresses the average term in which a new rate will be fixed for the liabilities portfolio[10]. This indicator provides a view of the frequency in which it will be necessary to contract a new debt to refinance the existing obligations and be exposed to the ups and downs of the cost offered by the market whenever access to new resources is necessary. In the case of our portfolio, this indicator totals 10,35 years[11], which places us in a comfortable position, considering that it is expected that in an immediate future, the rates would tend to increase.

Chart Nº 4
Maturities 2010-2012
By currency

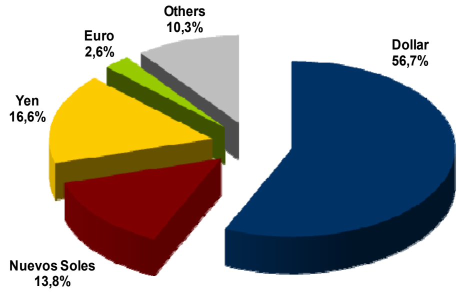
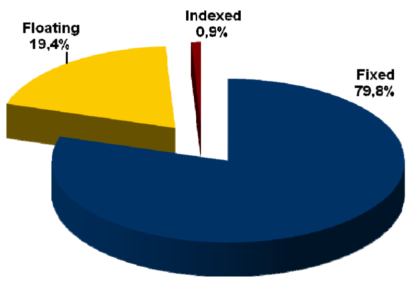


Chart Nº 5
Maturities 2010-2012
By interest rate



Source: MEF – DNEP

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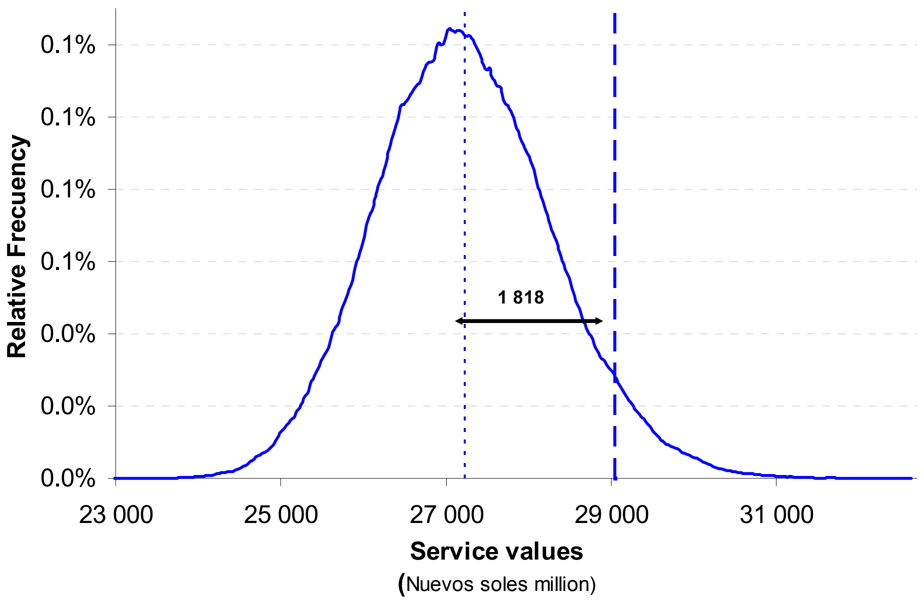
9 The appreciation of the US Dollar could increase the needs of financing in terms of domestic currency.

10 If the debt is contracted at fixed rate, the VMR is equal to the average life; however, if the debt has been contracted at a variable rate, the VMR is equal to one divided by the number of times interest is paid each year. If this indicator is calculated combined, for fixed rate debt and at variable rate, it is defined as a weighted average of the corresponding VMRs. Clearly, this indicator rises whenever interest rate hedging operations are conducted, and/or if there is a debt prepayment at variable rate using fixed rate debt.

11 In 2008, VMR was 9,56 years.

An analysis, on a wider scale, of the Service at Risk (SaR[12]), to which there is a joint and co-related flow of market risk and the refinancing risk, reveals that the debt obligation service[13] estimated for the next 3 years, with a confidence level of 95%, reaches levels of approximately S/. 29,043 billion. The risk attributed to interest rate and exchange rate fluctuations, which could imply an additional expense compared to the projection (measured by the difference between 95% and the average), would be equivalent to S/. 1,818 billion, that is, about 6% of the service estimated for the period (see Chart Nº 6).

Chart Nº 6
Debt Service at Risk
Period 2010-2012



2. DEBT STRATEGY

The main object of the public debt administration will be to minimize the cost of accessing to the resources required to cover the fiscal requirements assuming reasonable levels of risk.

With that guidance, work will be undertaken to reduce, as much as possible, the impact of the financial burden of the previously contracted debt, substituting it with new obligations contracted upon under more advantageous conditions. In addition, efforts will be made to continue implementing an adequate management of the portfolio's risks, as a gravitational factor of the strategy to prevent potential adverse effects of any shocks which may jeopardize public finance stability.

Inasmuch as the main objective is maintained, the guidelines defined in the strategy being implemented in the past few years do not experience any changes.

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12 This model assumes that each of the interest rate and exchange rate variables follows a Brown Geometrical Process variable, and that they are inter-related. Based on these premises, an adequate number of Monte Carlo simulations is generated of possible combined paths of these variables, which are used to build a distribution of the accumulated debt service in the selected period.

13 Considering the position of the contracted debt maintained in the portfolio as of the closing date.

Compliance with these guidelines will be subject to market conditions during the year 2010, therefore the actions to be carried out within the framework of the liability management, will be adapted to the new challenges and/or restrictions to be imposed by the market, unchanged, as much as possible, the basic principle of safeguarding against the portfolio's risks.

The policy guidelines to lead the debt strategy for this year will be:

- Continue to increase the share of the debt in Nuevos Soles (contributing to the process for the de-dollarization of the economy) and the percentage of the fixed rate debt in the liabilities portfolio. (Indicators: share of Nuevos Soles in the total debt percentage of the fixed rate debt and VMR).

- Reduce the concentration of payments of amortization in the debt profile, with priority to the next three years (Indicators: ratio of concentration of payment of annual amortizations[14] average life and VMR).

- Boost the development of the domestic capital market, through the consolidation of the public debt market (Indicator: percentage of financing in local currency[15]).

The strategy that will help strengthen these guidelines during 2010, in the various fields of public liability management will be as follows:

2.1 Indebtedness

During the year 2010, financing through public debt has been estimated, as part of the fiscal requirements anticipated in the Revised 2010-2012 MMM for approximately US$ 3,692 billion[16], through bilateral, multilateral and market sources. Resources gathered via bonds will originate from the issuing of Nuevos Soles sovereign bonds, preferably at fixed rate.

The expected financing will make it possible to cover the 2010 debt amortization, which totals approximately US$ 1, 232 billion[17], as well as the fiscal deficit projected for the year, which would equal 2,0% of GDP[18].

[14] It measures deviation over and above the maximum predetermined levels of payment of amortizations of the portfolio in the next 5 years. These levels are in line with the growth rate of government's current revenues stipulated in the Revised 2010-2012 MMM. This indicator which helps evaluate the payments level (refinancing risk) and therefore, a policy on the terms of the new debt to be contracted, weighs the differences, with respect to the maximum levels, based on the term when the maturities occur. A higher weight is given to figures with the closest maturities.

[15] Considering the financing of fiscal requirements and liability management transactions.

[16] For the purposes of this document, an adjustment has been made in the internal bonds category, which takes a more up to date position of the Revised 2010-2012 MMM. The resources considered in the MMM relate to disbursements of contracted indebtedness and the one that will be contracted .

[17] According to the current structure of our obligations, the most important maturities to be paid in the year, are of an external nature, especially those relating to the Multilateral Organizations, which account for approximately 50% of the total.

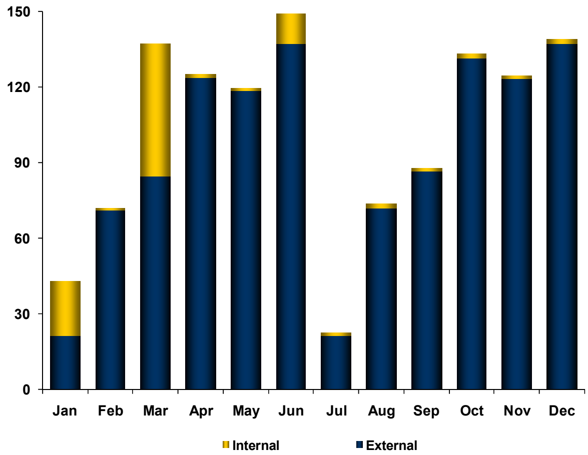
[18] Deficit of the Non-Financial Public Sector without Certificates of Recognition of Rights Over the Annual Work Payment (CRPAOs). CRPAOs increase this to 2,2%.

Table Nº 1
2010 Financial requirements to be financed with indebtedness
(US$ million)

Sources	Amounts
External	**1 929**
Free availability 1_/	772
Investment projects	1 148
Internal	**1 763**
Bonds	1 395
Credits	368
Total	**3 692**

1_/ These resources are additional to those obtained as pre-financing in the year 2009.
Source: MEF-DGAES (MMM)

Chart Nº 7
Public debt:
2010 Monthly amortizations flow



2.1.1 External Indebtedness

The financing of investment projects and free availability resources will be obtained from credit lines granted by Multilateral Organizations. In the event of need, the contingent credits contracted with these creditors will be utilized up to the amount of US$ 1,020 billion to cover natural disasters and financial crises.

- The use of financial products offered by the Multilateral Organizations will be optimized to mitigate debt risks. (Choice of a payment schedule, determination of financial cost, inclusion of conversion clauses[19], etc).

- No global bonds will be issued in the international capital market for financing fiscal requirements during 2010, considering that part of them were gathered as pre-financing in the year 2009.

- The international capital market would only be sought in order to obtain resources for liability management operations; and eventually, if deemed necessary and depending on market conditions, to pre-finance the year 2011, anticipating potential turbulences ad portas of an election year.

- The possibility of issuing external bonds in a currency other than the US Dollar[20], will only be considered whenever market conditions allow that after a US Dollars swap is performed, the cost of such issue will

[19] The conversion clauses allow for the contractual amendment of the financial terms of credit operations with regard to rate and currency.

[20] The currency exchange policy used by the BCRP aims at reducing the volatility of the exchange rate between the Nuevo Sol and the US Dollar, therefore, it has been defined that after the Nuevo Sol, the US Dollar represents the second best risk option as far as debt currencies are concerned.

be significantly more attractive than that which would be obtained from issuing directly in US Dollars.

2.1.2 Internal Indebtedness

In essence, the strategy implemented in recent years will be maintained, giving preference to the issuing of sovereign bonds at a fixed rate in the middle part and long end of the yield curve. There will be enough flexibility for adaptation to prevailing extraordinary situations brought about by the market, retaking the strategy's matrix lines as soon as possible.

- The issuing of sovereign bonds is anticipated up to the amount of S/. 4,115 billion (approximately US$ 1,395 billion), of which S/. 2,065 billion are aimed at covering the financial requirements of the public sector pursuant to the provisions of Law 29466[21], whereas the remaining portion will be issued by charging the amount authorized by Decreto de Urgencia 040-2009[22] and its amendments, in order to promote the execution of infrastructure projects in the Regional Governments[23].

- The schedule of sovereign bond issues will try to be as regular as in the previous year (See Annexes).

- Quarterly reference amounts have been established for the issues to be conducted within the framework of Law 29466, which will be adjusted based on market conditions (See Annexes). In the case of bond issues under the provisions of Urgency Decree 040-2009, the gathering of resources will be gradually done, depending on the execution pace of the works.

- Public treasury bills will be issued based on the needs of the Treasury, following the procedures and regulations applicable to the placement of sovereign bonds. Accordingly, there will be a mechanism in place to allow a quick access to short term financing.

2.2 Debt Management

Efforts will continue to encourage an improvement of the debt's cost-risk ratio, through the execution of liability management operations, such as exchanges, prepayments and hedging, among others. Financing of these operations, depending on their amount, will be preferably done in the local market.

- Evaluations will continue with regard to the portfolio's risks and to the monitoring of any opportunities, which may be offered by the market to carry out operations in order to mitigate them.

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21 Law of the Public Sector's Indebtedness for Fiscal Year 2010. These bonds are placed in accordance with the regulations applicable to the Market Makers Program, first in a Dutch auction and after that in a direct allocation.

22 Issued within the framework of the Economic Stimulus Program implemented by Government in an effort to add dynamism to the economy.

23 In the case of the issuing of bonds, which aim is the financing of infrastructure projects in the regions, the procedure is only through Dutch auction .

- Given the current context, with historically low rates, an attempt will be made to substitute contracted obligations upon in the past with new debts contracted under more advantages conditions in terms of cost and risk quality.

- Efforts will be made to take advantage of the most suitable conditions to carry out rate and currency hedging operations, as well as apply the conversion provisions included in the agreements signed with Multilateral Organizations[24]. Priority will be given to operations that will allow for an exchange of strong currencies to a local currency.

- To minimize the counterparty risk[25] which could be incurred in the future, there will be a permanent follow up on credit ratings[26] issued by specialized agencies, as well as on the levels of Credit Default Swaps[27] and stock exchange capitalization[28] of the financial institutions with which the Republic has signed ISDAs[29]. A list will be put together with these elements, to provide a quick view of each financial institution's position with respect to the other institutions legally authorized to carry out hedging operations. Furthermore, it will be encouraged for the total volume of swaps held by the Republic in the debt portfolio, to be spread among a larger number of counterparties.

2.3 Development of Public Debt Market

Government will maintain an active presence in the public bond market, fulfilling its promoting role in the development of the capital market. However, it will remain alert in order not to validate speculative and abrupt increases in the cost of bonds, which could extend throughout time, distorting the efficient functioning of the market.

- Benchmark bonds' liquidity will be consolidated in the secondary market, making sure that few references with debt levels over and above S/. 4,0 billion (approximately US$ 1,350 billion) are maintained and that certain level of equidistance is kept between the points in order to avoid any generation of competence between the terms. This process will be accomplished through the reopening of a series of existing titles; and if possible, through exchange operations. With this

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24 These will indirectly involve the hedging operations that these institutions conduct with the market and which conditions are transferred to the Republic.

25 Defined as the possibility that one of the parties to a financial agreement fails to live up to its contracted obligations.

26 This measures a debtor's capacity and willingness to pay, and this is why credit risk rating agencies conduct a general analysis of the capabilities and weaknesses of a company to meet its long term debts, reviewing them on a periodical basis. Debt rating is reflected on grades or degrees, which are divided into two broad categories: grades belonging to investment grade, and grades belonging to the level of speculation. Companies with low probabilities of not paying their debt are found in the former.

27 These are financial derivatives that allow investor to protect themselves against the possibility of default of a debt title. These instruments are quoted in basis points and represent the additional cost of a title with respect to the Libor curve, thus, a higher level of CDS implies a higher risk of the debt title or higher probabilities of default.

28 This is the market price of each share times the number of outstanding shares, representing the market value of a company, varying daily, reflecting the market's outlook with respect to the future conditions of that company.

29 International Swap Dealers Association, Inc. Master Agreement. This is a standard agreement configuring a contractual framework to carry out hedging operations. It sets forth the definitions and general conditions that regulate any derivative entered into by the parties.

purpose in mind, priority will be given to the issuing of the 2042, 2031 and 2020 bonds, in that sequence.

- In order to satisfy specific demands from a sector of investors and to provide new references in actual rates to the private sector, inflation-indexed bonds will be issued. The 2046 sovereign bond will be reopened in an amount not to exceed S/. 0,2 billion.

- The creation of strips[30] will be encouraged as well as of other instruments aimed at supplying new tools for the economic agents that will make the overall development of the capital market possible.

- The strengthening of investor communication channels will continue, so as to know its preferences and provide relevant information on the economy, particularly on public debt administration and the development of the pertinent indicators.

3. DEBT STRATEGY'S QUANTITATIVE GOALS

3.1 Current context and outlook

Following the financial crisis that unfolded a recession in most countries around the world, the combination of expansive fiscal and monetary policies permitted in the third quarter of 2009, for the main economies to start showing a certain degree of recovery[31]. Analysts agree that it will take some time to consolidate the current panorama of growth, thus, no changes in the monetary policy are expected until the end of the third quarter of 2010, with which, reference interest rates of relevance in the world's economy would remain at their historically low levels[32] and therefore, short term rates as well. Nevertheless, medium and long term US Dollar interest rates have been on the rise, since the market is presumably about to be discounting in the near future, a probable acceleration of inflation pressure[33].

In this context, despite the fact that the emerging countries cost of debt has come down significantly, remaining at historically low levels at the moment[34], it is expected for this cost to rise throughout the course of the year 2010, following the trend of long-term US Dollar interest rates. Faced with this

[30] Strip: Separately Trade Registered Interest and Principal. Strips are financial instruments created on the basis of fixed-income titles, such as bonds, arising from the segregation of the flows corresponding to the payment of each coupon and principal payment, with each of these flows giving rise to a zero-coupon title (strip). Therefore, it is possible to obtain as many implicit yield titles (strips), as there are coupons in a bond, plus the strip corresponding to the principal. In this case, an evaluation will be done of the mechanisms allowing for sovereign bond holders to be able to change their current position for other titles which segregation is possible.

[31] The U.S.A. GDP reported an increase of 2,2%, Japan 1,2% and the Euro Zone 0,4%.

[32] U.S.A. 0,25%, Euro Zone 1,0% and Japan 0,10%.

[33] Considering the liquidity excess incurred because of the application of the emergency policies, which gave rise to such extraordinary minimum levels of interest rates; and on the other hand, the renewed increase in the price of raw materials. The pace of the interest rate increases will be closely attached to the consolidation and strength of the current economic growth and inflation pressure indices.

[34] Even below the levels prevailing prior to the financial crisis, the low levels of US Dollar interest rates, the search for higher returns by the investors and the renewed optimism about economic growth, all contributed to aversion to risk dropping considerably.

probable scenario, an analysis will be done about the convenience of conducting, during the first part of the year, certain liability management operations, including risk hedging operations, to fix the interest rates of a segment of the portfolio that is still being contracted by variable rates[35].

Concerning the currencies behavior , as of the closing of 2009, the US Dollar displayed a certain level of appreciation versus the Euro and the Yen, reversing the trend observed during the year, which, in addition to being partially explained by investors' profit taking, it is also supported by the growing expectations of a United States recovery to take place at a faster pace than Europe's and Japan's, thus, the market would be considering the possibility that the FED changes its interest rates policy, before those economies' monetary authorities do so.

Chart Nº 8
Emerging Markets Bond Index (EMBI+)
(May 2008- December 2009)

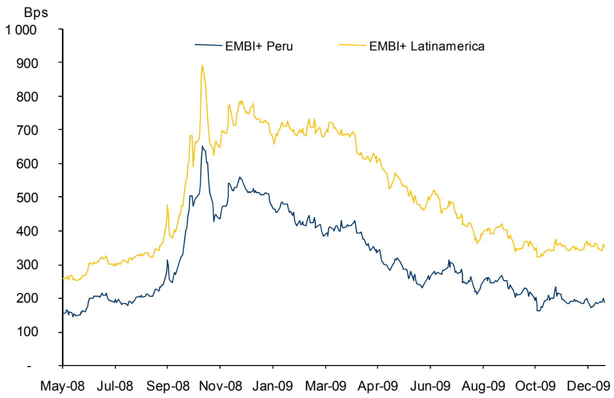
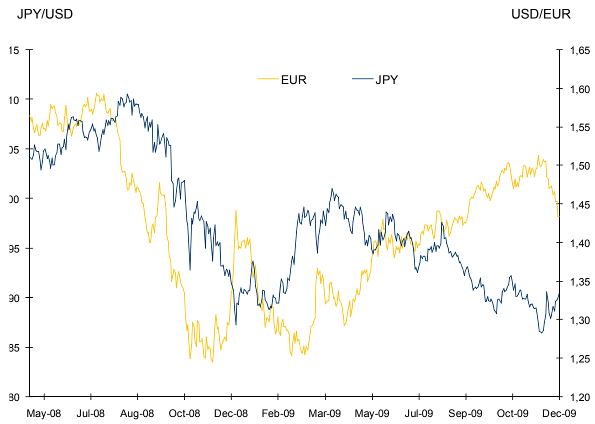


Chart Nº 9
Euro and Yen Evolution



In a scenario of appreciation of the US Dollar versus the Euro and the Yen[36], the amount of US Dollars to be required to face the payment of the obligations held in our portfolio and which were agreed upon in such currencies would be reduced[37].

At the local level, inflation would be growing gradually during the next few months, returning to the range set by the Central Bank towards the second quarter of 2010, explained by the recovery of domestic demand, to a good extent boosted by the public sector via the Fiscal Stimulus Plan. A potential growth of the inflation rate would imply a rise in the nominal Nuevos Soles interest rates in all the portions of the yield curve, negatively affecting the cost of the sovereign bonds; however, this effect could be mitigated if the demand for such bonds increased, especially a demand by foreign investors, who would enter the local market attracted by the expectation of a significant currency appreciation. During a good part of 2009, the Nuevo Sol gained ground on the US Dollar, as investors' aversion to risk declined to take position in assets denominated in emerging countries' currencies. On the other hand, the balance of payments current account deficit went down at the

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35 Approximately 19,4% of the maturities for the next 3 years, and 5,2% of the total portfolio.

36 The market expects that by the end of 2010, the USD/EUR exchange rate will be 1,45 and the JPY/USD exchange rate will be quoted at 98 Yen.

37 Representing approximately 9,5% of total debt.

closing of 2009, and the same is expected for 2010, and thus, the local currency would have fundamentals to become stronger during the year. The low levels of interest rates, which would probably be maintained in early 2010, and the strength of the local currency, would create a suitable context for the undertaking of hedging operations from strong currencies to Nuevos Soles.

3.2 Goals range quantification scenarios

In order to define a goals reference range at the end of the year 2010, with minimum and maximum values within which the different public debt risk indicators should be positioned, three alternative scenarios were developed. The main premise thereof is that the central lines of economic policy being implemented in the past few years would be maintained, as well as the flexibility to adapt to unexpected situations that could arise. With this purpose in mind, consideration has been given to the probable behavior of the international and domestic financial markets and their impact on the possibilities and conditions under which, access to the expected amounts of financing could be gained; projections of the macroeconomic variables, orientation of the debt policy and possibility of continuing with the undertaking of liability management operations to improve the portfolio's cost – risk ratio.

It is worth pointing out that compliance with the goals set forth will be subject to the particular evolution of the described variables and degrees of correlation they may keep with each other.

The baseline scenario fits the parameters established in the Revised 2010-2012 MMM, which, in line with the expectations of the economic agents, forecasts for 2010, a recovery of the economy at the international level, following the crisis. A GDP growth of approximately 5%,which would be driven not only by a better situation of our main business partners, but also by the dynamism of the domestic demand. Year-to-date inflation would be at 2%, within the goal range set by the BCR, an exchange rate of approximately S/.2,95 per US Dollar and a primary balance of -0,3%, which would help stimulate the economy in the short term. This scenario considers covering the financing of both the fiscal requirements set for the year, as well as the execution of certain liability management operations.

The optimistic scenario assumes a more vigorous recovery of the macroeconomic variables and the market context. In this case, not only would it be possible to cover the financial requirements under competitive conditions, but also it would be feasible to carry out the anticipated liability management operations with better results.

The pessimistic scenario presumes that the pace of economic recovery is still weak. However, the conditions under which financing of the fiscal requirements are met would be less advantageous, thus, the plan is to conduct a limited number of liability management operations.

Table 2 displays the reference goal ranges for the different risk indicators of the portfolio's public liability expected to be reached as of the closing of 2010, consistent with a debt strategy chiefly oriented to reducing exposure to the market and refinancing risks.

Table Nº 2
Reference quantitative goals as of the closing of 2010

Item	December 2009 1_/	December 2010
Percentage of Nuevos Soles in the portfolio	40,2%	43% - 45%
Percentage of fixed rate debt in the portfolio	78,3%	73% - 82%
Average life (years)	10,9	11 - 12
VMR (years)	10,0	10 - 11
Annual amortization payment concentration rate 2_/	23,7%	8% - 3%
Percentage of financing with local currency 3_/	22,6%	42% - 53%

1_/ Preliminary figure determined on the basis of September 2009 data, plus the effect of transactions carried out as of December 2009 and net indebtedness (disbursements less amortizations) for the fourth quarter of the year.
2_/ Measures the deviation of the portfolio's amortizations payments over and above predetermined maximum levels. This indicator allows for an evaluation of the payments pressure (refinancing risk), representing an additional element to define policy over the terms for the new debt to be contracted. The stated indicators are not comparable, since, in the year 2009, the debt service of the total portfolio was taken into consideration, while this year, it has been deemed convenient to take a five-year measurement.
3/ Includes the financing of the debt management transactions.

4. QUANTIFICATION OF THE PORTFOLIO'S RISKS FOR THE YEAR 2010

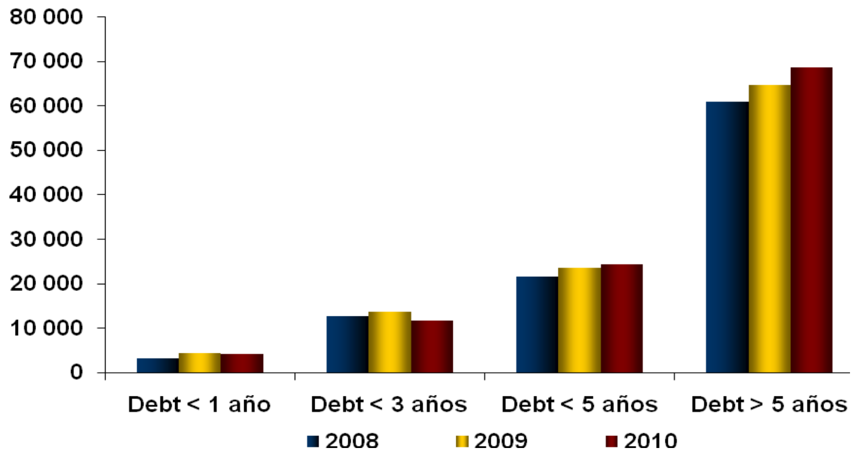
In order to quantify the risks to which the debt portfolio would be exposed at the end of 2010, the position represented by the baseline scenario has been taken as a reference parameter.

4.1 Refinancing risk

In line with the conditions which the new debt is being acquired, essentially long term, and the strategy implemented to soften the public debt's payment profile, it is expected to continue the de-concentration of maturities in the upcoming years; and therefore, increase the amount of the payments to be made in terms over 5 years (See Chart Nº 10). This situation provides a comfort level to take in advance any actions allowing the reduction of such burden in future years. The projection for the baseline scenario is that the percentage of debt maturities over 5 years would be approximately 73,7%.

Consistent with these projections, despite the fact that the average life of the portfolio tends to naturally diminish each year, in the baseline scenario the estimate is that such indicator would be in approximately 11,9 years, continuing with the performance demonstrated in the past two years when values in excess of 11 years have been maintained.

Chart Nº 10
Debt portfolio maturity term
(Nuevos Soles million)



4.2 Market risk

As of December 2010, it is expected to consolidate the achievements made in recent years in the reduction of this risk, making sure that the percentage share of Nuevos Soles in the portfolio positions itself in levels close to 45%, which would make it possible to keep on displaying significant progress with respect to the levels obtained in previous years (16,4% in 2005). See Chart Nº 11. Similarly, it is expected that as of the closing of year, the percentage of obligations contracted at a fixed rate will be at approximately 82% of the total (way above the 51% reported in 2005). (See Chart Nº 12).

Chart Nº 11
Evolution of portfolio composition
By currency

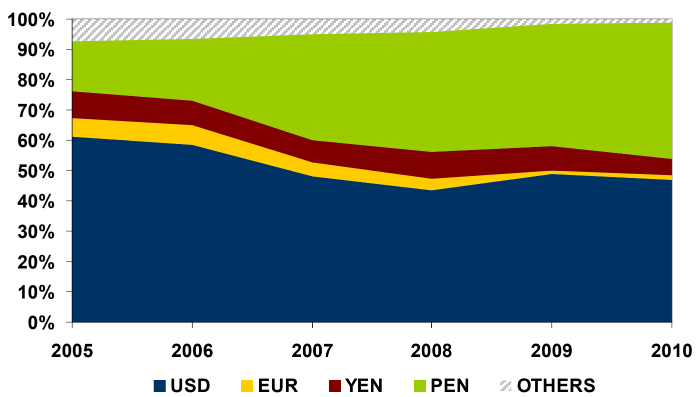
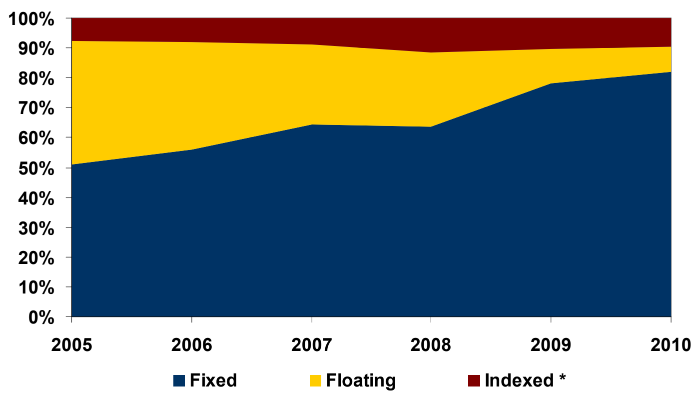


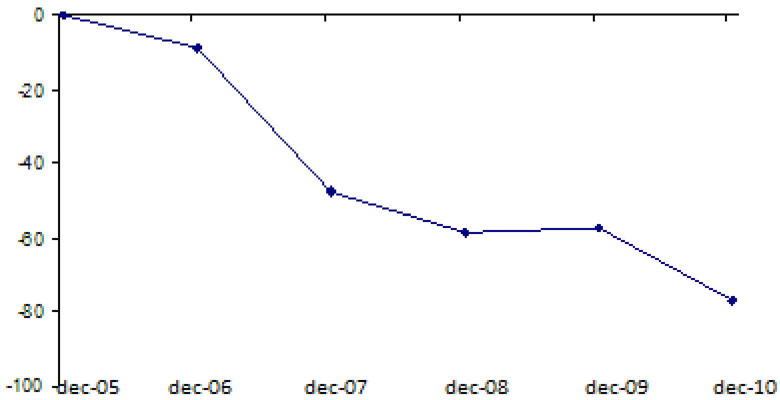
Chart Nº 12
Evolution of portfolio composition
By rates



* Indicator debt includes Sovereign Bonds (24%) and Bonds ONP (76%).

An exercise allowing the quantification of the historical evolution for the impact of the currency exchange risk on the public debt stock[38] shows that the vulnerability of the portfolio with respect to this risk would keep the past few years' decreasing trend. At the end of 2010, it is expected a fall greater than that reported in 2009, consistent with the increase of the Nuevos Soles position that would be involved under the base scenario. (See Chart Nº 13).

Chart Nº 13
Risk variation in the debt stock
(US$ million)



On the other hand, the Service at Risk (SeR) analysis reveals that under the adopted assumptions, the debt service estimated for the year 2010, with a 95% confidence level, would total an amount of approximately S/. 9,755 billion. The structure of the obligations to be paid with, the expected volatility and the correlation existing between prices, could potentially imply an expense higher than the expected service of approximately S/. 0,368 billion (3,8% of the estimated payments)[39].

5. DEBT RATIOS, SUSTAINABILITY INDICATOR AND AMORTIZATIONS PROFILE

Table 3 shows the ratio trend versus the GDP of the medium and long term total debt, the debt service, and at the break down level of the amortizations and interest, of the dynamic debt for the base scenario. These indicators offer a perspective view, in relative terms, of the debt's viability as far as the budget is concerned.

38 In 2005, to quantify this risk a reference parameter was taken into account, in the form of the composition of the public debt by currency. Supposing that such composition is constant, a calculation is made of the variations of currency percentages in the portfolios of the following years, compared to 2005, also assuming a 1% appreciation of the US Dollar, the Yen and the Euro, compared to the Nuevo Sol in order to obtain any differences between the two positions.

39 Extrapolating this analysis to the dynamic debt for the 2010-2012 period, the estimated amount of debt service would be S/. 32,226 billion, and the additional amount which could be incurred would be approximately S/. 1,952 billion.

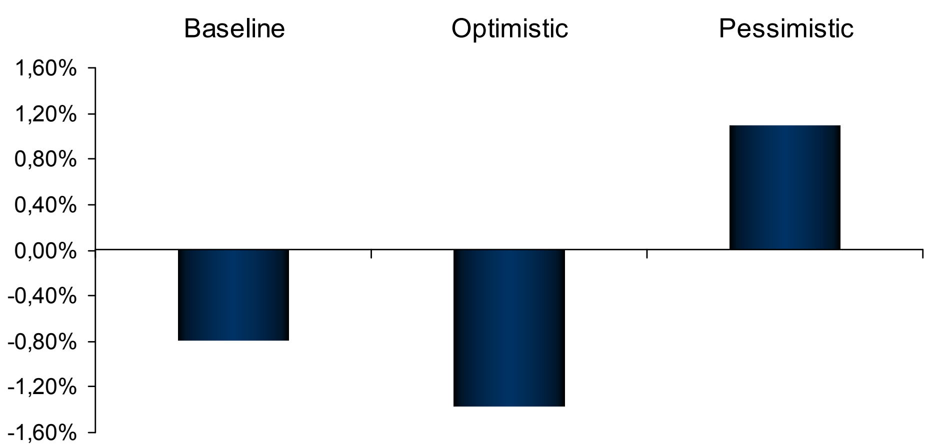
Table Nº 3
Ratios of the medium and long term public debt
(In GDP percentage)

	2009	2010	2011	2012
Base scenario				
Medium and long term debt/GDP	25,3%	24,8%	24,0%	22,4%
Medium and long term service/GDP	3,1%	2,4%	2,1%	2,1%
Medium and long term amortizations/GDP	1,8%	1,1%	0,9%	0,9%
Medium and long term interest/GDP	1,3%	1,3%	1,3%	1,2%

As can be appreciated, following the increase observed as of the closing of 2009, by reason of the higher public debt executed within the framework of the Economic Stimulus Program and the resources obtained for 2010 as pre-financing, it is observed that as from 2010, these ratios would again adopt the declining behavior displayed in previous years. This evolution would continue to be supported by the GDP growth forecasts and the effect of the potential liability management operations.

An analysis made of the behavior of the **medium and long term public debt** ratio through the sustainability indicator[40], discloses that in the baseline and optimistic scenarios, where it is positive, the medium and long term public debt is sustainable. In the pessimist scenario, which assumes a growth lower than that of the GDP and negative conditions in the prices of the future financial variables, the debt would not be sustainable. See Chart Nº 14.

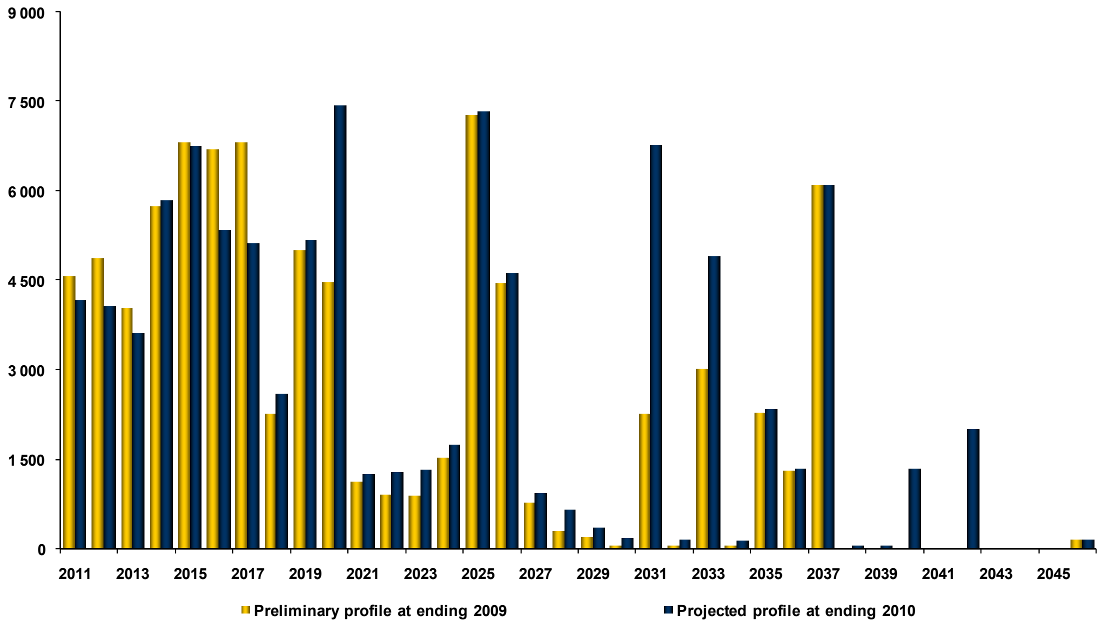
Chart Nº 14
Sustainability indicator for medium and long term public debt
(GDP percentage)



[40] This indicator is defined as the difference between the primary equilibrium surplus and the weighted average of the projected primary surpluses, as GDP ratios. The equilibrium surplus is that which ensures that the debt ratio will be constant through time. If the indicator has a negative sign, then the medium and long term public debt is sustainable.

As a result of the exercise performed, based on the assumptions made for this scenario, a projection was made of the dynamic public debt's profile, considering the flows generated by the new indebtedness to be contracted in the fiscal year to cover the financial requirements, as well as the impact of the liability management operations expected to be carried out during the year 2010, to reduce the portfolio's risks. In Chart Nº 15, one can appreciate that the profile of maturities for the next few years could be further softened with respect to the position of the debt obligation, in line with the objective to mitigate the refinancing risk.

Chart Nº 15
Projection of dynamic public debt amortizations
(Nuevos soles million)



6. PRELIMINARY EVALUATION OF 2009 DEBT STRATEGY

In spite of having had to deal with the worst financial crisis of the past 70 years, which affected the stability of the capital markets, public liability management tried to maintain the basic lines of the strategy prescribed in the PAEAD 2009. Thus, the policy to issue long term debt bonds at a fixed rate in the local market continued, to finance government's requirements and liability management continued to be conducted in order to improve the structure of maturities and costs of the public debt.

In the middle of crises, there are always opportunities, which, in this case the Republic did take advantage of, to fix interest rates at historically low levels for an important amount of debt contracted at variable rates, leaning on some of the rate and/or currency conversion options, as well as hedges offered by the Multilateral Organizations[41] with respect to their credits, which will make it possible that in the future, there may be a more efficient handling of the portfolio's risks. The magnitude of the amounts involved in these operations permitted the debt structure to show a substantive reduction in rate risk, compared to the preceding year[42].

41 To fix or convert certain debts contracted upon in currencies different from the US Dollar at variable rates, which values were determined according to the methodologies used by each financial institution.

42 It went from 63,5% in 2008, to 78,3 % in 2009.

Furthermore, within a context of a growing restriction in the capital flows towards emerging economies and given the uncertainty over the extent of the crisis and its duration, a decision was made to access to the international financial market to pre-finance the year 2010 with a new global bond maturing in 2019.

Table 4 shows the **preliminary** debt indicators corresponding to December 2009, vis a vis the goals anticipated in the PAEAD 2009. An analysis of these ratios reveals that the percentage of Nuevos Soles ends the year at a level close to the upper limit of the range considered[43], in line with the goal to improve the matching of government's income and expenses. Furthermore, worth mentioning is the significant increase observed in the percentage of debt at a fixed rate, in relation to 2008, over and above the estimated maximum limit. As stated, this significant progress was possible thanks to the execution of debt conversion and hedging operations with Multilateral Organizations, which will allow a greater level of predictability in the scheduling of the debt service.

The average life is below the minimum limit, explained not only by the inert reduction of the indicator with the passing of time, but also because of the effect of the term weighting in which the 2019 bond was issued. On the other hand, the amortizations variation factor closed within the estimated range, as a result of the relief obtained as a product of the liability management operations; while the financing in local currency indicator was below the range as a consequence of US Dollar pre-financing for 2010.

It is convenient to point out that even when the volatility of the financial markets was maintained during 2009, the levels of the indicators had not only, in general terms, positioned themselves within the projected ranges, but they had, in some cases, exceeded the expectations assumed at the beginning of the year with respect to their behavior.

Table Nº 4
Evaluation of reference quantitative goals considered in the 2009 PAEAD

Item	December 2009 PAEAD goal	December 2009 1_/
Percentage of Nuevos Soles in the total portfolio 2_/	37% - 43%	40,2%
Percentage of fixed rate debt in the portfolio 2_/	67% - 70%	78,3%
Average Life (years)	11 - 13	10,9
VMR (years)	10 - 11	10,0
Rate concentration of annual amortization payment	36% - 14%	23,7%
Percentage of financing in local currency	35% - 50%	22,6%

Source: DNEP – MEF
1_/ Preliminary figure determined on the basis of September 2009 data, plus the effect of transactions carried out as of December 2009 and net indebtedness (disbursements less amortizations) for the fourth quarter of the year.
2_/ Includes the debt corresponding to the Pension Regularization Office (ONP).

43 It is worth mentioning that level of this indicator dropped due to the increase of the debt balance owed as of the 2009 closing, as a product of the issuing of a US$ 1 billion bond in the form of pre-financing. An exercise performed, isolating the effect of this extraordinary measure, indicated that the Nuevos Soles proportion of the portfolio would cause a 41,5% increase.

"DECADE OF THE DISABLED IN PERU"
"YEAR OF PERUVIAN SOCIAL AND ECONOMIC CONSOLIDATION"

Annex 1

Table Nº1

Public debt: Outstanding by financing source*

Financing Source	Amount (Mill.US$)	Amount (Mill. S/.)	%
Foreign Debt	**20 401**	**58 856**	**100**
Bonds	8 963	25 859	43,9
Multilateral	7 910	22 821	38,8
Paris Club	3 271	9 438	16
Others	256	738	1,3
Domestic Debt	**11 016**	**31 781**	**100**
Bonds	10 865	31 346	98,6
- ONP	2 692	7 766	
- Sovereign	7 330	21 146	
- Others	844	2 434	
Credits	151	436	1,4
Total Debt	**31 417**	**10 890**	

Source DNEP - MEF
*As of 30.09.09, considering the hedge operations

Table Nº 2

Public debt: Outstanding by currency*

Currency	Amount (Mill. US$)	Amount (Mill. S/.)	%
Foreign Debt	**20 401**	**58 856**	**100,0**
Dollars	14 932	43 078	73,2
Yen	2 474	7 139	12,1
Nuevos Soles	1 957	5 645	9,6
Euro	499	1 441	2,4
Others	539	1 555	2,6
Domestic Debt	**11 016**	**31 781**	**100,0**
Nuevos Soles	10 884	31 399	98,8
Dollars	132	382	1,2
Total Debt	**31 417**	**90 637**	

Source DNEP – MEF
*As of 30.09.09, considering the hedge operations

Table Nº 3

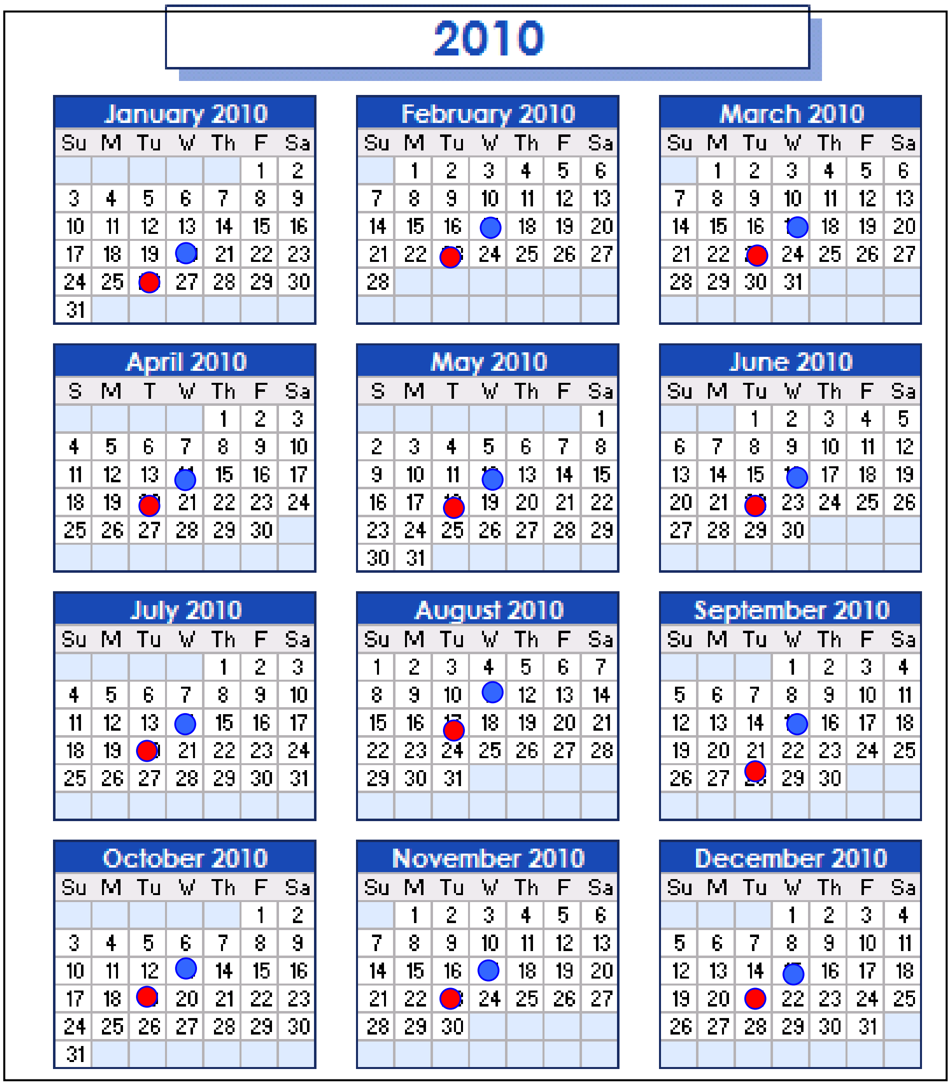
Public debt: Outstanding by interest rate*

Rate	Amount (Mill. US$)	Amount (Mill. S/.)	%
Foreign Debt	**20 401**	**58 856**	**100,0**
Fixed	16 646	48 024	81,6
Variable	3 755	10 832	18,4
- Libor	2 139	6 171	10,5
- Multilateral	1 539	4 441	7,5
- Others	76	220	0,4
Domestic Debt	**11 016**	**31 781**	**100,0**
Fixed	7 489	21 606	68,0
VAC	835	2 409	7,6
ONP	2 692	7 766	24,4
Total Debt	**31 417**	**90 637**	

Source DNEP – MEF
*As of 30.09.09, considering the hedge operations

"DECADE OF THE DISABLED IN PERU"
"YEAR OF PERUVIAN SOCIAL AND ECONOMIC CONSOLIDATION"

Annex 2
2010 Issuance Schedule



Market Makers Meeting
Sovereign Bonds Auction

Amounts to be issued within the Market Makers Program 2010 (Law Nº 29466)

Quarter	Minimum amounts to be issued (S/. million)
I	200
II	700
III	750
IV	415
TOTAL	**2 065**