



Cerro del Águila

U.S.\$650,000,000
4.125% Senior Notes due 2027
Unconditionally guaranteed by Kallpa Generación S.A.



Kallpa

Cerro del Águila S.A., a corporation (*sociedad anónima*) organized under the laws of Peru (“Cerro del Águila” or the “Issuer”), is offering U.S.\$650,000,000 aggregate principal amount of 4.125% Senior Notes due 2027 (the “notes”). The shareholders and the boards of directors of the Issuer and Kallpa Generación S.A., a corporation (*sociedad anónima*) organized under the laws of Peru (“Kallpa” or the “Guarantor”), have approved the merger of Kallpa into the Issuer (the “Merger”). The Merger will become effective upon the execution of the corresponding merger public deed, which is expected to occur shortly after the notes are issued. Until the Merger becomes effective on the issue date of the notes, the notes will be fully and unconditionally guaranteed on an unsecured basis by Kallpa. See “*The Merger and Unaudited Pro Forma Combined Financial Information.*”

The notes will mature on August 16, 2027. Interest will accrue from August 16, 2017 and will be payable on February 16 and August 16 of each year, beginning on February 16, 2018.

The Issuer may redeem the notes, in whole or in part, at any time prior to May 16, 2027, by paying the greater of the outstanding principal amount of the notes and the “make-whole” amount, plus, in each case, accrued and unpaid interest. On or after May 16, 2027, the Issuer may redeem the notes, in whole or in part, by paying the outstanding principal amount of the notes plus accrued and unpaid interest. The Issuer may also redeem the notes, in whole but not in part, at any time in the event of certain changes in tax laws at a price equal to the outstanding principal amount of the notes plus accrued unpaid interest and any additional amounts.

The notes will be senior unsecured obligations of the Issuer and will be *pari passu* in right of payment to all of the Issuer’s existing and future unsecured and unsubordinated indebtedness, except those obligations preferred by operation of Peruvian law. The guarantee of the notes will be a general, unsecured, senior obligation of the Guarantor and will be *pari passu* in right of payment to all of the Guarantor’s existing and future unsecured and unsubordinated indebtedness, except those obligations preferred by operation of Peruvian law.

Issue Price: 99.870% plus accrued interest, if any, from August 16, 2017

See “Risk Factors” beginning on page 18 for a discussion of certain risks that you should consider in connection with an investment in the notes.

The notes have not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any other jurisdiction. The notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act and to non-U.S. persons outside the United States in reliance on the exemption from registration provided by Regulation S of the Securities Act. For a description of certain restrictions on transfer of the notes, see “*Transfer Restrictions.*”

The notes and the information contained in this offering memorandum have not been and will not be registered with or approved by the Peruvian Superintendency of Securities (*Superintendencia del Mercado de Valores*, or the “SMV”) or the Lima Stock Exchange (*Bolsa de Valores de Lima*, or the “BVL”). Accordingly, the notes cannot be offered or sold in Peru, except if such offering is considered a private offer under the securities laws and regulations of Peru. The notes cannot be offered or sold in Peru except in compliance with the securities laws thereof.

The Issuer will apply to the Singapore Exchange Securities Trading Limited (the “SGX-ST”) for permission for the listing and quotation of the notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering memorandum. Approval in-principle received for the listing and quotation of the notes on the SGX-ST is not to be taken as an indication of our merits or the merits of the notes.

We expect that delivery of the notes will be made to investors in book-entry form through The Depository Trust Company (“DTC”) for the accounts of its participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, and Clearstream Banking, *société anonyme*, on or about August 16, 2017.

Joint Book-Running Managers

Credit Suisse

J.P. Morgan

Scotiabank

Credicorp Capital

The date of this offering memorandum is August 9, 2017.

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Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to “Cerro del Águila” or the “Issuer” are to Cerro del Águila S.A., all references to “Kallpa” or the “Guarantor” are to Kallpa Generación S.A. and all references to “we,” “us,” “our” and words of similar effect refer to both Cerro del Águila and Kallpa, considered as a combined entity.

For the sale of the notes in the United States, we are relying upon exemptions from registration under the Securities Act for an offer and sale of securities that does not involve a public offering. By purchasing the notes, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under “*Transfer Restrictions*.” We are not, and the initial purchasers are not, making an offer to sell the notes in any jurisdiction except where such an offer or sale is permitted. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

We have submitted this offering memorandum solely to a limited number of qualified institutional buyers in the United States and in offshore transactions to persons other than U.S. persons so they can consider a purchase of the notes. We have not authorized the use of this offering memorandum for any other purpose. This offering memorandum may not be copied or reproduced in whole or in part. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the notes. Distribution of this offering memorandum to any person other than the offeree and any person retained to advise such offeree is unauthorized, and any disclosure of any of the contents hereof without our prior written consent is prohibited. By accepting delivery of this offering memorandum, you agree to these restrictions.

This offering memorandum is based on information provided by us and other sources that we believe to be reliable. We and the initial purchasers cannot assure you that such information provided to us is accurate or complete. This offering memorandum summarizes certain documents (including the indenture that will govern the notes) and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering and the notes, including the merits and risks involved.

We are not making any representation to any purchaser regarding the legality of an investment in the notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business, tax or other advice. You should consult your own counsel, accountant, business advisor and tax advisor for legal, tax, business and financial advice regarding any investment in the notes.

We have not, and the initial purchasers have not, authorized any person to provide you with different information or to make any representation not contained in this offering memorandum. You should assume that the information contained in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum. Our business, financial condition, results of operations and prospects may have changed since that date.

By purchasing any notes, you will be deemed to have acknowledged that: (1) you have received a copy of and have reviewed this offering memorandum; (2) you have had an opportunity to review all financial and other information considered by you to be necessary to make your investment decision and to verify the accuracy of, or to supplement, the information contained in this offering memorandum and have been offered the opportunity to ask us questions, and received answers, as you deemed necessary in connection with your investment decision; (3) you have not relied on the initial purchasers or any person or entity affiliated with the initial purchasers in connection with your investigation of the accuracy of such information or your investment decision; (4) the initial purchasers are not responsible for, and are not making any representation to you concerning, us, our future performance or the accuracy or completeness of this offering memorandum; and (5) no person has been authorized to give any information or to make any representation concerning us or the notes or the offer and sale of the notes, other than as contained in this offering memorandum.

We reserve the right to withdraw this offering of the notes at any time, and we and the initial purchasers reserve the right to reject any commitment to subscribe for the notes in whole or in part and to allot to any prospective investor less than the full amount of notes sought by that investor. The initial purchasers and their respective affiliates may acquire for their own account a portion of the notes.

You must comply with all applicable laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the notes and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the notes under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor the initial purchasers will have any responsibility therefor.

This offering memorandum has been prepared on the basis that any offer of notes in any Member State of the European Economic Area (the “EEA”) will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish an offering memorandum for offers of notes. Accordingly, any person making or intending to make an offer in that Member State of notes which are the subject of the offering contemplated in this offering memorandum may only do so in circumstances in which no obligation arises for us or any of the initial purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither we nor the initial purchasers have authorized, nor do we or they authorize, the making of any offer of notes in circumstances in which an obligation arises for us or the initial purchasers to publish a prospectus for such offer. Neither we nor the initial purchasers have authorized, nor do we or they authorize, the making of any offer of notes through any financial intermediary, other than offers made by the initial purchasers, which constitute the final placement of the notes contemplated in this offering memorandum. The expression “Prospectus Directive” means Directive 2003/71/EC (as amended), and includes any relevant implementing measure in the Member State concerned.

This document is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Financial Promotion Order”); (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc.”) of the Financial Promotion Order; (iii) are outside the United Kingdom; or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the U.K. Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons, and will be engaged in only with relevant persons.

Credicorp Capital Sociedad Agente de Bolsa S.A. (“Credicorp Capital”) is not a broker-dealer registered with the U.S. Securities and Exchange Commission, and therefore may not make sales of any securities in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. Credicorp Capital will not make offers or effect sales of the notes in the United States or to U.S. persons. Credicorp Capital will only make offers and sales of the notes outside of the United States to non-U.S. persons.

This offering memorandum contains some of our trademarks, trade names and service marks, including our logos. Each trademark, trade name or service mark of any company appearing in this offering memorandum belongs to its respective holder.

NOTICE TO RESIDENTS OF PERU

THE NOTES AND THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM WILL NOT BE SUBJECT TO A PUBLIC OFFERING IN PERU AND HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH OR APPROVED BY THE SMV OR THE BVL.

PERUVIAN SECURITIES LAWS AND REGULATIONS ON PUBLIC OFFERINGS WILL NOT BE APPLICABLE TO THE OFFERING OF THE NOTES AND THEREFORE, THE DISCLOSURE OBLIGATIONS SET FORTH THEREIN WILL NOT BE APPLICABLE TO THE ISSUER OR THE SELLERS OF THE NOTES BEFORE OR AFTER THEIR ACQUISITION BY PROSPECTIVE INVESTORS. THIS OFFERING MEMORANDUM AND OTHER OFFERING MATERIALS RELATING TO THE OFFER OF THE NOTES ARE BEING SUPPLIED TO THOSE PERUVIAN INVESTORS WHO HAVE EXPRESSLY REQUESTED THEM. SUCH MATERIALS MAY NOT BE DISTRIBUTED TO ANY PERSON OR ENTITY OTHER THAN THE INTENDED RECIPIENTS. ACCORDINGLY, THE NOTES CANNOT BE OFFERED OR SOLD IN PERU, EXCEPT IF (I) SUCH NOTES WERE PREVIOUSLY REGISTERED WITH THE SMV, OR (II) SUCH OFFERING IS CONSIDERED A PRIVATE OFFERING UNDER THE PERUVIAN SECURITIES LAWS AND REGULATIONS OF PERU. THE PERUVIAN SECURITIES LAWS ESTABLISH, AMONG OTHER THINGS, THAT AN OFFER DIRECTED EXCLUSIVELY TO PERUVIAN INSTITUTIONAL INVESTORS QUALIFIES AS A PRIVATE OFFERING. IN MAKING AN INVESTMENT DECISION, INSTITUTIONAL INVESTORS (AS DEFINED BY PERUVIAN LAW) MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING OF THE NOTES TO DETERMINE THEIR ABILITY TO INVEST IN THE NOTES.

NO OFFER OR INVITATION TO SUBSCRIBE FOR OR SELL THE NOTES OR BENEFICIAL INTERESTS THEREIN CAN BE MADE IN THE REPUBLIC OF PERU EXCEPT IN COMPLIANCE WITH THE PERUVIAN SECURITIES LAWS.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Each of Cerro del Águila and Kallpa present financial statements in U.S. dollars in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), and all financial information included in this offering memorandum is derived from their respective financial statements, except as otherwise indicated.

The financial statements included in this offering memorandum consist of:

- audited financial statements of Cerro del Águila as of and for the years ended December 31, 2016 and 2015 (“Cerro del Águila audited annual financial statements”);
- unaudited condensed interim financial statements of Cerro del Águila as of March 31, 2017 and for the three months ended March 31, 2017 and 2016 (“Cerro del Águila unaudited condensed interim financial statements”);
- audited financial statements of Kallpa as of and for the years ended December 31, 2016, 2015 and 2014 (“Kallpa audited annual financial statements”); and
- unaudited condensed interim financial statements of Kallpa as of March 31, 2017 and for the three months ended March 31, 2017 and 2016 (“Kallpa unaudited condensed interim financial statements”).

We present these financial statements in U.S. dollars, which is also our functional currency.

In addition, this offering memorandum includes the following pro forma financial information: (1) unaudited pro forma combined statements of financial position as of March 31, 2017; (2) unaudited pro forma combined statement of profit or loss for the three months ended March 31, 2017; and (3) unaudited pro forma combined statement of profit or loss for the year ended December 31, 2016. The unaudited pro forma combined financial statement of financial position was prepared as if the Merger had occurred on March 31, 2017. The unaudited pro forma statements of profit or loss were prepared as if the Merger had occurred on January 1, 2016.

All references in this offering memorandum to (i) U.S. “dollars” or “U.S.\$” are to U.S. dollars and (ii) “Peruvian soles” or “S/” are to the legal currency of Peru. Amounts in Peruvian soles were translated to U.S. dollars at the Peruvian sol/U.S. dollar exchange rate in effect on the applicable transaction date. Peruvian sol/U.S. dollar translations included in this offering memorandum are solely illustrative and reflect only the Peruvian sol/U.S. dollar exchange rate in effect on the date of such translation, and you should not expect that any amount in Peruvian soles actually represent a stated U.S. dollar amount or that it could be translated into U.S. dollars at the rate suggested.

We have made rounding adjustments to some of the figures included in this offering memorandum. Consequently, numerical figures shown as totals in some tables may not be arithmetic aggregations of the figures that precede them.

Non-IFRS Financial Information

In this offering memorandum, we disclose EBITDA, annualized EBITDA and net debt, which are non-IFRS financial measures, each as defined in “*Summary—Summary Financial and Other Information.*” Each of these measures is an important measure used by our management to assess our financial and operating performance. We believe that the disclosure of EBITDA, annualized EBITDA and net debt provides useful supplemental information to investors and financial analysts in their review of our operating performance and in the comparison of such operating performance to the operating performance of other companies in the same industry or in other industries that have different capital structures, debt levels and/or income tax rates. Other companies may calculate EBITDA, annualized EBITDA and net debt differently, and therefore our presentation of EBITDA, annualized EBITDA and net debt may not be comparable to other similarly titled measures used by other companies. The presentation of non-IFRS financial information is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with IFRS. We urge you to review the reconciliations of the non-IFRS financial measures presented herein to the comparable IFRS financial measures presented herein and not to rely on any single financial measure to evaluate our business.

Industry and Market Data

We obtained the market and industry data and other statistical information used throughout this offering memorandum from our own research, surveys or studies conducted by third parties, independent industry or general publications and other published independent sources. To the extent it relates to the Peruvian government or Peruvian macroeconomic data, the information used throughout this offering memorandum has been extracted from official publications of the Peruvian government and has not been independently verified by us or the initial purchasers. While we believe that each of these sources is reliable, they are themselves subject to assumptions and involve judgments and estimates, and neither we nor the initial purchasers have independently verified such data, and neither we nor the initial purchasers make any representations as to the accuracy of such information. Similarly, we believe our internal research is reliable, but it has not been verified by any independent sources.

Capacity and Production Figures

Unless otherwise indicated, statistics provided throughout this offering memorandum with respect to power generation units are expressed in MW, in the case of the capacity of such power generation units, and in GWh, in the case of the electricity production of such power generation units.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements reflecting our current views about future events, including but not limited to our expectations for conditions in Peru and in our industry, as well as our future performance, financial condition and results of operations, capital expenditures, liquidity and capital structure. Words such as “believe,” “could,” “may,” “would,” “will,” “anticipate,” “plan,” “expect,” “intend,” “target,” “estimate,” “project,” “potential,” “predict,” “forecast,” “guideline,” “should” and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying these statements. Statements that are not historical facts, including statements about our strategy, plans, objectives, assumptions, prospects, beliefs and expectations are forward-looking statements. While we consider these expectations and assumptions to be reasonable, forward-looking statements are based on current plans, estimates and projections and, therefore, are not guarantees of future performance and are subject to various risks and uncertainties, most of which are difficult to predict and many of which are beyond our control. Actual results could differ materially and adversely from those expressed or implied by the forward-looking statements, including but not limited to:

- our ability to successfully consummate the Merger as described in this offering memorandum;
- our ability to source, enter into and/or renew long-term power purchase agreements (“PPAs”) and the terms of such agreements;
- the ability of our customers to meet their obligations under our PPAs;
- our ability to renew and/or enter into supply, transmission and/or distribution agreements on competitive terms, as such agreements expire;
- our access to water for our hydroelectric plant;
- our ability to secure natural gas, and the prices of natural gas, to operate our power generation plants;
- the performance and reliability of our generation plants and our ability to manage our operation and maintenance costs;
- business interruptions or impairment of our assets;
- expected trends in the Peruvian power market, including trends relating to the growth in the energy market, supply and demand imbalances, and investments in competing power generation facilities;
- reduction of our margins when selling energy to the spot market;
- the nature and extent of future competition in the Peruvian energy industry;
- the legal and regulatory framework of the Peruvian energy industry;
- our goals and strategies;
- the sufficiency of our liquidity and capital resources;
- our ability to finance our operations and the possible expansion of Las Flores;
- climate conditions and changes in climate or other occurrences of natural phenomena;
- our ability to utilize our PPAs, fuel supply and other agreements to hedge against exchange rate and fuel price fluctuations;
- the maintenance of relationships with customers;
- our ability to hire and retain qualified and competent management;

- the potential sale of our parent company by Kenon;
- interruption or failure of our information technology, communication and processing systems or external attacks and invasions of these systems;
- litigation and/or regulatory proceedings or developments and our expectations with respect to such litigation, proceedings or developments, including the impact of our release of certain provisions;
- expiration or termination of the concession granted in connection with our hydroelectric plant;
- the potential expropriation or nationalization of our generation plants including creeping expropriation, with or without adequate compensation;
- adequacy of our insurance coverage;
- the political and macroeconomic outlook for Peru, including exchange rate, inflation and interest rate fluctuations, and the impact on our business of such conditions;
- new types of taxes or increases or decreases in taxes applicable to us and/or our business;
- the effect of weather conditions on generation, consumer energy use, tariffs or our operating costs;
- potential changes in tariffs, which may impact our revenues or EBITDA;
- changes in our regulatory environment, including the costs of complying with environmental and renewable energy regulations; and
- other factors identified or discussed under “Risk Factors.”

Some of these factors are discussed under “Risk Factors,” but there may be other risks and uncertainties not discussed under “Risk Factors” or elsewhere in this offering memorandum that may cause actual results to differ materially from those in forward-looking statements. You should read this offering memorandum completely and with the understanding that our actual future results may be materially different from what we expect.

In any event, these statements speak only as of the date of this offering memorandum, and we do not undertake any obligation to update or revise any of them as a result of new information, future events or otherwise.

ENFORCEMENT OF CIVIL LIABILITIES

Each of Cerro del Águila and Kallpa is a corporation (*sociedad anónima*) existing under the laws of Peru. The majority of each of Cerro del Águila's and Kallpa's shares are owned by IC Power Peru, a company organized under the laws of Bermuda. The remaining shares are directly owned by Energía del Pacífico S.A., a corporation (*sociedad anónima*) organized under the laws of Peru.

Substantially all of each of Cerro del Águila's and Kallpa's directors, officers and controlling persons named herein reside outside the United States, and a substantial portion of each of Cerro del Águila's and Kallpa's and those persons' assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons, including with respect to matters arising under the federal securities laws of the United States, or to enforce against such persons or against Cerro del Águila or Kallpa judgments of courts of the United States predicated upon the civil liability of the federal securities laws of the United States.

We have been advised by our Peruvian counsel, Miranda & Amado Abogados, that any final and conclusive judgment for a fixed and final sum obtained against Cerro del Águila or Kallpa in any foreign court having jurisdiction in respect of any suit, action or proceeding against us for the enforcement of any of our respective obligations under the federal securities laws of the United States or under the notes or the guarantee, which are governed by New York law, will, upon request, be deemed valid and enforceable in Peru through an *exequatur* judiciary proceeding (which does not involve the reopening of the case); *provided* that: (1) there is a treaty in effect between the country where said foreign court sits and Peru regarding the recognition and enforcement of foreign judgments; or (2) in the absence of such a treaty, the original judgment is recognized by the Peruvian Courts (*Cortes de la República del Perú*). Such recognition and enforceability will occur provided that the following conditions and requirements are met:

- (a) the judgment does not resolve matters under the exclusive jurisdiction of Peruvian courts (and the matters contemplated in respect of this offering memorandum or the notes or the guarantee are not matters under the exclusive jurisdiction of Peruvian courts);
- (b) such foreign court had jurisdiction under its own private international conflicts of law rules and under general principles of international procedural jurisdiction;
- (c) Cerro del Águila or Kallpa, as applicable, received service of process in accordance with the laws of the place where the proceeding took place, were granted a reasonable opportunity to appear before such foreign court and were guaranteed due process rights;
- (d) the judgment has the status of *res judicata* as defined in the jurisdiction of the court rendering such judgment;
- (e) no pending litigation in Peru between the same parties for the same dispute was initiated before the commencement of the proceeding that concluded with the foreign judgment;
- (f) the judgment is not incompatible with another judgment that fulfills the requirements of recognition and enforceability established by Peruvian law, unless such foreign judgment was rendered first;
- (g) the judgment is not contrary to Peruvian public policy (*orden público*) or good morals;
- (h) it is not proven that such foreign court denies enforcement of Peruvian judgments or engages in a review of the merits thereof;
- (i) the judgment has been duly apostilled and is accompanied by a certified and officially translated copy of such judgment into Spanish by a Peruvian certified translator or certified for jurisdictions not part of the Apostille Convention; and
- (j) the applicable court taxes and fees have been paid.

We have no reason to believe that any of the obligations relating to the notes or the guarantee would be contrary to Peruvian public policy (*orden público*), good morals and international treaties binding upon Peru or generally accepted principles of international law.

Certain of our properties could be subject to the exemption set forth under Article No. 616 of the Peruvian Civil Procedure Code (Legislative Decree No. 768, which sole unified text was approved through Ministerial Resolution No. 10-933-JUS), pursuant to which any private property designated for the rendering of indispensable public services may not be subject to preliminary attachments (*medida cautelar*) that could affect the normal rendering of such services.

The United States does not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters with Peru. Therefore, unless the above-mentioned requirements are satisfied, a final judgment for payment of money rendered by a federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, may not be enforceable, either in whole or in part, in Peru. However, if the party in whose favor such unenforced final judgment was rendered brings a new suit in a competent court in Peru, such party may submit to the Peruvian court the final judgment rendered in the United States. Under such circumstances, a judgment by a federal or state court of the United States against our company may be regarded by a Peruvian court only as evidence of the outcome of the dispute to which such judgment relates, and a Peruvian court may choose to re-hear the dispute. In addition, awards of punitive damages in actions brought in the United States or elsewhere are unenforceable in Peru. In the past, Peruvian courts have enforced judgments rendered in the United States based on legal principles of reciprocity and comity.

AVAILABLE INFORMATION

For so long as any notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will, during any period in which the Issuer is neither subject to Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser or subscriber of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser or subscriber the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto). Any such request should be directed to the Issuer’s Chief Financial Officer, at Av. Santo Toribio No. 115 Of. 701, San Isidro, Lima, Peru.

CERTAIN TERMS USED IN THIS OFFERING MEMORANDUM

Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to “Cerro del Águila” or the “Issuer” are to Cerro del Águila S.A., all references to “Kallpa” or the “Guarantor” are to Kallpa Generación S.A. and all references to “we,” “us,” “our” and words of similar effect are to Cerro del Águila and Kallpa, considered as a combined entity.

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. In this offering memorandum:

- “ANA” means the Peruvian National Water Authority (*Autoridad Nacional del Agua*);
- “availability factor” means the percentage of hours a power generation unit is available for generation of electricity in the relevant period, whether or not the unit is actually dispatched or used for generating electricity;
- “Btu” means British thermal units;
- “CAGR” means compound annual growth rate;
- “Camisea Consortium” means a consortium formed in 2004 composed of Pluspetrol Perú Corporation S.A.; Pluspetrol Camisea S.A.; Hunt Oil Company of Perú L.L.C., Sucursal del Perú; SK Corporation Sucursal Peruana; Sonatrach Perú Corporation S.A.C.; Tecpetrol del Perú S.A.C.; and Repsol Exploración Perú Sucursal del Perú;
- “Capacity Agreement” means the agreement, dated August 31, 2016, between Cerro del Águila and Kallpa, pursuant to which Cerro del Águila sells capacity to Kallpa at market prices;
- “CdA Credit Facility” means the secured syndicated credit agreement entered into by and among Cerro del Águila and Banco de Crédito del Perú S.A., Banco Internacional del Perú S.A.A., BBVA Banco Continental, DEG – Deutsche Investitions – Und Entwicklungsgesellschaft mbH, HSBC Bank USA, National Association, Intesa Sanpaolo S.P.A., New York Branch, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., Sumitomo Mitsui Banking Corporation, Banco de Sabadell, S.A., Societe Generale Américas, The Bank of Nova Scotia, Energía del Pacífico S.A. and Inkia Holdings (Kallpa) Limited, as lenders, Sumitomo Mitsui Banking Corporation, as Administrative Agent, The Bank of Nova Scotia, as Offshore Collateral Agent, Scotiabank Perú S.A.A., as Onshore Collateral Agent and Sumitomo Mitsui Banking Corporation, as SACE Agent, dated as of August 17, 2012, in an aggregate principal amount not to exceed U.S.\$595 million;
- “COD” means the commercial operation date of a development project;
- “COES” means the Committee for the Economic Operation of the System (*Comité de Operación Económica del Sistema Interconectado Nacional*), an independent Peruvian entity composed of qualified participants undertaking activities in the SEIN which is responsible for planning and coordinating the operation of the generation, transmission and distribution systems that form the SEIN;
- “COES Transactions” means transactions whereby a generator that the COES determines to have a valuation deficit pays generators with a valuation surplus in terms of dispatch to the system. The valuation is measured as the difference between the generator’s energy dispatch and any withdrawals from the system by its PPA customers;
- “distribution” refers to the transfer of electricity from the transmission lines at grid supply points and its delivery to consumers at lower voltages through a distribution system;
- “Enel Distribución Perú” means Enel Distribución Perú S.A.A., a Peruvian open stock corporation (*sociedad anónima abierta*);

- “ElectroPerú” means ElectroPerú S.A., a Peruvian corporation (*sociedad anónima*), a state owned power company in Peru;
- “Energía del Pacífico” means Energía del Pacífico S.A., a Peruvian corporation (*sociedad anónima*);
- “EPC” means engineering, procurement and construction;
- “EPC Contract” means the Turnkey Engineering, Procurement and Construction Contract for the Cerro del Águila Hydroelectric Power Plant, between Cerro del Águila S.A. and a joint venture comprising Astaldi S.p.A. and GyM SA, dated as of November 4, 2011, as amended from time to time;
- “EPC Contractors” means Astaldi S.p.A. and GyM S.A.;
- “firm capacity” means the capacity available for production that, pursuant to applicable regulations, must be guaranteed to be available at a given time for energy injection to a certain power grid;
- “GDP” means gross domestic product;
- “Globeleq” means Inkia Americas Limited (formerly known as Globeleq Americas Limited), a Bermuda corporation;
- “GWh” means gigawatt hour (one GWh is equal to 1,000 MWh);
- “Heat rate” means the number of Btu of energy contained in the fuel required to produce a kWh of energy (Btu/kWh) for thermal plants;
- “HFO” means heavy fuel oil;
- “Hidro Chilia” means Hidro Chilia S.A.C., a Peruvian closed corporation (*sociedad anónima cerrada*) owned by IC Power Peru;
- “IC Power” means IC Power Ltd., a company incorporated under the laws of Singapore;
- “IC Power Peru” means IC Power Holdings (Kallpa) Limited, a Bermuda corporation, a subsidiary of Inkia, and the direct controlling shareholder of Kallpa, Cerro del Águila, Samay I and Hidro Chilia;
- “INDECOPI” means the National Institute for the Defense of Competition and Intellectual Property Protection (*Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual*), the Peruvian antitrust and intellectual property regulator;
- “Inkia” means Inkia Energy Limited, a Bermuda corporation;
- “installed capacity” means the intended full-load sustained output of capacity that a generation unit is designed to produce (also referred to as name-plate capacity);
- “Kenon” means Kenon Holdings Ltd.;
- “KWh” means Kilowatts hour;
- “Luz del Sur” means Luz del Sur S.A.A., a Peruvian open stock corporation (*sociedad anónima abierta*);
- “MINEM” means the Ministry of Energy and Mines of Peru (*Ministerio de Energía y Minas*), which is responsible for, among other things, (a) setting national energy policy; (b) proposing and adopting laws and regulations to supervise the energy sector; (c) approving proposed transmission expansion plans by the COES; (d) promoting scientific research and investment in energy; and (e) granting concessions

and authorizations to entities who wish to operate in power generation, transmission or distribution in Peru;

- “MMBtu” means one million Btus;
- “MW” means megawatts (one MW is equal to 1,000 Kilowatts or KW);
- “MWh” means megawatt hour (one MWh is equal to 1,000 kilowatts hour);
- “OEM” means original equipment manufacturer;
- “OSINERGMIN” means the Supervisory Body of Investment in Energy and Mining (*Organismo Supervisor de la Inversión en Energía y Minería*), a Peruvian governmental authority which is responsible for, among other things, ensuring that companies comply with the rules and regulations applicable to the energy industry in Peru and for setting the tariffs to be charged to regulated customers;
- “Samay I” means Samay I S.A., a Peruvian corporation (*sociedad anónima*) owned by IC Power Peru and Energía del Pacífico;
- “SEIN” means the national interconnected electrical system of Peru (*Sistema Eléctrico Interconectado Nacional*);
- “TGP” means Transportadora de Gas del Perú S.A., a Peruvian corporation (*sociedad anónima*);
- “PPA” means power purchase agreement;
- “transmission” refers to the bulk transfer of electricity from generation facilities to the distribution system at load center station in which the electricity is stabilized by means of the transmission grid; and
- “weighted average availability” refers to the number of hours that a generation facility is available to produce electricity divided by the total number of hours in a year.

EXCHANGE RATE INFORMATION

The following tables set forth the historical period-end, average, high and low exchange rates calculated as the bid-ask midpoint as reported by the Central Reserve Bank of Peru, expressed in Peruvian soles per one U.S. dollar for the periods indicated.

Year	Peruvian sol/U.S. dollar			
	Period End ⁽¹⁾	Average ⁽²⁾	High	Low
2012.....	2.550	2.639	2.709	2.550
2013.....	2.797	2.702	2.820	2.539
2014.....	2.981	2.839	2.989	2.759
2015.....	3.411	3.186	3.411	2.983
2016.....	3.356	3.376	3.536	3.249

- (1) Represents the exchange rate on the last business day of the applicable period.
(2) Represents the simple average of the daily exchange rates.

2017 (by month)	Peruvian sol/U.S. dollar			
	Period End ⁽¹⁾	Average ⁽²⁾	High	Low
January	3.283	3.340	3.390	3.281
February	3.261	3.260	3.294	3.242
March	3.250	3.264	3.296	3.242
April	3.244	3.248	3.254	3.242
May	3.273	3.274	3.289	3.248
June	3.252	3.268	3.278	3.252
July	3.241	3.250	3.261	3.240
August (through August 2)	3.241	3.240	3.241	3.239

- (1) Represents the exchange rate on the last business day of the applicable period.
(2) Represents the simple average of the daily exchange rates.

On August 2, 2017, the exchange rate was S/3.241 per U.S. dollar.

SUMMARY

This summary highlights information presented in greater detail elsewhere in this offering memorandum and does not contain all of the information that you should consider in making your investment decision. Before deciding whether to invest in the notes, you should carefully read this entire offering memorandum, especially the risks of investing in the notes discussed under the heading “Risk Factors.”

Overview

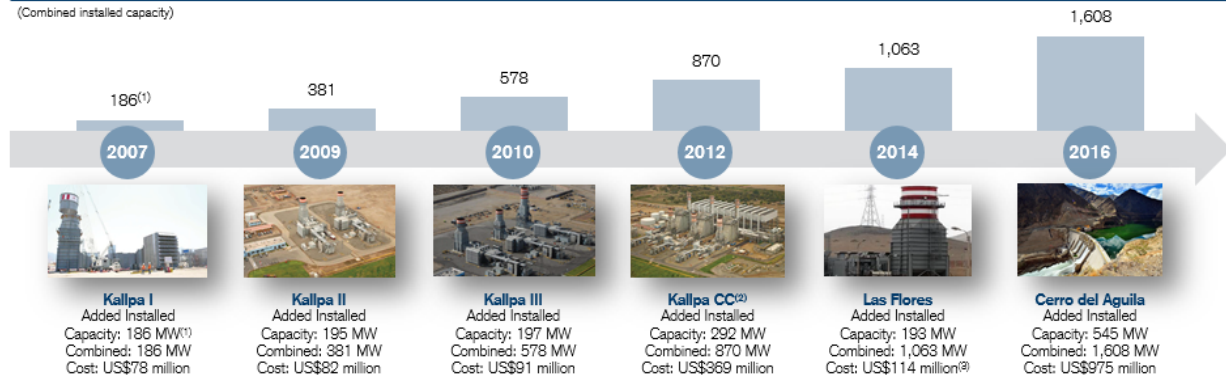
Cerro del Águila owns and operates the largest privately owned hydroelectric power plant in Peru in terms of installed capacity, which reached COD in August 2016. Kallpa, an affiliate of Cerro del Águila and the guarantor of the notes, is the third largest power generation company in Peru in terms of installed capacity and is among the most efficient power generation companies in Peru in terms of heat rate. As part of a strategy to optimize and diversify our operations, on June 26, 2017, the shareholders and the board of directors of each of Cerro del Águila and Kallpa approved the Merger, which will become effective upon the execution of the corresponding merger public deed, which is expected to occur on the date the notes are issued. The public deed will then be filed for registration in the corresponding Public Registry in Peru.

As part of the arrangement and until such time as the Merger can be effected, both Cerro del Águila and Kallpa will support each other and work closely together, beginning to integrate systems, consolidating operational and financial functions and responsibilities and achieving administrative and other efficiencies. As part of this mutual support until the Merger can be effected, Kallpa is guaranteeing the notes offered hereby and Cerro del Águila will become guarantor of Kallpa’s existing U.S.\$350 million aggregate principal amount of 4.875% Senior Notes due 2026 and its obligations under the lease of Las Flores. When the Merger becomes effective, Cerro del Águila’s guarantee of Kallpa’s existing notes and its lease of Las Flores and Kallpa’s guarantee of the notes offered hereby will each automatically terminate and cease to have any force or effect. Upon the consummation of the Merger, our total installed capacity will be 1,608 MW, making us the leading power producer in Peru in terms of energy generation.

The following table presents the growth of our combined installed capacity from 2007 through December 31, 2016:

Historic installed capacity

(Combined installed capacity)



Source: Company filings.

(1) Includes upgrade of 12MW completed in 2010.

(2) Kallpa IV is the steam turbine built to convert the Kallpa plant to combined cycle, which reached its COD in August 2012.

(3) Refers to the price paid in relation with the acquisition of Las Flores from a subsidiary of Duke Energy Corp.

Cerro del Águila

Cerro del Águila owns and operates the largest privately-owned hydroelectric power plant in Peru in terms of installed capacity, with an installed capacity of 545 MW (the “CdA plant”). The CdA plant has three generating units: two turbines which reached COD on August 3, 2016, and a third turbine which reached COD on August 25, 2016. The CdA plant consists of a dam, a powerhouse for the three turbines, a six-kilometer headrace tunnel and a 17-kilometer transmission line that operates on the Mantaro River, located in Huancavelica in central Peru.

The CdA plant is located 16 kilometers downstream from Peru’s largest hydroelectric complex, formed by the Mantaro and the Restitución hydroelectric plants, with a combined installed capacity of 1,008 MW, and the Junin water reservoir, which is the second largest in Peru. The complex has an extensive track record of solid performance with more than 40 years of operations and a constant generation above 6,500 GWh per year for the past 10 years, according to the COES. The Junin water reservoir provides a relatively constant water flow for the downstream power plants, benefiting the CdA plant’s hydrology. We estimate that the CdA plant will produce an average of 3,100 GWh per year and will have an average annual capacity factor of approximately 65%. This capacity factor is significantly above the average of 54% for similar projects in Latin America, according to Renewable Energy Sources and Climate Change Mitigation, a special report of the Intergovernmental Panel on Climate Change.

Cerro del Águila has signed three PPAs: a 15-year PPA with ElectroPerú covering 200 MW of capacity and its associated energy (with a 70% take-or-pay factor for both capacity and energy, which translates into a 70% load factor) that commenced in August 2016, and two 10-year PPAs with Luz del Sur and Enel Distribución Perú, the first of which covers up to 202 MW of capacity and commences in January 2018, and the second of which covers up to 81 MW of capacity and commences in 2022. Neither of these PPAs contains any conditions precedent to commencement, other than the initial start date. As of March 31, 2017, the weighted average remaining life of Cerro del Águila’s PPAs was approximately 12 years. The PPA with ElectroPerú has an average energy price of U.S.\$54/MWh, capacity price of U.S.\$6.40/kW-month, is denominated in U.S. dollars and is indexed in part to the U.S. producer price index. The first PPA with Luz del Sur and Enel Distribución Perú has an average energy price of U.S.\$50/MWh and capacity price of U.S.\$6.60/kW-month. The second PPA with Luz del Sur and Enel Distribución Perú has an average energy price of U.S.\$41/MWh and capacity price of U.S.\$6.50/kW-month. While these two PPAs are denominated in Peruvian soles, their energy prices are also indexed to natural gas prices in Peru, which are denominated in U.S. dollars, and indexed to the U.S. producer price index. Assuming a load factor of between approximately 60% and 70% and certain volumes of capacity, peak and off-peak sales occurring at each PPA’s average price (from the beginning of the PPA until 2024), it is expected that our PPA with ElectroPerú will generate annual revenues in the range of U.S.\$80 million to U.S.\$88 million per year, our first PPA with Luz del Sur and Enel Distribución Perú will generate annual revenues in the range of U.S.\$52 million to U.S.\$57 million per year and our second PPA with Luz del Sur and Enel Distribución Perú will generate annual revenues in the range of U.S.\$20 million to U.S.\$23 million per year.

Prior to reaching COD, Cerro del Águila did not recognize any revenues or operating income from its operations. Since reaching COD on August 3, 2016 and August 25, 2016, some fine tuning work was performed on the CdA plant to complete all pending issues related to the EPC Contract. After such fine tuning work, the CdA plant achieved the operational excellence standard required by the Cerro del Águila operations and management teams in mid-April 2017.

Construction of the CdA plant, which began in November 2011, cost U.S.\$975 million. The CdA plant became fully operational at a cost of U.S.\$1.8 million per MW, making the CdA plant among the most efficiently constructed hydroelectric facilities in Latin America in terms of cost per MW. Development of the CdA plant was financed principally with the CdA Credit Facility in an amount of U.S.\$591 million, equity contributions from each of our shareholders Inkia and Energía del Pacífico, which invested U.S.\$328 million in the aggregate in Cerro del Águila, and from shareholder loans to Cerro del Águila for a total of U.S.\$28 million. We intend to repay in full the CdA Credit Facility, as well as unwind Cerro del Águila’s related interest rate swaps, and repay such shareholder loans with the proceeds from this offering. For further information on the CdA Credit Facility, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Material Indebtedness—Credit Facility.”

During the periods from August 3, 2016 to December 31, 2016 and the three months ended March 31, 2017, Cerro del Águila generated 693 GWh, and 565 GWh, respectively. The following table sets forth certain of Cerro del Águila’s financial data for the periods set forth below:

	Three Months Ended March 31, 2017	Year Ended December 31, 2016⁽¹⁾
	(U.S.\$ millions, except as otherwise indicated)	
Revenues	31	50
Net income	6	-
EBITDA ⁽²⁾	19	31

- (1) Figures reflect Cerro del Águila’s operations starting on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.
(2) EBITDA is a non-IFRS measure. For a reconciliation of our net income to our EBITDA, see “Summary—Summary Financial and Other Information.”

Kallpa

Kallpa was the third largest power generation company in Peru in terms of installed capacity as of December 31, 2016. Kallpa owns and operates two power plants, both utilizing natural gas for their operations. Kallpa’s first unit, Kallpa I, reached COD in June 2007, and Kallpa thereafter completed the conversion of its three natural gas-powered open-cycle generation turbines (Kallpa I, II, and III) into combined-cycle by adding a 292 MW steam turbine (Kallpa IV) in August 2012 (collectively, the “Kallpa plant”). Compared to other thermal plants, the Kallpa plant’s combined-cycle is one of the most efficient in Peru in terms of heat rate in 2016, according to the COES. As of December 31, 2016, the Kallpa combined-cycle plant had an installed capacity of 870 MW, representing approximately 7% of the total capacity in Peru. Additionally, in April 2014, Kallpa acquired a 193 MW open cycle natural gas-fired plant (“Las Flores”) that is located nearby the Kallpa plant, from a then subsidiary of Duke Energy Corp. Las Flores increased Kallpa’s total installed capacity from 870 MW to 1,063 MW, representing approximately 9% of the total installed capacity in Peru as of December 31, 2016. As a result of Kallpa’s efficiency and low cost of operations, it has a strong competitive position in the Peruvian market and is currently the largest thermoelectric power plant in Peru, with approximately 12% of market share in terms of energy dispatched during 2016. In May 2016, Kallpa issued U.S.\$350 million aggregate principal amount of 4.875% Senior Notes due 2026, which received a “Baa3” investment-grade rating by Moody’s and a “BBB-” investment-grade rating by Fitch.

Kallpa has entered into long-term U.S. dollar or U.S. dollar-linked PPAs to sell capacity and/or energy to customers that Kallpa believes have strong credit profiles, such as large distribution companies or non-regulated customers that are subsidiaries of large corporations. As of March 31, 2017, the weighted average remaining life of Kallpa’s PPAs was approximately six years. For the year ended December 31, 2016, 96% of Kallpa’s aggregate energy sales (in GWh) were made pursuant to PPAs. We believe this strategy limits Kallpa’s exposure to fluctuations in energy spot market prices and helps it generate strong and predictable margins and cash flows. Additionally, most of Kallpa’s PPAs are indexed to the cost of natural gas and to the U.S. dollar. Such indexing generally limits its exposure to natural gas price and foreign exchange fluctuations, thereby helping Kallpa to maintain its margins.

During the year ended December 31, 2016 and the three months ended March 31, 2017, Kallpa generated 6,015 GWh and 904 GWh, respectively. The following table sets forth certain financial and operational data of Kallpa for the periods set forth below:

	Three Months Ended March 31,		Year Ended December 31,		
	2017	2016	2016	2015	2014⁽¹⁾
	(U.S.\$ millions, except as otherwise indicated)				
Revenues	108	121	438	448	437
Net income	13	13	35	45	53
EBITDA ⁽²⁾	34	38	141	154	156

- (1) Kallpa acquired Las Flores in April 2014.
(2) EBITDA is a non-IFRS measure. For a reconciliation of our net income to our EBITDA, see “Summary—Summary Financial and Other Information.”

Merger

As part of a strategy to optimize and diversify our operations and in consideration of the fact that the companies share a common management team, on June 26, 2017, the shareholders’ meetings and the board of directors of each of Cerro del Águila and Kallpa unanimously approved the Merger, with Cerro del Águila as the surviving entity, which will become effective upon the execution of the corresponding merger public deed, which is expected to occur on the date the notes are issued. The public deed will then be filed for registration in the corresponding Public Registry in Peru.

The process is currently in a 45-day waiting period (which will end on August 8, 2017), during which period the Merger notices have been published in local newspapers, allowing creditors of the two companies who believe that the Merger may harm their ability to collect on their debt the opportunity to oppose the Merger. While we cannot guarantee that actions on the part of the companies' creditors will not prevent or delay the Merger, all required contractual consents have been obtained, and we anticipate that the Merger will be effective on the date the notes are issued. Amounts owed under the CdA Credit Facility will be repaid prior to the Merger, so no consent is required from lenders under such facility. Furthermore, we have obtained all required consents from our PPA customers. In addition, certain PPAs will be assigned from Kallpa to Cerro del Águila prior to the Merger, so no consent will be required from such PPA customers. Consequently, the risk of nonoccurrence of the Merger, in our view, is minimal.

Our Plants

Upon consummation of the Merger, our total installed capacity will be 1,608 MW, making us the leading power producer in Peru in terms of energy generation. The map below shows the location of our generation units in Peru upon consummation of the Merger:



The following table sets forth certain summary operational information for our combined facilities:

	Plant/Turbine	COD	Energy Used to Operate Power Station	Installed Capacity	Gross Energy Generated	Weighted Average Availability Factor
				(MW)	(GWh)	(%)
Cerro del Águila⁽¹⁾	CdA.....	August 2016	Hydroelectric	545	1,154	82
	Kallpa I.....	July 2007	Natural gas	186 ⁽³⁾	753	96
	Kallpa II.....	June 2009	Natural gas	195	1,056	94
	Kallpa III ⁽⁴⁾	March 2010	Natural gas	197	1,640	92
	Kallpa IV.....	August 2012	Steam	292	293	99
Kallpa⁽²⁾	Las Flores ⁽⁵⁾	April 2014	Natural gas	193	1,813	100
	Total.....			1,608	6,709	94

- (1) Information presented for Cerro del Águila is for the 12 months ended June 30, 2017. Cerro del Águila's operations started on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.
- (2) Information presented for Kallpa is for the 12 months ended June 30, 2017.
- (3) Includes upgrade of 12 MW completed in 2010.
- (4) Kallpa III underwent major scheduled maintenance from January 9, 2017 to February 6, 2017 (28 days).
- (5) Kallpa acquired Las Flores in April 2014.

Competitive Strengths

Leading market position in an attractive energy market—Cerro del Águila and Kallpa operate in Peru, one of the fastest growing economies in Latin America, with an average GDP growth of approximately 4.6% per year from 2009 through 2016, according to the Peruvian National Institute of Statistics and Information (*Instituto Nacional de Estadística e Informática*, or the “INEI”). Peru also enjoys low inflation levels, a stable regulatory framework, and a well-run power system. As of December 31, 2016, Cerro del Águila had an installed capacity of 545 MW, representing 5% of Peru's installed capacity, while Kallpa had an installed capacity 1,063 MW, representing 9% of Peru's installed capacity. Kallpa's facility is the largest thermoelectric power plant in Peru in terms of installed capacity. During the year ended December 31, 2016, Kallpa generated 6,015 GWh of the gross energy (in GWh) in Peru at its two plants, representing 12% of the energy generation in Peru. The CdA plant is the largest privately owned hydroelectric plant in Peru. During the period from August 3, 2016 to March 31, 2017, Cerro del Águila generated 1,258 GWh of the gross energy in Peru. Upon the consummation of the Merger, our total installed capacity will be 1,608 MW, making us the leading power producer in Peru in terms of energy generation.

We expect Peruvian energy demand and spot prices will increase over the next 10 years as a result of Peru's growing middle class, the substantial investments made in connection with Peru's energy-intensive mining industry and expected growth in its manufacturing industry. According to the MINEM, Peru's overall generation (GWh) is estimated to increase by an annual average of 5.1% for the period 2017 – 2025. Peru has a stable regulatory framework, with a focus on minimizing electricity costs for end users while ensuring an adequate return on investment for sector participants. Driven by solid macroeconomic fundamentals and a stable regulatory environment, we expect Peru to remain an attractive power market in Latin America over the coming decade.

Large, diversified and long-term competitive energy asset base—Upon consummation of the Merger, we will own and operate significant hydro and thermal generation assets in Peru. We will own the largest privately-owned hydroelectric plant in Peru in terms of installed capacity, which has a perpetual concession to operate. We will also own the largest thermal power plant in Peru in terms of installed capacity.

Consummation of the Merger would also minimize risks related to single asset ownership, providing the combined company with a presence in separate geographic regions within Peru. In addition, our balanced portfolio of hydro and thermal assets would allow us to mitigate the effects of hydrology seasonality. During the dry season of May to October, Cerro del Águila's hydroelectric plant, along with most other hydro facilities in Peru, is unable to operate at full capacity. When hydroelectric production in the country is low, thermal generators are typically dispatched at higher levels than during the rainy season, helping us to mitigate the effects of seasonality. Additionally, PPAs mitigate such seasonality and allow us to stabilize cash flows. The combination of the plants would provide the combined company with the ability to benefit from the CdA plant's higher efficiency during the rainy season and Kallpa's constant ability to generate power. The combined company would benefit from larger scale and diversification, permitting it to increase its leverage in PPA and offer a wider range of service at different marginal costs and reliability levels.

The Merger would increase the weighted average life of Kallpa's PPAs from approximately six years to approximately eight years. In addition, it would serve to decrease customer concentration, as no single customer will represent more than 16% of revenues beginning in 2018. Finally, we do not expect the Merger to present any integration issues, as the two companies already have a common management team and ownership structure.

Stable and predictable cash flows with long term contractual agreements—We enter into long-term PPAs, which generally limits our exposure to fluctuations in the Peruvian energy spot market prices, generates stable and predictable margins, and helps to create stability and predictability in our cash flows. During the year ended December 31, 2016, Kallpa made 96% of its aggregate energy sales (in GWh) pursuant to its long-term PPAs. During the period from August 3, 2016 to March 31, 2017 and the three months ended March 31, 2017, Cerro del Águila made 65% and 54%, respectively, of its aggregate energy sales (in GWh) pursuant to long-term PPAs. As of

March 31, 2017, the weighted average remaining life of Cerro del Águila's PPAs was approximately 12 years. As of March 31, 2017, the weighted average remaining life of Kallpa's PPAs was approximately six years. We have historically sought, and will continue to seek, to renew our long-term PPAs before they approach their expiration date and to enter into new long-term contracts.

As of March 31, 2017, most of our PPAs were indexed to the price of natural gas in U.S. dollars and all of our PPAs were either in U.S. dollars or linked to the U.S. dollar, thereby limiting our exposure to exchange rate fluctuations and, in the case of Kallpa, to fuel price fluctuations. With respect to our non-regulated customers, we typically invoice and collect payments in U.S. dollars. With respect to our distribution company customers, we invoice and collect payments in Peruvian soles, and the price is reset quarterly when the tariff resulting from applying the indexation formula fluctuates by more than 5%. In the case of Cerro del Águila's PPA with ElectroPerú, the underlying tariff is denominated in U.S. dollars and indexed to the U.S. producer price index. We seek to enter into long-term PPAs with large distribution companies or non-regulated customers that are subsidiaries of large multinational corporations, which we believe have strong credit profiles, to mitigate the risk of customer default. Some of our major customers within Peru include large distribution companies such as Enel Distribución Perú and Luz del Sur (subsidiaries of Enel S.p.A. and Sempra Energy, respectively) and, non-regulated customers such as Southern Copper Corporation, Sociedad Minera Cerro Verde S.A.A., a subsidiary of Freeport-McMoRan, and Compañía Minera Antapaccay S.A., a subsidiary of Glencore plc.

With respect to the CdA plant, Cerro del Águila holds a Definitive Generation Concession granted by the MINEM for an unlimited term for the generation of electricity for up to 525 MW and a water use license granted by the ANA under which Cerro del Águila has the right to use, for indefinite term, the waters of the Mantaro river flow for hydropower generation. The marginal cost of production of Cerro del Águila's hydroelectric plant is almost nil. As a result, Cerro del Águila's CdA plant is among the first generation units dispatched in Peru. Cerro del Águila seeks to ensure that its units are available to be dispatched when necessary, as such availability is important to its ability to capture the benefits of marginal cost dispatch and the maximization of its margins.

As Kallpa's power facilities utilize and are dependent upon natural gas, Kallpa seeks to enter into long-term supply, transportation and distribution agreements to acquire the necessary natural gas for these facilities. Kallpa purchases its natural gas requirements for its generation facilities from the Camisea Consortium pursuant to a long-term natural gas supply agreement. Kallpa's natural gas transportation services are rendered by TGP pursuant to long-term agreements, and its natural gas distribution services are rendered by Gas Natural de Lima y Callao S.A. ("Calidda") pursuant to long-term agreements.

Driving operational excellence through partnerships with leading OEMs and reliance on efficient technologies—We seek to optimize our power generation capacity by using leading technologies (e.g., turbines manufactured by, in the case of Cerro del Águila, Andritz and in the case of Kallpa, Siemens and General Electric) and entering into a long-term service agreement with a leading, multinational original equipment manufacturer ("OEM") for the maintenance of Kallpa I, Kallpa II, and Kallpa III. Our technologies and long-term partnerships enable our power generation assets to perform more efficiently and at relatively high levels of reliability. Additionally, our experienced staff is committed to increasing our operating performance and ensuring the disciplined maintenance of our power generation assets. We believe that Kallpa's generation units' weighted average availability rate of 96% for the year ended December 31, 2016 was the result of its optimization efforts and commitment to improving its operating efficiency and performance. Following the fine tuning work that was recently done on the CdA plant, we expect the CdA plant to achieve an average availability rate of 97%.

Additionally, due to the use of efficient technologies, our generation assets are very competitive in the dispatch merit order. The Kallpa facility is a base load plant combined-cycle gas turbine, and, according to the COES, is among the first power plants to be dispatched due to its efficiency and competitiveness in the dispatch stack.

Strong and dedicated controlling shareholder and experienced management team—Cerro del Águila's and Kallpa's controlling shareholder, IC Power Peru, is a wholly owned subsidiary of Inkia. Inkia is a leading owner, developer and operator of power facilities and distribution assets located in key power generation markets in Latin America and the Caribbean, utilizing a range of technologies, including natural gas, HFO, diesel, hydroelectric and wind. As of December 31, 2016, Inkia had 3,487 MW of installed capacity in Latin America and the Caribbean.

Our management team has extensive experience in the power generation business. Our executive officers have an average of more than 15 years of experience in the power generation industry and have previously held senior positions in leading power generation companies, financial institutions and the Peruvian government. Our management team provides in depth market knowledge and power industry experience, with significant experience in the Peruvian energy industry and in working with government regulators. We believe that this overall level of experience allows our management team to lead us in the effective operation and maintenance of our facilities.

Business Strategy

Continue to optimize our commercial policies focusing on stable margins and high level of contracted capacity with creditworthy counterparties—During the period from August 3, 2016 to June 30, 2017, Cerro del Águila’s aggregate energy sales (in GWh) pursuant to PPAs were 61%, and, during the year ended December 31, 2016, Kallpa’s aggregate energy sales pursuant to PPAs were 96%. Cerro del Águila also has two executed PPAs that will commence in January 2018 and January 2022. All of these PPAs are either in U.S. dollars or linked to the U.S. dollar, and most are indexed to the price of natural gas in U.S. dollars. We seek to enter into long-term PPAs with large distribution companies or non-regulated customers that are subsidiaries of large multinational corporations, that we believe have strong credit profiles and thus mitigate the risk of customer default. In addition to significantly improving our access to financing, our strategy of contracting our facility’s energy and capacity significantly reduces our exposure to changes in spot prices. Following the consummation of the Merger, we believe the combined parties would be able to further reduce exposure to changes in spot prices by covering Cerro del Águila’s lower generation during the dry season with Kallpa’s continuous ability to produce, thereby limiting Cerro del Águila’s exposure to spot prices.

Optimize operations through developments and expansions—We have successfully developed our facilities in stages and we will continue to evaluate expansion and acquisition opportunities to optimize our operations. For example, prior to Kallpa’s 2014 acquisition of Las Flores, a 193 MW thermal power generation plant, Las Flores had operated intermittently due to the lack of a long-term regular supply of natural gas. The Kallpa combined cycle power plant, which is located near Las Flores, had an excess supply of natural gas. We identified these and other potential synergies and, since Kallpa’s acquisition of Las Flores, have been able to significantly improve the operations and generation activities of Las Flores’ plant, while also maximizing the use of our facility’s natural gas supply and transportation capabilities.

Maintain financial policies in line with our objectives of maintaining investment grade ratings—As set forth in this offering memorandum, Cerro del Águila intends to use the proceeds of the offering of the notes to refinance substantially all of Cerro del Águila’s debt by prepaying the CdA Credit Facility, which will allow Cerro del Águila to reduce its financing costs and extend its debt maturity profile. In May 2016, Kallpa issued U.S.\$350 million aggregate principal amount of Senior Notes due 2026, which Cerro del Águila will guarantee as part of the arrangements leading up to the Merger. See “*The Merger and Unaudited Pro Forma Combined Financial Information.*” Kallpa currently has a “Baa3” investment-grade rating by Moody’s and a “BBB-” investment-grade rating by Fitch. Cerro del Águila, with the guarantee of the notes by Kallpa, has been assigned a “Baa3” investment-grade rating by Moody’s and a “BBB-” investment-grade rating by Fitch. Our investment-grade ratings are an important part of our financial strategy and we aim to maintain conservative financial policies, prudent levels of indebtedness and liquidity, consistent with such ratings. This will allow us to maintain an optimal cost of capital that will enhance our profitability.

Maintain our facilities to achieve long-term availability, reliability and asset integrity—We will continue to focus on ensuring long-term availability, reliability and asset integrity with preventive maintenance activities supported by a number of predictive techniques. We will take into consideration critical equipment and economics in defining the best maintenance strategy for all of our equipment. We have implemented a computerized management system to control our maintenance strategy and keep a maintenance matrix for all equipment in accordance with manufacturer recommendations. Several levels of managers, supervisors and technicians conduct continuous evaluation to carry out our maintenance strategy. In addition, Kallpa’s turbines are remotely monitored in real time by Siemens in the United States, providing an additional level of predictive maintenance on its gas turbines. We expect to continue to follow a rigorous maintenance strategy and schedule in order to maintain stable and reliable operations.

Integrate corporate social responsibility with our business—We consider local communities as important stakeholders and seek to be good corporate citizens. We take action on our corporate social responsibility by performing studies to identify needs and opportunities in education, health and economic development in our communities, forming government alliances to co-finance development projects, and maintaining open communications with the local governments and communities. We will continue to seek to develop our business in a manner which complies with applicable legal and environmental regulations, minimizes negative environmental impacts and makes positive contributions to the communities in which we operate.

Provide high rates of availability while operating our facilities safely and efficiently—We strive to provide world-class quality of service while operating our facilities safely and efficiently. Our business adheres to global benchmarks for safety, environmental and operating standards in the industry and we promote a culture of health, safety, accident prevention, security and environmental excellence by our employees, contractors and local communities. For example, we have in place a work safety and health policy, a safety committee, an annual safety improvement plan and procedures for the identification, evaluation and control of risk at least once a year. Furthermore, we provide appropriate safety training and make written operating procedures available to all of our employees. Inspections and audits are routinely conducted, and after any significant events we conduct a root-cause analysis in order to incorporate lessons learned into operating practices. We will continue to rigorously implement and follow the strictest industry safety standards in order to safeguard our employees and contractors and the communities where our operations are located.

Our Controlling Shareholder and Recent Developments

Cerro del Águila's and Kallpa's controlling shareholder, IC Power Peru, is a wholly owned subsidiary of Inkia. Inkia, in turn, is a wholly owned subsidiary of IC Power, which is a wholly owned subsidiary of Kenon. Inkia is a leading owner, developer and operator of power facilities located in key power generation markets in Latin America and the Caribbean, utilizing a range of fuels, including natural gas, hydroelectric, HFO, diesel and wind. For the year ended December 31, 2016, we represented approximately 46.1% of Inkia's generating capacity and 46.8% of Inkia's EBITDA.

On July 24, 2017, Kenon announced that it had been approached by, and received indicative, non-binding offers, from, parties looking to acquire some or all of IC Power's businesses in Latin America and the Caribbean. Kenon also announced that it is considering such a sale and is in discussions with such parties with a view to negotiating a transaction that would maximize value for Kenon's shareholders, but that, as of the date of such announcement, there is no assurance that such discussions would result in a sale of any or all of IC Power's businesses in Latin America and the Caribbean, including IC Power Peru. See "*Risk Factors—Risks Related to Our Business—The sale of our parent company by our ultimate controlling shareholder may have a material adverse effect on us.*"

Corporate Information

Our principal executive offices are located at, and the address of our Board of Directors and principal executive officers is, Av. Santo Toribio No.115, Of. 701, San Isidro, Lima, Peru. Cerro del Águila is registered in the electronic file no. 12518858 of the Peruvian Public Registries (*Oficina Registral de Lima del Registro de Personas Jurídicas*). Cerro del Águila has no direct or indirect subsidiaries. Cerro del Águila's telephone number is +511 706 7878. Cerro del Águila's website is <http://www.cda.com.pe/deven/>. Kallpa is registered in the electronic file no. 11767759 of the Peruvian Public Registries. Kallpa has no direct or indirect subsidiaries. Kallpa's telephone number is +511 706 7878. Kallpa's website is <http://www.kallpageneracion.com.pe/>. The information included on our websites or which may be accessed through our websites is not part of this offering memorandum and is not included herein by reference or otherwise.

THE OFFERING

The following is a brief summary of terms of the notes. For a more complete description of the terms of the notes, see “Description of the Notes.”

Issuer	Cerro del Águila S.A.
Guarantor	The notes will be fully and unconditionally guaranteed by Kallpa Generación S.A., an affiliate of the Issuer, until the effectiveness of the Merger, which is expected to occur shortly after the notes are issued on the issue date.
Securities Offered	U.S.\$650,000,000 aggregate principal amount of 4.125% Senior Notes due 2027.
Issue Price	99.870% plus accrued interest, if any, from August 16, 2017.
Maturity Date	August 16, 2027.
Interest	The notes will accrue interest at a rate of 4.125% per year, payable semiannually in arrears on February 16 and August 16 of each year, commencing on February 16, 2018.
Ranking	<p>The notes will be a general, unsecured, senior obligation of the Issuer and will, at all times, be <i>pari passu</i> in right of payment with all of the Issuer’s other existing and future unsecured and unsubordinated debt, except for those obligations preferred by operation of Peruvian law, including labor claims, pension and social security contributions and tax claims.</p> <p>The notes will be effectively subordinated to the Issuer’s existing and future secured debt to the extent of the assets securing such debt. In addition, the notes will be structurally subordinated to all future unsecured and unsubordinated debt and other liabilities (including trade payables) of the Issuer’s subsidiaries, if any.</p> <p>The guarantee of the notes will be the senior unsecured obligation of the Guarantor and will, at all times, be <i>pari passu</i> in right of payment with all of the Guarantor’s other existing and future unsecured and unsubordinated debt, except for those obligations preferred by operation of Peruvian law, including labor and tax claims.</p> <p>The guarantee of the notes will be effectively subordinated to the Guarantor’s existing and future secured debt to the extent of the assets securing such debt. In addition, the guarantee will be structurally subordinated to all future unsecured and unsubordinated debt and other liabilities (including trade payables) of the Guarantor’s subsidiaries, if any.</p> <p>As of March 31, 2017, our total outstanding indebtedness, on a pro forma basis, was U.S.\$1,032 million, U.S.\$661 million of which was secured. As of March 31, 2017, as adjusted for this offering and the use of proceeds therefrom, our total outstanding debt, on a pro forma basis, was U.S.\$1,077 million, of which U.S.\$86 million was secured debt.</p>
Additional Amounts	All payments by the Issuer of principal, premium, if any, and interest in respect of the notes will be made without withholding or deduction for

any taxes or other governmental charges imposed by or within Peru or any other jurisdiction in which the Issuer or any successor under the indenture is organized or incorporated or any paying agent is located or, in each case, any political subdivision or governmental authority therein or thereof having the power to tax, unless such withholding or deduction is required by law or by the interpretation or administration thereof. In that event, subject to certain exceptions, the Issuer will pay such additional amounts as are necessary to ensure that the holders of the notes receive the same amounts as they would have received in the absence of such withholding or deduction. See “*Description of the Notes—Additional Amounts.*”

Optional Redemption

The notes will not be redeemable by the Issuer or by the holders of the notes prior to maturity except as set forth below.

Make Whole Redemption. At any time prior to May 16, 2027, the Issuer may redeem the notes, in whole or in part, by paying the greater of the outstanding principal amount of the notes and a “make-whole” amount, in each case plus accrued and unpaid interest to the date of the redemption. See “*Description of the Notes—Optional Redemption—Make-Whole Redemption.*”

At Par Redemption. In addition, at any time on or after May 16, 2027, the Issuer may redeem the notes, in whole or in part, by paying 100% of the outstanding principal amount of the notes to be redeemed, plus accrued and unpaid interest to the date of redemption.

Tax Redemption. The Issuer may also redeem the notes, in whole but not in part, at the Issuer’s option, at a redemption price equal to 100% of the outstanding principal amount of the notes, plus accrued and unpaid interest to the date of redemption and any additional amounts then due and payable, in the event of certain changes in applicable laws or regulations affecting taxation. See “*Description of the Notes—Optional Redemption—Tax Redemption.*”

Certain Covenants

The indenture will contain certain covenants that restrict Cerro del Águila’s and its subsidiaries’ ability to:

- create liens; or
- subject to compliance with certain conditions, merge or consolidate with another entity or sell substantially all of their assets to another entity.

However, these covenants are subject to significant exceptions. See “*Description of the Notes—Covenants.*”

Change of Control

If the Issuer experiences a Change of Control that results in a Ratings Decline (each as defined in “*Description of the Notes*”), the Issuer must offer to repurchase the notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of repurchase. See “*Description of the Notes—Change of Control.*”

Use of Proceeds

The Issuer intends to use the net proceeds from the sale of the notes to repay in full all amounts outstanding under the CdA Credit Facility (together with related costs and expenses), the related interest rate swaps and loans made to it by its shareholders. The remainder, if any, will be

used for general corporate purposes. See “*Use of Proceeds.*”

Form of Notes, Clearing and Settlement.....

The notes will be issued in book entry form, without interest coupons, in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. The notes will be delivered through the facilities of DTC, for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., as the operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream”). The notes will be represented by one or more global notes registered in the name of Cede & Co. a nominee of DTC. Owners of beneficial interests in notes held in book-entry form will not be entitled to receive physical delivery of certificated notes except in certain limited circumstances.

Transfer Restrictions

The notes have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction. As a result, the notes will be subject to certain restrictions on transfer and resale. See “*Transfer Restrictions.*”

Listing.....

The Issuer will apply to the SGX-ST for permission for the listing and quotation of the notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering memorandum. The notes will be traded on the SGX-ST in a minimum board lot size of U.S.\$200,000 as long as any of the notes are listed on the SGX-ST and the rules of the SGX-ST so require.

Governing Law

State of New York.

Trustee, Registrar, Transfer Agent and Paying Agent

Citibank N.A.

Risk Factors

Investing in the notes involves risks. You should carefully consider the risk factors discussed under the caption “Risk Factors” before purchasing any notes.

SUMMARY FINANCIAL AND OTHER INFORMATION

The following tables present summary historical and pro forma financial and operating information of Cerro del Águila and Kallpa. The summary historical financial information of Cerro del Águila as of and for the year ended December 31, 2016 and as of March 31, 2017 and for the three months ended March 31, 2017 presented below have been derived from Cerro del Águila's financial statements included elsewhere in this offering memorandum. The summary historical financial information of Kallpa as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 and as of March 31, 2017 and for the three months ended March 31, 2017 and 2016 presented below have been derived from Kallpa's financial statements included elsewhere in this offering memorandum. Historical results for any prior period are not necessarily indicative of results expected in any future period.

The summary pro forma financial information for the year ended December 31, 2016 and as of and for the three months ended March 31, 2017 have been derived from the unaudited combined pro forma financial information included elsewhere in this offering memorandum. See "The Merger and Unaudited Pro Forma Combined Financial Information."

You should read the summary financial and operating information set forth below in conjunction with the sections entitled "Presentation of Financial and Other Information" and "The Merger and Unaudited Pro Forma Combined Financial Information," as well as in conjunction with the historical financial statements and notes thereto included elsewhere in this offering memorandum.

Cerro del Águila

Cerro del Águila began operations on August 3, 2016. The following table presents Cerro del Águila's summary statement of profit or loss information for the periods indicated:

	For the Three Months Ended March 31, 2017	For the Year Ended December 31, 2016⁽¹⁾
	(U.S.\$ millions)	
Revenues	31	50
Cost of sales (excluding depreciation).....	(10)	(16)
Depreciation	(4)	(7)
Administrative expenses	(2)	(3)
Other income.....	-	-
Other expenses	-	-
Profit from operating activities	15	24
Finance income	-	-
Finance costs.....	(10)	(17)
Net foreign exchange	-	-
Finance cost, net	(10)	(17)
Profit before income tax	5	7
Income tax (expense) benefit	1	(7)
Profit for the period	6	-

(1) Figures reflect Cerro del Águila's operations starting on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.

The following table presents Cerro del Águila's summary statement of financial position information as of the dates indicated:

	As of March 31, 2017	As of December 31, 2016⁽¹⁾
	(U.S.\$ millions)	
Cash	33	37
Trade receivables	11	11
Other receivables	5	6
Prepaid expenses	-	-
Inventories	-	-

	As of March 31, 2017	As of December 31, 2016 ⁽¹⁾
Total current assets	49	54
Property, plant and equipment	948	923
Intangible assets.....	25	26
Other receivables	-	-
Total non-current assets	973	949
Total assets	1,022	1,003
Trade payables	57	40
Other payables	7	7
Loans from banks and others:		
Short term loan.....	14	14
Current portion of long term syndicated loan	28	17
Derivative financial instruments	6	7
Total current liabilities	112	85
Loans from banks and others	547	562
Derivative financial instruments	10	10
Shareholder loans.....	30	29
Deferred income tax liabilities	15	16
Provisions	2	2
Total non-current liabilities	604	619
Total liabilities	716	704
Share capital.....	328	328
Hedging reserves.....	(10)	(11)
Other reserves	-	-
Accumulated deficit.....	(12)	(18)
Total equity	306	299
Total liabilities and equity	1,022	1,003

(1) Figures reflect Cerro del Águila's operations starting on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.

The following table presents Cerro del Águila's key operating information as of and for the periods indicated:

	As of and for the Three Months Ended March 31, 2017	As of and for the Year Ended December 31, 2016 ⁽¹⁾
	(U.S.\$ millions, except as otherwise indicated)	
Installed capacity at end of period (MW)	545	545
Weighted average availability during the period (%).....	73%	89%
Gross energy generated (GWh)	565	693
Own consumption of energy and losses (GWh).....	2	10
Net energy generated (GWh).....	563	683
Energy purchased on the spot market (GWh).....	-	8
Energy sold under PPAs (GWh).....	304	509
Average monomic price (U.S.\$/MWh) ⁽²⁾	46	62

(1) Figures reflect Cerro del Águila's operations starting on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.

(2) Average monomic price is calculated by dividing the total amount of sales of energy and capacity in U.S. dollars by physical energy sales in MWh.

Kallpa

The following table presents Kallpa's summary statement of profit or loss information for the periods indicated:

	For the Three Months Ended March 31,		For the Year Ended December 31,		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
Revenues	108	121	438	448	437
Cost of sales (excluding depreciation)	(71)	(78)	(294)	(279)	(270)
Depreciation	(10)	(12)	(45)	(50)	(45)
Administrative expenses	(6)	(5)	(20)	(17)	(17)
Other income	3	-	17	2	6
Other expenses	-	-	-	-	-
Profit from operating activities	24	26	96	104	111
Finance income.....	-	-	-	-	-
Finance costs	(6)	(7)	(37)	(30)	(34)
Net foreign exchange.....	1	1	-	(5)	(1)
Finance costs, net	(5)	(6)	(37)	(35)	(35)
Profit before income tax	19	20	59	69	76
Income tax expense	(6)	(7)	(24)	(24)	(23)
Profit for the period	13	13	35	45	53

The following table presents Kallpa's summary statement of financial position information as of the dates indicated:

	As of March 31, 2017	As of December 31,	
		2016	2015
	(U.S.\$ millions)		
Cash	31	21	28
Trade receivables	44	55	42
Other receivables	11	17	10
Prepaid expenses	-	-	-
Inventories	14	15	14
Total current assets	100	108	94
Property, plant and equipment	577	584	612
Intangible assets	18	18	17
Other assets	10	10	9
Total non-current assets	605	612	638
Total assets	705	720	732
Trade payables	34	38	74
Other payables	21	12	12
Loans from banks, debentures and others	7	6	101
Advances from clients.....	1	1	2
Total current liabilities	63	57	189
Trade payables	42	44	-
Loans from banks, debentures and others	406	407	315
Advances from clients.....	-	1	1
Deferred income tax liabilities	44	49	29
Asset retirement obligation	8	8	12
Total non-current liabilities.....	500	509	357
Total liabilities	563	566	546
Share capital.....	71	71	71
Share premiums	54	54	54
Other reserves	14	14	14
Retained earnings.....	3	15	47
Total equity	142	154	186
Total liabilities and equity	705	720	732

The following table presents Kallpa's key operating information as of and for the periods indicated:

	As of and for the Three Months Ended March 31,		As of and for the Year Ended December 31,		
	2017	2016	2016	2015	2014
	(U.S.\$ millions, except as otherwise indicated)				
Installed capacity at end of period (MW).....	1,063	1,063	1,063	1,063	1,063
Weighted average availability during the period (%)	92%	93%	96%	97%	97%
Gross energy generated (GWh)	904	1,433	6,015	5,166	5,920
Own consumption of energy and losses (GWh).....	22	30	121	139	222
Net energy generated (GWh).....	882	1,403	5,893	5,027	5,698
Energy purchased on the spot market (GWh).....	637	320	283	106	235
Energy sold under PPAs (GWh).....	1,519	1,723	6,182	6,327	6,324
Average monomic price (U.S.\$/MWh) ⁽¹⁾	54	56	54	56	55

(1) Average monomic price is calculated by dividing the total amount of sales of energy and capacity in U.S. dollars by physical energy sales in MWh.

Pro Forma

The following table presents our summary combined pro forma statement of profit or loss information for the periods indicated:

	For the Three Months Ended March 31, 2017	For the Year Ended December 31, 2016
	(U.S.\$ millions)	
Revenues	138	486
Cost of Sales (excluding depreciation)...	(79)	(306)
Depreciation	(14)	(52)
Administrative expenses.....	(7)	(23)
Other income	1	12
Other expenses.....	-	-
Profit from operating activities.....	39	117
Finance income.....	-	-
Finance costs	(17)	(54)
Net foreign exchange.....	2	-
Finance cost, net.....	(15)	(52)
Profit before income tax.....	24	63
Income tax expense.....	(5)	(31)
Profit for the period.....	19	32

The following table presents our summary pro forma combined statement of financial position information as of March 31, 2017:

	As of March 31, 2017 (U.S.\$ millions)
Cash.....	64
Trade receivables	55
Other receivables	14
Prepaid expenses.....	-
Inventories	14
Total current assets.....	147
Property, plant and equipment	1,516
Intangible assets.....	43
Other receivables	10
Total non-current assets.....	1,569
Total assets	1,716
Trade payables.....	91
Other payables.....	26
Loans from banks and others:	-
Short term loan	14

	As of March 31, 2017
	(U.S.\$ millions)
Current portion of long term syndicated loan.....	35
Advance from clients.....	1
Derivative financial instruments.....	6
Total current liabilities.....	173
Trade payables.....	42
Loans from banks and others.....	953
Derivative financial instruments.....	10
Shareholder loans.....	30
Deferred income tax liabilities.....	59
Provisions.....	10
Total non-current liabilities.....	1,104
Total liabilities.....	1,277
Share capital.....	399
Share premium.....	54
Hedging reserves.....	(10)
Other reserves.....	14
Accumulated deficit.....	(18)
Total equity.....	439
Total liabilities and equity.....	1,716

The following table presents our pro forma key combined financial and other operating information as of and for the periods presented:

	As of and for the Three Months Ended March 31, 2017	As of and for the Year Ended December 31, 2016
	(U.S.\$ millions, except as otherwise indicated)	
EBITDA ⁽¹⁾	53	169
Annualized EBITDA ⁽²⁾	213	209
Interest coverage ratio ⁽³⁾	2.8	2.7
Total debt.....	1,032	1,036
Total debt / Shareholders' equity.....	2.3	2.3
Net debt ⁽⁴⁾	968	978
Total debt / Annualized EBITDA ⁽²⁾	4.8	5.0
Net debt / Annualized EBITDA ⁽²⁾⁽⁴⁾	4.5	4.7
Installed capacity at end of period (MW).....	1,608	1,608
Weighted average availability during the period (%).....	89%	95%
Gross energy generated (GWh).....	1,469	6,708
Own consumption of energy and losses (GWh).....	24	131
Net energy generated (GWh).....	1,445	6,576
Energy purchased on the spot market (GWh).....	637	581
Energy sold under PPAs (GWh).....	1,823	6,692
Average monomic price (U.S.\$/MWh) ⁽⁵⁾	52	55

- (1) We define "EBITDA" for each period as net income for the period before depreciation, financing costs, net and income tax expense. EBITDA is not recognized under IFRS or any other generally accepted accounting principles as a measure of financial performance and should not be considered as a substitute for net income, cash flow from operations or other measures of operating performance or liquidity determined in accordance with IFRS. EBITDA presents limitations that impair its use as a measure of our profitability since it does not take into consideration certain costs and expenses that result from our business that could have a significant effect on our net income. Other companies may calculate EBITDA differently, and therefore this presentation of EBITDA may not be comparable to other similarly titled measures used by other companies.

The following table sets forth a reconciliation of our pro forma net income to our pro forma EBITDA for the periods presented:

	For the Three Months Ended March 31, 2017	For the Year Ended December 31, 2016
	<u>(U.S.\$ millions)</u>	
Net income for the period	19	32
Depreciation	14	52
Financing costs, net	15	54
Income tax expense	5	31
EBITDA	<u>53</u>	<u>169</u>

- (2) Annualized EBITDA for the three months ended March 31, 2017 reflects Cerro del Águila's EBITDA for the three months ended March 31, 2017 times four *plus* Kallpa's EBITDA for the 12 months ended March 31, 2017. Annualized EBITDA for the year ended December 31, 2016 reflects Cerro del Águila's EBITDA for the three months ended December 31, 2016 times four *plus* Kallpa's EBITDA for the year ended December 31, 2016. See note (1) for a reconciliation of net income to EBITDA. Annualized EBITDA is not a recognized financial measure under IFRS. We believe the inclusion of annualized EBITDA in the calculation of the ratios in the above table provides useful supplemental information to investors and financial analysts and is more representative of the financial position of Cerro del Águila and Kallpa as a combined entity for the periods presented in light of the fact that Cerro del Águila only began commercial operations on August 3, 2016. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Cerro del Águila.*"
- (3) Interest coverage ratio is defined as pro forma EBITDA divided by pro forma finance cost, excluding finance income and net foreign exchange loss.
- (4) We define "Net debt" as pro forma total debt minus pro forma cash and pro forma cash equivalents. Net debt is not a recognized financial measure under IFRS. The table below sets forth a reconciliation of our pro forma total debt to pro forma net debt.

	As of March 31, 2017
	<u>(U.S.\$ millions)</u>
Total debt.....	1,032
Cash and cash equivalents.....	<u>(64)</u>
Net debt	<u>968</u>

- (5) Average monomic price is calculated by dividing the total amount of sales of energy and capacity in U.S. dollars by physical energy sales in MWh.

RISK FACTORS

Our business, financial condition, results of operations and liquidity can suffer materially as a result of any of the risks described below. You should carefully consider the risks described below with all of the other information included in this offering memorandum. If any of the following risks actually occurs, it may materially harm our business, financial condition, results of operations and liquidity. While we have described all of the risks we consider material, these risks are not the only ones we face. We are also subject to the same risks that affect many other companies, such as technological obsolescence, labor relations, geopolitical events and climate change. Additional risks not known to us or that we currently consider immaterial may also impair our business operations. Additionally, this offering memorandum also contains forward-looking statements that involve additional risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this offering memorandum.

Risks Related to Our Business

The success of our business depends on many factors, including factors beyond our control.

The success of our business depends on many factors, including factors beyond our control, such as the following:

- availability and competitiveness of alternative energy sources in the markets served by us;
- expiration or early termination of PPAs;
- changes in rainfall and in the water levels in the reservoirs used to run Cerro del Águila's power generation facilities;
- changes in the availability for natural gas and demand for electricity in Peru;
- changes in regulation and actions of regulatory bodies;
- adverse general economic conditions;
- future weather conditions and unforeseeable natural disasters;
- relations with the communities in the areas where we operate;
- transmission congestion in the SEIN;
- increases of capital costs;
- our ability to build or expand our energy infrastructure within anticipated costs;
- opposition to energy infrastructure development, particularly in environmentally sensitive areas or in populated areas; and
- our ability to obtain the necessary amendments, permits, licenses, rights of way and easements for expansion projects.

These and other factors could materially adversely affect our business, financial condition, results of operations and liquidity.

The Peruvian government has a high degree of influence in our market.

We operate a power generation business and, therefore, are subject to significant governmental regulation. The laws and regulations affecting our operations are complex, dynamic and subject to new interpretations or

changes. Such regulations affect almost every aspect of our business, have broad application and, to a certain extent, limit management's ability to independently make and implement decisions regarding numerous operational matters. Historically, the Peruvian government has intervened at times in the economy and has occasionally made significant changes in monetary, credit, industry and other policies and regulations. Actions by the Peruvian government to control inflation and other policies and regulations have involved, among other measures, price controls, currency devaluations, capital controls and limits on imports. We have no control over, and cannot predict, what measures or policies the Peruvian government may enact in the future. The results of operations and financial condition of our business may be adversely affected by changes in governmental policy or regulations in Peru if those changes impact, among other things:

- consumption and supply of electricity;
- availability and use of water;
- supply and consumption of natural gas;
- operation and maintenance of generation, transmission or distribution facilities, including the receipt of provisional and/or permanent operational licenses;
- energy policy;
- rules governing the dispatch merit order;
- key permits or operating licenses (i.e., generation authorizations) that we currently hold;
- calculations of marginal costs or spot prices;
- subsidies and incentives;
- tariffs, including under PPAs where tariffs are limited to regulated rates;
- natural gas prices;
- labor, environmental or other laws;
- mandatory salary increases;
- public consultations for new generation units;
- social responsibility obligations;
- economic growth;
- rules governing indexation formulas;
- currency fluctuations and inflation;
- fiscal policy and interest rates;
- capital control policies and liquidity of domestic capital and lending markets;
- tax laws;
- import/export restrictions;
- acquisitions, construction, or dispositions of power assets;

- other political, social and economic developments in or affecting Peru;
- higher access to the wholesale market to non-regulated clients and distribution companies; and
- increase of participation of renewable generation.

Uncertainty over whether the current Peruvian government will implement changes in policy or regulations affecting these or other factors in the future may also contribute to economic uncertainty and heightened volatility in the securities markets.

Additionally, non-regulated clients and distribution companies, with respect to the demand of their non-regulated clients, were provided access to the spot market by new regulation of the Wholesale Electricity Market (the “MME”) only for the part of their demand not contracted with a supplier, which, for non-regulated clients, cannot be higher than 10% of their total maximum demand and, in the case of distribution companies, cannot be higher than 10% of the total demand of its non-regulated clients, in both cases with respect to the maximum demand of the last 12 months. The technical procedures that are necessary to operate the MME are in the process of approval by OSINERGMIN, and if this happens, the MME will come into operation. The provision of such access could result in increased competition in the Peruvian generation sector and/or result in increased pressures to reduce contractual prices in Peru.

Moreover, Peruvian regulations regarding natural gas price declaration by thermal generators has also changed, and will be made twice a year (instead of once a year): (i) on the last business day of the first half of November, being valid for the high hydrology season (from December 1 to May 31 of the following year), and ii) on the last business day of the first half of May, being valid for the low hydrology season (from June 1 to November 30). Nevertheless, Peruvian regulators may amend the rules that govern how natural gas prices in Peru are determined and such prices are used to determine the variable fuel cost of thermal generation units that burn such fuel. As a result, any such amendment may affect the order of dispatch of Kallpa’s thermal generation units and the marginal cost, which may have a material adverse effect on Kallpa’s margins or results of operations.

Existing or future legislation and regulation or future audits could require material expenditures by us or otherwise have a material adverse effect on our operations. For example, Peruvian regulators have increased their reviews of permitting, licensing and concession applications and have recently imposed time limits on newly-granted licenses and concessions.

Additionally, government agencies could take enforcement actions against us and impose sanctions or penalties on us for failure to comply with applicable regulations. Depending on the severity of the infraction, enforcement actions could include the closure or suspension of operations, the imposition of fines or other remedial measures, and the revocation of licenses. Compliance with enhanced regulations could force us to make capital expenditures and divert funds away from planned investments in a manner that could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Our failure to comply with existing regulations and legislation, or reinterpretations of existing regulations and new legislation or regulations, such as those relating to the reduction of anti-competitive conduct, air and water quality, noise avoidance, electromagnetic radiation, fuel and other storage facilities, volatile materials, renewable portfolio standards, cybersecurity, emissions or air quality social responsibility, obligations or public consultations, performance standards, climate change, hazardous and solid waste transportation and disposal, protected species and other environmental matters, or changes in the nature of the energy regulatory process may have a significant adverse impact on our financial results.

We operate in a highly competitive market with capacity oversupply.

The Peruvian power market is highly competitive in terms of pricing, quality, development and introduction time, customer service and financing terms. We have recently faced downward price pressure and we are or could be exposed to market downturns or slower growth, which may increase in times of declining investment activities, government incentives and/or consumer demand. We face strong competitors, some of which are larger and may have greater resources than we have.

During prior years, and as a result of government incentives, several generation plants reached COD. Increase in installed capacity outgrew demand growth, resulting in oversupply.

As we sell energy and capacity on the spot market in Peru and expect to enter into, and renegotiate, PPAs during this period of downward pressure on energy prices, the oversupply in the Peruvian market may adversely affect our business and results of operations.

Additionally, in recent years, the power generation industry has been characterized by strong and increasing competition with respect to obtaining long-term and short-term PPAs, particularly with financially stable distribution companies and other non-regulated consumers. These factors have caused reductions in the prices negotiated in PPAs. The evolution of a competitive electricity market and the continued development of highly efficient hydroelectric, gas-fired power plants and renewable technology generation have also caused, or are anticipated to cause, price pressure in the Peruvian power market where we sell or intend to sell power. Certain competitors might be more effective and faster in capturing available market opportunities, which in turn may negatively impact our market share.

Some companies are trying to operate as both generators and as distribution companies. Since Peru is currently in an oversupplied market, its structure allows these competitors to contact the ultimate clients directly and offer them flexible options to contract electricity supply.

Any of these factors alone, or in combination, may negatively impact our business and thereby have a material adverse effect on our business, financial condition, results of operations or liquidity.

Our business requires substantial capital expenditures for ongoing maintenance and environmental compliance.

Responding to increases in competition, ongoing maintenance, meeting new customer demands and improving the capabilities of our energy generation facilities may require incremental capital expenditures in the future. Furthermore, we may need to invest significant capital to modernize our existing facilities in order to comply with new emissions standards and other regulatory requirements. See “*Regulation.*” If we are unable to finance any such capital expenditures, or if we are required to use funds for such capital expenditures that would otherwise have been used to grow our business, our business could be adversely affected.

We may not be able to enter into, or renew existing, long-term contracts for the sale of energy and capacity, contracts which reduce volatility in our results of operations, or some of our existing long-term contracts with non-regulated customers may be terminated.

We sell almost all of our energy under long-term PPAs. We rely upon PPAs with a limited number of customers for the majority of our energy sales and revenues over the term of such PPAs, which typically range from seven to 10 years. All of our long-term PPAs are at prices above current spot market prices. Depending on market conditions and regulatory regime, it may be difficult for us to secure long-term PPAs with new customers, renew existing long-term PPAs as they approach their expiration date, or enter into long-term PPAs to support our business. There is also a risk that some of our existing long-term PPAs with non-regulated customers may be terminated, at which point it may be difficult for us to secure new long-term PPAs to replace them.

Furthermore, although not expected in the medium-term, the introduction of a more efficient energy generation technology could adversely affect the competitiveness of Kallpa’s gas-fired energy plants in the dispatch order. As such, we face potential displacement in dispatch merit order as new, more efficient technologies could become available in our market. Any displacement of dispatch merit order could affect our competitiveness in the short-term and thereby could impact our ability to enter into long-term PPAs. If we are unable to enter into long-term PPAs, we may be required to sell electricity into the spot market at prices that may be below the prices established in our PPAs, particularly if Peru is experiencing an oversupply in capacity in the short- to medium-term as we mentioned above. Given the volatile nature of power prices, if we are unable to secure long-term PPAs, we could face increased volatility in our earnings and cash flows and could experience substantial losses during certain periods, which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Competition in the energy generation industry is increasing and could adversely affect us.

The energy generation market in which we operate is characterized by numerous strong and capable competitors, many of which may have extensive and diversified developmental and operating experience (including both domestic and international), and financial resources similar to or greater than ours. Further, in recent years, the energy generation industry has been characterized by strong and increasing competition with respect to both obtaining PPAs and acquiring existing energy generation assets. The evolution of the competitive energy markets that we serve and the development of highly efficient gas-fired power plants have also caused, or are anticipated to cause, price pressure in certain energy markets where we sell or intend to sell energy. Continued and increasing competition in the energy generation industry may have a material adverse effect on our cash flows, financial condition and results of operations and, therefore, on our ability to make payments under the notes.

If completed, the Merger may not achieve the intended benefits.

We may not be able to realize the anticipated synergies from the Merger in the anticipated amounts or within the anticipated timeframes or cost expectations or at all. The difficulties and risks associated with the Merger, include:

- difficulties and delays in implementing our integration plan, which may result in us failing to achieve the anticipated synergies from the Merger in a timely manner or at all;
- difficulties in successfully managing relationships with our combined customer, partner and vendor base; and
- the potential that, after the Merger, Cerro del Águila may be adversely affected by other economic, political, legislative, regulatory, business, competitive or other factors affecting our industry.

Thus, the integration of the two companies may be unpredictable, or subject to delays or changed circumstances, and the combined businesses may not perform in accordance with our expectations. We may fail to realize some or all of the anticipated benefits of the Merger. The anticipated benefits and synergies we expect from the Merger are based on projections and assumptions about the combined businesses of Cerro del Águila and Kallpa, which may not materialize as or when expected or may prove to be inaccurate. A failure to realize the expected cost and revenue synergies or operational efficiencies related to the Merger could result in higher costs and lower combined revenue or EBITDA than expected and have an adverse effect on our financial results and prospects.

Variations in the future amount of precipitation in the Mantaro River may adversely affect our revenues.

We depend on the availability of water resources in the Mantaro River to generate electricity, which in turn depends on the amount of precipitation in the area.

It is possible that prolonged periods of rain scarcity could adversely affect our financial condition and the results of operations in the future. Our generation capacity could also be affected by events such as floods as well as storms and disasters; which might damage our installations.

The ANA, which is responsible for the administration of water use in the Mantaro River basin, has the right, without having the obligation to compensate us, to divert or otherwise use our related water sources in a manner that could materially affect us. Furthermore, at critically low water levels, the ANA sets water flows according to its rules for monitoring water flows, thereby resulting in substantially reduced generation.

Supplier concentration may expose Kallpa to significant financial credit or performance risk, particularly with respect to those agreements which may expire during the life of Kallpa's power plants.

Kallpa relies on natural gas to fuel its power generation facilities. The delivery of natural gas to Kallpa's facilities is dependent upon a number of factors, including the continuing financial viability of contractual counterparties and the infrastructure (such as natural gas pipelines) available to serve each generation facility. Any disruption in the fuel delivery infrastructure or failure of a counterparty to perform may lead to delays, disruptions or curtailments in the production of power at Kallpa's generation facilities.

This risk of disruption is compounded by supplier concentration that characterizes Kallpa's generation units. Our gas suppliers are sole or monopolistic suppliers, and may exercise monopolistic control over their supply of natural gas to Kallpa. The Kallpa plant's generation facilities rely on the Camisea Consortium for the provision of natural gas and on a sole supplier, TGP and Calidda, for the transportation and distribution of such natural gas, respectively. If these suppliers cannot perform under their contracts, Kallpa's plants would be unable to generate electricity at their facilities, and such a failure could prevent Kallpa from fulfilling its contractual obligations, which could have a material adverse effect on Kallpa's business and financial results. Continued supply of natural gas to Kallpa's plants is dependent upon a number of factors, over which Kallpa has no control, including:

- levels of exploration, drilling, reserves and production of natural gas in the Camisea fields and other areas in Peru and the price of such natural gas;
- accessibility of the Camisea fields and other gas production areas in Peru, which may be affected by weather, natural disasters, geographic and geological conditions, environmental restrictions and regulations, activities of terrorist group or other impediments to access;
- the capacity of the facilities Kallpa uses for natural gas transportation and distribution;
- the availability, price and quality of natural gas from alternative sources;
- market conditions for the renewal of such agreements before their expiration and Kallpa's ability to renew such agreements and the terms and conditions of any renewal; and
- the regulatory environment in Peru.

Furthermore, as these suppliers are the principal suppliers of natural gas and natural gas transportation services to most generation facilities in Peru fueled by natural gas, a change in the terms of their agreements with Kallpa or other power generators, or a failure by any of these suppliers to meet their contractual obligations, could have a significant effect on Peru's entire electricity supply and, therefore, prompt the Peruvian governmental authorities to undertake certain remedial actions. Any such actions could adversely affect the operations of Kallpa's plants.

A change in the commercial terms of the agreements could increase the generation costs of Kallpa, because, for instance, higher levels of take or pay in natural gas supply could force Kallpa to pay more for gas supply despite neither Kallpa nor Las Flores generating electricity. This situation could occur, for example, during rainy seasons. During the rainy seasons, hydroelectric power plants dispatch more energy than they do in the dry seasons; conversely, thermal power plants tend to generate less energy. Because Kallpa generates less energy during the rainy season, it would pay for gas supply under a take or pay contract despite not generating as much energy.

Moreover, Kallpa's contracts for natural gas supply and transportation are scheduled to expire prior to the end of the operational life of Kallpa's plants. These contracts have not yet been extended or replaced with one or more contracts on comparable terms. For example, Kallpa purchases the natural gas for its generation facilities from the Camisea Consortium pursuant to a natural gas supply agreement which expires in June 2022 and which has not yet been extended. If Kallpa is unable to renew, or enter into supply contracts and, in particular, enter into long-term supply contracts, Kallpa may be required to purchase its natural gas on the spot market at prices that may be significantly greater than the prices it previously paid for gas, or may be unable to purchase gas on competitive prices at all. As a result, Kallpa could face increased volatility in its earnings and cash flows and could experience substantial losses during certain periods which could have a material adverse effect on its business, financial condition, results of operations or liquidity.

Our plants are affected by climate conditions and changes in the climates or other occurrences of natural phenomena could have a material adverse effect on us.

The occurrence of natural phenomena, such as El Niño and La Niña, two climate phenomena that influence rainfall regularity in Peru, may result in droughts and excessive rainfall which affect our results of operations. Droughts and excessive rainfall affect the operation of our plants, in the following manner:

- During excessive rainfall periods, hydroelectric plants increase their generation; however, this reduces the spot prices in the system, and also reduces the dispatch of thermal power plants. As a result, when selling energy to the spot market and, depending on our contracting level, we may face a reduction in our margins, particularly with respect to Kallpa's thermal power plants.
- During periods of drought, hydroelectric plants decrease their generation and natural gas plants are used more frequently, which could, in turn, raise marginal costs.

Climate changes that impact the level of water could have material adverse effects of Cerro del Águila's power generation and as a result its business and results of operations.

In addition, Kallpa's plants require water for producing steam and a drought not only reduces the availability of water, but also could increase the concentration of chemicals, such as sulfates in the water that could be higher than the allowable limits set for Kallpa's water treatment plant. As a result, Kallpa may have to purchase water from areas that are also experiencing shortages of water. These water purchases may increase Kallpa's operating costs.

Additionally, our facilities are also exposed to climate change risk and to the specific natural phenomena occurring in Peru, including earthquakes (due to high seismic activity), flooding, landslides, fire, and other natural disasters. For example, in 2007, Peru experienced a 7.9 magnitude earthquakes that struck the central coast of Peru. In 2017, Peru experienced significant flooding. The occurrence of any of the natural calamities listed above may cause significant damage to our power stations and facilities.

We could experience severe business disruptions, significant decreases in revenues based on lower demand arising from climate change or catastrophic events, or significant additional costs to us not otherwise covered by business interruption insurance policies. There may be an important time lag between a major climate change event, accident or catastrophic event and our recovery from any insurance policies, which typically carry non-recoverable deductible amounts, and, in any event, are subject to caps per event. Furthermore, many of our supply agreements, including our natural gas supply agreements and transportation services agreements, contain force majeure provisions that allow for the suspension of performance by our counterparties for the duration of certain force majeure events. If a force majeure event were to occur and our counterparties were to temporarily suspend performance under their contracts, we may be forced to find alternative suppliers in the market on short notice (which we may be unable to do) and incur additional costs. Additionally, any of these events could cause adverse effects on the energy demand of some of our customers and of consumers generally in the affected market, the occurrence of which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

We are exposed to electricity spot market, fuel and other commodity price volatility.

Unlike most other commodities, electric power can only be stored on a very limited basis and generally must be produced concurrently with use. As a result, power prices are subject to significant volatility from supply and demand imbalances, especially within the spot market, in which we may purchase and sell electricity. Typically, spot market prices for electricity are volatile and the demand for such electricity often reflects the fluctuating cost of natural gas and oil, rain volumes or the conditions of hydro reservoirs.

We purchase and sell electricity in the wholesale spot market. During 2016, Kallpa purchased 9% of the electricity that it sold (in GWh) on the spot market. During the period from August 3, 2016 to June 30, 2017, Cerro del Águila purchased 2% of the electricity that it sold under PPAs (in GWh) on the spot market. As a result, we are exposed to spot market prices, which tend to fluctuate substantially.

The Peruvian electricity market is also indirectly affected by the price of precious and base metals, as a result of the electricity-intensive mining industry, which represents a significant source of the electricity demand. Therefore, a decline in such mining activity could adversely affect us.

Other changes in the supply and cost of natural gas and oil, rain volumes, the conditions of hydro reservoirs, the unexpected unavailability of other generation units, or the supply and cost of precious and base metals, may impact the volume of electricity demanded by the market. Volatility in market prices for fuel and

electricity may result from many factors which are beyond our control and we do not generally engage in hedging transactions to minimize such risks.

A significant fluctuation in spot market prices could have an adverse effect on our cash flows, financial condition and results of operations and, as a result, impair our ability to make payments under the notes. Changes in the spot price may have an effect on PPA prices over time, which could negatively affect our operating margins and results of operations.

We are exposed to counterparty risks.

Our cash flows and results of operations are dependent upon the continued ability of our customers to meet their obligations under their relevant PPAs. Although we evaluate the creditworthiness of our various counterparties, we may not always be able to, if at all, fully anticipate, detect, or protect against deterioration in a counterparty's creditworthiness and overall financial condition. The deterioration of creditworthiness or overall financial condition of a material counterparty (or counterparties) could expose us to an increased risk of non-payment or other default under our contracts with them.

Furthermore, if any of the counterparties to our PPAs were to become insolvent, we may be unable to recover payment under local insolvency laws. For example, under Peruvian insolvency laws, if a private counterparty under any of our PPAs were to become insolvent, our claims with respect to payments due by such counterparty under its relevant contract will rank junior to, among others, the counterparty's labor, social security, pension fund, secured and tax obligations. In such a case, our ability to recover payments due on our existing PPAs may be limited. Any default by any of our key customers could have a material adverse effect on our business, financial condition, results of operations or liquidity.

We have a high customer concentration, and the failure by one or more of our customers to make payments under, or renew or extend our contracts may, adversely affect our revenues.

As of March 31, 2017, Cerro de Águila has entered into three long-term PPAs; however, sales under two of those PPAs do not commence until January 2018 and 2022. In addition, as of the same date, Kallpa's top five PPA counterparties represented 75% of its installed capacity. Moreover, clients in the mining sector represented 47% of its installed capacity. If we are unable to renew, extend or replace our contracts with these customers, or we renew them on less favorable terms, or if these customers fail to make payments under such contracts, or if customers terminate such contracts, we may suffer a material impact on our cash flows, financial condition and results of operations. Any such event could impair our ability to make payments under the notes.

We rely on power transmission facilities that we do not own or control and that may be subject to transmission constraints. If these facilities fail to provide us with adequate transmission capacity, we may be restricted in our ability to deliver wholesale electric power and we may either incur additional costs or forego revenues.

We depend upon transmission facilities owned and operated by others to deliver the wholesale power we sell from our power generation units. If transmission is disrupted, or if the transmission capacity infrastructure is inadequate, our ability to sell and deliver wholesale power may be adversely impacted. If the power transmission infrastructure in the market that we serve is inadequate, our recovery of wholesale costs and profits may be limited. If restrictive transmission price regulation is imposed, the transmission companies may not have sufficient incentive to invest in expansion of transmission infrastructure. We cannot predict whether transmission facilities will be expanded in specific markets to accommodate competitive access to those markets, a failure of which could have a material adverse effect on our business, financial condition, results of operations or liquidity. In addition, different spot prices may occur within the grid as a result of a transmission constraint. As a result, we may need to purchase energy in the spot market in order to fulfill a PPA obligation in one part of the grid, even if we are generating energy in another part of the grid, and such purchase may occur at a spot market price which is higher than our own generation cost. Also, the constraints of the transmission infrastructure located near our facilities could affect our ability to generate electricity. Such constraints could result from lack of infrastructure planning, maintenance, or failures, among other factors.

If any of our generation units are unable to generate energy as a result of a breakdown or other failure, we may be required to purchase energy on the spot market to meet our contractual obligations under the relevant PPAs.

The breakdown or failure of one of our generation facilities may require us to purchase energy in the spot market to meet our contractual obligations under our PPAs, while simultaneously resulting in an increase in the spot market price of energy, resulting in a contraction, or loss, of our margins. For example, due to unscheduled maintenance of one of our turbines in the first half of 2013, Kallpa was required to make energy purchases on the spot market to meet its obligations under its PPAs which resulted in U.S.\$25 million in Kallpa's cost of sales in 2013.

We maintain insurance policies for property value and business interruptions intended to mitigate any losses due to customary risks. However, we cannot assure you that the scope of damages suffered in such an event would not exceed the policy limits, deductibles, losses, or loss of profits outlined in our insurance coverage. We may be materially and adversely affected if we incur losses that are not fully covered by our insurance policies and such losses could have a material adverse effect on our business, financial condition, results of operations or liquidity. For further information on the risks related to our insurance policies, see “—Our insurance policies may not fully cover damage, and we may not be able to obtain insurance against certain risks.”

We require qualified personnel to manage and operate our business.

We require qualified and competent management to direct day-to-day business activities, execute business and/or generation unit development plans, and service customers, suppliers and other stakeholders. The services offered by our business are highly technical in nature and require specialized training and/or physically demanding work. Therefore, we must be able to retain employees and professionals with the skills necessary to understand the continuously developing needs of our customers, to maximize the value of our business, and to ensure the timely and successful completion of any expansion or development of generation units. This includes developing talent and leadership capabilities in Peru, an emerging market, where the depth of skilled employees may be limited. Changes in demographics, training requirements and/or the unavailability of qualified personnel could negatively impact the ability of our business to meet these demands. Although we have adequate personnel for the current business environment, unpredictable increases in the demand for our services may exacerbate the risk of not having a sufficient number of trained personnel. In addition, we could be affected by strikes, industrial unrest or work stoppages by third parties.

If we fail to train and retain qualified personnel, or if they experience excessive turnover, strikes or work stoppages, we may experience declining production, maintenance delays or other inefficiencies, increased recruiting, training or relocation costs and other difficulties, any of which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Our success will also be dependent upon the decision-making of our directors and executive officers. The loss of any or all of our directors and executive officers could affect the creation or implementation of our short-term plans or long-term strategies or divert our directors' and executive officers' attention from our operations, which could affect our ability to enter into PPAs or otherwise have a material adverse effect on our business, financial condition, results of operations or liquidity.

The interruption or failure of our information technology, communication and processing systems or external attacks and invasions of these systems could have an adverse effect on us.

We depend on information technology, communication and processing systems to operate our business. Such systems are vital to our ability to monitor our power plants' operations, maintain generation and network performance, adequately generate invoices to customers, achieve operating efficiencies and meet our service targets and standards. Damage to our networks and backup mechanisms may result in service delays or interruptions and limit our ability to provide customers with reliable service over our networks. Some of the risks to our networks and infrastructure include:

- physical damage to access lines, including theft, vandalism, terrorism or other similar events;
- energy surges or outages;

- software defects;
- scarcity of network capacity and equipment;
- disruptions beyond our control;
- breaches of security, including cyber-attacks and other external attacks; and
- natural disasters.

The occurrence of any such event could cause interruptions in service or reduce our generation capacity, either of which could reduce our revenues or cause us to incur additional expenses. Although we have operational insurance with business interruption coverage that may protect us against specific insured events, we may not be insured for all events or for the full amount of the lost margin or additional expense. In addition, the occurrence of any such event may subject us to penalties and other sanctions imposed by the applicable regulatory authorities. The occurrence of damages to our networks and systems could have a material adverse effect on our business, financial condition, results of operations or liquidity.

We are exposed to material litigation and/or administrative proceedings.

We are involved in various litigation proceedings, and may be subject to future litigation proceedings, any of which could result in unfavorable decisions or financial penalties against us, and we will continue to be subject to future litigation proceedings, which could have material adverse consequences to our business.

For example, since 2010, the Peruvian Tax Authority (*Superintendencia Nacional de Aduanas y de Administración Tributaria*, the “SUNAT”) has issued tax assessments to Kallpa and its lenders (as lessors under our financial leases) for payment of import taxes allegedly owed by Kallpa and its lenders in connection with the engineering services of the EPC contractors for Kallpa I, II, III and IV. The assessments were mainly made on the basis that Kallpa and its lenders did not include the value of the engineering services rendered by the contractor of the relevant project in the tax base of the imported equipment for the import taxes. Kallpa disagrees with these tax assessments on the grounds that the engineering services rendered to design and build the power plant are not part of the value of the imported goods but a separate service for which Kallpa paid its corresponding taxes. Kallpa and its lenders disputed the tax assessments before the SUNAT and, after the SUNAT confirmed the assessments, appealed before the Peruvian Tax Administrative Court (the “Tribunal Fiscal”), except for the assessment of Kallpa IV.

In January 2015, Kallpa and its lenders were notified that the Tribunal Fiscal had rejected their appeal in respect of the Kallpa I assessment. Kallpa and its lenders disagreed with the Tribunal Fiscal’s decision and challenged it before the Peruvian Tax Court. In April 2015, Kallpa and its lenders made the final payment (under protest) in the aggregate amount of S/37.9 million (U.S.\$12.3 million), which includes the related interest and fines. Kallpa has reimbursed the lenders for amounts due pursuant to the operation agreement dated July 31, 2008, as amended, by and among Citibank del Perú S.A., Citileasing S.A., Banco de Crédito del Perú, Scotiabank Perú S.A.A. and Kallpa. In September 2016, the Superior Court issued a ruling on the Kallpa I assessment declaring Kallpa’s claims to be groundless and Kallpa filed an appeal. On January 25, 2017, Kallpa was served with the SUNAT’s reply to Kallpa’s appeal. After an oral hearing in which Kallpa explained its defense arguments, the second instance judge decided for the invalidity of the first instance decision and not only ordered the first instance judge to issue a new decision but also required the judge to merit the technical support filed by Kallpa. The amount paid with respect to Kallpa I was recorded as a long term receivable and was originally S/37.9 million, but S/5.4 million related to value added tax (*Impuesto General a las Ventas*, or the “VAT”) has been recovered. Accordingly, as of March 31, 2017, the amount under discussion is S/32.6 million (U.S.\$10.0 million). The Kallpa I assessment liability (including tax, fines and interest) is nil, as Kallpa has already paid the total amount under discussion. Accordingly, a favorable result of the process would imply a refund of the amounts paid.

In January 2016, the SUNAT issued a ruling in favor of Kallpa, releasing Kallpa from substantially all claims and associated fines related to Kallpa IV and, on February 12, 2016, Kallpa filed an appeal against the portion of the resolution that refers to the insurance, which is still pending resolution. As of March 31, 2017, the total amount of import taxes claimed by the SUNAT against Kallpa in connection with the import of equipment

related to Kallpa II, III and IV projects, equals S/45.7 million (U.S.\$14.1 million), including penalties, interest and fines.

In addition, in February 2016, as a result of the 2012 income tax audit, the SUNAT issued a preliminary income tax assessment against Kallpa on the basis that certain interest accrued on its debt and certain maintenance expenses amounting to S/22.0 million (U.S.\$6.3 million) should not have been deducted from its 2012 taxable income but rather treated as an asset. In March 2016, the SUNAT issued a final tax assessment for S/16.5 million (U.S.\$4.9 million), related to the interest expenses accrued during the construction of the steam turbine (Kallpa IV) as part of the combined-cycle conversion of the plant. In May 2016, Kallpa filed an appeal against the SUNAT assessment, which was rejected. On March 7, 2017, such decision was appealed by Kallpa before the Tax Court. As of March 31, 2017, the total amount that the SUNAT claims should be subject to tax is S/16.5 million (U.S.\$4.9 million), representing a potential tax liability for Kallpa of S/11.8 million (U.S.\$3.6 million), including interest and fines.

Separately, ElectroPerú, the counterparty to one of Cerro del Águila's PPAs, notified the COES on September 26, 2016 of its intention to initiate an arbitration proceeding to challenge the COES's decision to approve Cerro del Águila's operational study (*estudio de operatividad*) that allows Cerro del Águila's connection to the Peruvian grid through the Campo Armiño Substation, owned by ElectroPerú, arguing that the modifications introduced by Cerro del Águila in its facilities between the approval of its preoperational study and the approval of the mentioned operational study obliged Cerro del Águila to modify its preoperational study. Although Cerro del Águila was not named as a party to the arbitration, Cerro del Águila nonetheless requested its incorporation into the arbitration considering that ElectroPerú seeks the invalidation of the COES's approval of Cerro del Águila's operational study. As of the date of this offering memorandum, the arbitral tribunal has been installed, but the arbitral proceeding will be suspended until January 20, 2018 pursuant to a mutual agreement reached between the COES and ElectroPerú. We believe that, bearing in mind that ElectroPerú has not demonstrated its standing to challenge the COES's decision to approve the operational study of Cerro del Águila, ElectroPerú's arbitral claim should be dismissed. In addition, we believe that the interpretation followed by the COES with respect to the relevance of the modifications introduced by Cerro del Águila with respect to its facilities have strong legal grounds, since the corresponding Peruvian applicable law (COES technical procedure No. 20 and Peruvian Law No. 28832) allows the modification of the facilities between the approval of the pre operational study and the approval of the operational study, to the extent such modifications do not (i) have a material negative impact on the safety of the SEIN; (ii) increase the operating costs of such system; or (iii) reduce the efficiency of the resources of the mentioned system. Moreover, we believe that the fact that the plant has been operating for almost a year connected to the Campo Armiño Substation without causing any damage to neither it nor any other facility of ElectroPerú is evidence that ElectroPerú's claim has no technical nor actual grounds, and, thus, should not succeed. In light of the foregoing, we believe it is most likely that ElectroPerú's claim will not succeed.

For further information on these proceedings, see "*Business—Legal Proceedings.*"

Litigation and/or regulatory proceedings are inherently unpredictable, and excessive verdicts do occur. Adverse outcomes in lawsuits and investigations could result in significant monetary damages, including indemnification payments, or injunctive relief that could adversely affect our ability to conduct our business and may have a material adverse effect on our financial condition and results of operations. For example, in the case of Kallpa, the judiciary's decision, with respect to the Kallpa I plant, could have a negative impact on the outstanding rulings and assessments in respect of the Kallpa II and III generation units. In addition, such investigations, claims and lawsuits could involve significant expense and diversion of Kallpa's management's attention and resources from other matters, each of which could also have a material adverse effect on Kallpa's business, financial condition, results of operations or liquidity.

The laws of Peru include anti-bribery and anti-corruption legislation which could be less stringent than that of other jurisdictions, and our risk management and internal controls may not be successful in preventing or detecting all violations of law or of company-wide policies.

The regulatory regime of Peru includes anti-bribery and anti-corruption legislation which is currently under development and which could be less stringent than anti-bribery and anti-corruption legislation that has been implemented in other jurisdictions. Our business is subject to a significant number of laws, rules and regulations, including those relating to anti-bribery and anti-corruption.

Our existing compliance processes and internal control systems may not be sufficient to prevent or detect all inappropriate practices, fraud or violations of law by our employees, contractors, agents, officers or any other persons who conduct business with or on behalf of us. We may in the future discover instances in which we have failed to comply with applicable laws and regulations or internal controls. If any of our employees, contractors, agents, officers or other persons with whom we conduct business engages in fraudulent, corrupt or other improper or unethical business practices or otherwise violates applicable laws, regulations or our own internal compliance systems, we could become subject to one or more enforcement actions by Peruvian or foreign authorities (including the U.S. Department of Justice) or otherwise be found to be in violation of such laws, which may result in penalties, fines and sanctions and in turn adversely affect our reputation, business, financial condition and results of operations.

Our insurance policies may not fully cover damage, and we may not be able to obtain insurance against certain risks.

Our operations are subject to the inherent risks normally associated with hydroelectric and thermal power generation, including equipment failures and ruptures, explosions, fires, adverse weather conditions, geological risks, vandalism and other hazards, each of which could result in damage to or destruction of our facilities or injuries to persons and damage to property.

We maintain insurance policies intended to mitigate our losses due to customary risks. These policies cover our assets against loss for physical damage, loss of revenue from business interruptions and also third-party liability. However, we cannot assure you that the scope of damages suffered in the event of a natural disaster or catastrophic event would not exceed the policy limits of our insurance coverage. In addition, we may be required to pay insurance deductibles, which are not recoverable, in order to utilize our insurance policies. We maintain all-risk physical damage coverage for losses resulting from, but not limited to, earthquakes, fire, explosions, floods, windstorms, strikes, riots, vandalism, mechanical breakdowns and business interruption. Our level of insurance may not be sufficient to fully cover all losses that may arise in the course of our business or insurance covering our various risks may not continue to be available in the future. In addition, we may not be able to obtain insurance on comparable terms in the future. We may be materially and adversely affected if we incur losses that are not fully covered by our insurance policies and such losses could have a material adverse effect on our business, financial condition, results of operations or liquidity. For further information on our insurance policies, see “*Business—Insurance.*”

Upon the completion of the Merger, we will have a significant amount of indebtedness, and we will be able to incur significantly more indebtedness after the issue date, which could materially and adversely affect us.

As of March 31, 2017, our total outstanding indebtedness, on a pro forma basis, was U.S.\$1,032 million, U.S.\$661 million of which was secured. Moreover, the indenture governing the notes will not restrict our ability to incur additional debt. We use a substantial portion of cash flow from operations to make debt service payments, reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities. This level of indebtedness could have other important consequences to us, including:

- Increasing our vulnerability to general adverse economic and industry conditions;
- Limiting our flexibility in planning for, or reacting to, changes in our business and the industry; and
- Limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors that are not as highly leveraged.

The interests of our controlling shareholder may conflict with those of the holders of the notes.

Our controlling shareholder, IC Power Peru, is a wholly owned subsidiary of Inkia. Pursuant to our organizational documents and share-ownership structure, Inkia has indirect power, through its wholly owned subsidiary IC Power Peru, to appoint a majority of our board members, thereby having significant influence on our policies and operations, including the appointment of management, future issuances of our common stock or other securities, the payments of dividends on our common stock, the incurrence of debt by us and the amendments to our organizational documents. Inkia’s interests may not in all cases be aligned with your interests as a holder of the

notes offered hereby. Inkia may have an interest in pursuing acquisitions, divestitures, including the sale of our business, and/or other transactions that, in its judgment, could enhance its equity investment, even though such transactions might involve risks to you and/or our business. For example, Inkia could acquire or develop other generation companies in Peru that are more efficient than ours, or cause us to make acquisitions that increase our indebtedness or to sell revenue-generating assets.

The sale of our parent company by our ultimate controlling shareholder may have a material adverse effect on us.

Kenon, our ultimate controlling shareholder, has announced that it is considering a sale of one of our indirect parent companies, and is in discussions with third parties with a view to negotiating such a sale. See “Summary—Our Controlling Shareholder and Recent Developments.” Any such sale, if it occurs, may result in IC Power no longer being our controlling shareholder, and another company becoming our controlling shareholder. We cannot assure you as to when any such sale would take place, or if it will take place at all, and we cannot assure you as to the effect that the announcement by Kenon, the negotiations for any such sale or the consummation of any such sale will have on our strategy, business, financial condition, results of operations or liquidity.

For example, to date, IC Power has had the ability to indirectly direct our strategy through, among others, the appointment of the majority of our directors, who, in turn, appoint our senior management. As of the date of this offering memorandum, five of our seven directors are also officers of IC Power. These individuals have extensive experience in the power generation industry. We cannot assure you as to whether these individuals will continue to be directors of our company after any such sale.

Any such new controlling shareholder would have the indirect power to appoint a majority of our board members, thereby having significant influence on our policies and operations, including the appointment of management, future issuances of our common stock or other securities, the payments of dividends on our common stock, the incurrence of debt by us and the amendments to our organizational documents. The interests of such new controlling shareholder may not in all cases be aligned with your interests as a holder of the notes offered hereby. Any such new controlling shareholder may have an interest in pursuing acquisitions, divestitures and other transactions that, in its judgment, could enhance its equity investment, even though such transactions might involve risks to you. For example, any such new controlling shareholder could acquire or develop other generation companies in Peru that are more efficient than ours, or cause us to make acquisitions that increase our indebtedness or to sell revenue-generating assets.

In addition, any such sale is likely to result in a change of control under the indentures governing Kallpa’s 4.875% Senior Notes due 2026 and the notes offered hereby, although it may not result in the type of change of control that would require Kallpa or Cerro del Águila to offer to purchase all of the notes issued thereunder. If the sale does constitute a change of control that results in a ratings decline, Kallpa and Cerro del Águila would be required, pursuant to the terms of those indentures, to offer to purchase all of the notes issued thereunder at a price of 101%. Kallpa or Cerro del Águila may not be able to repurchase such notes upon a change of control event, because Kallpa or Cerro del Águila may not have sufficient financial resources to purchase all of such notes that are tendered upon a change of control event.

Our controlling shareholder has granted rights to our minority shareholder.

Our controlling shareholder, IC Power Peru, has entered into a shareholders’ agreement with Energía del Pacífico, our minority shareholder. Among other things, the shareholders’ agreement grants the minority shareholder veto rights over certain “restricted matters,” which include, among others, capital increases, amendments to our by-laws, our liquidation, amendments to our dividend distribution policy, mergers, spin-offs and other forms of corporate reorganizations, as well as significant company acquisitions over U.S.\$5 million and dispositions of assets over U.S.\$7.5 million, as well as the incurrence of significant debt over U.S.\$20 million. Moreover, Energía del Pacífico and Banco de Crédito del Perú entered into a Share Pledge Agreement (the “Share Pledge Agreement”) pursuant to which 25.1% of Kallpa’s outstanding shares (owned by Energía del Pacífico) were granted as security in favor of Banco de Crédito del Perú. Following the repayment of the CdA Credit Facility, 25.1% of Cerro del Águila’s outstanding shares (owned by Energía del Pacífico) will be granted as security in favor of Banco de Crédito del Perú. Among other matters, the Share Pledge Agreement, as amended, provides that Energía del Pacífico is obliged to vote against (and cause the directors it appoints in our company to vote against) the “restricted matters”

mentioned above, if not previously authorized by Banco de Crédito del Perú to vote in favor of such matters. Therefore, the ability of IC Power Peru to develop and operate our company may be limited if IC Power Peru is unable to obtain the approval of Energía del Pacífico for certain corporate actions it deems to be in our best interest and/or if Energía del Pacífico is unable to obtain the prior authorization of Banco de Crédito del Perú under the Share Pledge Agreement to vote in favor of such corporate actions. IC Power Peru's operation of our companies may also subject it to litigation proceedings initiated by our minority shareholder. For further information on the shareholders' agreement, see "*Principal Shareholders—IC Power Peru Shareholders' Agreement.*"

Our equipment, facilities, operations and new generation units are subject to numerous environmental, health and safety laws and regulations.

We are subject to a broad range of environmental, health and safety laws and regulations which require us to incur ongoing costs and capital expenditures and expose us to substantial liabilities in the event of non-compliance. These laws and regulations require us to, among other things, minimize risks to the natural and social environment while maintaining the quality, safety and efficiency of our facilities. Furthermore, as our operations are subject to various operational hazards, including personal injury and the loss of life, we are subject to laws and regulations that provide for the health and safety of our employees.

These laws and regulations also require us to obtain and maintain environmental permits, licenses and approvals for the construction of new facilities or the installation and operation of new equipment required for our business. Some of these permits, licenses and approvals are subject to periodic renewal. Government environmental agencies could take enforcement actions against us for any failure to comply with applicable laws and regulations. Such enforcement actions could include, among other things, the imposition of fines, revocation of licenses, suspension of operations or imposition of criminal liability for non-compliance. Environmental laws and regulations can also impose strict liability for the environmental remediation of spills and discharges of hazardous materials and waste and require us to indemnify or reimburse third parties for environmental damages. Although we have operating procedures in place to minimize this, and other environmental risks, there is no assurance that such procedures will prove successful in avoiding inadvertent spills or discharges.

We expect the enforcement of environmental, health and safety rules to become more stringent over time, making our ability to comply with the applicable requirements and obtain permits and licenses in a timely fashion more difficult. Additionally, compliance with changed or new environmental, health and safety regulations could require us to make significant capital investments in additional pollution controls or process modifications. These expenditures may not be recoverable and may consequently divert funds away from planned investments in a manner that could have a material adverse effect on our business, financial condition, results of operations or liquidity.

While we intend to adopt, and believe that our business has adopted, appropriate risk management and compliance programs, the nature of our operations means that legal and compliance risks will continue to exist and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, will arise from time to time. No assurances can be made that we will be found to be operating in compliance with, or be able to detect violations of, any existing or future laws or regulations. A failure to comply with or properly anticipate applicable laws or regulations could have a material adverse effect on our business, financial condition, results of operations or liquidity.

We operate our business pursuant to several concessions, approvals and permits granted by MINEM, the termination, revocation or forfeiture of which would have a material adverse effect on our business.

We are authorized to generate power in Peru pursuant to concessions and approvals granted to us by the MINEM. If we breach our obligations under the concessions or the approvals or we do not comply with applicable rules and regulations in Peru, we may be subject to sanctions by the MINEM, including the termination or forfeiture of such concessions and approvals. In addition, our concessions and approvals are subject to expropriation if so declared in accordance with applicable law on the grounds of public interest. No assurance can be given that the amounts we are entitled to receive under the concession agreements or applicable law in connection with any termination, forfeiture or expropriation of the concessions or any governmental approval will be received, or if received, will be sufficient to compensate us for our loss. As a result, any of the sanctions described above, or the

expropriation of our concessions by a governmental authority, may have a material adverse effect on our business, financial condition, results of operations, or liquidity.

In addition to the concessions and the approvals, we conduct our business pursuant to several permits granted by the MINEM. The MINEM may initiate a process to revoke our permits if, among other things:

- the information submitted by us to obtain our permits contained any untrue or inaccurate statements;
- we repeatedly fail to comply with our obligations regarding preservation of the environment and the cultural heritage of Peru; or
- we repeatedly fail to operate our power plants pursuant to applicable regulations.

The MINEM may initiate a permit revocation procedure by giving us notice that, in their view, one or more of these events has occurred and requesting that we establish our position with respect to the event(s) and, if applicable, indicate the steps we intend to take to remedy the situation. If we fail to timely respond to the request or fail to remedy the situation, the MINEM may revoke our permits.

We cannot assure you that we will be able to comply in full with the terms and conditions of our permits. We cannot guarantee that, if one or more of our permits are revoked, we will be able to obtain a new permit or will be able to continue operating our power plants. The revocation of our permits may have a severe negative impact on our ability to operate our business. If one or more of our permits are revoked, we would not be able to continue operating as a going concern. This could limit our revenues and materially adversely affect our financial condition, results of operations and our ability to perform our obligations under the notes.

We operate our business pursuant to several permits granted by ANA, the revocation of which would have a material adverse effect on our business.

Effective use of water resources for a permanent activity, for a specific purpose and at a specific place is authorized only upon issuance of a water use license granted by ANA. Water use licenses are especially important in hydroelectric projects since they allow to collect and to use water resources from the river to generate electricity. Compensation to the state as the holder of this kind of license will be calculated taking into account the power output of the previous month and 1% of the average price of the generated energy. Failure to pay these fees may cause the imposition of a fine and the revocation of the water license if two consecutive yearly fees are unpaid.

Furthermore, the discharge of treated wastewater into rivers or other watercourses must also be authorized by ANA. Compensation to the state as the holder of this kind of authorization is approved annually by Supreme Decree. Failure to pay these fees may cause the imposition of a fine and the revocation of the water licenses if two consecutive yearly fees are unpaid.

Cerro del Águila conducts its business pursuant to several permits granted by the ANA. The ANA may initiate a process to revoke Cerro del Águila's permits if, among other things:

- the information submitted by Cerro del Águila to obtain its permits contained any untrue or inaccurate statements;
- Cerro del Águila fails to pay two consecutive compensations as explained above;
- water is destined, without previous authorization, to a different purpose by which it was granted;
- Cerro del Águila has been sanctioned two times for serious violations of the law or the terms of the permits; and
- the ANA declares the scarcity of water or quality problems that prevent its use.

Cerro del Águila cannot assure you that it complies in full with the regulation described above or will be able to comply in full with the terms and conditions of its permits. Infringements of applicable regulation may be

sanctioned by the ANA with fines and corrective measures. Cerro del Águila cannot guarantee that, if one or more of its permits are revoked, it will be able to obtain a new permit or will be able to continue operating its power plants. The revocation of Cerro del Águila's water use licenses may have a severe negative impact on its ability to operate its business. If such permit is revoked, Cerro del Águila would not be able to continue operating as a going concern. This could limit its revenues and materially adversely affect its financial condition, results of operations and our ability to perform our obligations under the notes.

Potential expansion or construction of generation units may not be completed or, if completed, may not be completed on time or perform as expected.

We may pursue opportunities to increase the installed capacity of our generation units through the construction of expansions or the conversion of our plants or to otherwise expand our operations in the future, which may require us to spend significant sums on engineering, permitting, legal, financial advisory and other expenses before we determine whether the construction and conversion of a generation unit is feasible, economically attractive or financially viable. For example, Kallpa's Las Flores plant has the environmental approvals and a permit to increase its installed capacity through the construction of a 197.5 MW gas-fired expansion and has sufficient space to locate a combined-cycle expansion on its existing premises, which has also been granted environmental approvals. Kallpa has not committed to either expansion. These activities consume a portion of Kallpa's management's focus and could increase its leverage or reduce its profitability.

Furthermore, if we decide to proceed with the expansion of a generation unit, its construction, conversion or operation will involve numerous additional risks, including:

- unanticipated construction delays or cost overruns;
- claims from contractors;
- an inability to obtain financing at affordable rates or at all;
- delays in obtaining necessary approvals, permits and licenses, including environmental and operation permits;
- unforeseen engineering, environmental and geological problems;
- adverse changes in the political and regulatory environment;
- opposition by political, environmental and other local groups;
- shortages or increases in the price of equipment, materials or labor;
- work stoppages or other labor disputes;
- adverse weather conditions, natural disasters, accidents or other unforeseen events; and
- an inability to perform under PPAs as a result of any delays in the assets becoming operational.

Any of these risks could result in lower than expected financial returns on our generation units, or could cause it to operate below expected capacity or availability levels. This, in turn, could result in lost revenues and/or increased expenses. Although we maintain insurance to protect against some of these risks, such insurance may not be sufficient. As a result, generation units may cost more than anticipated and we may be unable to fund principal and interest payments underlying its construction financing obligations, if any. In addition, a default under such a financing obligation could result in us losing our interest in a power generation facility.

Risks Related to Peru

Economic, political and social developments in Peru could have a material adverse effect on our results of operations and financial condition.

All of our operations and customers are located in Peru. As a result, our results of operations and financial condition are dependent on economic, political and social developments in Peru, and are affected by the economic and other policies of the Peruvian government, including devaluation, currency exchange controls, inflation, economic downturns, political instability, social unrest and terrorism.

In the past, Peru has experienced political instability that has included a succession of regimes with different economic policies. Previous governments have imposed controls on prices, exchange rates, local and foreign investment and international trade, restricted the ability of companies to dismiss employees, expropriated private sector assets and prohibited the remittance of profits to foreign investors. We cannot assure you whether the Peruvian government, will continue to pursue business-friendly and open-market economic policies that stimulate economic growth and social stability, or that the Peruvian government will refrain from adopting new policies that could have an adverse effect on the Peruvian economy or our company. In addition, we cannot assure you that there will not be a government gridlock, particularly as the Peruvian Congress is currently controlled by the main opposition party. Future government policies could include, among others, expropriation, nationalization, suspension of the enforcement of creditors' rights and new taxation regimes. Any of these new policies could materially adversely affect the Peruvian economy, our business, results of operations, financial condition and, as a result, impair our ability to make payments on the notes.

During the 1980s and the early 1990s, Peru experienced severe terrorist activity targeted against, among others, the government and the private sector. Despite the suppression of terrorist activity, we cannot assure you that a resurgence of terrorism in Peru will not occur, or that if there is such a resurgence, it will not disrupt the economy of Peru and our business. In addition, Peru has, from time to time, experienced social and political turmoil, including riots, nationwide protests, strikes and street demonstrations. Despite Peru's ongoing economic growth and stabilization, the social and political tensions and high levels of poverty and unemployment continue. Future government policies to preempt or respond to social unrest could include, among other things, expropriation, nationalization, suspension of the enforcement of creditors' rights and new taxation policies. These policies could adversely and materially affect the Peruvian economy and our business. Any terrorist activities or other hostile actions in Peru could have a material adverse effect on our business, financial condition and results of operation.

Additionally, our revenue is derived primarily from the sale of electricity, and the demand for electricity is largely driven by the economic, political and regulatory conditions of Peru. Therefore, our results of operations and financial condition are, to a large extent, dependent upon the overall level of economic activity in Peru. Should economic or political conditions deteriorate in Peru, such an occurrence could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Increased inflation in Peru could have an adverse effect on the Peruvian economy generally and, therefore, on our results of operations.

In the past, Peru has suffered through periods of high and hyper-inflation, which has materially undermined the Peruvian economy and the government's ability to create conditions that would support economic growth. A return to a high inflation environment would undermine Peru's foreign competitiveness, with negative effects on the level of economic activity and employment. Inflationary pressures may also impact our margins to the extent that cost increases driven by inflation are not accompanied by corresponding increases in the price of electricity or capacity sold, and may also prompt government intervention in the economy of Peru, including the introduction of government policies that may adversely affect the overall performance of the Peruvian economy. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations or liquidity.

The reimplemention by the Peruvian government of restrictive exchange rate policies and other laws could have an adverse effect on our business, financial condition and results of operations.

Since 1991, the Peruvian economy has undergone a major transformation from a highly protected and regulated system to a free-market economy. During this period, protectionist and interventionist laws and policies

have been dismantled gradually to create a liberal economy dominated by the private sector. Exchange controls and restrictions on remittances of profits, dividends, and royalties have ceased. Prior to 1991, Peru exercised control over the foreign exchange markets by imposing multiple exchange rates and placing restrictions on the possession and use of foreign currencies. Currently, foreign exchange rates are determined by market conditions, with regular open-market operations by the Peruvian Central Reserve Bank in the foreign exchange market to reduce volatility in the value of Peru's currency against the U.S. dollar.

We cannot assure you that the Peruvian government will not institute restrictive exchange rate policies in the future. Any such restrictive exchange rate policy could have a material adverse effect on our business, financial condition and results of operations and adversely affect our ability to repay debt or other obligations and therefore restrict our access to international financing.

A devaluation of the Peruvian sol relative to the U.S. dollar could have an adverse effect on our results of operations and financial condition.

While we sell energy primarily in U.S. dollars, we have some PPAs where our sales are denominated in Peruvian soles but indexed to natural gas prices in Peru, which are denominated in U.S. dollars, and indexed to the U.S. producer price index, pursuant to certain formulas included in the corresponding contracts. Because our revenues and the majority of our costs (including fuel) are denominated or linked to the U.S. dollar, we do not hedge foreign exchange risk for our U.S. dollar-denominated debt. A severe devaluation of the Peruvian sol may have an adverse effect on our financial condition, results of operations or cash flows in future periods, if the indexation formulas on the PPAs that are denominated in Peruvian soles did not entirely offset such devaluation, including our ability to make payments on the notes.

The Peruvian economy could be adversely affected by economic developments in regional or global markets.

Financial and securities markets in Peru are influenced, to varying degrees, by economic and market conditions in regional or global markets. Although economic conditions vary from country to country, investors' perceptions of the events occurring in one country may substantially affect capital flows into and securities from issuers in other countries, including Peru. The Peruvian economy was adversely affected by the political and economic events that occurred in several emerging economies in the 1990s, including in Mexico in 1994, which impacted the market value of securities in many markets throughout Latin America. The crisis in the Asian markets beginning in 1997 also negatively affected markets throughout Latin America. Similar adverse consequences resulted from the economic crisis in Russia in 1998, the Brazilian devaluation in 1999 and the Argentine crisis in 2001. In addition, Peru continues to be affected by events in the economies of its major regional partners, including, for example, the recent recession in Brazil. Furthermore, the Peruvian economy may be affected by events in developed economies that are trading partners or that affect the global economy.

The 2008 and 2009 global financial and economic crisis, principally driven by the subprime mortgage market in the United States, substantially affected the international financial system, including Peru's securities market and economy. Additionally, the more recent crisis in Europe, which began with the financial crises in Greece, Spain, Italy and Portugal, reduced the confidence of foreign investors, which caused volatility in the securities markets and affected the ability of companies to obtain financing globally. Meanwhile, renewed doubts about the pace of global growth, particularly in the United States, contributed to already weak international growth in 2011 and 2012. Further, in 2015, the global economy was negatively affected by China's economic slowdown, a factor that has affected growth across emerging markets. While the United States and Europe have witnessed a slight economic recovery over any interruption to the recovery of these or other developed economies, the continued effects of the global crisis in 2008 and 2009, a new economic and/or financial crisis, or the projected reduced growth of the Chinese economy and its shift away from infrastructure development growth could affect Peru's economy and, consequently, materially adversely affect our business, financial condition and results of operations.

Changes in tax laws may increase our tax burden and, as a result, negatively affect our profitability.

The Peruvian government regularly implements changes to tax regimes that may increase our tax burden. These changes include modifications of the rate of assessments and, on occasion, enactment of temporary taxes, which in some cases have been changed into permanent taxes. For example, effective on January 1, 2017, the income tax rate was increased from 28% to 29.5% while the dividend tax rate was reduced from 6.8% to 5%.

The effects of any tax reform measures that could be proposed in the future and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified. However, some of these measures, if enacted, may result in increases in our overall tax burden, which could negatively affect our overall financial performance.

Cerro del Águila has signed a legal stability agreement with the relevant tax authority in Peru pursuant to which, during the term of the agreement, Cerro del Águila will be subject to the income tax regime in place at the time such agreement was entered into, which stipulates a 30% income tax rate, and not the general income tax regime applicable to other companies in Peru. This stability agreement expires on January 30, 2022. Notwithstanding this agreement, the Peruvian government may decide not to honor the legal stability agreement. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Material Factors Affecting Results of Operations—Income Taxes.*”

Risks Related to the Notes

An active trading market may not develop for the notes.

The notes are new securities that may not be widely distributed and for which there is currently no active trading market and we cannot assure you that in the future a market for the notes will develop. We intend to apply for the listing and quotation of the notes on the SGX-ST. We, however, we cannot assure you that this application will be accepted, or if accepted, that the notes will remain so listed. We cannot provide you with any assurances regarding the future development of a market for the notes, the ability of holders of the notes to sell their notes, or the price at which such holders may be able to sell their notes. If such a market were to develop, the notes could trade at prices that may be higher or lower than the initial offering price, depending on many factors, including prevailing interest rates, our results of operations and financial condition, political and economic developments in and affecting Peru and the markets for similar securities. The initial purchasers have advised us that they currently intend to make a market in the notes but they are not under any obligation to do so, and any market-making with respect to the notes may be discontinued at any time without notice at the sole discretion of the initial purchasers. Accordingly, we cannot assure you as to the development or liquidity of any trading market for the notes.

The guarantee of the notes will automatically terminate upon effectiveness of the Merger and may be limited by applicable laws or subject to certain limitations or defenses.

The notes will be fully and unconditionally guaranteed by Kallpa on a senior unsecured basis. Additionally, in connection with the Merger, Cerro del Águila will guarantee Kallpa’s existing 4.875% Senior Notes due 2026 on a senior unsecured basis and its obligations under the lease of Las Flores. When the Merger becomes effective, upon the execution of the corresponding merger public deed, Cerro del Águila’s guarantee of Kallpa’s existing notes and its lease of Las Flores and Kallpa’s guarantee of Cerro del Águila’s notes will each automatically terminate and cease to have any force or effect. If, and for as long as the Merger is not effective, however, the guarantees will remain in full force and effect.

The guarantees will provide the holders of Cerro del Águila’s and Kallpa’s notes with direct claims against the assets of each other. However, the enforcement of such guarantees would be subject to certain defenses available to debtors or, in some cases, to limitations designed to ensure full compliance with statutory requirements applicable to each of Cerro del Águila and Kallpa as guarantors of each other’s notes. These laws and defenses include those that relate to fraudulent conveyance or transfer, corporate purpose, capital maintenance or similar laws and regulations or defenses affecting the rights of creditors generally. As a result, the liability to which Cerro del Águila and Kallpa are subject under the relevant guarantees could be materially reduced or eliminated, depending upon the amounts of their other obligations and upon applicable laws. It is possible that Cerro del Águila, Kallpa, a creditor of Cerro del Águila or Kallpa or the bankruptcy administrator, in the case of a bankruptcy of Cerro del Águila or Kallpa, may contest the validity and enforceability of the relevant guarantee, and that the applicable court may determine that the relevant guarantee should be limited or voided. In the event that the relevant guarantee is invalid or voided, a claim against a guarantor would be unenforceable.

Your right to receive payment on the notes or the guarantee will be effectively subordinated to certain statutory liabilities, to Cerro del Águila's and Kallpa's existing and future secured debt and future debt and liabilities of their respective subsidiaries, if any.

Under Peruvian bankruptcy law, Cerro del Águila's or Kallpa's obligations under the notes are subordinated to certain statutory preferences. In the event of Cerro del Águila's or Kallpa's liquidation, the notes will be subordinated to the following categories of obligations, which are granted preferential treatment under Peruvian law: (i) labor claims and pension and social security contributions, (ii) existing and future secured indebtedness, which seniority extends only to the value of the assets securing such indebtedness and (iii) tax claims.

The notes will rank equally in payment to all of Cerro del Águila's other existing and future unsecured indebtedness and will be effectively subordinated to all of Cerro del Águila's existing and future secured debt to the extent of the assets securing such debt. The notes will also be structurally subordinated to the future indebtedness and other liabilities of Cerro del Águila, including trade payables. As of March 31, 2017, Cerro del Águila's total outstanding indebtedness was U.S.\$619 million, U.S.\$575 million of which was secured. As of March 31, 2017 as adjusted for this offering and the use of proceeds therefrom, Cerro del Águila's total outstanding indebtedness was U.S.\$664 million, all of which was unsecured. The guarantee by Kallpa of the notes will rank equally in payment to all of Kallpa's other existing and future unsecured indebtedness and will be effectively subordinated to all of Kallpa's existing and future secured debt to the extent of the assets securing such debt. Additionally, the guarantee by Cerro del Águila of Kallpa's existing 4.875% Senior Notes due 2026 and its lease of Las Flores will rank equally in payment to all of Cerro del Águila's other existing and future unsecured indebtedness and will be effectively subordinated to all of Cerro del Águila's existing and future secured debt to the extent of the assets securing such debt. As of March 31, 2017, Kallpa's total outstanding indebtedness was U.S.\$413 million, U.S.\$86 million of which was secured.

The indenture governing the notes will not limit the amount of additional indebtedness we are permitted to incur in the future. In addition, the limitation in the indenture on our incurrence of liens will contain significant exceptions.

The notes will be subject to transfer restrictions.

We have not registered, and will not register, the notes under the Securities Act or any other applicable securities laws. The offering of the notes will be made in reliance on exemptions from the registration requirements of the Securities Act and U.S. state securities laws, which limit who may own the notes. Accordingly, the notes are subject to certain restrictions on resale and other transfer thereof as further described under "*Transfer Restrictions.*" We retain the right to determine and extend the periods in which the transfer restrictions will apply to the notes. Consequently, a holder of notes and an owner of beneficial interests in those notes must be able to bear the economic risk of their investment in the notes for the term of the notes.

The Issuer may not be able to repurchase the notes upon a change of control repurchase event.

Upon the occurrence of a Change of Control followed by a Ratings Decline (as defined in "*Description of the Notes – Change of Control*"), the Issuer may be required by the holders of the notes to offer to repurchase all of the outstanding notes at 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. The source of funds for any such purchase of the notes will be the Issuer's available cash or cash generated from its operations or other sources, including borrowings, sales of assets or sales of equity. The Issuer may not be able to repurchase the notes upon a change of control event because the Issuer may not have sufficient financial resources to purchase all of the notes that are tendered upon a change of control event. The Issuer's failure to repurchase the notes upon a change of control event would cause a default under the indenture governing the notes. The Issuer's future debt agreements may contain similar provisions.

Peruvian capital gains tax may apply on transfers of the notes.

In the event beneficial interests in the global notes representing the notes are exchanged for definitive notes, the non-Peruvian holders (as defined herein) of such definitive notes may be subject to Peruvian capital gains tax on any transfers of such definitive notes. See "*Taxation—Peruvian Tax Considerations.*"

It may be difficult to enforce civil liabilities against us or our directors and executive officers.

All or a substantial portion of our assets and those of our directors and executive officers, substantially all of whom are non-residents of the United States, are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States on these persons, including with respect to matters arising under the federal securities laws of the United States, or to enforce against such persons or against us judgments of courts of the United States predicated upon the civil liability of the federal securities laws of the United States. There is no existing treaty between the United States and Peru for the reciprocal enforcement of foreign judgments. In addition, there may be doubt as to whether the courts of Peru would enforce in all respects, to the same extent and in as timely a manner as a U.S. court or foreign court, an action predicated solely upon the civil liability provisions of the U.S. federal securities laws or other foreign regulations. See “*Enforcement of Civil Liabilities.*”

We cannot assure you that the credit ratings for the notes will not be lowered, suspended or withdrawn by the rating agencies.

The credit ratings of the notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. We cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the notes.

Developments in other emerging markets may adversely affect the market price of the notes.

The market price of the notes may be adversely affected by downturns in the international financial markets and world economic conditions. The market for securities of Peruvian issuers is, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially those in Latin America. Although economic conditions are different in each country, investors’ reactions to developments in one country may affect the securities markets and the securities of issuers in other countries, including Peru. We cannot predict the effect of developments in other securities markets on the market value of the notes.

USE OF PROCEEDS

The net proceeds from the issuance of the notes, after the deduction of estimated expenses and the initial purchasers' commissions associated with the offering, are estimated to be approximately U.S.\$641 million.

The Issuer intends to use the net proceeds from the offering to repay in full the U.S.\$583 million outstanding under the CdA Credit Facility, breakage costs, interest rate hedge unwind, and/or fees and expenses (if any) in respect of the CdA Credit Facility, loans made to it by its shareholders in an amount of U.S.\$30 million, fees and expenses related to this offering, and the remainder, if any, for general corporate purposes. For more information on the CdA Credit Facility see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Material Indebtedness.*"

Certain affiliates of the initial purchasers will be receiving payments in connection with the repayment of the CdA Credit Facility. See "*Plan of Distribution.*"

CAPITALIZATION

The following table shows the capitalization of Cerro del Águila and Kallpa as of March 31, 2017 (i) on an actual basis; (ii) on a pro forma combined basis; and (iii) on an as adjusted pro forma combined basis after giving effect to the offering of the notes and the application of the proceeds thereof.

You should read this table together with the information under the captions “*Presentation of Financial and Other Information*,” “*Summary—Summary Financial and Other Information*,” “*Use of Proceeds*,” “*The Merger and Unaudited Pro Forma Combined Financial Information*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and the financial statements of Cerro del Águila and the related notes thereto included elsewhere in this offering memorandum.

	As of March 31, 2017			Pro forma As Adjusted
	Actual			
	CdA	Kallpa	Pro forma	
	(U.S.\$ millions)			
Long-term debt, excluding current portion:				
Secured:				
Syndicated debt	547	-	547	-
Las Flores lease	-	80	80	80
Unsecured:				
4.125% Senior Notes due 2027 offered hereby	-	-	-	650
4.875% Senior Notes due 2026	-	326	326	326
Shareholder loans	30	-	30	-
Total long-term debt ⁽¹⁾	577	406	983	1,056
Equity:				
Total equity	306	142	439	439
Total capitalization⁽¹⁾⁽²⁾	883	548	1,422	1,495

(1) Total long-term debt and total capitalization on an actual basis exclude unsecured short term debt (U.S.\$14 million – Cerro del Águila) and the current portion of long-term secured debt (U.S.\$28 million – Cerro del Águila; U.S.\$7 million – Kallpa)

(2) Total capitalization is equal to total long-term debt plus total equity.

SELECTED FINANCIAL DATA

The following tables present the selected historical financial data of Cerro del Águila and Kallpa. The selected historical financial data of Cerro del Águila as of and for the year ended December 31, 2016 and as of March 31, 2017 and for the three months ended March 31, 2017 and 2016 presented below have been derived from Cerro del Águila's financial statements included elsewhere in this offering memorandum. The selected historical financial data of Kallpa as of December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014 and as of March 31, 2017 and for the three months ended March 31, 2017 presented below have been derived from Kallpa's financial statements included elsewhere in this offering memorandum. Historical results for any prior period are not necessarily indicative of results expected in any future period.

You should read the selected financial data forth below in conjunction with the sections entitled "Presentation of Financial and Other Information," "Summary—Summary Financial and Other Information" and "The Merger and Unaudited Pro Forma Combined Financial Information," as well as in conjunction with the historical financial statements and notes thereto included elsewhere in this offering memorandum.

Cerro del Águila

Cerro del Águila began operations on August 3, 2016. The following table presents Cerro del Águila's selected statement of profit or loss data for the periods indicated:

	For the Three Months Ended March 31, 2017	For the Year Ended December 31, 2016⁽¹⁾
	(U.S.\$ millions)	
Revenues	31	50
Cost of sales (excluding depreciation)	(10)	(16)
Depreciation	(4)	(7)
Administrative expenses	(2)	(3)
Other income	—	—
Other expenses	—	—
Profit from operating activities	15	24
Finance income.....	—	—
Finance costs	(10)	(17)
Net foreign exchange.....	—	—
Finance cost, net	(10)	(17)
Profit before income tax	5	7
Income tax (expense) benefit.....	1	(7)
Profit for the period	6	—

(1) Figures reflect Cerro del Águila's operations starting on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.

The following table presents Cerro del Águila's selected statement of financial position data as of the dates indicated:

	As of March 31, 2017	As of December 31, 2016⁽¹⁾
	(U.S.\$ millions)	
Cash	33	37
Trade receivables	11	11
Other receivables	5	6
Prepaid expenses.....	—	—
Inventories	—	—
Total current assets	49	54
Property, plant and equipment	948	923
Intangible assets.....	25	26
Other receivables	—	—
Total non-current assets	973	949

	As of March 31, 2017	As of December 31, 2016 ⁽¹⁾
	(U.S.\$ millions)	
Total assets	1,022	1,003
Trade payables	57	40
Other payables	7	7
Loans from banks and others:		
Short term loan	14	14
Current portion of long term syndicated loan	28	17
Derivative financial instruments	6	7
Total current liabilities	112	85
Loans from banks and others	547	562
Derivative financial instruments	10	10
Shareholder loans	30	29
Deferred income tax liabilities	15	16
Provisions	2	2
Total non-current liabilities	604	619
Total liabilities	716	704
Share capital	328	328
Hedging reserves	(10)	(11)
Other reserves	-	-
Accumulated deficit	(12)	(18)
Total equity	306	299
Total liabilities and equity	1,022	1,003

(1) Figures reflect Cerro del Águila's operations starting on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.

Kallpa

The following table presents Kallpa's selected statement of profit or loss data as of and for the periods indicated:

	As of and for the Three Months Ended		As of and for the Year Ended December 31,		
	March 31,		2016		
	2017	2016	2016	2015	2014
	(U.S.\$ millions)				
Revenues	108	121	438	448	437
Cost of sales (excluding depreciation)	(71)	(78)	(294)	(279)	(270)
Depreciation	(10)	(12)	(45)	(50)	(45)
Administrative expenses	(6)	(5)	(20)	(17)	(17)
Other income	3	-	17	2	6
Other expenses	-	-	-	-	-
Profit from operating activities	24	26	96	104	111
Finance income	-	-	-	-	-
Finance costs	(6)	(7)	(37)	(30)	(34)
Net foreign exchange	1	1	-	(5)	1
Finance costs, net	(5)	(6)	(37)	(35)	(35)
Profit before income tax	19	20	59	69	76
Income tax expense	(6)	(7)	(24)	(24)	(23)
Profit for the period	13	13	35	45	53

The following table presents Kallpa's selected statement of financial position data as of the dates indicated:

	As of March	As of December 31,	
	31, 2017	2016	
		2016	2015
	(U.S.\$ millions)		
Cash	31	21	28
Trade receivables	44	55	42

	As of March 31, 2017	As of December 31,	
		2016	2015
		(U.S.\$ millions)	
Other receivables	11	17	10
Prepaid expenses	–	–	–
Inventories	14	15	14
Total current assets	100	108	94
Property, plant and equipment	577	584	612
Intangible assets	18	18	17
Other assets	10	10	9
Total non-current assets	605	612	638
Total assets	705	720	732
Trade payables	34	38	74
Other payables	21	12	12
Loans from banks, debentures and others	7	6	101
Advances from clients.....	1	1	2
Total current liabilities	63	57	189
Trade payables	42	44	–
Loans from banks, debentures and others	406	407	315
Advances from clients.....	–	1	1
Deferred income tax liabilities	44	49	29
Asset retirement obligation	8	8	12
Total non-current liabilities.....	500	509	357
Total liabilities	563	566	546
Share capital.....	71	71	71
Share premiums	54	54	54
Other reserves	14	14	14
Retained earnings.....	3	15	47
Total equity	142	154	186
Total liabilities and equity	705	720	732

THE MERGER AND UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

Merger

As part of a strategy to optimize and diversify our operations and in consideration of the fact that the companies share a common management team, on June 26, 2017, the shareholders' meetings and the board of directors of each of Cerro del Águila and Kallpa unanimously approved the Merger, with Cerro del Águila as the surviving entity, which will become effective upon the execution of the corresponding merger public deed, which is expected to occur on the date the notes are issued. The public deed will then be filed for registration in the corresponding Public Registry in Peru.

The process is currently in a 45-day waiting period (which will end on August 8, 2017), during which period the Merger notices have been published in local newspapers, allowing creditors of the two companies who believe that the Merger may harm their ability to collect on their debt the opportunity to oppose the Merger. While we cannot guarantee that actions on the part of the companies' creditors will not prevent or delay the Merger, we anticipate that the Merger will be effective on the date the notes are issued. Moreover, we note that no consents are required for the Merger according to the indenture governing Kallpa's existing 4.875% Senior Notes due 2026, and Banco del Crédito del Perú, as lessor under the Las Flores lease has already provided consent for the Merger. Amounts owed under the CdA Credit Facility will be repaid prior to the Merger, so no consent is required from lenders under such facility. Furthermore, we have obtained all required consents from our PPA customers. In addition, certain PPAs will be assigned from Kallpa to Cerro del Águila prior to the Merger, so no consent will be required from such PPA customers. Consequently, the risk of nonoccurrence of the Merger, in our view, is minimal.

We believe the Merger will provide significant benefits to both Cerro del Águila and Kallpa. Our balanced portfolio of hydro and thermal assets would allow us to mitigate the effects of hydrology seasonality. During the dry season of May to October, Cerro del Águila's hydroelectric plant, along with most other hydro facilities in Peru, generates less energy. When hydroelectric production in the country is low, thermal generators are typically dispatched at higher levels than during the rainy season, helping us to mitigate the effects of seasonality. The combination of the plants would provide the combined company with the ability to benefit from the CdA plant's higher efficiency during the rainy season and Kallpa increased generation during the dry season. In general, the combination of hydroelectric generation capacity with efficient and low cost thermal generation could allow the combined entity to benefit from a stable generation capacity at a low overall cost, reducing its exposure to hydrology variations and increasing competitiveness when seeking to secure new PPAs. In addition, the combined company would benefit from larger scale and diversification. Upon consummation of the Merger, our total installed capacity will be 1,608 MW, making us the leading power producer in Peru in terms of energy generation.

Unaudited Pro Forma Combined Financial Information

Set forth below is the following pro forma combined financial information:

- unaudited pro forma combined statement of profit or loss for the three months ended March 31, 2017, which was derived in part from the historical Cerro del Águila unaudited condensed interim financial statements and the historical Kallpa unaudited condensed interim financial statements included elsewhere in this offering memorandum;
- unaudited pro forma combined statement of profit or loss for the year ended December 31, 2016, which was derived in part from the historical Cerro del Águila audited annual financial statements and the historical Kallpa audited annual financial statements included elsewhere in this offering memorandum; and
- unaudited pro forma combined statement of financial position as of March 31, 2017, which was derived in part from the historical Cerro del Águila unaudited condensed interim financial statements and the historical Kallpa unaudited condensed interim financial statements included elsewhere in this offering memorandum.

The unaudited pro forma combined financial statement of financial position was prepared as if the Merger had occurred on March 31, 2017. The unaudited pro forma statements of profit or loss and other comprehensive income were prepared as if the Merger had occurred on January 1, 2016.

The unaudited pro forma combined financial information is provided for informational purposes only. The unaudited pro forma combined financial information (including the pro forma adjustments) is preliminary and based upon available information and various adjustments set forth in the accompanying notes and is not necessarily indicative of what our financial position or results of operations would have been if the Merger had been consummated on January 1, 2016 (in the case of the unaudited pro forma combined statements of profit or loss) or on March 31, 2017 (in the case of the unaudited pro forma combined statement of financial position), or what our financial position or results of operations will be for any future period. The unaudited pro forma financial information should be read in conjunction with the accompanying notes and assumptions, as well as the Cerro del Águila audited financial statements and the Kallpa audited financial statements and accompanying notes, as well as the Cerro del Águila unaudited condensed interim financial statements and the Kallpa unaudited condensed interim financial statements, in each case presented elsewhere in this offering memorandum.

Unaudited Pro Forma Combined Statements of Profit or Loss for the Three Months Ended March 31, 2017

	Historical		Pro Forma Adjustments	Pro Forma Combined
	Cerro del Águila	Kallpa		
	March 31, 2017	March 31, 2017		March 31, 2017
			(U.S.\$ millions)	
Revenues.....	31	108	(1) (A)	138
Cost of Sales (excluding depreciation).....	(10)	(71)	2 (B)	(79)
Depreciation.....	(4)	(10)	— (C)	(14)
Gross Profit	17	27	1	45
Administrative expenses	(2)	(6)	1 (D)	(7)
Other income.....	—	3	(2) (E)	1
Other expenses	—	—	—	—
Profit from operating activities	15	24	—	39
Finance income	—	—	—	—
Finance costs.....	(10)	(6)	(1)	(17)
Net foreign exchange	—	1	1	2
Finance cost, net	(10)	(5)	—	(15)
Profit before income tax	5	19	—	24
Income tax (expense) benefit	1	(6)	—	(5)
Profit for the period	6	13	—	19

Unaudited Pro Forma Combined Statements of Profit or Loss for the Year Ended December 31, 2016

	Historical		Pro Forma Adjustments	Pro Forma Combined
	Cerro del Águila	Kallpa		
	December 31, 2016	December 31, 2016		December 31, 2016
			(U.S.\$ millions)	
Revenues.....	50	438	(2) (F)	486
Cost of Sales (excluding depreciation).....	(16)	(294)	4 (G)	(306)
Depreciation.....	(7)	(45)	— (H)	(52)
Gross Profit	27	99	2	128
Administrative expenses	(3)	(20)	— (I)	(23)
Other income.....	—	17	(5) (J)	12
Other expenses	—	—	—	—
Profit from operating activities	24	96	(3)	117
Finance income	—	—	—	—

	Historical		Pro Forma Adjustments	Pro Forma Combined
	Cerro del Águila	Kallpa		
	December 31, 2016	December 31, 2016		
Finance costs	(17)	(37)	—	(54)
Net foreign exchange	—	—	—	—
Finance cost, net	(17)	(37)	—	(54)
Profit before income tax	7	59	(3)	63
Income tax expense	(7)	(24)	—	(31)
Profit for the period	—	35	(3)	32

Unaudited Pro Forma Combined Statement of Financial Position as of March 31, 2017

	Historical		Pro Forma Adjustments	Pro Forma Combined
	Cerro del Águila	Kallpa		
	March 31, 2017	March 31, 2017		
(U.S.\$ millions)				
Assets				
Current assets				
Cash	33	31	-	64
Trade receivables	11	44	-	55
Other receivables.....	5	11	(2) (K)	14
Prepaid expenses	-	-	-	-
Inventory	-	14	-	14
Total current assets	49	100	(2)	147
Non-current assets				
Property, plant and equipment.....	948	577	(9) (L)	1,516
Intangible assets	25	18	-	43
Other assets	-	10	-	10
Total non-current assets	973	605	(9)	1,569
Total assets.....	1,022	705	(11)	1,716
Liabilities and Equity				
Current liabilities				
Trade payables	57	34	-	91
Other payables.....	7	21	(2) (K)	26
Current income tax	-	-	-	-
Loans from banks and others	-	-	-	-
Short Term Loan	14	-	-	14
Current portion of long term syndicated loan....	28	7	-	35
Advances from clients.....	-	1	-	1
Derivative financial instruments.....	6	-	-	6
Total current liabilities	112	63	(2)	173
Non-current liabilities				
Trade payables	-	42	-	42
Loans from banks and others.....	547	406	-	953
Shareholder loans	30	-	-	30
Advances from clients.....	-	-	-	-
Derivative financial instruments.....	10	-	-	10
Deferred income tax liabilities	15	44	-	59
Provisions.....	2	8	-	10

	Historical		Pro Forma Adjustments	Pro Forma Combined
	Cerro del Águila	Kallpa		
	March 31, 2017	March 31, 2017		
			(U.S.\$ millions)	
Total non-current liabilities	604	500	-	1,104
Total liabilities	716	563	(2)	1,277
Equity				
Share capital	328	71	-	399
Share premiums.....	-	54	-	54
Hedging reserve	(10)	-	-	(10)
Other reserves	-	14	-	14
Retained earnings	(12)	3	(9) (L)	(18)
Total equity	306	142	(9)	439
Total liabilities and equity	1,022	705	(11)	1,716

Notes to Unaudited Pro Forma Combined Financial Information

- (A): Capacity Agreement and COES Transactions.
- (B): Capacity Agreement, COES Transactions and Operating, Maintenance and Management Servicing Agreement.
- (C): Operating, Maintenance and Management Servicing Agreement that was included as “Property, Plant and Equipment” in Cerro del Águila before COD.
- (D): Operating, Maintenance and Management Servicing Agreement.
- (E): Operating, Maintenance and Management Servicing Agreement.
- (F): Capacity Agreement and COES Transactions.
- (G): Capacity Agreement, COES Transactions and Operating, Maintenance and Management Service Agreement.
- (H): Operating, Maintenance and Management Servicing Agreement that was included as “Property, Plant and Equipment” in Cerro del Águila before COD.
- (I): Operating, Maintenance and Management Servicing Agreement.
- (J): Operating, Maintenance and Management Servicing Agreement.
- (K): Other Receivables and Payables outstanding balance as of the date of the statement of Financial Position.
- (L): Operating, Maintenance and Management Servicing Agreement that was included as Property, Plant and Equipment in Cerro del Águila before COD.
- (M): Trade Receivables and Payables (Capacity Agreement and COES Transactions) outstanding balance as of the date of the statement of Financial Position.
- (N): Other Receivables and Payables (Operating, Maintenance and Management Servicing Agreement) outstanding balance as of the date of the statement of Financial Position.

(O): Operating, Maintenance and Management Servicing Agreement that was included as “Property, Plant and Equipment” in Cerro del Águila before COD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information set forth in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" section should be read in conjunction with the historical financial statements of Kallpa and Cerro del Águila included elsewhere in this offering memorandum. Those historical financial statements have been prepared in accordance with IFRS as issued by the IASB.

Certain information included in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" section includes forward-looking statements that are subject to risks and uncertainties, and which may cause actual results to differ materially from those expressed or implied by such forward-looking statements. For further information on important factors that could cause the actual results of Kallpa and/or Cerro del Águila to differ materially from the results described in such forward-looking statements, see "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors."

Overview

Cerro del Águila owns and operates the largest privately owned hydroelectric power plant in Peru in terms of installed capacity, which reached COD in August 2016. Kallpa, an affiliate of Cerro del Águila and the guarantor of the notes, is the third largest power generation company in Peru in terms of installed capacity and is among the most efficient power generation companies in Peru in terms of heat rate. As part of a strategy to optimize and diversify our operations, on June 26, 2017, the shareholders and the board of directors of each of Cerro del Águila and Kallpa approved the Merger, which will become effective upon the execution of the corresponding merger public deed, which is expected to occur on the date the notes are issued. The public deed will then be filed for registration in the corresponding Public Registry in Peru.

As part of the arrangement and until such time as the Merger can be effected, both Cerro del Águila and Kallpa will support each other and work closely together, beginning to integrate systems, consolidating operational and financial functions and responsibilities and achieving administrative and other efficiencies. As part of this mutual support until the Merger can be effected, Kallpa is guaranteeing the notes offered hereby and Cerro del Águila will become guarantor of Kallpa's existing U.S.\$350 million aggregate principal amount of 4.875% Senior Notes due 2026 and its obligations under the lease of Las Flores. When the Merger becomes effective, Cerro del Águila's guarantee of Kallpa's existing notes and its lease of Las Flores and Kallpa's guarantee of the notes offered hereby will each automatically terminate and cease to have any force or effect. Upon the consummation of the Merger, our total installed capacity will be 1,608 MW, making us the leading power producer in Peru in terms of energy generation.

Cerro del Águila

Cerro del Águila owns and operates the largest privately-owned hydroelectric power plant in Peru in terms of installed capacity, with an installed capacity of 545 MW (the "CdA plant"). The CdA plant has three generating units: two turbines which reached COD on August 3, 2016, and a third turbine which reached COD on August 25, 2016. The CdA plant consists of a dam, a powerhouse for the three turbines, a six-kilometer headrace tunnel and a 17-kilometer transmission line that operates on the Mantaro River, located in Huancavelica in central Peru.

The CdA plant is located 16 kilometers downstream from Peru's largest hydroelectric complex, formed by the Mantaro and the Restitución hydroelectric plants, with a combined installed capacity of 1,008 MW, and the Junin water reservoir, which is the second largest in Peru. The Junin water reservoir provides a relatively constant water flow for the downstream power plants, benefiting the CdA plant's hydrology. We estimate that the CdA plant will produce an average of 3,100 GWh per year and will have an average annual capacity factor of approximately 65%. This capacity factor is significantly above the average of 54% for similar projects in Latin America, according to Renewable Energy Sources and Climate Change Mitigation, a special report of the Intergovernmental Panel on Climate Change.

Cerro del Águila has signed three PPAs: a 15-year PPA with ElectroPerú covering 200 MW of capacity and its associated energy (with a 70% take-or-pay factor for both capacity and energy, which translates into a 70% load factor) that commenced in August 2016, and two 10-year PPAs with Luz del Sur and Enel Distribución Perú, the

first of which covers up to 202 MW of capacity and commences in January 2018, and the second of which covers up to 81 MW of capacity and commences in 2022. Neither of these PPAs contains any conditions precedent to commencement, other than the initial start date. As of March 31, 2017, the weighted average remaining life of Cerro del Águila’s PPAs was approximately 12 years. The PPA with ElectroPerú has an average energy price of U.S.\$54/MWh, capacity price of U.S.\$6.40/kW-month, is denominated in U.S. dollars and is indexed in part to the U.S. producer price index. The first PPA with Luz del Sur and Enel Distribución Perú has an average energy price of U.S.\$50/MWh and capacity price of U.S.\$6.60/kW-month. The second PPA with Luz del Sur and Enel Distribución Perú has an average energy price of U.S.\$41/MWh and capacity price of U.S.\$6.50/kW-month. While these two PPAs are denominated in Peruvian soles, their energy prices are also indexed to natural gas prices in Peru, which are denominated in U.S. dollars, and indexed to the U.S. producer price index. Assuming a load factor of between approximately 60% and 70% and certain volumes of capacity, peak and off-peak sales occurring at each PPA’s average price (from the beginning of the PPA until 2024), it is expected that our PPA with ElectroPerú will generate annual revenues in the range of U.S.\$80 million to U.S.\$88 million per year, our first PPA with Luz del Sur and Enel Distribución Perú will generate annual revenues in the range of U.S.\$52 million to U.S.\$57 million per year and our second PPA with Luz del Sur and Enel Distribución Perú will generate annual revenues in the range of U.S.\$20 million to U.S.\$23 million per year.

Prior to reaching COD, Cerro del Águila did not recognize any revenues or operating income from its operations. Since reaching COD on August 3, 2016 and August 25, 2016, some fine tuning work was performed on the CdA plant to complete all pending issues related to the EPC Contract. After such fine tuning work, the CdA plant achieved the operational excellence standard required by the Cerro del Águila operations and management teams in mid-April 2017.

Construction of the CdA plant, which began in November 2011, cost U.S.\$975 million. The CdA plant became fully operational at a cost of U.S.\$1.8 million per MW, making the CdA plant among the most efficiently constructed hydroelectric facilities in Latin America in terms of cost per MW. Development of the CdA plant was financed principally with the CdA Credit Facility in an amount of U.S.\$591 million, equity contributions from each of our shareholders Inkia and Energía del Pacífico, which invested U.S.\$328 million in the aggregate in Cerro del Águila, and from shareholder loans to Cerro del Águila for a total of U.S.\$28 million. We intend to repay in full the CdA Credit Facility, as well as unwind Cerro del Águila’s related interest rate swaps, and repay such shareholder loans with the proceeds from this offering. For further information on the CdA Credit Facility, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Material Indebtedness—Credit Facility.”

During the periods from August 3, 2016 to December 31, 2016 and the three months ended March 31, 2017, Cerro del Águila generated 693 GWh, and 565 GWh, respectively. The following table sets forth certain of Cerro del Águila’s financial data for the periods set forth below:

	Three Months Ended March 31, 2017	Year Ended December 31, 2016⁽¹⁾
	(U.S.\$ millions, except as otherwise indicated)	
Revenues	31	50
Net income	6	-
EBITDA ⁽²⁾	19	31

(1) Figures reflect Cerro del Águila’s operations starting on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.

(2) EBITDA is a non IFRS measure. For a reconciliation of our net income to our EBITDA, see “Summary—Summary Financial and Other Information.”

Kallpa

Kallpa was the third largest power generation company in Peru in terms of installed capacity as of December 31, 2016. Kallpa owns and operates two power plants, both utilizing natural gas for their operations. Kallpa’s first unit, Kallpa I, reached COD in June 2007, and Kallpa thereafter completed the conversion of its three natural gas-powered open-cycle generation turbines (Kallpa I, II, and III) into combined-cycle by adding a 292 MW steam turbine (Kallpa IV) in August 2012 (collectively, the “Kallpa plant”). Compared to other thermal plants, the Kallpa plant’s combined-cycle is one of the most efficient in Peru in terms of heat rate in 2016, according to the COES. As of December 31, 2016, the Kallpa combined-cycle plant had an installed capacity of 870 MW,

representing approximately 7% of the total capacity in Peru. Additionally, in April 2014, Kallpa acquired Las Flores, a 193 MW open cycle natural gas-fired plant that is located nearby the Kallpa plant, from a then subsidiary of Duke Energy Corp. Las Flores increased Kallpa's total installed capacity from 870 MW to 1,063 MW, representing approximately 9% of the total installed capacity in Peru as of December 31, 2016. As a result of Kallpa's efficiency and low cost of operations, it has a strong competitive position in the Peruvian market and is currently the largest thermoelectric power plant in Peru, with approximately 12% of market share in terms of energy dispatched for during 2016. In May 2016, Kallpa issued U.S.\$350 million aggregate principal amount of 4.875% Senior Notes due 2026, which received a "Baa3" investment-grade rating by Moody's and a "BBB-" investment-grade rating by Fitch.

Kallpa has entered into long-term U.S. dollar or U.S. dollar-linked PPAs to sell capacity and/or energy to customers that Kallpa believes have strong credit profiles, such as large distribution companies or non-regulated customers that are subsidiaries of large corporations. As of March 31, 2017, the weighted average remaining life of Kallpa's PPAs was approximately six years. For the year ended December 31, 2016, 96% of Kallpa's aggregate energy sales (in GWh) were made pursuant to PPAs. We believe this strategy limits Kallpa's exposure to fluctuations in energy spot market prices and helps it generate strong and predictable margins and cash flows. Additionally, most of Kallpa's PPAs are indexed to the cost of natural gas and to the U.S. dollar. Such indexing generally limits its exposure to natural gas price and foreign exchange fluctuations, thereby helping Kallpa to maintain its margins.

Since August 2016, both Kallpa and Las Flores plant won a bid to provide spinning reserve service to the Peruvian electricity system. This service is required by the system to maintain the frequency under the required levels for its normal operation.

During the year ended December 31, 2016 and the three months ended March 31, 2017, Kallpa generated 6,015 GWh and 904 GWh, respectively. The following table sets forth certain financial and operational data of Kallpa for the periods set forth below:

	Three Months Ended March 31,		Year Ended December 31,		
	2017	2016	2016	2015	2014 ⁽¹⁾
	(U.S.\$ millions, except as otherwise indicated)				
Revenues	108	121	438	448	437
Net income	13	13	35	45	53
EBITDA ⁽²⁾	34	38	141	154	156

(1) Kallpa acquired Las Flores in April 2014.

(2) EBITDA is a non IFRS measure. For a reconciliation of our net income to our EBITDA, see "Summary—Summary Financial and Other Information."

Merger

As part of a strategy to optimize and diversify our operations and in consideration of the fact that the companies share a common management team, on June 26, 2017, the shareholders' meetings and the board of directors of each of Cerro del Águila and Kallpa unanimously approved the Merger, with Cerro del Águila as the surviving entity, which will become effective upon the execution of the corresponding merger public deed, which is expected to occur on the date the notes are issued. The public deed will then be filed for registration in the corresponding Public Registry in Peru.

The process is currently in a 45-day waiting period (which will end on August 8, 2017), during which period the Merger notices have been published in local newspapers, allowing creditors of the two companies who believe that the Merger may harm their ability to collect on their debt the opportunity to oppose the Merger. While we cannot guarantee that actions on the part of the companies' creditors will not prevent or delay the Merger, all required contractual consents have been obtained, and we anticipate that the Merger will be effective on the date the notes are issued. Amounts owed under the CdA Credit Facility will be repaid prior to the Merger, so no consent is required from lenders under such facility. Furthermore, we have obtained all required consents from our PPA customers. In addition, certain PPAs will be assigned from Kallpa to Cerro del Águila prior to the Merger, so no consent will be required from such PPA customers. Consequently, the risk of nonoccurrence of the Merger, in our view, is minimal.

Critical Accounting Policies and Significant Estimates

In preparing our financial statements, we make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our estimates and associated assumptions are reviewed on an ongoing basis and are based upon historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

See notes 3 and 4 to Cerro del Águila's audited annual financial statements as of December 31, 2016 and 2015 and for the years then ended for a description of Cerro del Águila's critical accounting policies. See notes 3 and 4 to Kallpa's audited annual financial statements as of December 31, 2016 and 2015 and for the years then ended for a description of Kallpa's critical accounting policies.

Material Factors Affecting Results of Operations

Capacity Growth

As set forth below, our capacity was 1,608 MW as of December 31, 2016, representing an 824% growth in capacity since December 31, 2007. Kallpa's first turbine, Kallpa I, was built in 2007 with an installed capacity of 174 MW, which was increased by 12 MW to 186 MW in 2010. Between July 2007 and August 2012, Kallpa developed the Kallpa II and Kallpa III turbines and, with the Kallpa IV steam turbine, completed the conversion of Kallpa's facility from an open-cycle to a combined-cycle operation. In April 2014, Kallpa acquired Las Flores, a 193 MW open cycle natural gas-fired plant. In November 2011, Cerro del Águila began construction of its hydroelectric plant and, on August 3, 2016, the CdA plant reached COD.

	<u>COD /Date of Acquisition</u>	<u>Installed Capacity (MW)</u>
Kallpa I.....	2007	174
Capacity as of December 31, 2007		174
Kallpa II	2009	195
Kallpa I (installed capacity increase).....	2010	12
Kallpa III	2010	197
Kallpa IV	2012	292
Las Flores.....	2014	193
Cerro del Águila.....	2016	545
Total increase in capacity since December 31, 2007.....	—	1,434
Capacity as of December 31, 2016	—	1,608

As a result of our capacity expansion, our revenues, operating income, finance costs, net and net income substantially increased since the beginning of our operations.

Macroeconomic Conditions in Peru

Macroeconomic conditions may impact the gross domestic production of Peru which may, in turn, affect the consumption of electricity by industrial and individual consumers. For instance, countries experiencing sustained economic growth generally experience an increase in their electricity consumption. Additionally, macroeconomic conditions are also likely to affect foreign exchange rates, domestic interest rates and inflation, which each has an effect on our financial and operating costs. Fluctuations in the exchange rates between the Peruvian sol and the U.S. dollar, which is our functional currency, will generate either gains or losses on monetary assets and liabilities denominated in the Peruvian sol and can therefore affect our profitability. Increases in inflation rates may also increase labor costs and other local expenses of our operations, and we may be unable to pass such increases on to our customers (*e.g.*, to customers who purchase energy or capacity from us pursuant to long-term PPAs, which are not linked to Peruvian inflation rates).

The following table sets forth the annual inflation rate, the percentage growth in GDP and the currency appreciation/depreciation of the Peruvian sol (relative to the U.S. dollar) for the periods presented for Peru:

	<u>Year Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Inflation Rate.....	3.6%	3.5%	3.2%

	Year Ended December 31,		
	2016	2015	2014
GDP Growth.....	3.9%	3.3%	2.4%
Currency Appreciation (Depreciation).....	1.6%	(14.4)%	(6.6)%

Source: Banco Central de Reserva de Perú / The World Bank

For further information on macroeconomic conditions in Peru, see “*Industry.*”

Availability and Dispatch

The regulatory framework in Peru establishes a marginal cost system, and the COES determines which generation units are to be dispatched according to each unit variable cost, so as to minimize the overall generation cost to meet the required electricity demand.

The availability of a power generation asset refers to the percentage of time that a plant is available to generate energy. For example, even though according to dispatch merit order, they are generally the first units being dispatched due to their low generation costs, certain hydroelectric plants may not be dispatched or dispatched at a reduced level of capacity during a certain period in order to conserve water in the associated daily and/or annual reservoirs in order to optimize the system generation cost during a drought or the dry season or during maintenance, or when there are unscheduled outages. Thermal plants, such as those operated by Kallpa, are, according to dispatch merit order, dispatched after hydroelectric plants and are unavailable for dispatch when they are removed from operation for maintenance or when there are unscheduled outages. Depending on the technology, the COES considers availability and hydrology statistics of generation plants in order to allocate firm capacity, which is the amount of capacity that, pursuant to applicable regulations, is recognized and remunerated to each power generation unit for being available to cover the demand in peak hours.

Cerro del Águila’s availability is subject to annual and seasonal hydrology variations, which depend on climate conditions. The Mantaro River, however, has upstream water reservoirs, such as Lake Junin, which store water during rainy seasons and discharge it to the river during dry seasons, allowing the CdA plant to have a regular capacity factor of approximately 65%. Ensuring that Cerro del Águila’s hydroelectric plant is available to be dispatched is key to positioning Cerro del Águila to capture the benefits of marginal cost dispatch and therefore to increase its margins. In addition, Cerro del Águila’s dam allows it to store water in order to be available for the COES’s call to dispatch, which normally occurs during peak hours.

The following table sets forth the weighted average availability of our generation units for the periods presented:

	Three Months Ended March 31, 2017	Year Ended December 31,		
		2016	2015	2014
Cerro del Águila	73%	89% ⁽¹⁾	-	-
Kallpa I.....	100%	98%	91% ⁽²⁾	96%
Kallpa II	96%	84% ⁽³⁾	99%	97%
Kallpa III	69% ⁽⁴⁾	99%	99%	96%
Kallpa IV	94%	99%	95%	98%
Las Flores	100%	99%	100%	96% ⁽⁵⁾
Total Kallpa	92%	96%	97%	97%
Total.....	89	95%	97%	97%

(1) Cerro del Águila began operations on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.

(2) Kallpa I underwent scheduled major maintenance from January 30, 2015 to February 28, 2015 (29 days).

(3) Kallpa II underwent scheduled major maintenance from March 19, 2016 to April 18, 2016 (30 days).

(4) Kallpa III underwent scheduled major maintenance from January 9, 2017 to February 6, 2017 (28 days).

(5) Kallpa acquired Las Flores in April 2014.

When hydroelectric plants are unavailable or have been fully dispatched, other generation plants are then dispatched on the basis of cost, with lower cost units, such as natural gas plants, generally dispatched first. The Kallpa plant is among the first thermal plants to be dispatched in Peru after the hydroelectric plants, since Kallpa’s generation plants are among the lowest-cost thermal generation units in Peru. As a result, a key factor for Kallpa’s financial performance is that Kallpa’s plants must be available for dispatch and not be offline for maintenance. Scheduled maintenance for the allowed period is the only time that Kallpa’s generation units should not be available

for dispatch. In that regard, Kallpa has a disciplined maintenance strategy that has led to high availability of its units. In addition, pursuant to the COES rules, Kallpa is required to program its maintenance months in advance and even short-term, unanticipated maintenance requirements must be programmed with at least 15 days' anticipation.

If our generation units are available for dispatch and are not dispatched, or are partially dispatched, by the system operator and if our obligations to deliver energy under our PPAs exceed the energy dispatched from our own generation units at any particular time, we purchase energy in the spot market to satisfy these obligations. In such case, the price should be lower than our own generation cost, therefore increasing our commercial margin.

If our generation units are not allocated sufficient firm capacity to satisfy our obligations under our PPAs, we should purchase capacity in the spot market to satisfy these obligations. However, the spot capacity price has been substantially similar to the regulated capacity price and the PPA capacity price.

Spot prices in the Peruvian electricity market are currently at low historical levels (approximately U.S.\$8.7/MWh monthly average during the first half of 2017) mainly due to a sustained increase in installed capacity in the last years and a moderate demand growth, which has increased the reserve margin from 25.8% in 2011 to 72.2% in 2016 as Cerro del Águila, Chaglla (another hydroelectric plant) and Samay I reached COD. However, looking forward, according to COES projections, demand is expected to pick up due to large mining and industrial projects such as Shouxin, Tambomayo, Toquepala and Cerro Verde, among others, as well as sustained growth in underlying demand. As a result, maximum demand is expected to grow at a 6.4% CAGR between 2017 and 2020, according to the COES.

With respect to the supply, after 2017, no relevant increase is expected. Total firm capacity is expected to increase by only 1.7% CAGR between 2017 and 2020. According to the COES, this low increase in supply (after 2017) coupled with sustained demand growth, is expected to push the reserve margin down. The COES expects it to reach 44.4% in 2020 (a decrease of 21 percentage points versus 2017). These factors may lead to rising spot prices in the middle term and may provide for an improvement in future PPA prices.

The following table sets forth the amount of energy sold under our PPAs and in the spot market, and the amount of energy generated and purchased during the years presented⁽¹⁾:

Period	Sales under PPAs	Sales in Spot Market	Net Energy Generated ⁽²⁾	Energy Purchased
			(GWh)	
Three Months Ended March 31, 2017....	1,823	259	1,445	637
Year Ended December 31, 2016 ⁽³⁾	6,692	466	6,577	581
Year Ended December 31, 2015	6,327	106	5,027	1,406
Year Ended December 31, 2014	6,324	235	5,698	861

(1) The information included within the table reflects 100% of the energy sold under PPAs, sold in the spot market, generated, and purchased by Kallpa and Cerro del Águila and also contains information for Las Flores from periods prior to our acquisition in April 2014. For further information on our acquisition during the periods within the table, see “—Capacity Growth.”

(2) Net energy generated is defined as energy delivered at the interconnection to the system.

(3) Cerro del Águila began operations on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.

Significant PPAs

The following tables set forth a summary of our significant PPAs as of the date of this offering memorandum⁽¹⁾:

Cerro del Águila

Principal Customer	Commencement	Expiration	Contracted Capacity (MW)
ElectroPerú S.A. ⁽²⁾	August 2016	December 2030	200
Luz del Sur S.A.A. ⁽²⁾ , Enel Distribución Perú S.A.A. ⁽²⁾	January 2018	December 2027	202
Luz del Sur S.A.A. ⁽²⁾ , Enel Distribución Perú S.A.A. ⁽²⁾	January 2022	December 2031	81

Kallpa

Principal Customer	Commencement	Expiration	Contracted Capacity (MW)
Enel Distribución Perú S.A.A. ⁽²⁾ , Luz del Sur S.A.A. ⁽²⁾ , Hidrandina S.A. ⁽²⁾ , Electro Sur Este S.A.A. ⁽²⁾ , Sociedad Eléctrica del Sur Oeste S.A. ⁽²⁾⁽⁴⁾	January 2014	December 2021	350
Enel Distribución Perú S.A.A. ⁽²⁾ , Luz del Sur S.A.A. ⁽²⁾ , Hidrandina S.A. ⁽²⁾ , Electro Sur Este S.A.A. ⁽²⁾ , Sociedad Eléctrica del Sur Oeste S.A. ⁽²⁾ , Electro Sur S.A. ⁽²⁾⁽⁵⁾	January 2014	December 2023	210
Sociedad Minera Cerro Verde S.A.A. ⁽³⁾⁽⁶⁾	January 2011	December 2020	132
Southern Copper Corporation ⁽³⁾	April 2017	April 2027	120
Southern Copper Corporation (Toquepala) ⁽³⁾⁽⁷⁾	May 2017	April 2029	70 – 85
Compañía Minera Antapaccay S.A. ⁽³⁾⁽⁸⁾	November 2011	December 2025	100
Inretail Properties Management S.R.L. ⁽³⁾	September 2016	December 2021	93

- (1) All of our PPAs are indexed to the price of natural gas in U.S. dollars. With respect to our non-regulated customers, we invoice and collect payments in U.S. dollars. With respect to our customers that are large distribution companies, for which we invoice and collect payments in Peruvian soles, the underlying tariff is linked to the U.S. dollar and is reset at each quarter when the tariff resulting from applying the indexation formula fluctuates by more than 5%.
- (2) Regulated customer.
- (3) Non-regulated customer.
- (4) Kallpa executed 14 PPAs, two PPAs with each of the following six entities: (i) Enel Distribución Perú S.A.A., (ii) Luz del Sur S.A.A., (iii) Electro Sur S.A., (iv) Electro Sur Este S.A.A., (v) Sociedad Eléctrica del Sur Oeste S.A. and (vi) Electro Puno S.A.A. Each of Electro Sur S.A. and Electro Puno S.A.A. assigned their PPAs to Hidrandina S.A. in August 2012 and in October 2012, respectively. The 350 MW capacity represents the aggregate contracted capacity among these 14 PPAs.
- (5) Kallpa executed 12 PPAs, two PPAs with each of the following six entities: (i) Enel Distribución Perú S.A.A., (ii) Luz del Sur S.A.A., (iii) Electro Sur S.A., (iv) Electro Sur Este S.A.A., (v) Electro Puno S.A.A. and (vi) Sociedad Eléctrica del Sur Oeste S.A. Electro Puno S.A.A. assigned its PPAs to Hidrandina S.A. in October 2012. The 210 MW capacity represents the aggregate contracted capacity among these 12 PPAs.
- (6) A subsidiary of Freeport McMoRan, Inc.
- (7) Contracted capacity will be determined during the first six months of supply after the client begins operations. Minimum of 70 MW and maximum of 85 MW.
- (8) A subsidiary of Glencore plc.

Cost of Sales

Our principal costs of sales are purchases of capacity and energy on the spot market, transmission costs, personnel, third party services, maintenance costs and, in the case of Kallpa, natural gas, including its transportation and distribution.

Our transmission costs vary primarily according to the quantity of energy that we generate and the locations of the specific nodes to which our generation units are connected in the Peruvian interconnected electrical system. According to our PPAs and the regulatory framework under which we sell energy in the spot market, most transmission costs related to the energy supply to our customers are passed on to our customers.

We incur personnel and third party services costs in the operation of our generation units. These costs are usually independent of the volumes of energy produced by our generation units. We incur maintenance costs in connection with the ongoing and periodic maintenance of our generation units. These costs are usually correlated to the volumes of energy produced and the number of running hours of our generation units.

Kallpa's costs for natural gas, which include transportation costs, vary primarily based on the quantity of natural gas consumed and whether Kallpa burns all of the monthly natural gas that it is obligated to purchase under its natural gas supply contracts. For the three months ended March 31, 2017, 52% of the gas volume we have contracted was under such take-or-pay condition. Kallpa's long-term gas supply contract with the Camisea Consortium, which is also used to supply gas to Las Flores, enables Kallpa to hedge against fluctuations in the price of natural gas; however, Kallpa's agreement with the Camisea Consortium will expire in June 2022, unless renewed by the parties.

The price of natural gas has a significant effect on Kallpa's costs. However, as prices in the spot market tend to reflect current fuel prices and, as most of Kallpa's PPAs contain a fuel price adjustment mechanism to reflect increases or decreases in the price of fuel, changes in fuel prices generally result in corresponding changes in revenues as a result of these pass-through mechanisms and do not substantially affect Kallpa's operating margins. In some cases, however, Kallpa's PPAs' fuel price adjustment mechanisms may reflect such adjustments on a lagging basis as a result of the indexation mechanisms of Kallpa's PPAs (which update only periodically and have minimum thresholds) and the indexations of Kallpa's long-term supply agreements.

Effects of Outstanding Indebtedness, including Financial Leases

Our total outstanding indebtedness on a pro forma combined basis was U.S.\$1,032 million as of March 31, 2017. 56% of that amount has floating interest rates (*e.g.*, many of the debt instruments bear interest rates based on LIBOR) and, therefore, a continued increase in interest rates could increase our interest expenses. All of our outstanding indebtedness is denominated in U.S. dollars. For further information on our outstanding indebtedness, including the interest rate and currency applicable to the indebtedness, see "*—Material Indebtedness.*" Cerro del Águila intends to fully repay all of its outstanding indebtedness with the net proceeds from this offering. See "*Use of Proceeds.*"

Income Taxes

We are subject to income tax in Peru. The general corporate income tax rate in Peru was 30% as of December 31, 2014. The general corporate income tax rate decreased to 28% in 2015, and was scheduled to decrease to 27% in 2018 and 26% in 2019. However, in December 2016, the general corporate income tax rate was increased from 28% to 29.5% (effective as of January 1, 2017).

During its pre-operative stage, Cerro del Águila incurred expenses that generated accumulated tax losses, which as of December 31, 2016, represents tax loss that can offset future income taxes of U.S.\$35.0 million. Upon consummation of the Merger, Cerro del Águila as the surviving entity from the Merger, will be able to keep these tax losses, which may be totally offset with any future profits including those of Kallpa that may be generated after the Merger. In addition, Cerro del Águila is eligible for the special tax benefit of "accelerated depreciation" of its assets for income tax purposes, which allows the company to depreciate its main assets up to a 20% annual rate. This may allow the surviving entity to defer its income tax obligations for several years. We estimate that the combined tax benefits will provide income tax relief to Cerro del Águila until the end of the 2021 fiscal year.

Kallpa signed legal stability agreements with the relevant tax authority in Peru pursuant to which, during the term of the corresponding agreement, Kallpa was subject to the income tax framework in place at the time each such agreement was entered into, which stipulated a 30% income tax rate, and not the general income tax regime applicable to other firms in Peru. Kallpa filed its withdrawal from the stability agreement, effective January 2017, which means from there on, Kallpa is subject to the general income tax regime of Peru and affected by any changes in the Peruvian income tax rates or tax regime in general. Cerro del Águila, as the surviving entity from the Merger, remains covered by the Legal and Tax Stability Agreement subscribed with Proinversion.

For further information on Cerro del Águila's tax rates, including withholding tax rates, see notes 14 and 19 of Cerro del Águila's audited annual financial statements included in this offering memorandum. For further information on Kallpa's tax rates, including withholding tax rates, see notes 15 and 19 of Kallpa's audited annual financial statements included in this offering memorandum.

Seasonality and Weather Variations

Our generation business (in particular the CdA plant) could be affected by seasonal weather patterns throughout the year and, therefore, operating margin could vary by month during the year. Additionally, weather variations, including hydrological conditions, may also have an impact on generation output at our CdA plant. For example, hydrological conditions that result in a lower availability of water for our CdA plant could cause, among other things, a reduction in our ability to generate energy and, accordingly, in our sales. Conversely, hydrological conditions that result in an oversupply of water near any of our facilities could cause flooding that significantly damages our plants, which would negatively affect our ability to generate energy and, accordingly, reduce our sales.

Amendment of Cerro del Águila EPC

In April 2014, Astaldi S.p.A. and GyM S.A. were the EPC Contractors for the CdA plant. The EPC Contractors demanded a six-month extension for COD (from early 2016 to the second half of 2016) and approximately a U.S.\$92 million increase in the total contract price. In March 2015, Cerro del Águila, together with the EPC Contractors, amended the CdA EPC to address such claims. Pursuant to the amendment, Cerro del Águila agreed to pay, subject to certain conditions, an additional U.S.\$40 million under the EPC contract, divided into four payments over the course of the remaining construction period, and granted certain time extensions previously requested by the contractors. The U.S.\$40 million was funded in full by additional equity investments by our shareholders.

On June 2, 2017, Cerro del Águila executed a settlement agreement with the EPC Contractors by which both parties settled all existing disputes in connection with the EPC Contract. Cerro del Águila had retained a total of U.S.\$27 million under the EPC Contract, which were released as part of the settlement. Additionally, Cerro del Águila paid the EPC Contractors a bonus of U.S.\$27 million for additional installed capacity. On the other hand, the EPC Contractors paid Cerro del Águila an aggregate amount of U.S.\$40 million: liquidated damages for delayed completion of U.S.\$32 million and liquidated damages for unscheduled unavailability of U.S.\$8 million. In June 2017, Cerro del Águila paid to the EPC Contractors an aggregate amount of U.S.\$14 million, which was the amount remaining after the deduction of such U.S.\$40 million, in order to completely settle such accounts. As a result of the amounts paid by Cerro del Águila to the EPC Contractors under the referenced settlement agreement, the total Cerro del Águila project costs were increased to U.S.\$975 million.

Operating Results

Cerro del Águila

The following discussion of Cerro del Águila's results of operations is based on Cerro del Águila's financial statements prepared in accordance with IFRS as issued by the IASB.

Set forth below are Cerro del Águila's statements of profit or loss data for the three months ended March 31, 2017 and the year ended December 31, 2016. Because Cerro del Águila began operations on August 3, 2016, we have not presented comparative information for prior periods.

	For the Three Months Ended March 31, 2017	For the Year Ended December 31, 2016⁽¹⁾
	(U.S.\$ millions)	
Revenues	31	50
Cost of sales (excluding depreciation)	(10)	(16)
Depreciation	(4)	(7)
Gross profit	17	27
Administrative expenses.....	(2)	(3)
Other income	—	—
Profit from operating activities	15	24
Financing cost, net	(10)	(17)
Profit before income tax	5	7
Income tax (expense) benefit.....	1	(7)
Profit for the period/year	6	-

(1) Cerro del Águila began operations on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.

Three Months Ended March 31, 2017

Revenues

Cerro del Águila's revenues were U.S.\$31 million for the three months ended March 31, 2017. Revenues were primarily the result of:

- U.S.\$18 million in energy sales resulting from (i) 304 GWh of energy sold under PPAs at an average price of U.S.\$56/MWh and (ii) 259 GWh of energy sold in the spot market at an average price of U.S.\$8/MWh;
- U.S.\$8 million in capacity sales resulting from (i) U.S.\$4 million for 200 MW of monthly average capacity sold under PPAs and (ii) U.S.\$4 million for system's capacity revenues net balance (the difference between Cerro del Águila's capacity revenues related to capacity injected to the system and Cerro del Águila's capacity payments related to capacity consumed by Cerro del Águila's clients); and
- U.S.\$5 million in other revenues resulting from principal and secondary tolls collection, most of which are passed through to our customers.

Until Cerro del Águila's second PPA is in place in 2018, spot sales will provide a higher percentage of revenue than they will in the future. Following the commencement of that PPA, we expect that revenue from sales pursuant to PPAs, as well as overall revenue, will increase.

Cost of Sales (Excluding Depreciation)

Cerro del Águila's cost of sales (excluding depreciation) was U.S.\$10 million for the three months ended March 31, 2017, primarily as a result of:

- U.S.\$7 million in transmission costs; and
- U.S.\$3 million in operating expenses resulting from (i) U.S.\$2 million for expenses related to roads and facilities maintenances, including the Operating, Maintenance and Management Service Agreement with Kallpa (the "Operating, Maintenance and Management Service Agreement"), and (ii) U.S.\$1 million for plant insurance.

Depreciation

Cerro del Águila's depreciation expense was U.S.\$4 million for the three months ended March 31, 2017, calculated based on a 55-year average life of the plant's assets.

Gross Profit

As a result of the above, Cerro del Águila's gross profit was U.S.\$16 million for the three months ended March 31, 2017, resulting in a gross margin of 55%.

Other Income

Cerro del Águila had other income of U.S.\$0 for the three months ended March 31, 2017.

Administrative Expenses

Cerro del Águila's administrative expenses were U.S.\$2 million for the three months ended March 31, 2017, and principally consisted of the Operating, Maintenance and Management Service Agreement with Kallpa.

Profit from Operating Activities

As a result of the above, Cerro del Águila's profit from operating activities was U.S.\$15 million for the three months ended March 31, 2017, resulting in an operating margin of 48%.

Financing Cost, Net

Cerro del Águila's financing cost, net, was U.S.\$10 million for the three months ended March 31, 2017 due to interest expense related to the CdA Credit Facility.

Income Tax Expense

Cerro del Águila recognized an income tax benefit of U.S.\$1 million for the three months ended March 31, 2017, primarily due to deferred taxes related to its tax loss carryforward. The estimated average effective tax rate for the year 2017 of 27% differs from the current tax rate of 30% mainly due to the effects of translating taxable bases and other permanent items.

Profit

As a result of the factors discussed above, Cerro del Águila's profit was U.S.\$6 million for the three months ended March 31, 2017.

Year Ended December 31, 2016

Revenues

Cerro del Águila's revenues were U.S.\$50 million for the year ended December 31, 2016. Revenues were primarily a result of:

- U.S.\$31 million in energy sales resulting from (i) 509 GWh of energy sold under PPAs at an average energy price of U.S.\$55/MWh; and (ii) 182 GWh of net energy sold in the spot market at an average energy price of U.S.\$22/MWh;
- U.S.\$11 million in capacity sales mainly resulting from (i) U.S.\$6 million for 197 MW of monthly average capacity sold under PPAs; and (ii) U.S.\$5 million for system's capacity revenues net balance (the difference between Cerro del Águila's capacity revenues related to capacity injected to the system and Cerro del Águila's capacity payments related to capacity consumed by Cerro del Águila's clients); and
- U.S.\$8 million in other revenues resulting from principal and secondary tolls collection, most of which are passed through to Cerro del Águila's customers.

Cost of Sales (Excluding Depreciation)

Cerro del Águila's cost of sales (excluding depreciation) was U.S.\$16 million for the year ended December 31, 2016, primarily as a result of:

- U.S.\$10 million in transmission costs;
- U.S.\$5 million in operating expenses explained by U.S.\$3 million expenses for the Operating, Maintenance and Management Service Agreement with Kallpa and other expenses related mainly to road maintenance, facilities maintenance and technical studies; and
- U.S.\$1 million resulting from 522 GWh of energy purchased in the spot market.

Depreciation

Cerro del Águila's depreciation expense was U.S.\$7 million for the year ended December 31, 2016, calculated based on a 55-year average life of the CdA plant's assets.

Gross Profit

As a result of the above, Cerro del Águila's gross profit was U.S.\$27 million for the year ended December 31, 2016, resulting in a gross margin of 54%.

Other Income

Cerro del Águila's other income was U.S.\$0 million for the year ended December 31, 2016.

Administrative Expenses

Cerro del Águila's administrative expenses were U.S.\$3 million for the year ended December 31, 2016, primarily as a result of U.S.\$1 million for the Operating, Maintenance and Management Service Agreement with Kallpa; and other expenses related to community services, and administrative maintenance.

Profit from Operating Activities

As a result of the above, Cerro del Águila's profit from operating activities was U.S.\$24 million for the year ended December 31, 2016, resulting in an operating margin of 48%.

Financing Cost, Net

Cerro del Águila's financing cost, net, was U.S.\$17 million for the year ended December 31, 2016 due to interest expense on the CdA Credit Facility. Prior reaching COD, finance expenses were capitalized and included in the cost of CdA plant.

Income Tax Expense

Cerro del Águila's income tax expense was U.S.\$7 million for the year ended December 31, 2016, primarily due to deferred taxes related to its tax loss carryforward. The most important impact in the effective tax rate is the exchange rate as Cerro del Águila's functional currency is U.S. Dollars, different from our tax currency, which is expressed in local currency. As a result, Cerro del Águila's effective tax rate was 99.8% for the year ended December 31, 2016.

Profit

As a result of the factors discussed above, Cerro del Águila's profit was U.S.\$0 million for the year ended December 31, 2016.

Kallpa

The following discussion of Kallpa's results of operations is based on Kallpa's financial statements prepared in accordance with IFRS as issued by the IASB. In the following discussion, references to increases or declines in any period are made by comparison with the corresponding prior period, except as the context otherwise indicates.

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

Set forth below are Kallpa's statements of profit or loss data for the three months ended March 31, 2017 and 2016.

	For the Three Months Ended March 31,		% Change
	2017	2016	
	(U.S.\$ millions)		
Revenues	108	121	(10.7)
Cost of sales (excluding depreciation)	(71)	(78)	(8.9)
Depreciation	(10)	(12)	(16.7)
Gross profit	27	31	(12.9)
Administrative expenses	(6)	(5)	20.0
Other income	3	-	-
Profit from operating activities	24	26	(7.7)
Financing cost, net	(5)	(6)	(16.7)
Profit before income tax	19	20	(5.0)
Income tax expense	(6)	(7)	(14.3)
Profit for the period	13	13	-

Revenues

Kallpa's revenues decreased by U.S.\$13 million, or 10.7%, to U.S.\$108 million for the three months ended March 31, 2017 as compared to U.S.\$121 million for the three months ended March 31, 2016. This decrease was primarily as a result of a U.S.\$14 million, or 18.2%, decline in Kallpa's revenue from energy sales to U.S.\$63 million during the three months ended March 31, 2017 from U.S.\$77 million during the corresponding period in 2016, resulting from (1) a 12% decline in the volume of energy sold by Kallpa to 1,519 GWh during the three months ended March 31, 2017 from 1,723 GWh during the corresponding period in 2016, primarily related to an increase in hydroelectric power generation in 2017, which typically gets dispatched prior to generation from thermal power plants, and (2) a U.S.\$3, or 7%, decline in Kallpa's average energy price to U.S.\$42/MWh during the three months ended March 31, 2017 from U.S.\$45/MWh during the corresponding period in 2016, principally a result of an adjustment in the PPA prices for Kallpa's non-regulated clients as a result of the decline in natural gas prices, as well as the existing capacity oversupply in Peru during 2017.

This was partially offset by a U.S.\$1 million, or 3.7%, increase in other revenues to U.S.\$27 million for the three months ended March 31, 2017, mainly due to an increase in secondary tolls collection, most of which are passed through to Kallpa's customers.

Cost of Sales (Excluding Depreciation)

Kallpa's cost of sales (excluding depreciation) decreased by U.S.\$7 million, or 9.0%, to U.S.\$71 million for the three months ended March 31, 2017 as compared to U.S.\$78 million for the three months ended March 31, 2016, primarily as a result of:

- a U.S.\$5 million cost compensation from the spinning reserve service provided during the three months ended March 31, 2017. This service was not provided in the first quarter of 2016; and
- a U.S.\$4 million intermediation fees in the three months ended March 31, 2016 which did not occur in the corresponding period in 2017. These fees are related to supply contracts between Kallpa and some distribution companies, in which the contract margin is split between the parties to the contract.

These effects were partially offset by a U.S.\$2 million, or 8.0%, increase in transmission costs to U.S.\$28 million for three months ended March 31, 2017, mainly due to an increase in secondary tolls collection, most of which are passed through to Kallpa's customers.

Depreciation

Kallpa's depreciation expense decreased by 16.7% to U.S.\$10 million for the three months ended March 31, 2017 as compared to U.S.\$12 million for the three months ended March 31, 2016, primarily as a result of a change in the average life cycle of major maintenances, increasing the spare parts average life from 8,300 hours (approximately 1 year) to 16,600 hours (approximately 2 years) of operation.

Gross Profit

As a result of the above, Kallpa's gross profit decreased by 12.9% to U.S.\$27 million for the three months ended March 31, 2017, resulting in a gross margin of 25%, as compared to a gross profit and gross profit margin of U.S.\$31 million and 25.6%, respectively, for the three months ended March 31, 2016.

Other Income

Kallpa's other income increased to U.S.\$3 million for the three months ended March 31, 2017 from U.S.\$0 million for the three months ended March 31, 2016. For the three months ended March 31, 2017, Kallpa's other income consisted primarily of the Operating, Maintenance and Management Service Agreement with Samay and Cerro del Águila which reached COD in May and August 2016, respectively. For the three months ended March 31, 2016, there was no income related to this Operating, Maintenance and Management Service Agreement.

Administrative Expenses

Kallpa's administrative expenses increased by 20.0% to U.S.\$6 million for the three months ended March 31, 2017 as compared to U.S.\$5 million in the three months ended March 31, 2016. Primarily as a result of an increase in personnel expenses due to a higher number of employees (251 for the three months ended March 31, 2017 from 198 for the same period in 2016), in order to fulfill the new Operating, Maintenance and Management Services Agreements signed by Kallpa with IC Power Peru's other two assets in Peru: Samay and Cerro del Águila.

Profit from Operating Activities

As a result of the above, Kallpa's profit from operating activities decreased by 7.7% to U.S.\$24 million for the three months ended March 31, 2017, resulting in an operating margin of 22.2%, as compared to U.S.\$26 million and 21.5%, respectively for the three months ended March 31, 2016.

Financing Cost, Net

Kallpa's financing cost, net, decreased by 16.7% to U.S.\$5 million for the three months ended March 31, 2017 as compared to U.S.\$6 million in the three months ended March 31, 2016. Kallpa benefited from lower financing expenses due to Kallpa's amortizing debt added to a U.S.\$1 million savings due to the issuance of Kallpa's 4.875% Senior Notes due 2026.

Income Tax Expense

Kallpa's income tax expense decreased to U.S.\$6 million for the three months ended March 31, 2017 as compared to U.S.\$7 million for the three months ended March 31, 2016, primarily due to U.S.\$1 million lower profit before tax. Our effective tax rate decreased to 31% for the three months ended March 31, 2017 as compared to 34% for the three months ended March 31, 2016. The estimated average effective tax rate for the year 2017 of 31% differs from the current enacted tax rate of 29.5% mainly due to the effects of translating taxable bases and other permanent items.

Profit

As a result of the factors discussed above, Kallpa's profit remained relatively flat at U.S.\$13 million for the three months ended March 31, 2017 as compared to U.S.\$13 million for the three months ended March 31, 2016.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Set forth below are Kallpa's statements of profit or loss data for the years ended December 31, 2016 and 2015.

	<u>For the Year Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>% Change</u>
	<u>(U.S.\$ millions)</u>		
Revenues	438	448	(2.2)
Cost of sales (excluding depreciation)	(294)	(279)	5.4
Depreciation	(45)	(50)	(10.0)
Gross profit	99	119	(16.8)
Administrative expenses	(20)	(17)	17.6
Other income	17	2	750.0
Profit from operating activities	96	104	(7.7)
Financing cost, net	(37)	(35)	5.7
Profit before income tax	59	69	(14.5)
Income tax expense	(24)	(24)	-
Profit for the year	35	45	(22.2)

Revenues

Revenues decreased by U.S.\$10 million or 2.2%, to U.S.\$438 million for the year ended December 31, 2016 from U.S.\$448 million during the year ended December 31, 2015, primarily due to a U.S.\$19 million, or 7%,

decrease in energy sales from U.S.\$291 million for the year ended December 31, 2015 to U.S.\$272 million for the year ended December 31, 2016, mainly due to (i) U.S.\$12 million decrease due to a reduction in average energy prices from U.S.\$45.9/MWh to U.S.\$44.0/MWh, for the years ended December 31, 2015 and 2016, respectively. This price reduction was mainly due to the indexation in the PPA prices for Kallpa's non-regulated customers as a result of the decline in natural gas prices, as well as, the existing excess of supply capacity during 2016; and (ii) U.S.\$7 million decrease resulting from 145 GWh decline in volume of energy sold under PPAs for the year ended December 31, 2016 as compared to 6,327 GWh of energy sales for the year ended December 31, 2015, mainly due to the lower demand from Kallpa's regulated customers (distribution companies).

This decrease was partially offset by a U.S.\$9 million, or 10.1%, increase in other revenues to U.S.\$98 million for the year ended December 31, 2016, mainly due to (i) an U.S.\$8 million increase in main and secondary tolls collection, most of which were passed through to Kallpa's customers; and (ii) a U.S.\$1 million increase resulting from an increase in the net volume of energy sold by Kallpa in the spot market to 283 GWh during the year ended December 31, 2016 from 106 GWh during the year ended December 31, 2015.

Cost of Sales (Excluding Depreciation)

Cost of sales (excluding depreciation) increased by U.S.\$15 million, or 5.4%, to U.S.\$294 million for the year ended December 31, 2016 from U.S.\$279 million for the year ended December 31, 2015, principally as a result of:

- A U.S.\$22 million, or 16.4%, increase in gas supply, transportation and distribution costs to U.S.\$156 million for the year ended December 31, 2016 from U.S.\$134 million for the year ended December 31, 2015. This was a result of a 14.0% increase in the volume of gas consumed due to a 16.0% increase in Kallpa's energy generation to 6,015 GWh during the year ended December 31, 2016 from 5,166 GWh during the year ended December 31, 2015. This effect was partially offset by a 3.0% decrease in the average gas price to U.S.\$2.992/MMBTU for the year ended December 31, 2016 to U.S.\$3.075/MMBTU for the year ended December 31, 2015; and
- a U.S.\$9 million, or 10.0%, increase in transmission costs to U.S.\$95 million for the year ended December 31, 2016 as a result of an increase in the primary toll system tariff during the year ended December 31, 2016 as compared to the year ended December 31, 2015 due to higher generation, most of which were passed through to Kallpa's customers.

These effects were partially offset by:

- a U.S.\$10 million, or 31.2%, decrease in spot energy purchases to U.S.\$22 million for the year ended December 31, 2016 from U.S.\$32 million for the year ended December 31, 2015 as a result of the higher volume of energy generated by Kallpa as discussed above;
- a U.S.\$5 million, or 23.8% decrease in maintenance expenses from U.S.\$21 million for the year ended December 31, 2015 as a result of the scheduled major maintenance and inspection works: Kallpa IV steam turbine inspection and the Kallpa I scheduled major maintenance, occurring in January and February 2015, respectively; and
- U.S.\$1 million intermediation fees in the year ended December 31, 2016. These fees are related to supply contracts between Kallpa and some distribution companies, in which the contract margin is split between the parties to the contract.

Depreciation

Depreciation expenses decreased by U.S.\$5 million, or 10.0%, to U.S.\$45 million for the year ended December 31, 2016 from U.S.\$50 million for the year ended December 31, 2015, mainly due to a change in the average life cycle of major maintenances, increasing the spare parts average life from 8,300 (approximately 1 year) to 16,600 hours (approximately 2 years) of operation.

Gross Profit

As a result of the above, Kallpa's gross profit decreased by 16.8% to U.S.\$99 million for the year ended December 31, 2016, resulting in a gross margin of 22.6%, as compared to gross profit and gross profit margin of U.S.\$119 million and 26.6%, respectively, for the year ended December 31, 2015.

Other Income

Other income increased by U.S.\$15 million to U.S.\$17 million for the year ended December 31, 2016 from U.S.\$2 million for the year ended December 31, 2015, primarily as a result of: (i) U.S.\$7 million related to a payment received by Kallpa in connection with the early termination of a PPA in August 2016; (ii) a U.S.\$5 million payment from Cerro del Águila pursuant to the Operating, Maintenance and Management Services Agreement; and (iii) a U.S.\$3 million payment from Samay pursuant to the Operating, Maintenance and Management Services Agreement.

Administrative Expenses

Administrative expenses increased by U.S.\$3 million, or 17.6%, to U.S.\$20 million for the year ended December 31, 2016 from U.S.\$17 million for the year ended December 31, 2015, primarily as a result of an increase in personnel expenses due to an increase in the number of employees from 183 as of December 31, 2015 to 235 as of December 31, 2016, to fulfill the new Operating, Maintenance and Management Services Agreements signed by Kallpa with Cerro del Águila and Samay.

Profit from Operating Activities

As a result of the above, Kallpa's profit from operating activities decreased by 7.7% to U.S.\$96 million for the year ended December 31, 2016, resulting in an operating margin of 21.9%, as compared to 23.2% for the year ended December 31, 2015.

Finance Cost, Net

Finance cost, net were U.S.\$37 million for the year ended December 31, 2016 as compared to U.S.\$35 million for the year ended December 31, 2015. This 5.7% increase was caused mainly by Kallpa's recognition of a U.S.\$10 million expense resulting from the early redemption premium paid in respect of the local bonds redeemed with a portion of the proceeds of Kallpa's issuance of U.S.\$350 million aggregate principal amount of Senior Notes due 2026 in the international markets in May 2016.

These effects were partially offset by:

- a U.S.\$5 million positive change in foreign exchange rate net income to a U.S.\$0 million net income for the year ended December 31, 2016 from the U.S.\$5 million net loss for the year ended December 31, 2015 as a result of the 2% appreciation of the Peruvian sol against the U.S. dollar during 2016, as compared to the 14% depreciation of the Peruvian sol against the U.S. dollar during 2015; and
- a U.S.\$3 million decrease in financial expenses resulting from the refinancing of financial leases and syndicated loan with the proceeds from the issuance of bonds in the international markets in May 2016 at a lower interest rate.

Income Tax Expense

Income tax expense remained flat, at U.S.\$24 million for both the year ended December 31, 2016 and the year ended December 31, 2015. During 2016, the net increase of non-deductible items such as the effects of translating taxable base and permanent items was partially offset by the decrease in our theoretical tax expense. The theoretical tax expense decreased mainly due to a decrease in our taxable income and a decrease in the tax rate from 30% in 2015 to 28% in 2016. As a result, our effective tax rate increased to 41.04% for the year ended December 31, 2016 as compared to 34.41% for 2015.

Profit

As a result of the factors discussed above, Kallpa's profit decreased to U.S.\$35 million for the year ended December 31, 2016 as compared to U.S.\$45 million for the year ended December 31, 2015.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Set forth below are Kallpa's statements of profit or loss data for the years ended December 31, 2015 and 2014.

	For the Year Ended December 31,		% Change
	2015	2014	
	(U.S.\$ millions)		
Revenues	448	437	2.5
Cost of sales (excluding depreciation)	(279)	(270)	3.3
Depreciation	(50)	(45)	11.1
Gross profit	119	122	(2.5)
Administrative expenses	(17)	(17)	-
Other income	2	6	(66.7)
Profit from operating activities	104	111	(6.3)
Financing cost, net	(35)	(35)	-
Profit before income tax	69	76	(9.2)
Income tax expense	(24)	(23)	(4.3)
Profit for the year	45	53	(15.1)

Revenues

Kallpa's revenues increased by U.S.\$11 million, or 2.5%, to U.S.\$448 million for the year ended December 31, 2015 as compared to U.S.\$437 million for the year ended December 31, 2014. This increase was primarily as a result of:

- a 20.9% increase in revenue from ancillary services (mostly transmission tolls) to U.S.\$81 million for the year ended December 31, 2015 as compared to U.S.\$67 million for the year ended December 31, 2014, primarily as a result of an increase in transmission tolls due to a surcharge for the development of the energy node (TRS-CASE), which were passed through to Kallpa's customers;
- stable revenue from energy sales remaining at U.S.\$291 million during the year ended December 31, 2015 as compared to U.S.\$291 million for the year ended December 31, 2014, primarily as a result of a stable volume of energy sales for both periods, which increased only slightly to 6,327 GWh for the year ended December 31, 2015 from 6,324 GWh for the year ended December 31, 2014; and
- a 6.8% decrease in revenue from capacity sales to U.S.\$68 million for the year ended December 31, 2015 as compared to U.S.\$73 million for the year ended December 31, 2014, primarily as a result of (i) a 1.7% decrease in the volume of capacity sales to 914 MW for the year ended December 31, 2015 as compared to 929 MW for the year ended December 31, 2014, due to the expiration of a short-term PPA in April 2014, and (ii) a 4% decrease in average capacity sales prices due to a stronger U.S. dollar against the Peruvian sol. This depreciation of the Peruvian sol mainly affected Kallpa's distribution PPA prices as the exchange rate fluctuations did not reach the minimum thresholds set for price adjustments in such PPAs.

Cost of Sales (Excluding Depreciation)

Kallpa's cost of sales (excluding depreciation) increased by U.S.\$9 million, or 3.3%, to U.S.\$279 million for the year ended December 31, 2015 as compared to U.S.\$270 million for the year ended December 31, 2014, primarily as a result of:

- a U.S.\$9 million increase in transmission charges, primarily as a result of an increase in transmission tolls due to the implementation of a new collection integration system known as TRS-CASE related to the energy node surcharge; and
- a 2.9% decrease in gas and gas transportation and distributions costs to U.S.\$134 million for the year ended December 31, 2015 as compared to U.S.\$138 million for the year ended December 31, 2014, primarily as a result of an 11.0% decrease in the volume of Kallpa's gas consumption due to a lower gross energy generation, which was partially offset by a 6.0% increase in transportation and distribution costs mainly due to an increase in transportation prices.

Depreciation

Kallpa's depreciation expense increased by 11.1% to U.S.\$50 million for the year ended December 31, 2015 as compared to U.S.\$45 million for the year ended December 31, 2014, primarily as a result of a U.S.\$5 million increase in depreciation of machinery and equipment given replacements of significant components during the scheduled maintenance of Kallpa I, Kallpa II and Kallpa IV.

Gross Profit

As a result of the above, Kallpa's gross profit decreased by 2.5% to U.S.\$119 million for the year ended December 31, 2015, resulting in a gross margin of 26.6%, as compared to a gross profit and gross profit margin of U.S.\$122 million and 27.9%, respectively, for the year ended December 31, 2014.

Other Income

Kallpa's other income decreased to U.S.\$2 million for the year ended December 31, 2015 from U.S.\$6 million for the year ended December 31, 2014. For the year ended December 31, 2015, Kallpa's other income consisted primarily of U.S.\$1 million in management fees Kallpa earned from Cerro del Águila and Samay I for Kallpa's provision of back-office services, and U.S.\$1 million Kallpa received as a contract resolution penalty from Compañía Minera Raura S.A. For the year ended December 31, 2014, Kallpa's other income consisted primarily of U.S.\$2 million in management fees Kallpa earned from Cerro del Águila and Samay I for Kallpa's provision of back-office services, U.S.\$2 million in additional income related to compensation received from Kallpa's EPC contractors and U.S.\$1 million in tax credit Kallpa received.

Administrative Expenses

Kallpa's administrative expenses remained relatively flat at U.S.\$17 million for the year ended December 31, 2015 as compared to U.S.\$17 million for the year ended December 31, 2014. In 2015, there was a decrease in workers' profit sharing due to a lower income, mainly offset by higher consulting expenses.

Profit from Operating Activities

As a result of the above, Kallpa's profit from operating activities decreased by 6.3% to U.S.\$104 million for the year ended December 31, 2015, resulting in an operating margin of 23.2%, as compared to 25.4% for the year ended December 31, 2014.

Financing Cost, Net

Kallpa's financing cost, net, remained relatively flat at U.S.\$35 million for the year ended December 31, 2015 as compared to U.S.\$35 million for the year ended December 31, 2014. Kallpa experienced an increase in foreign exchange rate losses of U.S.\$4 million due to the strengthening of the U.S. dollar against the Peruvian sol during the year ended December 31, 2015. These losses were compensated by lower financing expenses due to Kallpa's amortizing debt.

Income Tax Expense

Kallpa's income tax expense increased to U.S.\$24 million for the year ended December 31, 2015 as compared to U.S.\$23 million for the year ended December 31, 2014, primarily due to the increase in non-taxable

effect of translating taxable base. This increase was partially offset by the decrease in our taxable income for the year ended December 31, 2015. As a result, our effective tax rate increased to 34.41% for the year ended December 31, 2015 as compared to 30.54% for 2014.

Profit

As a result of the factors discussed above, Kallpa's profit decreased to U.S.\$45 million for the year ended December 31, 2015 as compared to U.S.\$53 million for the year ended December 31, 2014.

Liquidity and Capital Resources

As of March 31, 2017, Cerro del Águila had cash and cash equivalents of U.S.\$33 million and trade payables of U.S.\$57 million. Cerro del Águila's trade payables mostly related to the EPC Contract.

As of March 31, 2017, Kallpa had cash and cash equivalents of U.S.\$31 million and trade payables of U.S.\$34 million. Kallpa's trade payables mostly related to Kallpa's long term service agreement with Siemens, which provide for the purchase of spare parts, technical services and labor for the maintenance of the Kallpa generating units. Kallpa expects to reduce the trade payables outstanding with Siemens based on the scheduled maintenance program to be executed over the next few years.

Our principal sources of liquidity have traditionally consisted of cash flows from operating activities, short-term and long-term borrowings including leases, and bonds. In 2012, Cerro del Águila entered into the CdA Credit Facility, and, in 2016, Kallpa issued U.S.\$350 million aggregate principal amount of Senior Notes due 2026 in the international capital markets. We do not have funds designated for, or subject to, permanent reinvestment.

Our principal needs for liquidity generally consist of capital expenditures related to the CdA plant and working capital requirements (e.g., maintenance costs that extend the useful life of our generation units). We believe that, based on our current business plan and considering the use of proceeds from this offering, our cash and cash equivalents on hand and our cash generated by operations will be adequate to meet all of our capital expenditure requirements related to ongoing maintenance and environmental improvements and our working capital needs in the ordinary course of our business in the near term.

Cash Flows

Cerro del Águila

The following table sets forth a summary of Cerro del Águila's cash flow information for the three months ended March 31, 2017 and the year ended December 31, 2016:

	For the Three Months Ended March 31, 2017	For the Year Ended December 31, 2016⁽¹⁾
	(U.S.\$ millions)	
Net cash provided by operating activities	21	24
Net cash used in investing activities	(11)	(66)
Net cash (used in) provided by financing activities	(14)	62
Net (decrease) increase in cash and cash equivalents for the year	(4)	20
Cash and cash equivalent—opening balance	37	17
Effect of exchange rate on cash and cash equivalents	-	-
Cash and cash equivalents—closing balance	33	37

(1) Cerro del Águila began operations on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.

Three Months Ended March 31, 2017

Cash Flows Provided by Operating Activities

Net cash provided by Cerro del Águila's operating activities, which is Cerro del Águila's primary source of liquidity, was U.S.\$21 million for the three months ended March 31, 2017, primarily driven by U.S.\$37 million generated by Cerro del Águila's collections from its PPA with ElectroPerú and partially offset by U.S.\$16 million for payments to suppliers and third parties, which include the Operating, Maintenance and Management Services Agreement.

Cash Flows Used in Investing Activities

Net cash used in Cerro del Águila's investing activities was U.S.\$11 million for the three months ended March 31, 2017.

During the three months ended March 31, 2017, investing activities for which Cerro del Águila used cash primarily consisted of U.S.\$11 million in property, plant and equipment acquisitions.

Cash Flows Used in Financing Activities

Net cash used in Cerro del Águila's financing activities were U.S.\$14 million for the three months March 31, 2017.

Net cash used in financing activities in the three months March 31, 2017 included Cerro del Águila's use of cash to make payments of U.S.\$4 million on Cerro del Águila's long-term debt and to pay interest of U.S.\$9 million on Cerro del Águila's indebtedness.

Year Ended December 31, 2016

Cash Flows Provided by Operating Activities

Net cash provided by Cerro del Águila's operating activities, was U.S.\$24 million for the year ended December 31, 2016, primarily driven by U.S.\$48 million generated by Cerro del Águila's collections from its PPA with ElectroPerú and partially offset by U.S.\$23 million in payments to suppliers and third parties, which include the Operating, Maintenance and Management Services Agreement.

Cash Flows Used in Investing Activities

Net cash used in Cerro del Águila's investing activities was U.S.\$66 million for the year ended December 31, 2016.

During the year ended December 31, 2016, investing activities for which Cerro del Águila used cash primarily consisted of U.S.\$78 million. Cerro del Águila also received U.S.\$12 million in advance reimbursement of value added tax.

Cash Flows Provided by Financing Activities

Net cash provided by Cerro del Águila's financing activities was U.S.\$62 million for the year ended December 31, 2016.

During the year ended December 31, 2016, Cerro del Águila received net proceeds of U.S.\$44 million in connection with its long-term debt and U.S.\$14 million from short-term loans and shareholder loans.

Net cash used in financing activities in the year ended December 31, 2016 also included Cerro del Águila's use of cash to make payments of U.S.\$4 million on Cerro del Águila's long-term debt and to pay interest of U.S.\$19 million on Cerro del Águila's indebtedness.

Kallpa

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

The following table sets forth a summary of Kallpa's cash flow information for the three months ended March 31, 2017 and 2016:

	For the Three Months Ended March 31,	
	2017	2016
	(U.S.\$ millions)	
Net cash provided by operating activities	40	27
Net cash used in investing activities	(3)	(3)
Net cash used in financing activities	(27)	(29)
Net increase (decrease) in cash and cash equivalents for the year	10	(5)
Cash and cash equivalent—opening balance	21	28
Effect of exchange rate on cash and cash equivalents	-	(1)
Cash and cash equivalents—closing balance	31	22

Cash Flows Provided by Operating Activities

Net cash provided by Kallpa's operating activities, which is Kallpa's primary source of liquidity, increased by 48.1% to U.S.\$40 million for the three months ended March 31, 2017 from U.S.\$27 million for the three months ended March 31, 2016. This increase was primarily driven by a U.S.\$11 million reduction in payments to third parties mainly due to the reduction of minor maintenance-related expenses and the lower intermediation fees during the three months ended March 31, 2017, as compared to the three months ended March 31, 2016.

Cash Flows Used in Investing Activities

Net cash used in Kallpa's investing activities remained relatively flat at U.S.\$3 million for the three months ended March 31, 2017 from U.S.\$3 million for the three months ended March 31, 2016.

During the three months ended March 31, 2017, investing activities for which Kallpa used cash primarily consisted of U.S.\$3 million in property, plant and equipment acquisitions.

During the three months ended March 31, 2016, investing activities for which Kallpa used cash primarily consisted of U.S.\$2 million in property, plant and equipment acquisitions and U.S.\$1 million in intangible acquisitions related to development costs.

Cash Flows Used in Financing Activities

Net cash used in Kallpa's financing activities were U.S.\$27 million for the three months ended March 31, 2017, compared to cash flows used in financing activities of U.S.\$29 million for the three months ended March 31, 2016.

During the three months ended March 31, 2017, used cash to make dividend payments of U.S.\$24 million (net of withholding tax), U.S.\$2 million on Kallpa's long-term debt and U.S.\$1 million on interest on Kallpa's indebtedness.

During the three months ended March 31, 2016, Kallpa used cash to make dividend payments of U.S.\$7 million (net of withholding tax), U.S.\$15 million on Kallpa's long-term debt and to pay interest of U.S.\$7 million on Kallpa's indebtedness.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

The following table sets forth a summary of Kallpa's cash flow information for the years ended December 31, 2016 and 2015:

	For the Year Ended December 31,	
	2016	2015
	(U.S.\$ millions)	
Net cash provided by operating activities	112	114
Net cash used in investing activities	(16)	(13)
Net cash used in financing activities	(103)	(97)
Net (decrease) increase in cash and cash equivalents for the year	(7)	4
Cash and cash equivalent—opening balance	28	25
Effect of exchange rate on cash and cash equivalents	—	(1)
Cash and cash equivalents—closing balance	21	28

Cash Flows Provided by Operating Activities

Kallpa's primary source of operating funds is cash flow generated from its operations. The net cash from operating activities decreased by U.S.\$2 million, or 2.0%, to U.S.\$112 million for the year ended December 31, 2016 as compared to U.S.\$114 million for the year ended December 31, 2015.

The cash provided by operating activities was U.S.\$120 million for 2016 and U.S.\$136 million for 2015 or a 12.0% decrease. This decrease was primarily driven by (i) a U.S.\$10 million increase in payments to suppliers and third parties, mainly explained by the increase in the fuel and transportation gas related costs (U.S.\$13 million); ii) a U.S.\$3 million reduction in Kallpa's collections mainly due to a week delay in the collection from one regulated customer; and (iii) a U.S.\$2 million increase in payment to employees due to the increase in headcount.

This was partially offset by a reduction in income tax payments of U.S.\$14 million during 2016 to U.S.\$8 million from U.S.\$22 million for the same period in 2015, due to the higher advance payments made during 2015 compared to the income tax required to pay for that year.

Cash Flows Used in Investing Activities

Net cash flows used in Kallpa's investing activities increased by 23.0% to U.S.\$16 million for 2016 from U.S.\$13 million for the same period in 2015.

During 2016, cash from investing activities was mainly for (i) payments related to the scheduled major maintenance of Kallpa II and Kallpa III (although the last one took place in the first quarter of 2017 there was an advance in the acquisition of some spare parts and equipment); and (ii) quarterly payments of the long term service maintenance agreement (LTSA) with Siemens.

During 2015, cash flows used in investing activities primarily consisted of (i) quarterly payments of the LTSA with Siemens; and (ii) payments related to pre operational studies for some development projects, among others.

Cash Flows Used in Financing Activities

Net cash flows used in Kallpa's financing activities increased by 6.0% to U.S.\$103 million for 2016 compared to U.S.\$97 million for the same period in 2015.

During 2016, Kallpa main uses were (i) U.S.\$65 million for dividends to Kallpa's shareholders; (ii) U.S.\$285 million of debt payments (including the outstanding principal refinanced with the bond issuance proceeds); and (iii) U.S.\$24 million for interest. Kallpa received proceeds of U.S.\$350 million from the international bond issuance in May of that year. The proceeds from this issuance were used to repay in full the outstanding balance of: (i) the financial leases used for the financing of Kallpa II and Kallpa III gas turbines; (ii) the local bonds due 2022, (iii) the syndicated loan; (iv) U.S.\$45 million of short-term loans; and (v) the transaction costs originated by the refinancing operation. The balance was used for general corporate purposes.

During 2015, Kallpa main uses were (i) U.S.\$54 million for Kallpa I and Kallpa II financial leases, syndicate and local bonds; (ii) U.S.\$30 million for interest service; and (iii) U.S.\$29 million for dividends to Kallpa's shareholders. In addition, Kallpa received, along the year, U.S.\$15 million in short term net proceeds.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

The following table sets forth a summary of Kallpa's cash flows information for the years ended December 31, 2015 and 2014:

	For the Year Ended December 31,	
	2015	2014 ⁽¹⁾
	(U.S.\$ millions)	
Net cash provided by operating activities.....	114	117
Net cash used in investing activities.....	(13)	(26)
Net cash used in financing activities.....	(97)	(79)
Net increase in cash and cash equivalents for the year.....	4	12
Cash and cash equivalent—opening balance.....	25	14
Effect of exchange rate on cash and cash equivalents.....	(1)	(1)
Cash and cash equivalents—closing balance.....	28	25

- (1) Las Flores was acquired in April 2014. The acquisition of Las Flores was financed primarily through (i) a financial lease agreement entered into with Banco de Crédito del Perú, under which the lessor provided financing for the acquisition of Las Flores from a then subsidiary of Duke Energy Corp., in an aggregate amount of U.S.\$108 million and (ii) U.S.\$6 million of Kallpa's own funds. Due to this financing arrangement, the acquisition expenses related to Las Flores and its respective financing are not reflected in Kallpa's annual audited financial statements as capital expenditures or cash flow from financing, but accounted for as a fixed asset and debt in Kallpa's statement of financial position.

Cash Flows Provided by Operating Activities

Net cash provided by Kallpa's operating activities, which is Kallpa's primary source of liquidity, decreased by 2.6% to U.S.\$114 million for the year ended December 31, 2015 from U.S.\$117 million for the year ended December 31, 2014. This decrease was primarily driven by a U.S.\$22 million increase in cash payments made to suppliers and third parties mainly due to scheduled major maintenance of Kallpa I and a full year of operations of Las Flores following Kallpa's acquisition in April 2014, partially offset by a U.S.\$6 million increase in customer collections and a U.S.\$8 million decrease in Kallpa's income tax paid in the year ended December 31, 2015, as compared to the previous year.

Cash Flows Used in Investing Activities

Net cash used in Kallpa's investing activities decreased by 50.0% to U.S.\$13 million for the year ended December 31, 2015 from U.S.\$26 million for the year ended December 31, 2014.

During the year ended December 31, 2015, investing activities for which Kallpa used cash primarily consisted of U.S.\$9 million in property, plant and equipment acquisitions and U.S.\$4 million in intangible acquisitions related to development costs.

During the year ended December 31, 2014, investing activities for which Kallpa used cash primarily consisted of U.S.\$19 million in property, plant and equipment acquisitions and U.S.\$7 million in intangible acquisitions related to development costs.

Cash Flows Used in Financing Activities

Net cash used in Kallpa's financing activities was U.S.\$97 million for the year ended December 31, 2015, compared to cash flows used in financing activities of U.S.\$79 million for the year ended December 31, 2014.

During the year ended December 31, 2015, Kallpa received net proceeds of U.S.\$16 million from short-term loans and used cash to make dividend payments of U.S.\$29 million (net of withholding tax), payments of U.S.\$54 million on Kallpa's long-term debt and interest of U.S.\$30 million on Kallpa's indebtedness.

During the year ended December 31, 2014, Kallpa received net proceeds of U.S.\$30 million from Kallpa's drawings of short-term loans and used cash to make dividend payments of U.S.\$29 million (net of withholding tax), U.S.\$50 million on Kallpa's long-term debt and to pay interest of U.S.\$30 million on Kallpa's indebtedness.

Tabular Disclosure of Contractual Obligations

The following table sets forth Cerro del Águila's contractual obligations and commercial commitments (contractual interest payments) as of December 31, 2016:

	Payments Due by Period				
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
	(U.S.\$ millions)				
Short term borrowings	14	14	-	-	-
Loans from banks and others, bonds, and lease agreements ⁽¹⁾	788	51	177	166	394
Obligations under EPC Contract Retirement	38	38	-	-	-
Total contractual obligations and commitments	840	103	177	166	394

- (1) Consists of estimated future payments of principal, interest and premium on loans from banks and others, debentures, and lease agreements, calculated based on interest rates and foreign exchange rates applicable as of March 31, 2017 and assuming that all amortization payments and payments at maturity on loans from banks and others, debentures, and lease agreements, will be made on their scheduled payment dates.

The following table sets forth Kallpa's contractual obligations and commercial commitments (including future interest payments) as of December 31, 2016:

	Payments Due by Period				
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
	(U.S.\$ millions)				
Loans from banks and others, bonds, and lease agreements ⁽¹⁾	620	29	55	78	458
Purchase obligations ⁽²⁾	3,319	143	318	354	2,504
Operating and maintenance agreements ⁽³⁾	96	11	23	24	38
Total contractual obligations and commitments	4,035	183	396	456	3,000

- (1) Consists of estimated future payments of principal, interest and premium on loans from banks and others, debentures, and lease agreements, calculated based on interest rates and foreign exchange rates applicable as of March 31, 2017 and assuming that all amortization payments and payments at maturity on loans from banks and others, debentures, and lease agreements, will be made on their scheduled payment dates.
- (2) Consists of purchase commitments for natural gas and gas transportation until the year 2033 pursuant to binding obligations which include all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Based upon the applicable purchase prices as of March 31, 2017.
- (3) Consists of future payments to be made under services contract with Siemens based on its projections of the hours of service of Kallpa's turbines.

Capital Expenditures

Cerro del Águila's capital expenditures from January 1, 2017 through March 31, 2017, have amounted to U.S.\$28 million, and Cerro del Águila has budgeted an additional U.S.\$3 million for the nine months ended December 31, 2017. Cerro del Águila's capital expenditures from January 1, 2016 through March 31, 2017, include U.S.\$115 million related to the construction of the CdA Plant.

The following table presents Cerro del Águila's capital expenditures by principal category for the periods indicated:

	For the Three Months Ended March 31, 2017	For the Year Ended December 31, 2016 ⁽¹⁾
	(U.S.\$ millions)	
Acquisitions	-	-
Power plants & equipment maintenance and refurbishing	28	115
Environmental improvement works	-	-
Total capital expenditures	28	115

- (1) Cerro del Águila started operations on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.

Kallpa's capital expenditures from January 1, 2017 through March 31, 2017, have amounted to U.S.\$6 million, and Kallpa has budgeted an additional U.S.\$11 million for the nine months ended December 31, 2017. Kallpa's capital expenditures from January 1, 2017 through March 31, 2017, include ongoing maintenance and environmental improvement works.

The acquisition cost of Las Flores plant totaled U.S.\$114 million. The acquisition was financed through (i) a financial lease agreement entered into with Banco de Crédito del Perú, under which the lessor provided financing for the acquisition of Las Flores from a then subsidiary of Duke Energy Corp. in an aggregate amount of U.S.\$108 million, and (ii) U.S.\$6 million of Kallpa's own funds. Due to this financing arrangement, the acquisition expenses related to Las Flores, and its respective financing are not reflected in Kallpa's annual audited financial statements as capital expenditures or cash flow from financing, but accounted for as a fixed asset and debt in Kallpa's statement of financial position.

The following table presents Kallpa's capital expenditures by principal category for the periods indicated:

	For the Three Months Ended March 31,		For the Year Ended December 31,		
	2017	2016	2016	2015	2014
	(In U.S.\$ millions)				
Acquisitions	-	-	-	-	6
Overhaul power plants & equipment maintenance and refurbishing.....	6	3	16	9	13
Environmental improvement works	-	-	-	-	-
Total capital expenditures	6	3	16	9	19

Material Indebtedness

As of March 31, 2017, our total outstanding debt was U.S.\$1,032 million, U.S.\$661 million of which was secured. In This amount includes our total outstanding short term debt (including current portion of long term debt) of U.S.\$49 million. As of March 31, 2017, as adjusted for this offering and the use of proceeds therefrom, Cerro del Águila's total outstanding debt was U.S.\$664 million unsecured debt, and our total outstanding debt was U.S.\$1,077 million.

All of outstanding indebtedness is denominated in U.S. dollars.

The following table sets forth selected information regarding our principal outstanding short-term and long-term debt, as of March 31, 2017:

	Outstanding Principal Amount as of March 31, 2017 (U.S.\$ millions)	Interest Rate	Final Maturity	Amortization
CdA Credit Facility	575	6.31%	February 2027	Quarterly principal and interest payments to maturity
CdA Unsecured Short-Term Debt	14	0.98%	December 2017	Principal and interest payments at maturity
Las Flores lease	86	5.08%	October 2023	Quarterly principal payments to maturity
4.875% Senior Notes due 2026.....	327	4.875%	May 2026	Principal due at maturity with semi-annual interest payments.
Shareholder loans	30	8.50%	August 2026	Principal and interest payments at maturity.
Total	1,032			

Some of the debt instruments require that we comply with financial covenants semi-annually or quarterly. For further information, see Note 13 to Cerro del Águila's audited annual financial statements and Note 14 of Kallpa's audited annual financial statements, in each case included in this offering memorandum. Under these debt

instruments, the creditor has the right to accelerate the debt or restrict Cerro del Águila or Kallpa, as applicable, from declaring and paying dividends if, at the end of any applicable period the applicable entity is not in compliance with the defined financial covenants ratios. As of the date of this offering memorandum, we were in compliance with all applicable financial covenant ratios.

As of March 31, 2017, substantially all of Cerro del Águila's assets and capital stock were mortgaged or pledged, as applicable, as security for the CdA Credit Facility, while substantially all of Kallpa's assets, other than Las Flores, which is under a leasing agreement with Banco de Crédito del Perú, were unpledged. Following this offering and the repayment of the CdA Credit Facility, substantially all of our assets will be unpledged.

Credit Facility

In August 2012, Cerro del Águila, as borrower, Sumitomo Mitsui Banking Corporation, as administrative agent, certain financial institutions, as lenders, and other parties thereto, entered into a senior secured syndicated credit facility in an aggregate principal amount not to exceed U.S.\$595 million to finance the construction of Cerro del Águila's plant. Loans under this facility were disbursed in three tranches. Tranche A loans under this facility, in an aggregate principal amount of up to U.S.\$342 million, initially bear interest at the rate of LIBOR plus 4.25% per annum, increasing over time beginning on the date after the interest payment date occurring after August 2017 to LIBOR plus 5.50% per annum. The principal of the Tranche A loans is payable in 33 quarterly installments commencing on the first quarterly payment date occurring after the project acceptance by Cerro del Águila.

Tranche B loans under this facility, in an aggregate principal amount of up to U.S.\$184 million, will initially bear interest at the rate of LIBOR plus 4.25% per annum, increasing over time beginning on the date after the interest payment date occurring after August 2017 to LIBOR plus 6.25% per annum.

Tranche D loans under this facility, in an aggregate principal amount of up to U.S.\$65 million, will initially bear interest at the rate of LIBOR plus 2.75% per annum, increasing gradually over time beginning on the date after the interest payment date occurring after August 2017 to LIBOR plus 3.60% per annum. The principal of the Tranche D loans is payable in 45 quarterly installments commencing on the first quarterly payment date occurring after the project acceptance by Cerro del Águila. The Tranche D loans will be secured by a credit insurance policy provided by SACE S.p.A.—Servizi Assicurativi del Commercio Estero.

All loans under this facility are secured by guarantees typical of project finance structures, including mortgages and pledges over Cerro del Águila's capital stock, property, rights and concessions, including those over the power plant and transmission lines.

As of March 31, 2017, the aggregate principal amount outstanding under this facility was U.S.\$575 million. Cerro del Águila expects to use the net proceeds of this offering to repay this facility in full. See "*Use of Proceeds.*"

Cerro del Águila Swaps

In 2013 Cerro del Águila signed swap agreements with eight financial institutions, including BBVA Banco Continental, Banco de Crédito del Perú S.A., Banco Internacional del Perú S.A.A., HSBC Bank USA, Intesa Sanpaolo S.P.A., Sumitomo Mitsui Banking Corporation, The Bank of Nova Scotia and Societe Generale Américas, related to the CdA Credit Facility.

Agreed terms are the following:

- U.S.\$384 million notional amount for the CdA Credit Facility tranche A: three-month London Interbank Offered Rate ("LIBOR 3M") swapped at 2.9950% (ending August 2024); and
- U.S.\$101 million notional amount for the CdA Credit Facility tranche B: LIBOR 3M swapped at 1.1277% (ending November 2015).

As of June 30, 2017, the aggregate mark-to-market value of Cerro del Águila's swap agreements was U.S.\$16 million.

Shareholder Loans

Subordinated shareholder loans of U.S.\$28 million were received by Cerro del Águila in August 2016. The subordinated loans have a 10-year bullet repayment without penalty for pre-payment and bear interest payable at maturity at an annual rate of 8.5% with a 0.5% step-up every two years.

Lease Agreements

In April 2014, Kallpa entered into a financial lease agreement with Banco de Crédito del Perú under which the lessor provided financing for the acquisition of Las Flores from a then subsidiary of Duke Energy Corp. in an aggregate amount of U.S.\$108 million. Under this financial lease agreement, Kallpa will make quarterly payments to the lessors until the expiration of this lease in October 2023. Upon expiration, Kallpa has an option to purchase the property related to Las Flores for a nominal cost. This lease is secured by Las Flores.

As of March 31, 2017, the aggregate principal amount outstanding under this lease was U.S.\$86 million.

Bonds

In May 2016, Kallpa issued U.S.\$350 million aggregate principal amount of 4.875% rate bonds due 2026, and used the proceeds to repay outstanding indebtedness. Interest on these bonds is payable semi-annually, and the principal is due in 2026. These bonds are unsecured. As of March 31, 2017, the aggregate principal amount outstanding under these bonds was U.S.\$350 million.

Trend Information

Peru Power Market

As a result of the completion of various plants under construction in Peru, generation capacity in Peru increased at a faster rate than the demand for such electricity, resulting in an oversupply of capacity in the Peruvian market and lower energy and capacity prices. Although a significant majority of our energy and capacity is sold pursuant to PPAs, we also sell and purchase energy and capacity on the spot market in Peru and are therefore exposed to any changes in spot market rates to the extent we sell and purchase energy or capacity on the spot market. We expect to enter into, and renegotiate, PPAs during this expected period of oversupply and lower energy prices, which may negatively impact the long-term rates we are able to negotiate with our customers and our revenues, margins or results of operations.

Fluctuations in Oil Prices and Currency Exchange Rates

As fuel is a significant cost for Kallpa's business, the price of natural gas utilized by Kallpa's generation units has a significant effect on Kallpa's results of operations. Prices of oil and natural gas have traditionally fluctuated as a result of a variety of factors. For this reason, most of Kallpa's agreements are indexed to the cost of natural gas. Additionally, as of March 31, 2017, all of Kallpa's PPAs were either in U.S. dollars or linked to the U.S. dollar, thereby limiting Kallpa's exposure to fuel price and exchange rate fluctuations. With respect to Kallpa's non-regulated customers, Kallpa invoices and collects payments in U.S. dollars. With respect to Kallpa's customers that are large distribution companies, for which Kallpa invoices and collect payments in Peruvian soles, the underlying tariff is linked to the U.S. dollar and is readjusted at each quarter when the tariff resulting from applying the indexation formula fluctuates by more than 5%.

Accordingly, although changes in natural gas prices, inflation rates and foreign exchange rates can affect Kallpa's revenues, there is generally not a corresponding effect on Kallpa's margins.

However, these adjustments do not fully hedge Kallpa's margins against exchange rate fluctuations or changes in natural gas prices or such other factors. In addition, Kallpa remains subject to variations in natural gas prices, inflation and currency exchange rates in the short-to medium-term until such adjustments are made and to the extent of variations below the threshold. Further, while a significant portion of Kallpa's sales are made pursuant to PPAs, Kallpa does make sales in the spot market and is subject to spot market prices (which are influenced by changes in oil, or other fuel, prices, inflation and exchange rates, as well as the supply/demand balance), and Kallpa is also subject to changes in market rates (which are influenced by fuel prices and inflation and exchange rates)

when Kallpa renews Kallpa's PPAs. A significant change (even where both fuel costs and PPAs are fully indexed) in the above mentioned factors can result in an increase or decrease in Kallpa's margins.

Cerro del Águila is exposed to fluctuations in prices of gas because the prices of its PPAs are in part indexed to such fluctuations. Such indexations are in place because our commercial strategy is to manage both Cerro del Águila and Kallpa PPAs as a single portfolio. Regarding Cerro del Águila's PPAs with Luz del Sur and Enel Distribución Perú, which commence in 2018 and 2022, capacity prices are indexed to exchange rates, the U.S. producer price index and local inflation. The PPA that commences in 2018 has its energy price fully indexed to the price of natural gas, while the PPA that commences in 2022 has its energy price indexed (i) 50% to exchange rates and the U.S. producer price index and (ii) 50% to the price of natural gas. Fluctuations in the price of gas may therefore affect Cerro del Águila's revenues from PPAs.

Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative information on Cerro del Águila's market risk, refer to note 5 of Cerro del Águila's audited annual financial statements included in this offering memorandum. For quantitative and qualitative information on Kallpa's market risk, refer to notes 5 and 27 of Kallpa's audited annual financial statements included in this offering memorandum.

Dividend Policy

Each of Cerro del Águila's and Kallpa's shareholders are obliged pursuant to their shareholders' agreement (see "*Principal Shareholders – IC Power Peru Shareholders' Agreement*") to agree to distribute 100% of Cerro del Águila's and Kallpa's net income for the year as dividends, respectively, in proportion to each shareholder's equity interest, as long as they are not in default over their capital contribution obligations, provided, however, that before such distribution is effected, (a) all mandatory deductions under Peruvian law are applied, and (b) cash provisions for the following are created: (i) Cerro del Águila's and Kallpa's financing needs, respectively, (ii) Cerro del Águila's and Kallpa's capital expenditure needs, respectively, and (iii) Cerro del Águila's and Kallpa's operational contingencies and needs, respectively.

Dividend payment amounts and dates are determined by each of Cerro del Águila's and Kallpa's board of directors, subject to the aforementioned requirements, and subsequently submitted for approval at Cerro del Águila's and Kallpa's regular annual shareholders' meeting, respectively as established by Peruvian law.

Cerro del Águila has not made any dividend payments.

Kallpa has made the following dividend payments for the years ended December 31, 2016, 2015 and 2014 and the three months ended June 30, 2017 and March 31, 2017 and 2016:

<u>Period</u>	<u>Dividend Payments⁽¹⁾</u> <u>(U.S.\$ millions)</u>
Three Months Ended June 30, 2017	14
Three Months Ended March 31, 2017	25
Three Months Ended March 31, 2016	8
Year Ended December 31, 2016	68
Year Ended December 31, 2015	30
Year Ended December 31, 2014 ¹	30

(1) The dividend payment amounts reflected in the table above are gross. Dividend payments net of withholding taxes were U.S.\$65 million in 2016 and U.S.\$29 million in 2015 and 2014.

Off-Balance Sheet Arrangements

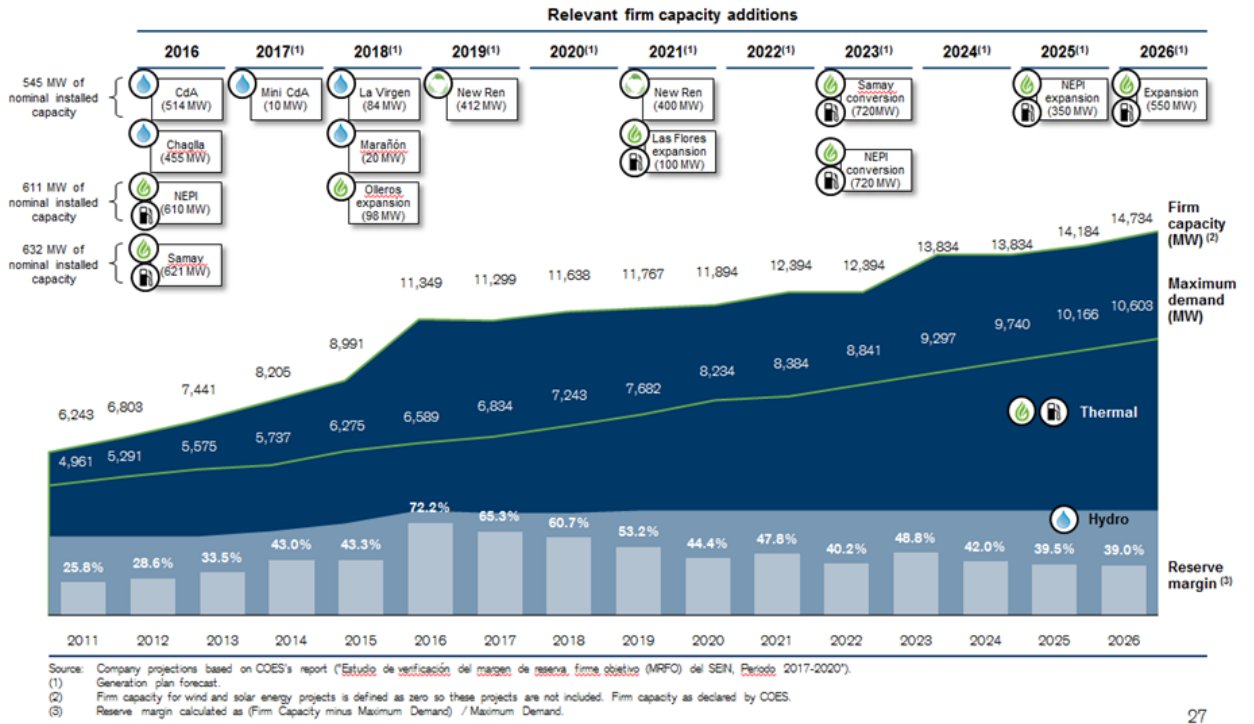
We are not party to any off-balance sheet arrangements.

INDUSTRY

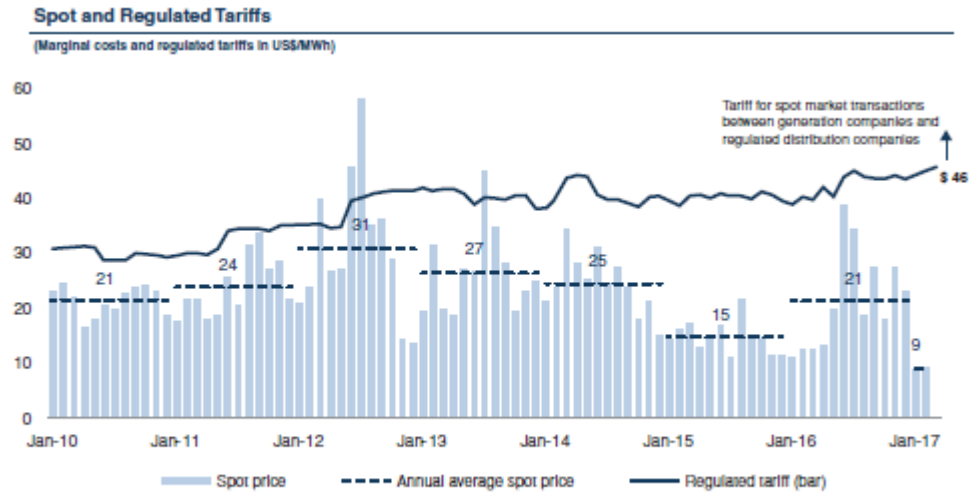
The power utility market in Peru is currently our sole market and, driven by the growth in GDP and the expansion of energy coverage, Peruvian energy consumption has grown in recent years. According to INEI, Peru had a population of approximately 31 million as of December 31, 2016. According to the World Bank, Peruvian GDP grew by 3.9%, 3.3% and 2.4% in 2016, 2015 and 2014, respectively. An increase in domestic demand, resulting from growth in the overall economic activity of Peru, an increase in the population's income and consumption and an increase in investment in infrastructure, has also led to an increase in investments in value-added manufacturing processes to create products to serve the domestic market and for export. In addition, the availability and extraction of natural resources, in particular metals, has led to increased energy-intensive mining activity, which, according to the OSINERGMIN, has supported the increase in Peru's energy consumption from 29,492 GWh in 2010 to 42,988 GWh in 2016, representing a CAGR of 7%. Nonetheless, the generation capacity in Peru is expected to increase at a faster rate than the demand for such electricity, resulting in a temporary oversupply of capacity in the Peruvian market, which may result in downward pressure on negotiated and spot energy in Peru in the short- to medium-term.

Spot prices in the Peruvian electricity market are currently at historically low levels (a monthly average of approximately U.S.\$8.73/MWh during the first half of 2017 as compared to a monthly average of U.S.\$17.97 MWh for the first half of 2016), mainly due to a sustained increase in installed capacity, which has been boosted by thermal power plants fueled by gas from the Camisea fields. A moderate demand growth, coupled with the aforementioned increase in supply has increased the reserve margin from 25.8% in 2011 to 72.2% in 2016 due to Cerro del Águila, Chaglla (another hydroelectric plant) and Samay I reaching COD. However, looking forward, according to the COES, demand is expected to pick up due to large mining and industrial projects such as Shouxin, Tambomayo, Toquepala and Cerro Verde, among others, as well as sustained growth in underlying demand. As a result, maximum demand is expected to grow at 6.4% CAGR between 2017 and 2020, according to the COES. On the supply side, after 2016, no relevant increase in supply is expected to come. Total firm capacity is expected to increase by only 1.7% CAGR between 2017 and 2020. According to the COES, this low increase in supply (after 2017) coupled with sustained demand growth is expected to push the reserve margin down. The COES expects it to reach 44.4% in 2020 (a decrease of 21 percentage points versus 2017). These factors may have implications for spot prices in the middle term and may provide for an improvement in future PPA prices.

The following chart sets forth the historical and expected evolution of firm capacity, demand and the reserve margin in Peru:

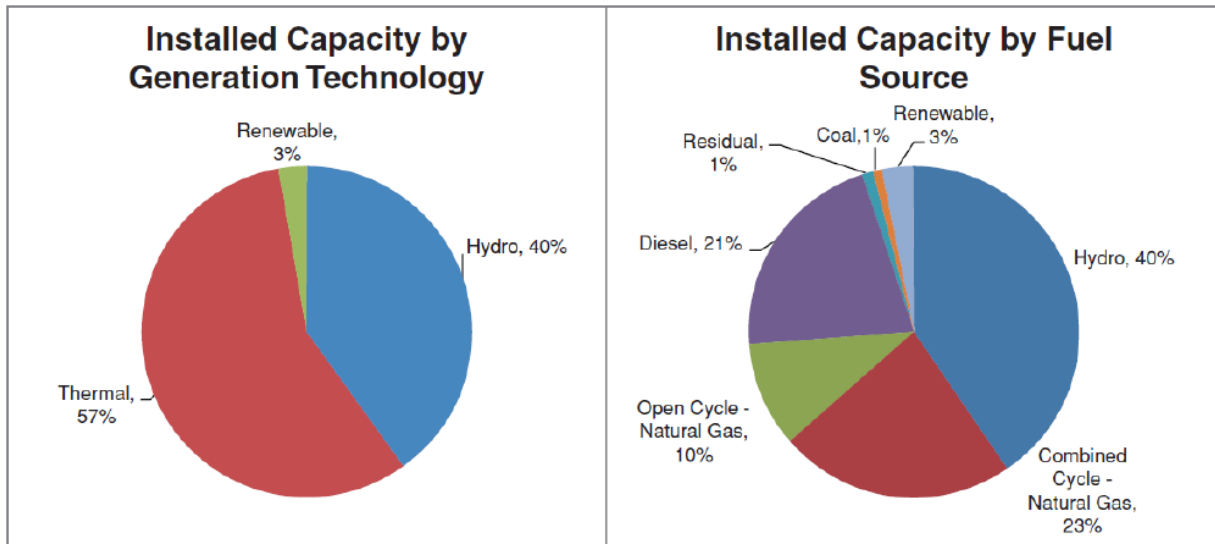


The following chart set forth spot prices and regulated tariffs in Peru as of the dates presented:



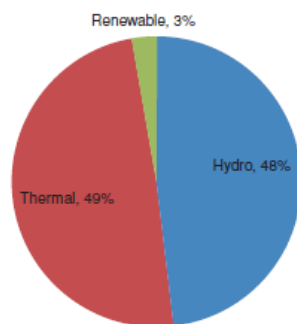
Source: COES—SINAC

The following chart presents a breakdown of installed capacity in Peru based on generation technology and fuel source, as of December 31, 2016:



The following chart presents a breakdown of gross generation by generation technology as of December 31, 2016:

Gross Generation by Generation Technology



Source: COES.

The power utility market in Peru has experienced significant changes in the past 25 years, as a result of privatizations following structural reforms initiated in 1992. In that context, the Peruvian power industry underwent a structural reform characterized by: (1) the enactment of a new regulatory model under the Electricity Concessions Law (*Ley de Concesiones Eléctricas*, or “Law 25844”); (2) the restructuring and reorganization of the vertically integrated state owned power utilities into non vertically integrated generation, transmission and distribution companies; (3) the privatization of most of the state owned utilities; (4) the promotion of private investment; (4) the

regulation of the remuneration model for distribution and transmission activities based on cost-efficient standards; (5) the creation of an “open access” principle for the use of transmission and distribution networks; (6) the creation of a compensation system between generators that operates independently from contractual arrangements; and (7) the segmentation of power consumers as “regulated” and “non-regulated,” the latter being entitled to directly contract the supply of electricity from generators. From a regulatory perspective, the Peruvian system has split the regulatory roles among an independent regulator, OSINERGMIN, a policy body, the MINEM, and a market operator that is a private entity, the COES. The structure and its separation have remained since the start of the reforms in 1992 and the economic model (i.e., marginal cost system) upon which the reform has been built is effectively embedded in the general electricity laws of Peru, providing long-term economic stability for investment.

The Law to Ensure Effective Development of Power Generation (*Ley para Asegurar el Desarrollo Eficiente de la Generación Eléctrica*, or “Law 28832”) published on July 23, 2006, and together with Law 25844 published on November 19, 1992, the General Electricity Laws of Peru, introduced further changes to the power utility market and strengthened the model, mainly aiming to: (1) maintain the economic principles used in Law 25844 and add new measures to facilitate competition in the wholesale market; (2) reduce government intervention in establishing power generation tariffs; (3) allow power generation tariffs for regulated power consumers to reflect a competitive market, facilitating the construction of new generation plants when required; and (4) ensure a sufficient supply of power by reducing the power system’s exposure to the risks of high prices and rationing inherent to situations of undersupply of natural gas or transportation congestion. Law 28832 was approved as a consequence of a severe crisis in the Peruvian electricity market that resulted from, among other causes, OSINERGMIN defining the tariff at which distribution companies purchased electricity to supply to regulated customers at levels that did not reflect market conditions and were not attractive for generators to sell to distribution companies. The changes introduced by this law strengthened the model and incorporated mechanisms to effectively transfer risks from generators to end users that were not contemplated when the reforms were approved in 1992.

The reforms of 1992, together with the Peruvian Constitution of 1993 (the “Peruvian Constitution”), liberalized ownership across the Peruvian electricity sector and opened it to private investment, effectively eliminating any ownership restriction based upon nationality (except within 50 km of Peru’s international land borders, where certain restrictions apply) or otherwise. The privatization and concession award process was structured based upon the need to attract foreign investment and expertise that the country lacked. As a result of such ownership rules, the majority shareholders of almost all the private companies acting in the Peruvian electricity market are controlled by foreign investors. The second largest investors in the electricity sector are the Peruvian private pension funds administrated by the Private Pension Funds Administrators (the “AFPs”).

Since 1992, the Peruvian market has been based on a “marginal generation cost” system. As mentioned before, such system is embedded in the general electricity laws of Peru and is administrated by the COES. In such capacity the COES has as its main mandate the satisfaction of all the demand for electricity at any given time (i.e., periods of 15 minutes each) with the most efficient generation assets available at such time, independently of contractual arrangements between generators and their clients. For this purpose, the COES determines which generation facilities will be in operation at any given time with the objective of minimizing the overall system energy cost. Energy units are dispatched (i.e., ordered by the COES to inject energy into the system) on a real-time basis; units with lower variable generation costs are dispatched first and then other less efficient generation units will be dispatched, until the electricity demand is satisfied.

The variable cost for the most expensive generation unit dispatched in each 15-minute time period determines the price of electricity in such time period for those generation companies that sell or buy power on the spot market price during such time period. The COES determines, for each such 15-minute period, the spot market at which such transactions among generators take place and acts as a clearinghouse of all such transactions.

Generation companies in the Peruvian electricity market sell their capacity and energy under PPAs or in the spot market. The principal consumers under PPAs are distribution companies and non-regulated consumers. Under regulations governing the Peruvian power sector, customers with a capacity demand above 2,500 kW participate in the unregulated power market and can enter into PPAs directly with generation companies at freely-negotiated prices. Customers with a capacity demand between 200 kW and 2,500 kW may choose to participate in the unregulated power market or contract as a regulated client with a distribution company. PPAs to sell capacity and energy to distribution companies for resale to regulated customers must be made at fixed prices based on public bids received by the distribution companies from generation companies or at the applicable bus bar tariff set by the

OSINERGMIN. Generation companies are authorized to buy and sell capacity and energy in the spot market to cover their needs and their commitments under their PPAs. Customers that are entitled to participate in the unregulated power market must enter into PPAs with generation or distribution companies covering all their electricity demand as they are not allowed to purchase energy or capacity directly in the spot market.

Within Peru, power is generally generated by hydroelectric or thermal power stations, including those power stations that use natural gas as fuel. The power generated by these power stations varies in accordance with the rainy seasons and rainfall patterns in each year. For example, greater amounts of hydroelectric power are dispatched between November and April in Peru (the Peruvian rainy season) than between May and October, when the volume of rainfall declines and operators have less water available for electricity generation in the reservoirs serving their plants. During periods of drought, thermal plants are used more frequently. During periods of excessive rainfall when hydroelectric plants increase their generation, there may be a reduction in the spot market prices in the system and also a reduced dispatch of thermal power plants. Accordingly, revenues within the Peruvian generation industry are generally subject to seasonality and the effects of rainfall. Although generators in Peru act to reduce this exposure to seasonality by contracting long-term PPAs, this effect cannot be completely neutralized. For further information on the impact of seasonality on our operations, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Material Factors Affecting Results of Operations—Seasonality and Weather Variations.*”

For further information on Peru’s regulatory environment, see “*Regulation—Regulation of the Peruvian Electricity Sector.*”

The following table sets forth a summary of energy sales in the Peruvian market for the periods presented:

Year Ended December 31,	Energy Sales Under PPAs	
	Distribution	Unregulated
	(GWh)	
2011	17,888	13,904
2012	18,961	14,661
2013	19,880	15,841
2014	20,663	16,465
2015	21,988	17,521
2016	23,924	19,064

The demand for power and electricity in Peru is served by a variety of generation companies, including us, Enel Generación Perú S.A.A., a subsidiary of Enel, ElectroPerú S.A., a state-owned generation company whose primary generation facilities are hydroelectric plants, Engie Energía Peru S.A., a subsidiary of Engie, and Orazul Energy S. en C por A.

The following table sets forth a summary of the principal generation companies in Peru, indicating their capacity by type of generation, as of December 31, 2016:

	Capacity as of December 31, 2016							Total	Percentage of Installed Capacity (%)
	Hydro	Combined Cycle- Natural Gas	Open- Cycle Natural Gas	Dual Fuel (MW)	HFO	Coal	Other		
Engie Energía Perú	254	920	—	-	1,214	142	—	2,530	21
Enel Generación Perú	787	479	292	230	189	—	—	1,977	16
Kallpa	—	870	193	—	—	—	—	1,063	9
Cerro del Águila ...	545	—	—	—	—	—	—	545	5
Samay	—	—	—	—	632	—	—	632	5
ElectroPerú	898	—	—	—	16	—	—	914	8
Orazul Energy S. en C. por A.	376	—	—	—	—	—	—	376	3
Aguaytía Energy del Perú S.R.L.	—	—	176	—	—	—	—	176	2
Other generation	1,830	565	354	—	573	—	575	3,897	32

Capacity as of December 31, 2016

	Hydro	Combined Cycle- Natural Gas	Open- Cycle Natural Gas	Dual Fuel (MW)	HFO	Coal	Other	Total	Percentage of Installed Capacity (%)
companies.....									
Total.....	4,690	2,834	1,015	230	2,624	142	575	12,110	100

For information on the availability and dispatch of Peru’s electricity generators, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Material Factors Affecting Results of Operations – Availability and Dispatch.*”

BUSINESS

Overview

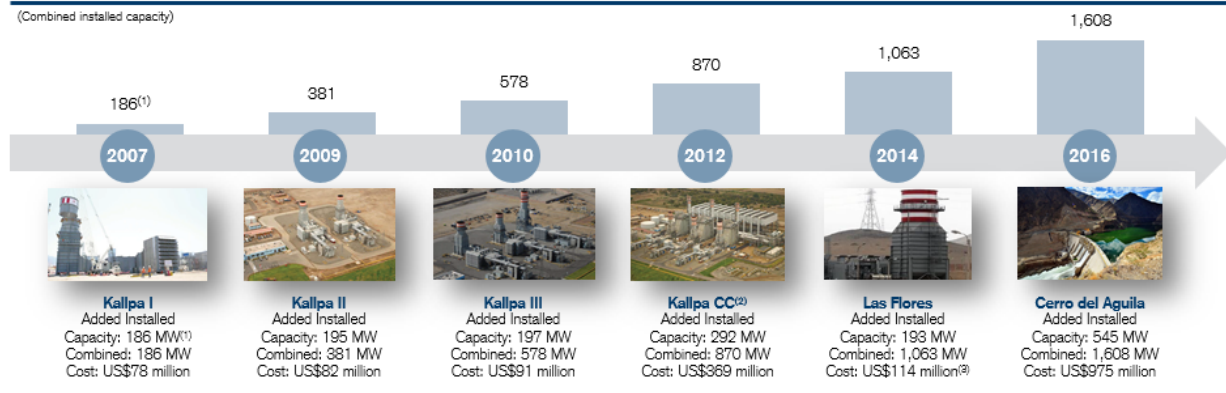
Cerro del Águila owns and operates the largest privately owned hydroelectric power plant in Peru in terms of installed capacity, which reached COD in August 2016. Kallpa, an affiliate of Cerro del Águila and the guarantor of the notes, is the third largest power generation company in Peru in terms of installed capacity and is among the most efficient power generation companies in Peru in terms of heat rate. As part of a strategy to optimize and diversify our operations, on June 26, 2017, the shareholders and the board of directors of each of Cerro del Águila and Kallpa approved the Merger, which will become effective upon the execution of the corresponding merger public deed, which is expected to occur on the date the notes are issued. The public deed will then be filed for registration in the corresponding Public Registry in Peru.

As part of the arrangement and until such time as the Merger can be effected, both Cerro del Águila and Kallpa will support each other and work closely together, beginning to integrate systems, consolidating operational and financial functions and responsibilities and achieving administrative and other efficiencies. As part of this mutual support until the Merger can be effected, Kallpa is guaranteeing the notes offered hereby and Cerro del Águila will become guarantor of Kallpa's existing U.S.\$350 million aggregate principal amount of 4.875% Senior Notes due 2026 and its obligations under the lease of Las Flores. When the Merger becomes effective, Cerro del Águila's guarantee of Kallpa's existing notes and its lease of Las Flores and Kallpa's guarantee of the notes offered hereby will each automatically terminate and cease to have any force or effect. Upon the consummation of the Merger, our total installed capacity will be 1,608 MW, making us the leading power producer in Peru in terms of energy generation.

The following table presents the growth of our combined installed capacity from 2007 through December 31, 2016:

Historic installed capacity

(Combined installed capacity)



Source: Company filings.

(1) Includes upgrade of 12MW completed in 2010.

(2) Kallpa IV is the steam turbine built to convert the Kallpa plant to combined cycle, which reached its COD in August 2012.

(3) Refers to the price paid in relation with the acquisition of Las Flores from a subsidiary of Duke Energy Corp.

Cerro del Águila

Cerro del Águila owns and operates the largest privately-owned hydroelectric power plant in Peru in terms of installed capacity, with an installed capacity of 545 MW. The CdA plant has three generating units; two turbines which reached COD on August 3, 2016, and a third turbine which reached COD on August 25, 2016. The CdA plant consists of a dam, a powerhouse for the three turbines, a six-kilometer headrace tunnel and a 17-kilometer transmission line that operates on the Mantaro River, located in Huancavelica in central Peru.

To perform electricity generation activities with hydro resources in excess of 500kW the law requires a "Definitive Generation Concession," which is granted for an unlimited term. On October 22, 2010, the MINEM granted Kallpa a Definitive Generation Concession for the generation of electricity at the CdA plant for an installed capacity of 402 MW. The same resolution approved the execution of Concession Agreement 358-2010 between

Kallpa and the MINEM (the “Concession Agreement”). The Concession Agreement was modified on June 23, 2011, in order to assign the Concession Agreement to Cerro del Águila; and on May 22, 2013, in order to increase the permitted installed capacity of the CdA plant to 525 MW. CdA has, among others, the following rights under the Definitive Generation Concession: (i) to request the MINEM to grant easements; (ii) to freely use public lands and cross public roads, streets and other infrastructure of public domain; (iii) to execute legal stability agreements with the Peruvian government; (iv) to request the support of the Peruvian government in the event of public calamity, internal conflicts and/or disturbances in order to protect the works and installation of the CdA plant; (v) to assign its contractual position and transfer the concession to third parties; and (vi) to use the transmission and distribution systems in order to supply electricity.

The CdA plant is located 16 kilometers downstream from Peru’s largest hydroelectric complex, formed by the Mantaro and the Restitución hydroelectric plants, with a combined installed capacity of 1,008 MW, and the Junin water reservoir, which is the second largest in Peru. The complex has an extensive track record of solid performance with more than 40 years of operations and a constant generation above 6,500 GWh per year for the past 10 years, according to the COES. The Junin water reservoir provides a relatively constant water flow for the downstream power plants, benefiting the CdA plant’s hydrology. We estimate that the CdA plant will produce an average of 3,100 GWh per year and will have an average annual capacity factor of approximately 65%. This capacity factor is significantly above the average of 54% for similar projects in Latin America, according to *Renewable Energy Sources and Climate Change Mitigation*, a special report of the Intergovernmental Panel on Climate Change.

Cerro del Águila has signed three PPAs: a 15-year PPA with ElectroPerú covering 200 MW of capacity and its associated energy (with a 70% take-or-pay factor for both capacity and energy, which translates into a 70% load factor) that commenced in August 2016, and two 10-year PPAs with Luz del Sur and Enel Distribución Perú, the first of which covers up to 202 MW of capacity and commences in January 2018, and the second of which covers up to 81 MW of capacity and commences in 2022. Neither of these PPAs contains any conditions precedent to commencement, other than the initial start date. As of March 31, 2017, the weighted average remaining life of Cerro del Águila’s PPAs was approximately 12 years. The PPA with ElectroPerú has an average energy price of U.S.\$54/MWh, capacity price of U.S.\$6.40/kW-month, is denominated in U.S. dollars and is indexed in part to the U.S. producer price index. The first PPA with Luz del Sur and Enel Distribución Perú has an average energy price of U.S.\$50/MWh and capacity price of U.S.\$6.60/kW-month. The second PPA with Luz del Sur and Enel Distribución Perú has an average energy price of U.S.\$41/MWh and capacity price of U.S.\$6.50/kW-month. While these two PPAs are denominated in Peruvian soles, their energy prices are also indexed to natural gas prices in Peru, which are denominated in U.S. dollars, and indexed to the U.S. producer price index. Assuming a load factor of between approximately 60% and 70% and certain volumes of capacity, peak and off-peak sales occurring at each PPA’s average price (from the beginning of the PPA until 2024), it is expected that our PPA with ElectroPerú will generate annual revenues in the range of U.S.\$80 million to U.S.\$88 million per year, our first PPA with Luz del Sur and Enel Distribución Perú will generate annual revenues in the range of U.S.\$52 million to U.S.\$57 million per year and our second PPA with Luz del Sur and Enel Distribución Perú will generate annual revenues in the range of U.S.\$20 million to U.S.\$23 million per year.

Prior to reaching COD, Cerro del Águila did not recognize any revenues or operating income from its operations. Since reaching COD on August 3, 2016 and August 25, 2016, some fine tuning work was performed on the CdA plant to complete all pending issues related to the EPC Contract. After such fine tuning work, the CdA plant achieved the operational excellence standard required by the Cerro del Águila operations and management teams in mid-April 2017.

Construction of the CdA plant, which began in November 2011, cost U.S.\$975 million. The CdA plant became fully operational at a cost of U.S.\$1.8 million per MW, making the CdA plant among the most efficiently constructed hydroelectric facilities in Latin America in terms of cost per MW. Development of the CdA plant was financed principally with the CdA Credit Facility in an amount of U.S.\$591 million, equity contributions from each of our shareholders Inkia and Energía del Pacífico, which invested U.S.\$328 million in the aggregate in Cerro del Águila, and from shareholder loans to Cerro del Águila for a total of U.S.\$28 million. We intend to repay in full the CdA Credit Facility, as well as unwind Cerro del Águila’s related interest rate swaps, and repay such shareholder loans with the proceeds from this offering. For further information on the CdA Credit Facility, see “*Management’s*

Discussion and Analysis of Financial Condition and Results of Operations—Material Indebtedness—Credit Facility.”

During the periods from August 3, 2016 to December 31, 2016 and the three months ended March 31, 2017, Cerro del Águila generated 693 GWh, and 565 GWh, respectively. The following table sets forth certain of Cerro del Águila’s financial data for the periods set forth below:

	Three Months Ended March 31, 2017	Year Ended December 31, 2016⁽¹⁾
	(U.S.\$ millions, except as otherwise indicated)	
Revenues	31	50
Net income	6	-
EBITDA ⁽²⁾	19	31

(1) Figures reflect Cerro del Águila’s operations starting on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.

(2) EBITDA is a non IFRS measure. For a reconciliation of our net income to our EBITDA, see “Summary—Summary Financial and Other Information.”

Kallpa

Kallpa was the third largest power generation company in Peru in terms of installed capacity as of December 31, 2016. Kallpa owns and operates two power plants, both utilizing natural gas for their operations. Kallpa’s first unit, Kallpa I, reached COD in June 2007, and Kallpa thereafter completed the conversion of its three natural gas-powered open-cycle generation turbines (Kallpa I, II, and III) into combined-cycle by adding a 292 MW steam turbine (Kallpa IV) in August 2012 (collectively, the Kallpa plant). Compared to other thermal plants, the Kallpa plant’s combined-cycle is one of the most efficient in Peru in terms of heat rate in 2016, according to the COES. As of December 31, 2016, the Kallpa combined-cycle plant had an installed capacity of 870 MW, representing approximately 7% of the total capacity in Peru. Additionally, in April 2014, Kallpa acquired Las Flores, a 193 MW open cycle natural gas-fired plant that is located nearby the Kallpa plant, from a then subsidiary of Duke Energy Corp. Las Flores increased Kallpa’s total installed capacity from 870 MW to 1,063 MW, representing approximately 9% of the total installed capacity in Peru as of December 31, 2016. As a result of Kallpa’s efficiency and low cost of operations, it has a strong competitive position in the Peruvian market and is currently the largest thermoelectric power plant in Peru, with approximately 12% of market share in terms of energy dispatched during 2016. In May 2016, Kallpa issued U.S.\$350 million aggregate principal amount of 4.875% Senior Notes due 2026, which received a “Baa3” investment-grade rating by Moody’s and a “BBB-“ investment-grade rating by Fitch.

Kallpa has entered into long-term U.S. dollar or U.S. dollar-linked PPAs to sell capacity and/or energy to customers that Kallpa believes have strong credit profiles, such as large distribution companies or non-regulated customers that are subsidiaries of large corporations. As of March 31, 2017, the weighted average remaining life of Kallpa’s PPAs was approximately six years. For the year ended December 31, 2016, 96% of Kallpa’s aggregate energy sales (in GWh) were made pursuant to PPAs. We believe this strategy limits Kallpa’s exposure to fluctuations in energy spot market prices and helps it generate strong and predictable margins and cash flows. Additionally, most of Kallpa’s PPAs are indexed to the cost of natural gas and to the U.S. dollar. Such indexing generally limits its exposure to natural gas price and foreign exchange fluctuations, thereby helping Kallpa to maintain its margins.

During the year ended December 31, 2016 and the three months ended March 31, 2017, Kallpa generated 6,015 GWh and 904 GWh, respectively. The following table sets forth certain financial and operational data of Kallpa for the periods set forth below:

	Three Months Ended March 31,		Year Ended December 31,		
	2017	2016	2016	2015	2014⁽¹⁾
	(U.S.\$ millions, except as otherwise indicated)				
Revenues	108	121	438	448	437
Net income	13	13	35	45	53
EBITDA ⁽²⁾	34	38	141	154	156

(1) Kallpa acquired Las Flores in April 2014.

(2) EBITDA is a non IFRS measure. For a reconciliation of our net income to our EBITDA, see “*Summary—Summary Financial and Other Information.*”

Merger

As part of a strategy to optimize and diversify our operations and in consideration of the fact that the companies share a common management team, on June 26, 2017, the shareholders’ meetings and the board of directors of each of Cerro del Águila and Kallpa unanimously approved the Merger, with Cerro del Águila as the surviving entity, which will become effective upon the execution of the corresponding merger public deed, which is expected to occur on the date the notes are issued. The public deed will then be filed for registration in the corresponding Public Registry in Peru.

The process is currently in a 45-day waiting period (which will end on August 8, 2017), during which period the Merger notices have been published in local newspapers, allowing creditors of the two companies who believe that the Merger may harm their ability to collect on their debt the opportunity to oppose the Merger. While we cannot guarantee that actions on the part of the companies’ creditors will not prevent or delay the Merger, all required contractual consents have been obtained, and we anticipate that the Merger will be effective on the date the notes are issued. Amounts owed under the CdA Credit Facility will be repaid prior to the Merger, so no consent is required from lenders under such facility. Furthermore, we have obtained all required consents from our PPA customers. In addition, certain PPAs will be assigned from Kallpa to Cerro del Águila prior to the Merger, so no consent will be required from such PPA customers. Consequently, the risk of nonoccurrence of the Merger, in our view, is minimal.

We believe the Merger will provide significant benefits to both Cerro del Águila and Kallpa. Our balanced portfolio of hydro and thermal assets would allow us to mitigate the effects of hydrology seasonality. During the dry season of May to October, Cerro del Águila’s hydroelectric plant, along with most other hydro facilities in Peru, generates less energy. When hydroelectric production in the country is low, thermal generators are typically dispatched at higher levels than during the rainy season, helping us to mitigate the effects of seasonality. The combination of the plants would provide the combined company with the ability to benefit from the CdA plant’s higher efficiency during the rainy season and Kallpa increased generation during the dry season. In general, the combination of hydroelectric generation capacity with efficient and low cost thermal generation could allow the combined entity to benefit from a stable generation capacity at a low overall cost, reducing its exposure to hydrology variations and increasing competitiveness when seeking to secure new PPAs. In addition, the combined company would benefit from larger scale and diversification.

Our Plants

Upon consummation of the Merger, our total installed capacity will be 1,608 MW, making us the leading power producer in Peru in terms of energy generation. The map below shows the location of our generation units in Peru upon consummation of the Merger:



The following table sets forth certain summary operational information for our combined facilities:

	Plant/Turbine	COD	Energy Used to Operate Power Station	Installed Capacity (MW)	Gross Energy Generated (GWh)	Weighted Average Availability Factor (%)
Cerro del Águila⁽¹⁾	CdA.....	August 2016	Hydroelectric	545	1,154	82
	Kallpa I.....	July 2007	Natural gas	186 ⁽³⁾	753	96
	Kallpa II.....	June 2009	Natural gas	195	1,056	94
	Kallpa III ⁽⁴⁾	March 2010	Natural gas	197	1,640	92
	Kallpa IV.....	August 2012	Steam	292	293	99
Kallpa⁽²⁾	Las Flores ⁽⁵⁾	April 2014	Natural gas	193	1,813	100
	Total			1,608	6,709	94

- (1) Information presented for Cerro del Águila is for the 12 months ended June 30, 2017. Cerro del Águila's operations started on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3.
- (2) Information presented for Kallpa is for the 12 months ended June 30, 2017.
- (3) Includes upgrade of 12 MW completed in 2010.
- (4) Kallpa III underwent major scheduled maintenance from January 9, 2017 to February 6, 2017 (28 days).
- (5) Kallpa acquired Las Flores in April 2014.

Peru is one of the fastest growing economies in Latin America, with average GDP growth of approximately 4.6% per year from 2009 through 2016, according to the INEI, a stable regulatory framework and a well-run power system. Currently, Peru's sovereign credit rating is A3/BBB+/BBB+, according to Moody's, S&P and Fitch, respectively. Peru's overall generation (GWh) is estimated to increase by an annual average of 5.1% for the period 2017 – 2025, according to the MINEM. Although energy and capacity prices in Peru have recently experienced downward pressure due to oversupply of capacity in the market, we expect Peruvian energy demand and spot prices to increase over the next 10 years as a result of Peru's growing middle class, the substantial investments made in connection with Peru's energy-intensive mining industry and expected growth in its manufacturing industry.

Competitive Strengths

Leading market position in an attractive energy market—Cerro del Águila and Kallpa operate in Peru, one of the fastest growing economies in Latin America, with an average GDP growth of approximately 4.6% per year from 2009 through 2016, according to the INEI. Peru also enjoys low inflation levels, a stable regulatory framework, and a well-run power system. As of December 31, 2016, Cerro del Águila had an installed capacity of 545 MW, representing 5% of Peru's installed capacity, while Kallpa had an installed capacity 1,063 MW, representing 9% of Peru's installed capacity. Kallpa's facility is the largest thermoelectric power plant in Peru in terms of installed capacity. During the year ended December 31, 2016, Kallpa generated 6,015 GWh of the gross energy (in GWh) in Peru at its two plants, representing 12% of the energy generation in Peru. The CdA plant is the largest privately owned hydroelectric plant in Peru. During the period from August 3, 2016 to March 31, 2017, Cerro del Águila generated 1,258 GWh of the gross energy in Peru. Upon the consummation of the Merger, our total installed capacity will be 1,608 MW, making us the leading power producer in Peru in terms of energy generation.

We expect Peruvian energy demand and spot prices will increase over the next 10 years as a result of Peru's growing middle class, the substantial investments made in connection with Peru's energy-intensive mining industry and expected growth in its manufacturing industry. According to the MINEM, Peru's overall generation (GWh) is estimated to increase by an annual average of 5.1% for the period 2017 – 2025. Peru has a stable regulatory framework, with a focus on minimizing electricity costs for end users while ensuring an adequate return on investment for sector participants. Driven by solid macroeconomic fundamentals and a stable regulatory environment, we expect Peru to remain an attractive power market in Latin America over the coming decade.

Large, diversified and long-term competitive energy asset base—Upon consummation of the Merger, we will own and operate significant hydro and thermal generation assets in Peru. We will own the largest privately-owned hydroelectric plant in Peru in terms of installed capacity, which has a perpetual concession to operate. We will also own the largest thermal power plant in Peru in terms of installed capacity.

Consummation of the Merger would also minimize risks related to single asset ownership, providing the combined company with a presence in separate geographic regions within Peru. In addition, our balanced portfolio of hydro and thermal assets would allow us to mitigate the effects of hydrology seasonality. During the dry season of May to October, Cerro del Águila's hydroelectric plant, along with most other hydro facilities in Peru, is unable to operate at full capacity. When hydroelectric production in the country is low, thermal generators are typically dispatched at higher levels than during the rainy season, helping us to mitigate the effects of seasonality. Additionally, PPAs mitigate such seasonality and allow us to stabilize cash flows. The combination of the plants would provide the combined company with the ability to benefit from the CdA plant's higher efficiency during the rainy season and Kallpa's constant ability to generate power. The combined company would benefit from larger scale and diversification, permitting it to increase its leverage in PPA and offer a wider range of service at different marginal costs and reliability levels.

The Merger would increase the weighted average life of Kallpa's PPAs from approximately six years to approximately eight years. In addition, it would serve to decrease customer concentration, as no single customer will represent more than 16% of revenues beginning in 2018. Finally, we do not expect the Merger to present any integration issues, as the two companies already have a common management team and ownership structure.

Stable and predictable cash flows with long term contractual agreements—We enter into long-term PPAs, which generally limits our exposure to fluctuations in the Peruvian energy spot market prices, generates stable and predictable margins, and helps to create stability and predictability in our cash flows. During the year ended December 31, 2016, Kallpa made 96% of its aggregate energy sales (in GWh) pursuant to its long-term PPAs. During the period from August 3, 2016 to March 31, 2017 and the three months ended March 31, 2017, Cerro del Águila made 65% and 54%, respectively, of its aggregate energy sales (in GWh) pursuant to long-term PPAs. As of March 31, 2017, the weighted average remaining life of Cerro del Águila's PPAs was approximately 12 years. As of March 31, 2017, the weighted average remaining life of Kallpa's PPAs was approximately six years. We have historically sought, and will continue to seek, to renew our long-term PPAs before they approach their expiration date and to enter into new long-term contracts.

As of March 31, 2017, most of our PPAs were indexed to the price of natural gas in U.S. dollars and all of our PPAs were either in U.S. dollars or linked to the U.S. dollar, thereby limiting our exposure to exchange rate

fluctuations and, in the case of Kallpa, to fuel price fluctuations. With respect to our non-regulated customers, we typically invoice and collect payments in U.S. dollars. With respect to our distribution company customers, we invoice and collect payments in Peruvian soles, and the price is reset quarterly when the tariff resulting from applying the indexation formula fluctuates by more than 5%. In the case of Cerro del Águila's PPA with ElectroPerú, the underlying tariff is denominated in U.S. dollars and indexed to the U.S. producer price index. We seek to enter into long-term PPAs with large distribution companies or non-regulated customers that are subsidiaries of large multinational corporations, which we believe have strong credit profiles, to mitigate the risk of customer default. Some of our major customers within Peru include large distribution companies such as Enel Distribución Perú and Luz del Sur (subsidiaries of Enel S.p.A. and Sempra Energy, respectively) and, non-regulated customers such as Southern Copper Corporation, Sociedad Minera Cerro Verde S.A.A., a subsidiary of Freeport-McMoRan, and Compañía Minera Antapaccay S.A., a subsidiary of Glencore plc.

With respect to the CdA plant, Cerro del Águila holds a Definitive Generation Concession granted by the MINEM for an unlimited term for the generation of electricity for up to 525 MW and a water use license granted by the ANA under which Cerro del Águila has the right to use, for indefinite term, the waters of the Mantaro river flow for hydropower generation. The marginal cost of production of Cerro del Águila's hydroelectric plant is almost nil. As a result, Cerro del Águila's CdA plant is among the first generation units dispatched in Peru. Cerro del Águila seeks to ensure that its units are available to be dispatched when necessary, as such availability is important to its ability to capture the benefits of marginal cost dispatch and the maximization of its margins.

As Kallpa's power facilities utilize and are dependent upon natural gas, Kallpa seeks to enter into long-term supply, transportation and distribution agreements to acquire the necessary natural gas for these facilities. Kallpa purchases its natural gas requirements for its generation facilities from the Camisea Consortium pursuant to a long-term natural gas supply agreement. Kallpa's natural gas transportation services are rendered by TGP pursuant to long-term agreements, and its natural gas distribution services are rendered by Calidda pursuant to long-term agreements.

Driving operational excellence through partnerships with leading OEMs and reliance on efficient technologies—We seek to optimize our power generation capacity by using leading technologies (e.g., turbines manufactured by, in the case of Cerro del Águila, Andritz and in the case of Kallpa, Siemens and General Electric) and entering into a long-term service agreement with a leading, multinational original equipment manufacturer (“OEM”) for the maintenance of Kallpa I, Kallpa II, and Kallpa III. Our technologies and long-term partnerships enable our power generation assets to perform more efficiently and at relatively high levels of reliability. Additionally, our experienced staff is committed to increasing our operating performance and ensuring the disciplined maintenance of our power generation assets. We believe that Kallpa's generation units' weighted average availability rate of 96% for the year ended December 31, 2016 was the result of its optimization efforts and commitment to improving its operating efficiency and performance. Following the fine tuning work that was recently done on the CdA plant, we expect the CdA plant to achieve an average availability rate of 97%.

Additionally, due to the use of efficient technologies, our generation assets are very competitive in the dispatch merit order. The Kallpa facility is a base load plant combined-cycle gas turbine, and, according to the COES, is among the first power plants to be dispatched due to its efficiency and competitiveness in the dispatch stack.

Strong and dedicated controlling shareholder and experienced management team—Cerro del Águila's and Kallpa's controlling shareholder, IC Power Peru, is a wholly owned subsidiary of Inkia. Inkia is a leading owner, developer and operator of power facilities and distribution assets located in key power generation markets in Latin America and the Caribbean, utilizing a range of technologies, including natural gas, HFO, diesel, hydroelectric and wind. As of December 31, 2016, Inkia had 3,487 MW of installed capacity in Latin America and the Caribbean.

Our management team has extensive experience in the power generation business. Our executive officers have an average of more than 15 years of experience in the power generation industry and have previously held senior positions in leading power generation companies, financial institutions and the Peruvian government. Our management team provides in depth market knowledge and power industry experience, with significant experience in the Peruvian energy industry and in working with government regulators. We believe that this overall level of experience allows our management team to lead us in the effective operation and maintenance of our facilities.

Business Strategy

Continue to optimize our commercial policies focusing on stable margins and high level of contracted capacity with creditworthy counterparties—During the period from August 3, 2016 to June 30, 2017, Cerro del Águila’s aggregate energy sales (in GWh) pursuant to PPAs were 61%, and, during the year ended December 31, 2016, Kallpa’s aggregate energy sales pursuant to PPAs were 96%. Cerro del Águila also has two executed PPAs that will commence in January 2018 and January 2022. All of these PPAs are either in U.S. dollars or linked to the U.S. dollar, and most are indexed to the price of natural gas in U.S. dollars. We seek to enter into long-term PPAs with large distribution companies or non-regulated customers that are subsidiaries of large multinational corporations, that we believe have strong credit profiles and thus mitigate the risk of customer default. In addition to significantly improving our access to financing, our strategy of contracting our facility’s energy and capacity significantly reduces our exposure to changes in spot prices. Following the consummation of the Merger, we believe the combined parties would be able to further reduce exposure to changes in spot prices by covering Cerro del Águila’s lower generation during the dry season with Kallpa’s continuous ability to produce, thereby limiting Cerro del Águila’s exposure to spot prices.

Optimize operations through developments and expansions—We have successfully developed our facilities in stages and we will continue to evaluate expansion and acquisition opportunities to optimize our operations. For example, prior to Kallpa’s 2014 acquisition of Las Flores, a 193 MW thermal power generation plant, Las Flores had operated intermittently due to the lack of a long-term regular supply of natural gas. The Kallpa combined cycle power plant, which is located near Las Flores, had an excess supply of natural gas. We identified these and other potential synergies and, since Kallpa’s acquisition of Las Flores, have been able to significantly improve the operations and generation activities of Las Flores’ plant, while also maximizing the use of our facility’s natural gas supply and transportation capabilities.

Maintain financial policies in line with our objectives of maintaining investment grade ratings—As set forth in this offering memorandum, Cerro del Águila intends to use the proceeds of the offering of the notes to refinance substantially all of Cerro del Águila’s debt by prepaying the CdA Credit Facility, which will allow Cerro del Águila to reduce its financing costs and extend its debt maturity profile. In May 2016, Kallpa issued U.S.\$350 million aggregate principal amount of Senior Notes due 2026, which Cerro del Águila will guarantee as part of the arrangements leading up to the Merger. See “*The Merger and Unaudited Pro Forma Combined Financial Information.*” Kallpa currently has a “Baa3” investment-grade rating by Moody’s and a “BBB-” investment-grade rating by Fitch. Cerro del Águila, with the guarantee of the notes by Kallpa, has been assigned a “Baa3” investment-grade rating by Moody’s and a “BBB-” investment-grade rating by Fitch. Our investment-grade ratings are an important part of our financial strategy and we aim to maintain conservative financial policies, prudent levels of indebtedness and liquidity, consistent with such ratings. This will allow us to maintain an optimal cost of capital that will enhance our profitability.

Maintain our facilities to achieve long-term availability, reliability and asset integrity—We will continue to focus on ensuring long-term availability, reliability and asset integrity with preventive maintenance activities supported by a number of predictive techniques. We will take into consideration critical equipment and economics in defining the best maintenance strategy for all of our equipment. We have implemented a computerized management system to control our maintenance strategy and keep a maintenance matrix for all equipment in accordance with manufacturer recommendations. Several levels of managers, supervisors and technicians conduct continuous evaluation to carry out our maintenance strategy. In addition, Kallpa’s turbines are remotely monitored in real time by Siemens in the United States, providing an additional level of predictive maintenance on its gas turbines. We expect to continue to follow a rigorous maintenance strategy and schedule in order to maintain stable and reliable operations.

Integrate corporate social responsibility with our business—We consider local communities as important stakeholders and seek to be good corporate citizens. We take action on our corporate social responsibility by performing studies to identify needs and opportunities in education, health and economic development in our communities, forming government alliances to co-finance development projects, and maintaining open communications with the local governments and communities. We will continue to seek to develop our business in a manner which complies with applicable legal and environmental regulations, minimizes negative environmental impacts and makes positive contributions to the communities in which we operate.

Provide high rates of availability while operating our facilities safely and efficiently—We strive to provide world-class quality of service while operating our facilities safely and efficiently. Our business adheres to global benchmarks for safety, environmental and operating standards in the industry and we promote a culture of health, safety, accident prevention, security and environmental excellence by our employees, contractors and local communities. For example, we have in place a work safety and health policy, a safety committee, an annual safety improvement plan and procedures for the identification, evaluation and control of risk at least once a year. Furthermore, we provide appropriate safety training and make written operating procedures available to all of our employees. Inspections and audits are routinely conducted, and after any significant events we conduct a root-cause analysis in order to incorporate lessons learned into operating practices. We will continue to rigorously implement and follow the strictest industry safety standards in order to safeguard our employees and contractors and the communities where our operations are located.

Background and History

Kallpa was founded in 2005 as a Peruvian corporation under the name Globeleq Peru S.A. At that time, Kallpa belonged to Globeleq Ltd, a subsidiary of CDC Group PLC (United Kingdom). In June 2007, Inkia, currently a wholly owned subsidiary of IC Power, acquired the assets of Globeleq Ltd in Latin America and the Caribbean, which included seven companies in six countries: Peru, Bolivia, El Salvador, Dominican Republic, Panama and Jamaica. Following the acquisition, Kallpa's name was changed to Kallpa Generación, S.A.

In November 2009, Quimpac S.A., or Quimpac, a Peruvian chemical products company and one of the five largest producers of chlorine and caustic soda in South America, acquired a 25.1% ownership interest in Kallpa through a capital increase that Kallpa undertook. In January 2012, Quimpac transferred all its shares in Kallpa to Energía del Pacífico, a member of the Quimpac group, a Peruvian company focused on the investments of the group in the energy sector.

Cerro del Águila was founded in 2010 as a Peruvian corporation, originally under the name of Samay II S.A. In June 2011, Kallpa transferred to Cerro del Águila a concession granted by the MINEM to generate up to 402 MW in the CdA plant, which was then modified to increase the future plant's capacity to 525 MW. Construction of the CdA plant began in September 2012 and was completed for two turbines on August 3, 2016 and for a third on August 25, 2016.

In October 2012, Inkia Holdings (Kallpa) Limited, Kallpa's 74.9% shareholder, changed its name to IC Power Holdings (Kallpa) Limited (IC Power Peru).

Our Hydro and Thermal Electricity Facilities

The following table sets forth certain information regarding each of the CdA plant and Kallpa's turbines for each of the periods presented:

Turbine	COD/Date of Acquisition	For the years ended December 31,							
		2016		2015		2014		2013	
		Gross Energy Generated (GWh)	Availability Factor (%)	Gross Energy Generated (GWh)	Availability Factor (%)	Gross Energy Generated (GWh)	Availability Factor (%)	Gross Energy Generated (GWh)	Availability Factor (%)
CdA plant ⁽¹⁾	April 2016	1,813	82	-	-	-	-	-	-
Kallpa I.....	2007	1,314	98	954	91 ⁽²⁾	1,243	96	1,251	96
Kallpa II.....	2009	1,109	84 ⁽³⁾	1,126	99	1,266	97	1,229	97
Kallpa III.....	2010	1,257	99	1,218	99	1,262	96	1,212	95
Kallpa IV ⁽⁴⁾	2012	2,016	99	1,759	95	2,027	98	1,767	86 ⁽⁵⁾
Las Flores.....	August 2014	319	99	109	100	122	96	—	—
Total.....		7,828	94	5,166	97	5,920	97	5,459	94

- (1) The CdA plant began operations on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3. Information for the CdA plant is provided for the period from August 3, 2016 to June 30, 2017. During the month of June 2017 (during Peru's dry season), the CdA plant achieved gross energy generated and availability factor of 243 GWh and 92%, respectively.
- (2) Kallpa I underwent scheduled major maintenance from January 30, 2015 to February 28, 2015 (29 days).
- (3) Kallpa II underwent scheduled major maintenance from March 19, 2016 to April 18, 2016 (30 days).
- (4) Kallpa IV is the steam turbine built to convert our plant to combined cycle, which reached its COD in August 2012.
- (5) Kallpa IV had an outage from December 10, 2013 to December 22, 2013 (12 days).

The table below presents information, by generation unit, about our installed capacity as of the dates indicated.

	As of December 31,								
	2016	2015	2014	2013	2012	2011	2010	2009	2008
	(MW)								
<i>Greenfield:</i> ⁽¹⁾									
CdA plant ⁽²⁾	545	-	-	-	-	-	-	-	-
Kallpa I.....	186	186	186	186	186	186	186	174	174
Kallpa II.....	195	195	195	195	195	195	195	195	-
Kallpa III	197	197	197	197	197	197	197	-	-
Kallpa IV	292	292	292	292	292	-	-	-	-
Total installed capacity	1,415	870	870	870	870	578	578	369	174
<i>Acquired Assets:</i>									
Las Flores	193	193	193	-	-	-	-	-	-
Total installed capacity	193	193	193	-	-	-	-	-	-
Total	1,608	1,063	1,063	870	870	578	578	369	174

(1) When Inkia acquired its interest in us in 2007, Kallpa I was still under commissioning and reached its COD a few days after being acquired by Inkia. Between July 2007 and August 2012, we developed the Kallpa II and Kallpa III turbines and completed the conversion of our facility from an open-cycle to a combined-cycle operation with the Kallpa IV steam turbine.

(2) The CdA plant began operations on August 3, 2016 for units 1 and 2, and on August 25, 2016 for unit 3. Information for the CdA plant is provided for the period from August 3,

Cerro del Águila's Hydroelectric Power Plant

Cerro del Águila currently owns and operates the CdA plant which is the largest privately-owned hydroelectric power plant in Peru with an installed capacity of 545 MW, which has three generating units that reached COD in August 2016 (two on August 3, and one on August 25). The CdA plant consists of a dam, a powerhouse for the three turbines, a six kilometer headrace tunnel and a 17 kilometer transmission line that operates on the Mantaro River, located in Huancavelica in central Peru.

Construction of the CdA plant cost approximately U.S.\$975 million. The CdA plant is fully operational at a cost of U.S.\$1.8 million per MW, making the CdA plant among the most efficiently constructed hydroelectric facilities in Latin America in terms of cost per MW. Development of the CdA plant was financed with the U.S.\$591 million CdA Credit Facility, with export credit agencies, development banks and private banks. The remaining portion of the cost of the CdA plant has been financed principally with equity and loans from each of Inkia and Energía del Pacífico. As of December 31, 2016, Inkia and Energía del Pacífico have invested U.S.\$246 million and U.S.\$82 million in Cerro del Águila, respectively, and together provided loans for a total of U.S.\$28 million. As of December 31, 2016, an investment of U.S.\$975 million has been made into the development of the CdA plant and the CdA Credit Facility had been fully drawn. For further information regarding the terms of the CdA Credit Facility, which will be repaid in full with proceeds from this offering, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Material Indebtedness—Credit Facility.*”

Astaldi S.p.A. and GyM S.A., as contractors, built the CdA plant pursuant to a lump-sum turnkey engineering, procurement and construction contract (as subsequently amended, the “CdA EPC”). Pursuant to the CdA EPC, the contractors committed to complete the CdA plant by July 30, 2016. The CdA plant reached COD after the contractual deadline, in August 2016. Such delay resulted in the accrual of liquidated damages in favor of Cerro del Águila, together with certain liquidated damages that resulted from outages suffered by the plant during its early stages of operation. The EPC Contractors, in turn, had the right to claim a performance bonus because the CdA plant reached an installed capacity of 545 MW, instead of the 510 MW originally planned for. All such claims were settled by the parties, and the EPC Contractors issued the final taking over certificate of the CdA plant on June 2, 2017.

Facility, Equipment and Servicing

The CdA plant is located in the districts of Colcabamba and Surcubamba, within the Province of Tayacaja and Region of Huancavelica. It has three generating units with one vertical shaft Andritz turbine averaging 181.7 MW each. Moreover, the dam has a reservoir area of 184 hectares and capacity for 38 million cubic meters.

A mini-hydro was built by Cerro del Águila's dam so as to take advantage of the Mantaro river ecological water flow. This mini-hydro has a 10.5 MW capacity, takes advantage of a 60 meter height and runs with a flow rate of 19.8 cubic meters per second. It is equipped with two Andritz turbines (horizontal axis), working with one generating unit. The operative study required for this mini-hydro has already been submitted to the COES, and a request for the required concession was submitted to the corresponding authority. When approved, the mini-hydro will add 10.5 MW capacity to Cerro del Águila's 545 MW plant.

In order to ensure maintenance and operations continuity, Cerro del Águila trusts in its technical operations management staff with wide careers in hydro-electric field and in its maintenance and reliability management system. For specialized services, Cerro del Águila is negotiating contracts with prestigious companies, in addition to equipment manufacturer support and local suppliers.

Thermal Power Plants

Kallpa owns and operates two power plants, both utilizing natural gas for their operations. Kallpa's first unit, Kallpa I, reached COD in June 2007, and Kallpa thereafter completed the conversion of its three natural gas-powered open-cycle generation turbines (Kallpa I, II, and III) into combined-cycle by adding a 292 MW steam turbine (Kallpa IV) in August 2012. Compared to other thermal plants, the Kallpa plant's combined-cycle is one of the most efficient in Peru in terms of heat rate in 2016, according to the COES. As of December 31, 2016, the Kallpa combined-cycle plant had an installed capacity of 870 MW, representing approximately 7% of the total capacity in Peru. Additionally, in April 2014, Kallpa acquired Las Flores, a 193 MW open cycle natural gas-fired plant that is located nearby the Kallpa plant, from a then subsidiary of Duke Energy Corp. Las Flores increased Kallpa's total installed capacity from 870 MW to 1,063 MW, representing approximately 9% of the total installed capacity in Peru as of December 31, 2016. As a result of Kallpa's efficiency and low cost of operations, it has a strong competitive position in the Peruvian market and is currently the largest thermoelectric power plant in Peru, with approximately 12% of market share in terms of energy dispatched during 2016.

Prior to Kallpa's acquisition of Las Flores in 2014, Las Flores had operated intermittently due to the lack of a long-term regular supply of natural gas and an associated natural gas transportation contract. The original Kallpa plant, which is located near Las Flores, had an excess of available firm gas supply, and was, therefore, in a position to significantly improve Las Flores's operations and generation activities. Since Kallpa's acquisition of Las Flores, Las Flores has been able to utilize Kallpa's excess gas supply and enjoys several synergies in the use and transport of gas to its facility.

Potential Expansion

Peru represents an attractive geography for further expansion, especially in the hydro generation segment. Peru has one of the fastest growing economies in Latin America, with a strong outlook for power demand coupled with a stable regulatory framework and a well-run power system. We believe our strong presence in the Peruvian market gives us a competitive advantage at the time of materializing opportunities, helping to identify and assess new developments in advance of other market participants.

Our majority and minority shareholders, IC Power Peru and Energía del Pacífico, respectively, have agreed to jointly develop projects related to generation and transmission of energy in Peru either through one of Cerro del Águila or Kallpa or through other vehicles of mutual agreement, subject to limited exceptions. For further information on the IC Power Peru shareholders' agreement, see "*—IC Power Peru Shareholders' Agreement*" and the risks related to the IC Power Peru shareholders' agreement, see "*Risk Factors—Risks Related to Our Business—Our controlling shareholder has granted rights to our minority shareholder.*"

Furthermore, Kallpa may pursue opportunities to increase the installed capacity of Las Flores, which has the environmental approvals and a permit to increase its installed capacity through the construction of a 197.5 MW gas-fired expansion. In addition, Las Flores has sufficient space to locate a combined-cycle expansion on its existing premises. This combined cycle expansion has also been granted environmental approvals. Following the gas-powered expansion and an additional investment in the conversion of Las Flores, neither of which Kallpa has committed to do, Las Flores could operate as a combined-cycle thermoelectric plant, reflecting an increase in capacity by 400 MW from the existing 193 MW to 593 MW.

We apply a disciplined approach to evaluating and pursuing any development of generation units. First, we endeavor to construct generation units by entering into turnkey EPC agreements that define the total project cost and transfer significant part of the risks of construction delays and cost overruns to our EPC contractors. Second, we seek to secure a revenue stream as early as possible in the development process of our generation units by sourcing and entering into long-term PPAs, which provide our development of generation units with verifiable projected margins and cash flows before construction has commenced. Finally, we leverage our EPC contracts and PPAs to secure long-term project financing agreements which are generally stand-alone, secured, project-specific and with no or limited recourse. We have not entered into EPC agreements, PPAs or financing agreements in connection with these potential generation units.

Concession and Water Rights

Definitive Generation Concession Agreement

The Definitive Generation Concession was granted by the MINEM for an unlimited term, and it gives Cerro del Águila the right to develop electricity generation activity after the construction of the CdA plant on the Mantaro River in central Peru. According to the terms and conditions of the Concession Agreement, Cerro del Águila has, among others, the following rights: (i) develop electricity generation activities in compliance with the legal framework (ii) to request the MINEM to grant easements; (iii) to freely use public lands and cross public roads, streets and other infrastructure of public domain; (iv) to execute legal stability agreements with the government of Peru; (v) to request the support of the government of Peru in case of public calamity, internal conflicts and/or disturbances, to protect the CdA plant; (vi) to assign our contractual position and transfer the concession to third parties; and (vii) to use the transmission and distribution systems of other concessionaires which are interconnected to us, to commercialize electricity with their users.

The CdA plant has a transmission line connected to it, which is part of a definitive transmission concession, subject to similar conditions, obligations and rights as the generation concession.

Conditions

The grant of the concession is subject, among others, to the following conditions: that (i) the electricity produced under the contract will be sold at market price except for sales that take place between concessionaires and sales to distributors who serve the public sector; (ii) supply that is subject to price regulation will be provided promptly, continuously and sufficiently in keeping with the quality standards stipulated in the Concession Agreement and the transmission concession agreement; (iii) Cerro del Águila take steps to protect the environment and the area's cultural heritage; (iv) OSINERGMIN oversees and controls the enforcement of the terms of this contract; (v) the hydro resources are used in compliance with the applicable regulation and the corresponding tariffs are paid; and (vi) power and energy be acquired from other generators.

Obligations

Pursuant to the Concession Agreement, Cerro del Águila's obligations include, among others: (i) performing the activity of generation of electricity in compliance with the regulations set forth in the National Power Code, the applicable technical regulations and, particularly, the regulation approving the Quality Standards of the Electricity Services ; (ii) maintaining and operating the facilities in accordance with the technical standards and pay compensation for quality deficiencies; (iii) paying the corresponding fees to the governmental authorities; (iv) maintaining membership in the COES and operation of the applicable project according to its regulations; (v) complying with the schedule for construction approved by the MINEM; (vi) complying with the National Power Code and other applicable technical regulations in accordance with the Law of Electricity Concessions; (vii) supplying energy in accordance with the technical conditions established by the Concession Agreement, either with Cerro del Águila's own production or the acquired production from third parties, considering the compensations for the corresponding use of the transmission or distribution systems; (viii) charging the regulated prices imposed by OSINERGMIN; (ix) filing the information required by OSINERGMIN and the MINEM; (x) developing the generation and transmission activities in compliance with the antitrust and competition laws; and (xi) compensating the distribution concessionaires for the rationing of their public sector clients; (xii) paying the transmission companies the corresponding fees for the utilization of the transmission installations.

Penalties

If Cerro del Águila fails to comply with the obligations imposed on it by law or by the terms of the Concession Agreement, Cerro del Águila will be liable for fines determined by OSINGERMIN's regulations. These sanctions will be published in the journal "El Peruano" at Cerro del Águila's expense.

Force Majeure

Compliance with the conditions and obligations of the Concession Agreement is mandatory unless excused by force majeure, as provided for in articles 1315 and 1317 of the Peruvian Civil Code. A force majeure event has to be qualified as such by OSINERGMIN or the competent authority.

Termination and Termination Events

The Concession Agreements may be terminated due to (a) relinquishment by Cerro del Águila giving prior notice of one (1) year, or (b) termination declared by the MINEM in the following cases specified in Article 36 of the Law of Electrical Concessions: (i) Cerro del Águila's failure to inform the MINEM of the registration of the Concession Agreement in the Peruvian Public Registry within 20 calendar days of registration; (ii) Cerro del Águila's failure to comply with the schedule for construction of the Project, except in cases of force majeure duly qualified by the MINEM; (iii) Cerro del Águila's failure to operate the facilities for at least 876 hours during a calendar year without justified cause; or (iv) Cerro del Águila's failure to comply with the COES's operative regulations after the imposition by OSINERGMIN of the corresponding fines, except in the event Cerro del Águila obtains a specific authorization from the MINEM.

Additionally, according to Article 105 of the Electricity Concession Law, the government of Peru could terminate the concession by different causes (other than the specified above) subject to corresponding compensations.

Governing Law and Dispute Resolution

The Concession Agreements is governed by the laws of Peru and is subject solely to the jurisdiction of the courts of Peru.

Commercial Strategy

Our commercial strategy involves entering into long-term PPAs with power purchasers. In the year ended December 31, 2016, 96% of Kallpa's aggregate energy sales (in GWh) were made pursuant to the PPAs in connection with Kallpa's two plants. During the period from August 3, 2016 to June 30, 2017, approximately 61% of Cerro del Águila's aggregate energy sales (in GWh) were made pursuant to PPAs. With respect to our non-regulated customers, we typically invoice and collect payments in U.S. dollars. With respect to our customers that are large distribution companies, for which we invoice and collect payments in Peruvian soles, the underlying tariff is linked to the U.S. dollar and is readjusted at each quarter when the tariff resulting from applying the indexation formula fluctuates by more than 5%.

As of March 31, 2017, the weighted average remaining life of Kallpa's PPAs was approximately six years. Kallpa has committed to sell more than 80% of its available energy (in MWh) in every year up to 2021. Most of our PPAs are indexed to the underlying cost of natural gas in U.S. dollars, and all of our PPAs are either in U.S. dollars or linked to the U.S. dollar, which generally limits our exposure to exchange rate fluctuations and, in the case of Kallpa, natural gas price fluctuations. Further, Kallpa has a long-term contract for the supply of natural gas with a take-or-pay factor of 52%, which covers the natural gas requirements for the Kallpa and Las Flores plants. The price that Kallpa will pay for the supply of natural gas is based on a base price in U.S. dollars set on the date of the supply agreement, indexed each year based on two U.S. producer price indices, with discounts available based on the volume of natural gas consumed.

As of March 31, 2017, the weighted average remaining life of Cerro del Águila's PPAs was approximately 12 years. Cerro del Águila has committed to sell more than 90% of its available energy (in MWh) in each year from 2018 up to 2021.

For further information on our PPAs, see “*Business—Our Customers and PPAs.*”

Our Customers and PPAs

The majority of our capacity has been contracted for sale under long-term agreements. As of June 30, 2017, Cerro del Águila had three PPAs and Kallpa had 62 PPAs with various distribution companies and non-regulated clients. Non-regulated clients account for most of Kallpa’s current generation capacity, and Kallpa has commitments to sell over 80% of its available energy in every year through 2021. Under Peruvian law, we cannot contract to sell in excess of our capacity, including capacity we may contract from other generators. Utilizing PPAs allows us to lock in prices and increases our earnings stability.

We seek to enter into long-term PPAs with large distribution companies or non-regulated customers that are subsidiaries of large multinational corporations, that we believe have strong credit profiles and thus mitigate the risk of customer default. In attempting to limit the effects of counterparty risks, we analyze the creditworthiness and financial strengths of our various counterparties during the PPA negotiations as well as during the life of the agreement. Where the creditworthiness of the power purchaser is deemed to be below standard, various contractual agreements and structures are negotiated (such as letters of credit and liquidity facilities) to provide credit support.

Under the terms of Cerro del Águila’s PPA with ElectroPerú, the power purchaser is contractually obligated to make monthly payments in favor of Cerro del Águila based on the available capacity and the energy effectively provided. These payments may be adjusted depending on a combination of, among others, the following factors: (1) fluctuations in exchange rates, (2) the “U.S. Finished Goods Less Food and Energy” index, and (3) a local wholesale price index (*Índice de Precios al Por Mayor*). ElectroPerú is obligated to make these payments in favor of Cerro del Águila, even if the capacity that ElectroPerú sells to its clients is less than the one provided by Cerro del Águila.

In addition, if, in any given month, (1) the energy invoiced by Cerro del Águila to ElectroPerú is less than (2) the multiplication of, (i) the capacity ElectroPerú paid for under the PPA, by (ii) the hours of energy supplied by Cerro del Águila, by (iii) a factor of 70%, then (3) ElectroPerú will pay Cerro del Águila for such difference.

Moreover, this PPA includes a termination event in case Cerro del Águila does not receive its timely payments under the PPA for two consecutive months or if ElectroPerú defaults making partial payments for an amount equivalent to the excess of the last two months billed by Cerro del Águila. As this PPA was awarded to Cerro del Águila through a bid process, any amendment would require approval by OSINERGMIN.

In case of Cerro del Águila’s PPAs with Luz del Sur and Enel Distribución Perú, respectively, Cerro del Águila will receive a monthly compensation based on the following concepts: (i) capacity (established under each PPA), which includes a monthly fixed contracted capacity (paid on a take-or-pay basis) and a monthly variable contracted capacity (which is paid if used by the corresponding client); (ii) energy provided in relation with the contracted capacity; and, (iii) reactive energy to be determined by OSINERGMIN in accordance with the active energy monthly provided by Cerro del Águila to each client. These PPAs include provisions which enable Cerro del Águila to terminate the corresponding PPA if Cerro del Águila does not receive its monthly payments for two consecutive months or if the corresponding client defaults making partial payments for an amount equivalent to the excess of the last two months billed by Cerro del Águila. As these PPAs were awarded to Cerro del Águila through a bid process, any amendment would require approval by OSINERGMIN.

Under the terms of Kallpa’s PPAs, the client is contractually obligated to purchase its energy requirements, and sometimes capacity and/or ancillary services, from the power generator based upon a base price that is generally adjusted for a combination of some of the following, as applicable: (1) fluctuations in exchange rates, (2) the U.S. inflation index, (3) a local inflation index, (4) fluctuations in the cost of operating fuel, (5) supply costs of natural gas, and (6) transmission costs. Additionally, Kallpa’s PPAs include provisions that change the contractual unitary energy prices in the case of an interruption of the supply or transportation of natural gas through the use of a methodology based on spot prices existing on the dates in which the interruption event occurred. Many of the prices in our PPAs differentiate between peak and off-peak periods.

The following table sets forth a summary of our significant PPAs as of March 31, 2017⁽¹⁾:

	Principal Customer	Commencement	Expiration	Contracted Capacity (MW)	Monomic Price (U.S. Dollars)
Cerro del Águila	ElectroPerú S.A.	August 2016	December 2030	200	67.45
	Luz del Sur S.A.A. and Enel Distribución Perú S.A.A.	January 2018	December 2027	202	62.77
	Luz del Sur S.A.A. and Enel Distribución Perú S.A.A.	January 2022	December 2031	81	53.01
	Enel Distribución Perú S.A.A., Luz del Sur S.A.A., Hidrandina S.A., Electro Sur Este S.A.A., Sociedad Eléctrica del Sur Oeste S.A., Electro Puno S.A.A. ⁽²⁾	January 2014	December 2021	350	59.15
Kallpa	Enel Distribución Perú S.A.A., Luz del Sur S.A.A., Hidrandina S.A., Electro Sur Este S.A.A., Sociedad Eléctrica del Sur Oeste S.A., Electrosur S.A. ⁽³⁾	January 2014	December 2023	210	61.13
	Sociedad Minera Cerro Verde S.A.A. ⁽⁴⁾	January 2011	December 2020	132	59.01
	Southern Copper Corporation.....	April 2017	April 2027	120	52.3
	Southern Copper Corporation (Toquepala) ⁽⁵⁾	May 2017	April 2029	70 – 85	45.54
	Compañía Minera Antapaccay S.A. ⁽⁶⁾	November 2011	December 2025	100	50.69
	Inretail Properties Management S.R.L.	September 2016	December 2021	93	43.24
	Others.....			474	42.02

- (1) Most of our PPAs are indexed to the price of natural gas in U.S. dollars. With respect to our non-regulated customers, we invoice and collect payments in U.S. dollars. With respect to our customers that are large distribution companies, for which we invoice and collect payments in Peruvian soles, the underlying tariff is linked to the U.S. dollar and is reset at each quarter when the tariff resulting from applying the indexation formula fluctuates by more than 5%.
- (2) We executed 14 PPAs, including two PPAs with each of the following six entities: (i) Enel Distribución Peru S.A.A., (ii) Luz del Sur S.A.A., (iii) Electrosur S.A., (iv) Electro Sur Este S.A.A., (v) Sociedad Eléctrica del Sur Oeste S.A. and (vi) Electro Puno S.A.A. Each of Electrosur S.A. and Electro Puno S.A.A. assigned their PPAs to Hidrandina S.A. in August 2012 and in October 2012, respectively. The 350 MW capacity represents the aggregate contracted capacity among these 14 PPAs.
- (3) We executed 12 PPAs, two PPAs with each of the following six entities: (i) Enel Distribución Peru S.A.A., (ii) Luz del Sur S.A.A., (iii) Electrosur S.A., (iv) Electro Sur Este S.A.A., (v) Electro Puno S.A.A. and (vi) Sociedad Eléctrica del Sur Oeste S.A. Electro Puno S.A.A. assigned its PPAs to Hidrandina S.A. in October 2012. The 210 MW capacity represents the aggregate contracted capacity among these 12 PPAs.
- (4) A subsidiary of Freeport McMoRan, Inc.
- (5) Contracted capacity will be determined during the first six months of supply after the client begins operations. Minimum of 70 MW and maximum of 85 MW.
- (6) A subsidiary of Glencore plc.

The following table shows the contracted and actual demand of each of our contract customers for the period from August 3, 2016 to June 30, 2017, in the case of Cerro del Águila, and for the year ended December 31, 2016, in the case of Kallpa.

		Contracted Demand (MW)	Actual Demand (MW)	Load Factor	Expiration Date
Cerro del Águila	ElectroPerú S.A.	200	200	70%	2030
	Enel Distribución Perú S.A.A., Luz del Sur S.A.A., Hidrandina S.A., Electro Sur Este S.A.A., Sociedad, Eléctrica del Sur Oeste S.A.	350	292	54%	2021
Kallpa	Enel Distribución Perú S.A.A., Luz del Sur S.A.A., Hidrandina S.A., Electro Sur Este S.A.A., Sociedad Eléctrica del Sur Oeste S.A., Electrosur S.A.	210	175	54%	2023
	Sociedad Minera Cerro Verde S.A.A.....	132	105	74%	2020
	Southern Copper Corporation.....	120	102	77%	2027
	Compañía Minera Antapaccay S.A.....	100	74	78%	2025
	Total Sales		<u>948</u>		

Resources and Distribution

Resources

Our power facilities utilize water sources and natural gas.

Water

The availability of water is the main factor determining Cerro del Águila's capacity to generate energy. Water availability at the CdA plant is determined by the rainy season and rainfall patterns in each year. In Peru, the rainy season is between November and April, when greater amounts of hydroelectric power are dispatched. Between May and October, the volumes of rainfall decline and less water is available for electricity generation in the reservoirs serving the CdA plant. With respect to the CdA plant, Cerro del Águila holds a Definitive Generation Concession granted by the MINEM for an unlimited term to generate electricity for up to 525 MW and a water use license granted by the ANA under which Cerro del Águila has the right to use, for indefinite term, the waters of the Mantaro river flow for hydropower generation. The CdA plant is located 16 kilometers downstream from Peru's largest hydroelectric complex, formed by the Mantaro and the Restitución hydroelectric plants, with a combined installed capacity of 1,008 MW, and the Junin water reservoir, which is the second largest in Peru. The complex has an extensive track record of solid performance with more than 40 years of operations and a constant generation above 6,500 GWh per year for the past 10 years, according to the COES. The Junin water reservoir provides a relatively constant water flow for the downstream power plants, benefiting the CdA plant's hydrology. We estimate that the CdA plant will produce an average of 3,100 GWh per year and have an average annual capacity factor of approximately 65%, owing in large part to the modern machinery it uses. This capacity factor is significantly higher than the average of 54% for similar projects in Latin America, according to *Renewable Energy Sources and Climate Change Mitigation*, a special report of the Intergovernmental Panel on Climate Change.

Natural Gas

The price, availability and other purchase conditions of natural gas depends upon the specific market in which the fuel is purchased. Kallpa is party to several long-term supply agreements, including natural gas supply agreements and transportation services agreements that are material to its operations. Kallpa purchases its natural gas requirements for its generation facilities from the Camisea Consortium, pursuant to a natural gas supply agreement dated January 2, 2006, as amended. Under this agreement, the Camisea Consortium has agreed to supply Kallpa's natural gas requirements, subject to a daily maximum amount. The Camisea Consortium is obligated to provide a maximum of 4.3 million cubic meters of natural gas per day to its facility and, upon consummation of the Merger, we will be obligated to purchase a minimum of 2.2 million cubic meters of natural gas per day. Should we fail to consume the contractual minimum volume, we would still be obliged to pay for the minimum daily volume, but may make up the consumption volume shortage on any day during the following 18 months. As of December 31, 2016, 52% of the fuel supply Kallpa contracted was under such take-or-pay contracts. The price that Kallpa will pay the Camisea Consortium for the natural gas supplied is based upon a base price in U.S. dollars set on the date of the agreement, indexed each year based on two U.S. producer price indices: Fuels and Related Products Power Index and Oil Field and Gas Field Machinery Index, with discounts available based on the volume of natural gas consumed. This price, before discounts, is the same for all generation companies purchasing gas from the Camisea Consortium. The average total delivered natural gas price (which includes gas at wellhead, transportation and distribution) for the year ended December 31, 2016 was U.S.\$2.91/MMBtu. The fuel supply agreement expires in June 2022. Any terms negotiated in a renewal, extension or replacement of this agreement will be passed through to Kallpa's customers. For information on the risks related to Kallpa's inability to renew, extend or replace this agreement prior to its expiration, see "*Risk Factors—Risks Related to Our Business—Supplier concentration may expose Kallpa to significant financial credit or performance risk, particularly with respect to those agreements which may expire during the life of Kallpa's power plants.*"

Kallpa's natural gas transportation services are rendered by TGP, pursuant to a natural gas firm transportation agreement dated December 2007, as amended, and an interruptible gas transportation agreement dated December 6, 2005, as amended. Both agreements expire in December 2033. In April 2014, in connection with Kallpa's acquisition of Las Flores, the natural gas firm transportation agreement was further modified to include the transportation agreement between Duke Energy and TGP for Las Flores. Additionally, on April 1, 2014, Kallpa entered into an agreement with TGP to cover the period up to the completion of the expansion of TGP's pipeline

facilities. Pursuant to the terms of each of these agreements, upon consummation of the Merger, we will pay a regulated tariff approved by the OSINERGMIN, which was U.S.\$1.04/MMBtu as of December 31, 2016. For more information on the regulated tariff, see “Regulation.”

Set forth below is a summary of the natural gas transportation services under these agreements (in cubic meters of gas per day):

Periods	Firm	Interruptible
Initial Date of Dispatch – up to pipeline expansion	3,474,861	1,329,593
4/22/16 – 3/20/20.....	4,854,312	764,463
3/21/20 – 1/1/21.....	4,655,000	764,463
1/2/21 – 3/31/30.....	4,655,000	530,000
4/1/30 – 3/31/33.....	3,883,831	1,301,169
4/1/33 – 12/31/33.....	2,948,831	1,301,169

Distribution

Any new power plant must connect to the grid through existing substations and transmission lines. Connection of new power plants to transmission facilities is made according to open access criteria. Typically an interconnection agreement is signed between the generation company and the owner of the transmission facility, but if no agreement is reached, the generation company can request OSINERGMIN to issue a connection mandate (“*mandato de conexión*”) if certain technical requirements are satisfied. Transmission tariffs are regulated.

Cerro del Águila currently connects to the Campo Armiño 220 kV substation (owned by ElectroPerú). This connection will be continue until the Mantaro – Montalvo 500 kV transmission line reaches COD. This new transmission line is owned by Consorcio Transmantaro, which is currently performing all the required works in order to reach COD and to allow Cerro del Águila to shift from the Campo Armiño 220 kV substation to the Colcabamba 220 kV substation. This shift is expected to have a positive impact on Cerro del Águila’s operation because current transmission restrictions (that in certain situations reduce Cerro del Águila’s energy production) will be mitigated.

Natural gas distribution services are rendered to Kallpa by Calidda, under a natural gas distribution agreement dated October 5, 2010. Under such agreement, which expires on December 31, 2033, Calidda is obliged to distribute up to approximately 3.71 million cubic meters of natural gas per day for Kallpa and 1.14 million cubic meters of natural gas per day for Las Flores. As consideration, Kallpa started paying to Calidda, in 2014, a distribution tariff in U.S. dollars, which was U.S.\$0.41 for 2014, U.S.\$0.34 for 2015 and U.S.\$0.35 for 2016. This tariff is periodically updated by OSINERGMIN on an annual basis.

Our Competition

Our major competitors are generally the large international power generation corporations operating in Peru, in addition to some local competition. Some of our foreign competitors are substantially larger and have substantially greater resources than we do. In Peru, power generation companies compete to (1) source and enter into long-term PPAs with power purchases, (2) source and secure land for the development or expansion of additional power generation units, (3) source and secure natural gas to fuel power generation stations, (4) win tenders by the Peruvian government to build cold-reserve plants or other supply reserve plants, and (5) maintain or increase market share in the growing Peruvian electricity market, particularly in connection with the balance of energy supply and demand within Peru. We compete with large international and domestic generators as well as with state-owned electricity generators, although their relative weight in the market has been diminishing over time since the privatization process started in the 1990s.

The following table sets forth the quantity of energy generated by each of the principal generation companies in Peru for the periods presented:

Gross Energy Generation						
For the year ended December 31,						
Company	2016		2015		2014	
	(GWh)	Market Share (%)	(GWh)	Market Share (%)	(GWh)	Market Share (%)
Cerro del Águila ⁽¹⁾	693	1	N/A	N/A	N/A	N/A
Kallpa	6,015	12	5,166	12	5,920	14
Enel Generación Perú S.A.A. ⁽²⁾ (a subsidiary of Enel).....	8,832	18	8,370	19	8,848	21
ENGIE Energía Perú S.A. (a subsidiary of Engie).....	8,182	17	7,172	16	7,098	17
ElectroPerú S.A. (a state-owned generation company).....	6,644	14	7,172	16	7,041	17
Orazul Energy S. en C. por A. ⁽³⁾	2,423	5	2,648	6	2,534	6
Other generation companies.....	15,537	33	14,012	31	10,351	25
Total	48,326	100	44,540	100	41,796	100

(1) Operations at Cerro del Águila began in August 2016 for units 1 and 2, and on August 25, 2016 for unit 3.

(2) Includes Enel Generación Peru S.A.A. and Chinango S.A.C.

(3) Includes Orazul Energy S. en C. por A. and Termoselva S.R.L.

Property, Plants and Equipment

The following table provides certain information regarding our combined generation units that were owned or leased, as of December 31, 2016:

Generation Unit	Location	Installed Capacity (MW)	Fuel Type
Generation Unit:			
CdA plant	Huancavelica, Peru	545	Hydroelectric
Kallpa:			
Kallpa I, II, III and IV	Chilca district, Peru	870	Natural gas (combined cycle)
Las Flores	Chilca district, Peru	193	Natural gas
Total		1,608	

We believe that all of our combined production facilities are in good operating condition. We believe that we have satisfactory title to our generation units and facilities in accordance with standards generally accepted in the electric power industry, including the Kallpa facilities. As of December 31, 2016, the net book value of our property, plant and equipment was U.S.\$1,508 million.

We lease our principal executive offices in Lima, Peru. Cerro del Águila owns the CdA plant and, upon consummation of the Merger, the Kallpa I, Kallpa II, Kallpa III and Kallpa IV units. Kallpa leases the Las Flores generation unit under a capital lease as described in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Material Indebtedness.*”

Maintenance and Spare Parts

We regularly perform comprehensive maintenance on our facilities, including maintenance to turbines, engines, generators, transformers, the balance of plant and substations, as well as civil works maintenance. Maintenance is typically performed according to a predefined schedule at fixed intervals, based on running hours or otherwise according to manufacturer or engineering specifications. Maintenance is either performed by our trained employees, or is outsourced to third party contractors. In some cases, we have entered into long-term service agreements for maintenance.

The Cerro del Águila plant is maintained by its own maintenance crew according to vendors’ manuals and good industry practices. Nevertheless, Cerro del Águila is currently negotiating maintenance agreements for its turbines, transformers, gas-insulated switchgear (GIS) and substation equipment.

Kallpa's turbines are maintained according to a predefined schedule based upon the running hours of each turbine and the manufacturer specifications particular to it. Kallpa anticipates the first maintenance of the Kallpa IV turbine to occur in early 2019. Kallpa's maintenance schedule is coordinated with, and approved by, the COES. Kallpa is party to a services contract with Siemens Energy, Inc. and a supply and support contract with Siemens Power Generation, Inc., each of which provides for a 22-year term of service for each of the Kallpa I, II and III turbines, or the equivalent of 125,000 hours of operation, beginning in March 2006, in December 2007, and in July 2008, respectively. These agreements were amended to include Las Flores, thereby requiring the OEM to supply spare parts, hardware and maintenance services to Las Flores during the term of the agreement. In addition, Kallpa has relationships with the OEMs, which each periodically perform onsite analyses and make annual recommendations regarding line maintenance.

We have arrangements to obtain spare parts, as necessary. We generally purchase our spare parts from the OEMs, as well as from other suppliers. In some cases, we have entered into long-term supply contracts for spare parts. Spare parts for the Kallpa IV turbine are generally available and can be obtained from the OEM as well as from other suppliers.

Insurance

Cerro del Águila and Kallpa carry insurance for their generation units against material damage and consequent business interruption through comprehensive "all-risks" insurance policies that are renewed annually. Cerro del Águila is currently covered by insurance policies which provide for total replacement values of up to U.S.\$923 million for property damages per year and U.S.\$145 million for business interruption damages per 18-month period. Kallpa is currently covered by insurance policies which provide for total replacement values of up to U.S.\$734 million for property damages per year and U.S.\$229 million for business interruption damages per 18-month period. In some cases, Cerro del Águila and Kallpa rely on their insurance policies in the event that any of their generation units sustain damages or experience business interruptions as a result of the actions of, or a breach under the relevant agreement by, suppliers, customers or other third parties whose liability obligations are contractually limited.

Our insurance coverage is underwritten by some of the largest international reinsurance companies, including Mapfre S.A., Munich Re, Zurich Insurance Group Ltd, HDI Global SE, Generali Worldwide Insurance Company Ltd, The Travelers Companies, Allianz SE and Swiss Re Ltd, among others.

The material damage insurance for our operations provides insurance coverage for losses due to accidents resulting from earthquake, fire, explosion and machinery breakdown, among others. This coverage has a maximum indemnification limit of U.S.\$600 million per event (combined single limit material damage and business interruption coverage). These policies have deductibles of U.S.\$1 million.

Cerro del Águila's and Kallpa's business interruption coverage provides insurance for losses resulting from interruptions due to any material damage covered by the policy. The losses are covered until the plants' production is fully re-established, with a maximum indemnity period of 18 months.

In addition, we have third party liability and terrorism insurance policies, covering (1) third-party liability with limits of up to U.S.\$50 million for the Kallpa plant and U.S.\$50 million for the Cerro del Águila plant, and (2) terrorism with an aggregate limit of U.S.\$250 million for the Kallpa and Cerro del Águila plants.

We do not anticipate having any difficulties in renewing any of our insurance policies and believe that our insurance coverage is reasonable in amount and consistent with industry standards applicable to energy generation companies operating in our market.

Environment

We currently have all required environmental permits and authorizations to conduct our business. Kallpa has also received environmental permits and approvals for expansion of generation units, which Kallpa has not committed to initiate, for a 197.5 MW gas-fired expansion of Las Flores and conversion of the existing unit and the future gas turbine in Las Flores, if developed, into a combined-cycle plant.

For further information on environmental regulations, permits and approvals, see “*Risk Factors—Risks Related to Peru—Our equipment, facilities, operations and new generation units are subject to numerous environmental, health and safety laws and regulations*” and “*Regulation—Regulation of the Peruvian Electricity Sector—Environmental Matters.*”

Safety

As our operations are subject to various hazards, our management places a high priority on and closely monitors the health and safety of our employees. We have installed policies, procedures and training programs to reduce workplace accidents, including, among others, training, safety committees, an annual improvement plan and regular inspections and audits.

Employees

As of December 31, 2016, Cerro del Águila had a total of nine employees and Kallpa had a total of 235 employees. All of our employees are employed on a full-time basis, and are usually divided into one of the following functions: plant operation and maintenance, administrative support, corporate management, budget and finance, and project management.

The table below sets forth our breakdown of employees by main category of activity and by segment as of the dates indicated, including Kallpa’s:

	<u>As of December 31, 2016</u>
Number of employees by category of activity:	
Plant operation and maintenance.....	112
Administrative support.....	83
Corporate management, budget and finance	37
Other, including project management	12
Total	<u><u>244</u></u>

We do not employ a material number of temporary employees. As of December 31, 2016, none of our employees were unionized.

Additionally, we have a competitive compensation structure for our employees and managers. Compensation for managers consists of an annual compensation package, which typically includes a base salary, mandatory profit sharing as well as a year-end bonus, which is based on the personal performance of the manager and the performance of our company.

IC Power Peru Shareholders’ Agreement

IC Power Peru holds a majority stake in each of Cerro del Águila and Kallpa and their operations are subject to the shareholders’ agreement between IC Power Peru and Energía del Pacífico, their respective minority shareholder. For further information on the shareholders’ agreement, see “*Principal Shareholders—IC Power Peru Shareholders’ Agreement.*” The terms of the shareholders’ agreement provides, in certain circumstances and subject to certain conditions, that: (1) each shareholder with the right to elect a specified number of directors; (2) for the distribution of dividends in proportion to each shareholder’s equity interest; (3) veto rights of Energía del Pacífico with respect to certain “restricted matters,” which include, among others, capital increases, amendments to by-laws, liquidation, amendments to dividend distribution policy, mergers, spin-offs and other forms of corporate reorganizations, as well as significant company acquisitions over U.S.\$5 million and dispositions of assets over U.S.\$7.5 million, as well as the incurrence of significant debt over U.S.\$20 million; (4) each party with a right of first refusal with respect to any potential sale of each of Cerro del Águila’s and Kallpa’s equity interests in the relevant company; and (5) specifications of additional equity contributions.

Additionally, IC Power Peru and Energía del Pacífico have agreed that each will submit projects related to generation or transmission of energy in Peru to Cerro del Águila and Kallpa and will not develop generation projects other than through Cerro del Águila or Kallpa, unless both parties agree to incorporate a new investment vehicle.

Moreover, on December 21, 2011, Energía del Pacífico and Banco de Crédito del Perú entered into the Share Pledge Agreement (as amended from time to time), pursuant to which 25.1% Kallpa's outstanding shares (owned by Energía del Pacífico) were granted as security in favor of Banco de Crédito del Perú. Following the repayment of the CdA Credit Facility, 25.1% of Cerro del Águila's outstanding shares (owned by Energía del Pacífico) will be granted as security in favor of Banco de Crédito del Perú. Among other matters, the Share Pledge Agreement, as amended, provides that Energía del Pacífico is obliged to vote against (and cause the directors it appoints in each of Cerro del Águila and Kallpa to vote against) the "restricted matters" mentioned above, if not previously authorized by Banco de Crédito del Perú to vote in favor of such matters.

Legal Proceedings

We are involved in several claims and legal actions arising in the ordinary course of business. These proceedings are not likely to have a material adverse effect on our operations or financial condition individually or in the aggregate, except for the proceeding described below.

For detailed information regarding the matters below, see Note 27 to Kallpa's audited annual financial statements included in this offering memorandum.

For example, since 2010, the SUNAT has issued tax assessments to Kallpa and its lenders (as lessors under our financial leases) for payment of import taxes allegedly owed by Kallpa and its lenders in connection with the engineering services of the EPC contractors for Kallpa I, II, III and IV. The assessments were mainly made on the basis that Kallpa and its lenders did not include the value of the engineering services rendered by the contractor of the relevant project in the tax base of the imported equipment for the import taxes. Kallpa disagrees with these tax assessments on the grounds that the engineering services rendered to design and build the power plant are not part of the value of the imported goods but a separate service for which Kallpa paid its corresponding taxes. Kallpa and its lenders disputed the tax assessments before the SUNAT and, after the SUNAT confirmed the assessments, appealed before the Peruvian Tax Administrative Court (the "Tribunal Fiscal"), except for the assessment of Kallpa IV.

In January 2015, Kallpa and its lenders were notified that the Tribunal Fiscal had rejected their appeal in respect of the Kallpa I assessment. Kallpa and its lenders disagreed with the Tribunal Fiscal's decision and challenged it before the Peruvian Tax Court. In April 2015, Kallpa and its lenders made the final payment (under protest) in the aggregate amount of S/37.9 million (U.S.\$12.3 million), which includes the related interest and fines. Kallpa has reimbursed the lenders for amounts due pursuant to the operation agreement dated July 31, 2008, as amended, by and among Citibank del Perú S.A., Citileasing S.A., Banco de Crédito del Perú, Scotiabank Perú S.A.A. and Kallpa. In September 2016, the Superior Court issued a ruling on the Kallpa I assessment declaring Kallpa's claims to be groundless and Kallpa filed an appeal. On January 25, 2017, Kallpa was served with the SUNAT's reply to Kallpa's appeal. After an oral hearing in which Kallpa explained its defense arguments, the second instance judge decided for the invalidity of the first instance decision and not only ordered the first instance judge to issue a new decision but also required the judge to merit the technical support filed by Kallpa. The amount paid with respect to Kallpa I was recorded as a long term receivable and was originally S/37.9 million, but S/5.4 million related to value added tax (VAT) has been recovered. Accordingly, as of March 31, 2017, the amount under discussion is S/32.6 million (U.S.\$10.0 million). The Kallpa I assessment liability (including tax, fines and interest) is nil, as Kallpa has already paid the total amount under discussion. Accordingly, a favorable result of the process would imply a refund of the amounts paid.

In January 2016, the SUNAT issued a ruling in favor of Kallpa, releasing Kallpa from substantially all claims and associated fines related to Kallpa IV and, on February 12, 2016, Kallpa filed an appeal against the portion of the resolution that refers to the insurance, which is still pending resolution. As of March 31, 2017, the total amount of import taxes claimed by the SUNAT against Kallpa in connection with the import of equipment related to Kallpa II, III and IV projects, equals S/45.7 million (U.S.\$14.1 million), including penalties, interest and fines.

As of March 31, 2017, the total tax exposure related to these assessments was as follows:

	Stage	Amount (S/millions)	Amount (U.S.\$ millions)
Kallpa II	Peruvian Tax Court	22.7	7.0
Kallpa III	Peruvian Tax Court	22.0	6.8
Kallpa IV	SUNAT	0.9	0.3
Total.....		45.7	14.1

Management and Kallpa's legal advisors are of the opinion that the degree of contingency in this administrative stage is that Kallpa's appeals should more likely than not be successful; accordingly, no provision was recorded in the financial statements for the assessments related to Kallpa II, III and IV.

In addition, in February 2016, as a result of the 2012 income tax audit, the SUNAT issued a preliminary income tax assessment against Kallpa on the basis that certain interest accrued on its debt and certain maintenance expenses amounting to S/22.0 million (U.S.\$6.3 million) should not have been deducted from its 2012 taxable income but rather treated as an asset. In March 2016, the SUNAT issued a final tax assessment for S/16.5 million (U.S.\$4.9 million), related to the interest expense accrued during the construction of the steam turbine (Kallpa IV) as part of the combined-cycle conversion of the plant. In May 2016, Kallpa filed an appeal against the SUNAT assessment, which was rejected. On March 7, 2017, such decision was appealed by Kallpa before the Tax Court. As of March 31, 2017, the total amount that the SUNAT claims should be subject to tax is S/16.5 million (U.S.\$4.9 million), representing a potential tax liability for Kallpa of S/11.8 million (U.S.\$3.6 million), including interest and fines.

Separately, ElectroPerú, the counterparty to one of Cerro del Águila's PPAs, notified the COES on September 26, 2016 of its intention to initiate an arbitration proceeding to challenge the COES's decision to approve Cerro del Águila's operational study (*estudio de operatividad*) that allows Cerro del Águila's connection to the Peruvian grid through the Campo Armiño Substation, owned by ElectroPerú, arguing that the modifications introduced by Cerro del Águila in its facilities between the approval of its preoperational study and the approval of the mentioned operational study obliged Cerro del Águila to modify its preoperational study. Although Cerro del Águila was not named as a party to the arbitration, Cerro del Águila nonetheless requested its incorporation into the arbitration considering that ElectroPerú seeks the invalidation of the COES's approval of Cerro del Águila's operational study. As of the date of this offering memorandum, the arbitral tribunal has been installed, but the arbitral proceeding will be suspended until January 20, 2018 pursuant to a mutual agreement reached between the COES and ElectroPerú. We believe that, bearing in mind that ElectroPerú has not demonstrated its standing to challenge the COES's decision to approve the operational study of Cerro del Águila, ElectroPerú's arbitral claim should be dismissed. In addition, we believe that the interpretation followed by the COES with respect to the relevance of the modifications introduced by Cerro del Águila with respect to its facilities have strong legal grounds, since the corresponding Peruvian applicable law (COES technical procedure No. 20 and Peruvian Law No. 28832) allows the modification of the facilities between the approval of the pre operational study and the approval of the operational study, to the extent such modifications do not (i) have a material negative impact on the safety of the SEIN; (ii) increase the operating costs of such system; or (iii) reduce the efficiency of the resources of the mentioned system. Moreover, we believe that the fact that the plant has been operating for almost a year connected to the Campo Armiño Substation without causing any damage to neither it nor any other facility of ElectroPerú is evidence that ElectroPerú's claim has no technical nor actual grounds, and, thus, should not succeed. In light of the foregoing, we believe it is most likely that ElectroPerú's claim will not succeed.

REGULATION

Overview

In Peru, the electricity market allows for sale and delivery of power from power generators (private or government owned) to distribution companies (private or government owned) and to non-regulated clients (industrial and commercial consumers). There is structural segregation of power generation companies and transmission and distribution companies. Further, power grid and transmission services are provided on open access basis, *i.e.* the transmission company must transmit power through the grid up to its capacity and in exchange, charges a transmission rate set by the supervisory authority or based on a competitive proceeding or regulated tariff. Whereas private and government-owned entities compete in the power generation and trading activities, transmission and distribution are conducted subject to exclusive franchises; therefore, the transmission and distribution operations are regulated in the market in which we operate.

Delivery and sale of power is subject to a regulatory regime (typical of privatized electricity markets) which includes supervision by an independent supervisory entity for the electricity market. For further information on the regulatory risks related our operations, see “*Risk Factors—Risks Related to Peru—Our equipment, facilities, operations and new generation units are subject to numerous environmental, health and safety laws and regulations.*”

Regulation of the Peruvian Electricity Sector

In Peru, electricity is generated by companies which primarily operate hydroelectric and natural gas based power stations. The general electricity laws in Peru form the statutory framework governing the electricity market in Peru and cover, among other things:

- generation, transmission, and distribution and trading of electricity;
- operation of the energy market; and
- generation prices, capacity prices and other tariffs.

All entities that generate, transmit, distribute or sell electricity to third parties in Peru operate subject to the general electricity laws within the country. Power generating companies in Peru, such as Cerro del Águila, are impacted by, among other things, the regulation applicable to transmission and distribution companies.

Although significant private investment has been made in the electricity market in Peru and independent supervisory entities have been created to supervise and regulate the electricity market, the Republic of Peru has remained in the role of supervisor and regulator. In addition, the Republic of Peru owns multiple power generation and distribution companies in Peru, although their market participation has diminished over time and face significant legal restrictions to engage in new generation units or investments.

Regulatory Entities

There are multiple entities in charge of regulation, operation and supervision of the electricity market (and related activities to electricity market) in Peru in general, and of our operations in Peru, in particular:

MINEM—The Ministry of Energy and Mines, responsible, among others, for:

(a) setting the national energy policy; (b) proposing and adopting laws and regulations to supervise the energy sector; (c) controlling transmission expansion plans for the SEIN; (d) approving proposed transmission expansion plans by the COES; (e) promoting scientific research and investment in energy; and (f) granting concessions or authorizations, as applicable, to participate in power generation, transmission or distribution activities in Peru.

OSINERGMIN—the Supervisor Body of Investment in Energy and Mining is an independent governmental regulatory agency responsible, among other things, for:

(a) supervising compliance of different entities with laws and regulations concerning power generation, transmission, distribution and trading; (b) setting transmission (electricity and natural gas) and distribution (electricity and natural gas) tariffs; (c) setting and enforcing price levels in the electricity market in Peru and setting tariffs for customers subject to regulated tariffs; (d) imposing fines and compensations for violations of the laws and regulations; (e) handling claims made by, against or between consumers and players in the electricity market, in matters under OSINERGMIN supervision; (f) supervising public tenders with regard to PPAs between generation companies and distribution companies for the supply to regulated consumers; (g) granting interconnection mandates to transmission and distribution grid, when involved parties cannot reach an agreement; and (h) supervising operations of the COES.

Generation tariffs for the sale of energy by generation companies to distribution companies for customers subject to regulated tariffs, or in certain events, for non-regulated clients, are generally determined based on tenders where OSINERGMIN sets a cap price that is not disclosed to participants except when the respective bid is unsuccessful because no party has made an offer below such price cap. In addition, OSINERGMIN annually specifies energy prices, known as the regulated tariff, which is used by market participants only in exceptional situations, as most of the PPAs with distribution companies are based on the results of the tenders. Energy tariffs determined by OSINERGMIN shall not differ by more than 10% of the weighted average energy prices of the referred tender process. OSINERGMIN also determines the annual capacity tariff used in agreements between generation companies and distribution companies, as well as in the spot market.

COES—the Committee for the Economic Operation of the System is an independent private entity composed of qualified participants undertaking activities in the SEIN (*i.e.*, electric power generators, transmission companies, distributors and major non-regulated users) which is responsible, among others, for:

(a) planning and coordination of the operation of power generation system for all power generation and transmission units, in order to ensure reliable generation at minimum cost; (b) setting spot market prices based on marginal cost; (c) managing the clearing house of the spot market transactions between generation companies (excess and shortage of actual generation vs. demand pursuant to PPAs); (d) allocating firm capacity and firm energy to generation units; (e) submitting proposals to OSINERGMIN for issuing regulatory standards, including technical standards and procedures used as guidelines for carrying out the COES directives; (f) determining on a monthly basis the amounts owed between generators as consideration for energy injected into the grid and for ancillary services; (g) evaluating and approving pre-operative and operative studies for every new generation unit that desires to connect to the system; and (h) proposing to MINEM for its approval expansion plans for the transmission grid.

INDECOPI—the Antitrust and Intellectual Property Authority in Peru.

ANA— The National Water Authority (*Autoridad Nacional del Agua*) was created in 2008 pursuant to Legislative Decree 997. As the governing body and technical-regulatory authority of the National Management System of Water Resources, the ANA is responsible for exercising exclusive jurisdiction over natural water resources, and managing, monitoring, controlling and regulating the industry aimed to ensure the preservation and conservation of natural water sources, natural assets associated with such sources and hydraulic infrastructure. The ANA has sanctioning and enforcement authority.

SENACE—the National Service for Environmental Certification of Sustainable Investments (*Servicio Nacional de Certificación Ambiental para las Inversiones Sostenibles*) is a specialized technical governmental agency, dependent of the Ministry of Environment, in charge of evaluating and approving detailed Environmental Impact Assessments, their amendments and Technical Reports of Viability (*Informes Técnicos Sustentatorios*), related to projects involving activities, works or services that may cause significant impacts to the environment.

Ministry of Culture— The Peruvian Ministry of Culture was created in 2010 pursuant to Law 29565, and is the main authority in terms of the management and surveillance of property under the scope of the Nation's Cultural Heritage. The Ministry of Culture is the competent authority responsible for the issuance of the Certificates of

Inexistence of Archaeological Remains (*Certificado de Inexistencia de Restos Arqueológicos*, or “CIRA”), prior to the development of investment projects, as well as other permits in order to protect the Nation’s Cultural Heritage.

OEFA—the Agency for Environmental Assessment and Enforcement (*Organismo de Evaluación y Fiscalización Ambiental*) is a specialized technical governmental body, dependent of the Ministry of Environment, responsible for enforcing, overseeing, controlling and sanctioning in environmental matters. As of March 4, 2011, OEFA became the competent authority in verifying compliance by companies operating in the energy sector (electricity and hydrocarbon activities) – among other sectors – with environmental regulations.

SERFOR— The National Service for Forest and Wildlife (*Servicio Nacional Forestal y de Fauna Silvestre*, or “SERFOR”) was created by Law 29763, enacted on July 22, 2011. SERFOR is a specialized technical governmental agency, dependent of the Ministry of Agriculture, in charge of regulating forest and wildlife matters and proposing policies, strategies, plans and other instruments to promote the sustainable use of forest and wildlife resources. SERFOR is the entity in charge of granting permits in order to perform activities such as forest clearing, among others.

Generation Companies

Since 1992, the Peruvian market has been operating based upon a “marginal generation cost” system. As mentioned before, such system is embedded in the general electricity laws of Peru and is administrated by the COES. In such capacity, the COES has as its main mandate to satisfy all the demand of electricity at any given time with the most efficient generation assets available at such time, taking also into account reliability considerations, independently of contractual arrangements between generators and their clients. For such purpose, the COES determines which generation facilities will be in operation at any given time with the objective of minimizing the overall system energy cost. Generation units are dispatched (*i.e.*, ordered by the COES to inject energy into the system) on a real-time basis; units with lower variable generation costs are dispatched first and other less efficient generation units will be ordered to dispatch until the electricity demand is satisfied.

The variable cost for the most expensive generation unit dispatching in each 15-minute time period determines the short-term marginal cost (spot price) of electricity in said time period. Generally, the variable cost used for dispatch is audited by the COES, based on actual fuel costs, the plant efficiency, and variable maintenance costs. However, as natural gas supply and transportation contracts contain high levels of take-or-pay, the calculation of variable costs for these units is not straightforward.

As a result, generators with power plants utilizing natural gas are allowed to declare the variable cost of their plants twice a year: (i) on the last business day of the first half of November, being valid for the high hydrology season (from December 1 to May 31 of the following year), and ii) on the last business day of the first half of May, being valid for the low hydrology season (from June 1 to November 30). Such declared cost may differ from the actual cost of such plant, but cannot be higher than the total cost (gas supply transportation and distribution) effectively paid by each generation company and this declaration will be the fuel variable cost applicable for dispatch purposes for the next six months, being the declared cost part of the commercial strategy of the corresponding generator.

The spot market price is determined by the COES and is the price at which generation companies sell or buy energy on the spot market during each 15-minute period. All injections and withdrawals of electricity are valued at the spot market price of the 15-minute period when they are made. Any generation companies with excess generation over energy sold pursuant to PPAs in each 15-minute interval, sell their excess energy at spot prices to generation companies with lower generation than their contractual obligations under PPAs for that time period. The COES defines, on a monthly basis, the amounts that are owed by each generator with a net “buyer” position to generators with a net “seller” position. Generators with a net seller position directly invoice and collect from generators with a net buyer position the amounts liquidated by the COES, respectively, not being the COES involved in the payment procedure or providing any form of payment guarantee. As of the date of this offering memorandum, distribution companies and regulated consumers cannot purchase power off the grid at spot prices, but rather must contract agreements with power generation companies or – for smaller consumers – with distribution companies, which means that spot transactions are a zero-sum between generators. Nevertheless, non-regulated clients and distribution companies with respect to the demand of their non-regulated clients, were provided access to the spot market by new regulation of the MME only for the part of their demand not contracted with a supplier,

which, for non-regulated clients, cannot be higher than 10% of their total maximum demand and, in case of distribution companies, cannot be higher than 10% of the total demand of its non-regulated clients, in both cases with respect to the maximum demand of the last 12 months. The technical procedures that are necessary to operate the MME are in the process of approval by OSINERGMIN, and if this happens, the MME will come into operation.

Power generation companies are also paid capacity fees by the SEIN, based on their firm capacity and other variables. Capacity transactions are subject to Law 25844. This law stipulates a methodology for calculating the capacity payments for each generation unit. Firm capacity calculation varies by type of technology, but is principally based upon the unit's effective capacity and its ability to supply energy reliably and continuously during the peak hours of the dry season, and also taking into consideration the historic availability statistics of the unit. Capacity payments are based primarily upon the unit's firm capacity and the regulated capacity price, but it is also affected by other variables, such as the expected supply-demand balance, the approved reserve margin, and the merit order of the generation unit.

PPAs are commercial agreements, independent of actual allocation of generation or actual provision of capacity to the system. Generation companies that generate over any 15-minute period insufficient energy to satisfy the supply obligations under their PPAs in any such periods purchase in the spot market the energy required to satisfy such supply obligations, based on COES procedures, from other generation companies with excess generation or availability during any such period. The energy price for those transactions is the spot price (marginal cost), and the capacity price is regulated and defined annually by OSINERGMIN.

Regarding spot prices, due to short-term constraints in the gas supply and power transmission systems, which were generating distorting price signals in the spot market, the Peruvian government issued Emergency Decree 049-2008, extended by Emergency Decree 079-2010, Law 30115 and Law 30513. Pursuant to this decree, the COES is required to simulate economic dispatch and energy spot prices without accounting for limitations due to shortage in supply and transportation of natural gas and for limitations on the transmission system. The latter scheme caps spot prices at a maximum amount of S/313.5 per megawatt hour. Generation companies with units that are called to dispatch that have a variable cost higher than the spot price determined pursuant to the referenced emergency decree are compensated for the difference between their variable cost and the spot price by transmission surcharges imposed on all end consumers of the SEIN (*i.e.*, regulated and non-regulated customers) and collected by distribution and/or generation companies. As of the date of this offering memorandum, the aforementioned government decree will be in force until October, 2017. Emergency decrees are legislative statutes that are exceptionally issued by the Executive branch of the Peruvian government which can only be issued on circumstances and in areas specified in the Peruvian Constitution and are effective for a limited time period.

Sales of electricity under PPAs are not regulated unless they involve sales to distribution companies for the supply to regulated customers. The latter PPAs are subject to price caps set by OSINERGMIN prior to the corresponding public bidding process where generators submit their bids. Generation and distribution companies may also enter into contracts resulting from a direct negotiation and not a bidding process, but the price in such PPAs cannot be higher than the regulated tariff approved by OSINERGMIN. As with capacity transactions under PPAs, the financial settlement of energy transactions under PPAs is independent of the actual dispatch of energy by any particular generation unit. Generators accrue receivables from the counterparties to their PPAs based on the contract price in their PPAs and the amount of energy delivered from the SEIN, irrespective of the amount of energy that was produced by the generator counterparty to the PPA. The COES's dispatch of generation units in the SEIN is designed to satisfy the demand of electricity of the SEIN at any given time in the most efficient manner possible and the COES is not under any obligation to dispatch a particular generation unit to fulfill a generator's PPA commitments.

The general electricity laws of Peru require generators with an installed capacity in excess of 500 kW that use renewable energy sources to obtain a definitive generation concession, and generators with an installed capacity in excess of 500 kW that use thermal energy sources to obtain a generation authorization. A concession for electricity generation activity is granted by the Republic of Peru acting through the MINEM and embedded in an agreement between the generator and the MINEM, while an authorization is merely a unilateral permit granted by the MINEM. Authorizations and concessions are granted by the MINEM for an unlimited period of time and their termination, respectively, is subject to the same considerations and requirements under the procedures set forth in the Law 25844 and related regulations. However, according to Legislative Decree 1221, the concessions granted as a result of an investment promotion process will have a term of up to 30 years.

The definitive concession allows its titleholder to use public lands and infrastructure, and obtain easements imposed by the MINEM (in lieu of easements agreed with the owner of the affected land plots) for the construction and operation of generation plants, substations or transmission lines and distribution networks, as applicable. The definitive concession is granted by a ministerial resolution issued by the MINEM. Also, definitive concessions for generation with renewable energy sources, with an installed capacity equal to or less than 10 MW are granted by resolution of the Energy and Mines Regional Directorate (*Dirección Regional de Energía y Minas*) of the corresponding regional government. In all cases a definitive concession involves the execution of a concession agreement under the form of a public deed. The concession agreement is based on a standard form and is recorded in the public registries.

Under the general electricity laws in Peru, the titleholders of authorizations have most of the rights and benefits of concessionaires, other than the right to make a request to the MINEM to impose definitive easements, and have basically the same obligations as concessionaires.

Definitive concessions and authorizations may be terminated by relinquishment or breach upon the occurrence of certain termination events set forth in Law No. 25844 and upon completion of a procedure regulated by the general electricity laws in Peru. Termination events include: (i) failure to provide evidence of registration of the concession agreement in the public registry within the term of twenty business days following such registration; (ii) non-compliance with the schedule for completion of the project included in the concession agreement, unless otherwise authorized by the MINEM due to force majeure; (iii) failure to be available to operate for at least 876 hours during a calendar year, without justified cause; and (iv) failure by the concessionaire, after being penalized, to operate the facilities in accordance with the COES's operative regulations, unless otherwise authorized by the MINEM by justified reasons. The termination procedure for breach of the project schedule may be suspended by the concessionaire upon delivery of a new project schedule that is guaranteed with a performance bond, thereby providing a mechanism that in practice substantially reduces the risk of termination for such cause. According to Legislative Decree 1221, this guaranteed schedule will be approved only once.

Notwithstanding the above, Law 25844 provides that if the Republic of Peru declares the termination of a definitive concession for a reason different from those mentioned above (*i.e.*, termination at will), the concessionaire shall be indemnified at the present value of the net cash flow of future funds generated by the concession's activities, using the discount rate set forth in article 79 of such law (12% on an annual basis). As of the date of this offering memorandum, we believe no concession has been terminated by the Peruvian government invoking its authority to terminate at will.

Termination of a definitive concession is declared by a ministerial resolution issued by the MINEM. In such case, the MINEM shall ensure the continuity of the operation of the generation plant by appointing a temporary administrator of the assets (*intervención*), until the concession is transferred to a new concessionaire. The MINEM shall appoint a consultant to make a valuation of the concession and its assets, elaborate the corresponding bidding rules and organize a tender procedure. The MINEM shall award the definitive concession to the best bid offered. The product of the tender shall be used to pay the costs of the temporary administration, the costs of the tender procedure, and any balance shall be allocated in favor of the former concessionaire. The procedure for termination of an authorization is similar to that of a concession. We believe that no definitive concession or authorization of a project that actually started construction or operation has been terminated, as of the date of this offering memorandum.

Transmission Companies

Transmission in the SEIN is operated by the individual companies that conform the transmission system and is centrally coordinated by the COES. Expansion plans for the transmission grid are proposed by the COES to the MINEM for final approval; prior to executing the COES expansion plan, the Peruvian government prepares the transmission plan. Transmission companies who wish to participate in construction of the transmission system specified in the expansion plan are required to submit their bid for a tender organized by the Peruvian Agency for the Promotion of Private Investments (*ProInversión*). The transmission company awarded the tender may operate the line over the term of its concession (usually 30 years) and would be eligible to receive tariff payments paid by all the final users in the SEIN, as specified in the tender document and incorporated into its concession contract. The development of any transmission activity requires a definitive concession if the installation of the transmission lines will be within Peruvian state properties or if an easement from the MINEM will be required.

The group of transmission lines created pursuant to such tenders after 2006 are known as “guaranteed transmission lines” and are paid by electricity consumers. Transmission lines not included in plans such as the aforementioned, independently constructed by transmission companies after 2006, are known as “complementary transmission lines”; tariffs for use of these lines are determined by OSINERGMIN and are paid based upon actual use even by generation companies or customers.

Transmission lines created prior to 2006 are categorized into two groups. Transmission lines available for use by all generation companies and for the benefit of end users are categorized as principal transmission lines; transmission lines only used by specific generation or distribution companies and only available to these generation companies are categorized as secondary transmission lines. Principal transmission lines tariffs are determined by OSINERGMIN and are paid by all end users, and secondary transmission lines tariffs are also determined by OSINERGMIN but are paid based upon actual use even by generation companies or customers. The Cerro del Águila plant connects to guaranteed transmission lines through secondary transmission lines built prior to 2006.

On July 2, 2016, OSINERGMIN issued Resolution 164-2016-OS/CD, or the Transmission Toll Resolution, which sets forth a new methodology, starting in May 2017 and ending in May 2021, for the calculation of the transmission tolls payable by generation companies to transmission companies for a generator’s use of the secondary and complementary transmission lines within the grid. Pursuant to the current methodology, a generation company must pay a transmission toll for each of the secondary or complementary transmission lines utilized by it; the new methodology set forth in the Transmission Toll Resolution provides that each generation company must pay a transmission toll for each of the secondary and complementary transmission systems within the grid, regardless of whether such generation company uses any particular secondary or complementary transmission system within the grid.

The CdA plant transmits the power generated by the plant through certain of the secondary transmission lines built prior to 2006, which then connect to primary and guaranteed transmission lines. The implementation of the methodology set forth in the Transmission Toll Resolution will nonetheless obligate the CdA plant to provide payments to the remaining secondary and complementary transmission lines in the system, notwithstanding Cerro del Águila’s usage of other secondary transmission lines. Additionally, although primary transmission tolls paid by Cerro del Águila are typically passed through to Cerro del Águila’s customers pursuant to its PPAs, it is unclear whether transmission tolls paid in respect of those secondary and complementary transmission lines that are not utilized by Cerro del Águila for the transmission of their energy (as required by the Transmission Toll Resolution) can be passed through to Cerro del Águila’s customers under its PPAs.

Distribution Companies

According to the general electricity laws in Peru, distribution companies are required to provide energy to regulated customers at regulated prices. Distribution companies may also provide energy to customers not subject to regulated prices—pursuant to PPAs competing with generation companies for such non-regulated customers. As of the date of this offering memorandum, the only private distribution companies holding a distribution concession are: Luz del Sur, Enel Distribución Peru, Electro Dunas and Coelvisac. These four companies distributed 63% of all energy distributed by distribution companies in Peru in 2016. The remainder of distribution companies are government-owned entities.

Prior to July 2006, pricing in all contracts between generation companies and distribution companies with respect to sale of electricity to end customers was defined at regulated prices, composed of payment for capacity, energy and transmission, as determined by OSINERGMIN. Distribution companies sell energy on the regulated market at cost plus an additional distribution charge known as VAD. After July 2006, most of the agreements result from tenders in which generation companies bid prices. Bid prices include payment for capacity and energy.

As mentioned, since July 2006, pursuant to Law 28832, contracts to sell energy to distribution companies for resale to regulated customers may be made at fixed prices based on public bids of generation companies or at regulated prices set by the OSINERGMIN. After the bidding process is concluded, a distribution company will be entitled to purchase energy from the winning bidder at the bid price for the life of the relevant PPA. The prices obtained through the public bid process are subject to a maximum energy price set by the OSINERGMIN prior to bidding. If all the bids are higher than the price set by the OSINERGMIN, the public bids are disregarded and no

PPA will be awarded. The process may be repeated until the prices that are offered are below the cap set by the OSINERGMIN for each process.

Regulated tariffs are annually set by OSINERGMIN through a public procedure conducted by the Adjunct Manager's Office for Tariff Regulation (*Gerencia Adjunta de Regulación Tarifaria*) and are effective from the month of May of each year. During this process, the OSINERGMIN will take into account a proposal delivered by the COES.

The price components of the regulated tariffs are: (i) the regulated price of energy; (ii) the capacity price in peak hours; and, (iii) the transmission toll, and are calculated considering the following:

- a projection of demand for the next 24 months, considering generation and transmission facilities scheduled to start operations during such period. The projection assumes, as a constant, the cross-border (*i.e.*, Ecuador) supply and demand based on historical data of transactions in the last year;
- an operations program that minimizes the operation and rationing costs for the period taking into account the hydrology, reservoirs, fuel costs and a rate of return (*Tasa de Actualización*) of 12% annual. The evaluation period includes a projection of the next 24 months and the 12 months precedent to March 31 of each year considering historic data;
- a forecast of the short-term marginal costs of the expected operations program, adapted to the hourly blocks (*bloques horarios*) established by OSINERGMIN;
- determination of the basic price of energy (*precio básico de la energía*) for the hourly blocks of the evaluation period, as a weighted average of the marginal costs previously calculated and the electricity demand, updated to March 31 of the corresponding year;
- determination of the most efficient type of generation unit to supply additional power to the system during the hour of maximum peak demand during the year (*demanda máxima anual*) and the annual investment costs, considering a rate of return of 12% on an annual basis;
- the base price of capacity in peak hours (*precio básico de la potencia de punta*) is determined following the procedure established in the general electric laws of Peru, considering as a cap the annual investment costs (which include connection and operation and maintenance costs). An additional margin to the basic price shall be included if the reserve of the system is insufficient;
- calculation of the nodal factors of energy (*factores nodales de energía*) for each bar of the system. The factor shall be equal to 1.00 for the bar where the basic price is set;
- the capacity price in peak hours (*precio de la potencia de punta en barra*) is calculated for each bar of the system, adding to the basic price of capacity in peak hours the unit values of the transmission toll and the connection toll referred to in Article 60 of Law 25844; and
- the bus bar price of energy (*precio de energía en barra*) is calculated for each bar of the system, multiplying the nodal basic price of energy (*precio básico de la energía nodal*) of each hourly block by the respective nodal factor of energy.

Peruvian Energy Policy 2010 – 2040

The Peruvian Energy Policy 2010 – 2040 was approved by Supreme Decree 064-2010-EM. By this document, the Peruvian government set forth the following objectives in order to improve the energy market:

- develop a diversified energy matrix, based on renewable energy resources and efficiency. The government, among other measures, will prioritize the development of efficient hydroelectric projects for electricity generation;

- competitive energy supply. One of the main guidelines is to promote private investment in energy projects. The Peruvian government has a subsidiary role in the economy as mandated by the Peruvian Constitution;
- universal access to energy supply. Among other guidelines, the Peruvian government shall develop plans to ensure the supply of power and hydrocarbons;
- promote a more efficient supply chain and efficient energy use. Comprises promoting the automation of the energy market through technological repowering;
- achieve energy self-sufficiency. For such purpose, the Peruvian government will promote the use of energy resources located in the country;
- develop an energy sector with minimal environmental impact and low carbon in a sustainable development framework. Promote the use of renewable energy and eco-friendly technologies that avoid environmental damage and promote obtaining Certified Emission Reductions by the energy projects developed;
- strengthen the institutional framework of the energy sector. Maintain a legal stability intended to promote development of the sector in the long term. Likewise, simplification and optimization of administrative and institutional structure of the sector will be promoted;
- regional market integration for a long-term development. Regional interconnection agreements will permit the development of infrastructure for energy uses; and
- developing the natural gas industry and its use in household activities, transportation, commerce and industry as well as efficient power generation.

Environmental Matters

The environmental legal framework is primarily based on the General Environmental Law, enacted by Law 28611, and the Environmental Impact Assessment National System Law, enacted by Law 27446 and regulations thereto enacted by Supreme Decree 019-2009-MINAM. The Ministry of Environment and other administrative entities have the authority to enact implementing regulations related to environmental matters.

The environmental aspects of the electric power industry are specifically governed by the Regulations of the Environmental Protection for Electric Activities or “REPEA,” enacted by Supreme Decree 029-94-EM. These environmental laws and regulations govern, among other matters, the generation, storage, handling, use, disposal and transportation of hazardous materials; the emission and discharge of hazardous materials into the ground, air or water; and the protection of migratory birds and endangered and threatened species and plants. They also set environmental quality standards for noise, water, air and soil.

According with current Peruvian Environmental Regulation, Companies that carry out activities in the electricity sector (whether generation, transmission or distribution) are obliged to perform their activities in a manner that ensures the protection of the environment by controlling and mitigating the environmental impact of their activities. Consequently, and according to applicable laws and regulations, the execution of electric activities requires the prior approval of an environmental management instrument (*i.e.*, Environmental Impact Study (“EIA”), semi-detailed Environmental Impact Study (“EIASd”) or Environmental Impact Declaration (“DIA”), as the case may be). The applicable environmental management instrument depends on the level of impact that the specific activity may have on the environment, as explained below:

Category	Level of impact	Applicable Management Instrument
I.....	Non-significant negative environmental impacts	DIA
II.....	Moderate negative environmental impacts	EIASd
III.....	Significant negative environmental impacts	EIA

Before undertaking any kind of activity in the electricity sector, the applicable environmental management instrument must be submitted to the DGAAE of MEM (or its Regional Bureaus) or SENACE for its approval, as the case may be.

SENACE was created by means of Law No. 29968 enacted on December 20, 2012. SENACE is a specialized technical governmental agency, dependent of the Ministry of Environment, in charge of reviewing and approving EIAs related to projects involving activities, works or services that may cause significant impacts to the environment. Pursuant to Ministerial Resolution No. 328-2015-MINAM dated November 25, 2015, the transfer of jurisdiction from the MINEM in favor of SENACE has been completed. Therefore, as of December 28, 2015, SENACE reviews and approves detailed EIAs submitted by titleholders of electricity sector activities. However, other environmental management instruments that are not detailed EIAs (i.e. DIAs and EIAs) will continue to be approved by the DGAAE of the MINEM or its Regional Bureaus (specifically, in case of regional transmission lines and distribution activities).

Pursuant to the REPEA, an applicant for definitive concessions or authorizations for carrying out generation activities must prepare and submit an environmental management instrument to the DGAAE or SENACE, as applicable, for its corresponding approval, prior to the commencement of construction activities. An environmental management instrument includes a description of the activities to be performed in an electric power project, detailing (i) information about its location, including main and ancillary components; and (ii) the environmental baseline study (i.e. geographic, social, cultural and economic aspects within the areas of influence of the project), among other items. Additionally, it identifies and classifies the potential or existing environmental impacts throughout the lifespan of the project and proposes mitigating actions for avoiding, reducing, and/or compensating for those impacts. The corresponding environmental management instrument- in more or less detail, as the case may be- includes an environmental management plan detailing the measures to be implemented to comply with environmental quality standards and other obligations, a contingency plan, a compensation plan, a community participation plan and a closure plan. The titleholder must strictly comply with its environmental commitments included in the corresponding environmental management instrument (whether DIA, EIA_{sd} or EIA) throughout the life-cycle of the project. Once the corresponding environmental management instrument is approved, the titleholder is allowed to initiate its project

Based on the particular characteristics of each project and the activities to be undertaken, the REPEA includes additional obligations and permits.

The most relevant permits necessary for the performance of activities in the electricity sector, depending on the particular type of activity include the following:

- Certificate of non-existence of archaeological remains (*Certificado de Inexistencia de Restos Arqueológicos*) granted on request by the Ministry of Culture;
- Archeological Monitoring Plan (*Plan de Monitoreo Arqueológico*), approved by the Ministry of Culture;
- Rights for water use, including licenses, permits or authorizations, granted on request by the ANA;
- Registry as a direct consumer of liquid fuels, which is an authorization for the operation of hydrocarbon storage tanks, before OSINERGMIN;
- Registry in the Registry for Regulated Assets (*Registro para el Control de Bienes Fiscalizados*) before the SUNAT for the acquisition, use and warehousing of regulated assets;
- Authorization for the discharge and/or re-use of wastewaters, granted on request by the ANA;
- Authorization for forest clearing activities, granted on request by the National Forest and Forest Wildlife Service (*Servicio Nacional Forestal y de Fauna Silvestre*) of Peru; and

- Authorization for the use of explosives, granted on request by the National Superintendency of Control of Security Services, Arms, Ammunition and Explosives for Civil Use (*Superintendencia Nacional de Control de Servicios de Seguridad, Armas, Municiones y Explosivos de Uso Civil*).

OEFA is the competent authority in charge of regulating, supervising and imposing sanctions on companies in the electric industry with respect to their non-compliance with the applicable environmental legislation. In addition, there are other competent governmental agencies or authorities on specific environmental matters such as water, forestry resources, and aquatic environment that regulate and supervise environmental compliance and liability.

Pursuant to Law 30230 published on July 12, 2014, OEFA was instructed to prioritize preventive and corrective actions for a period of three years. This period expired on July 12, 2017. During such period, if OEFA had declared the existence of an infringement in the context of an administrative sanctioning proceeding, this authority should order the execution of corrective measures that seek to reverse the alleged infringement. If the investigated company failed to comply with these administrative measures, OEFA would impose pecuniary sanctions (which should not exceed 50% of the penalty that would otherwise be applicable to such infringement).

The described benefits of Law 30230 did not apply to: (i) severe infringements that cause a real and/or severe damage to an individual's health or life; (ii) activities carried out in prohibited areas or without the appropriate environmental management instrument or the authorization to start operations; and, (iii) titleholders considered reoffenders.

Currently, to the extent Law 30230 is no longer in force, if OEFA declares the existence of an infringement in the context of an administrative sanctioning proceeding, it may, at the same time or alternatively, impose pecuniary sanctions (without considering the 50% reduction) and order the execution of corrective measures.

Notwithstanding the above, by means of Resolution 005-2017-OEFA/CD, dated February 3, 2017, OEFA issued the new Regulations for Direct Supervision, which establish that the role of direct supervision aims to prevent environmental damage and promote voluntary correction of alleged breaches of environmental obligations. Thus, such regulations promote the implementation of corrective measures and the correction of infringements in order to avoid initiating unnecessary administrative sanctioning proceedings.

In any case, in accordance with the Peruvian Civil Code, a civil claim may be filed against the titleholder of a project in the electricity sector on the grounds of environmental damage. Therefore, any third party, under the principles of tort liability, could file a civil claim against the titleholder of a project for causing environmental damage due to the use or exploitation of an asset or activity that implies a risk or danger.

In addition, the Peruvian Criminal Code contains a section that typifies different kinds of environmental crimes and their corresponding sanctions (i.e., environmental contamination). They generally require a severe breach of applicable laws and regulations and the production of damages that harm the environment.

The sanctions for committing environmental crimes vary from two to twelve years of imprisonment, depending on the specific crime, and may include the imposition of community service hours and fines. Criminal liability shall apply to the individuals within the company's business structure (including managers) who had decision-making power over environmental matters at the time in which the infringement was committed. That is, the decision-making officers of the companies that carry out activities in the electricity sector are the ones exposed to criminal investigation, prosecution and, eventually, liability if there is a gross infraction that is typified as a crime.

The following is a description of the most relevant environmental permits obtained for the construction and operation of the CdA plant, the Kallpa plant and Las Flores:

The most relevant environmental permit obtained for the construction and operation of the CdA plant, the Kallpa plant and Las Flores is its EIA and its amendments.

Other permits obtained for the operation of the CdA plant, the Kallpa plant and Las Flores include:

- generation concession of the CdA plant granted by the MINEM;

- generation authorizations for the Kallpa plant and Las Flores granted by the MINEM;
- transmission concession of the transmission lines granted by the MINEM;
- water use license for the CdA plant granted by the ANA; and
- operative studies granted by the COES.

MANAGEMENT

Directors and Senior Management

The following table sets forth information regarding each of Cerro del Águila's and Kallpa's directors as of the date of this offering memorandum.

Name	Age	Position	Current Position Held Since	Term Expires (Cerro del Águila)	Term Expires (Kallpa)
Javier García Burgos	47	Executive Chairman	06/14/2005	03/18/2018	10/17/2019
Marcos Fishman	71	Vice Chairman	11/24/2009	03/18/2018	10/17/2019
Esteban Viton	65	Director	11/24/2009	03/18/2018	10/17/2019
Juan Carlos Camogliano	53	Director	11/30/2007	03/18/2018	10/17/2019
Alberto Triulzi	59	Director	03/20/2013	03/18/2018	10/17/2019
Roberto Cornejo	54	Director	11/30/2007	03/18/2018	10/17/2019
Francisco Sugrañes	52	Director	11/24/2009	03/18/2018	10/17/2019
Giora Almogy	47	Director	07/11/2007	03/18/2018	10/17/2019

The following table sets forth information regarding each of Cerro del Águila's and Kallpa's senior management as of the date of this offering memorandum.

Name	Age	Position
Rosa María Flores-Araoz	44	Chief Executive Officer
Arturo Silva-Santisteban	40	Chief Financial Officer
Irwin Frisancho	45	Commercial Officer
Victor Tejada	55	Operations Officer – Cerro del Águila
Hugo Alvear	42	Operations Officer – Kallpa
Daniel Urbina	48	General Counsel

Kallpa's senior management manage the operations of Cerro del Águila pursuant to the Operating, Maintenance and Management Services Agreement between Kallpa and Cerro del Águila.

Biographies of our Directors and Senior Management

Javier García-Burgos. Besides being Executive Chairman of Cerro del Águila and Kallpa, Mr. García-Burgos has served as the Chief Executive Officer of IC Power since 2011 and Chief Executive Officer of Inkia from 2007 to date. Previously, Mr. García served as Chief Executive Officer of Kallpa from 2005 to 2015, Chief Executive Officer of Southern Cone from 2002 to 2014 and Regional Director for Globeleq in South America from 2002 to 2007, Planning and Control Vice President of Edegel in 2001, Planning and Control Manager of Edegel from 2000 to 2001, Development Manager of Edegel from 1998 to 2000 and in other positions with Edegel beginning in 1996. Mr. García-Burgos has over 21 years of experience in the energy industry, having served as a board member of approximately 20 power companies in 12 countries. Mr. García-Burgos holds a Bachelor's Degree in Aerospace Engineering from San Diego State University and a Master's of Business Administration from Escuela de Administración de Negocios para Graduados (ESAN) in Peru.

Marcos Fishman. Besides being Vice Chairman of Cerro del Águila and Kallpa, Mr. Fishman has served as Chairman of Quimpac S.A. since 1996. Previously, Mr. Fishman served as Chairman of Química Suiza del Pacífico S.A. from 1992 to 1995 and having served as board member in several companies and financial institutions. As today, he serves as Chairman of Papelera Nacional, Envases Múltiples and other companies. Mr. Fishman holds a degree of Mechanical Engineer from Universidad Nacional de Ingeniería (UNI) in Peru and postgraduate studies in Administration in Universidad de Piura in Peru and Harvard University.

Esteban Viton. Besides being member of the board of Cerro del Águila and Kallpa, Mr. Viton has served as Chief Executive Officer of Quimpac S.A. since May 2007, while he was Chief Financial Officer from January 2000 to December 2007. Previously, Mr. Viton served as Corporate Finance & Capital Market Consultant, Chief Executive Officer of Inversiones Citicorp and Manager of Corporación Financiera de Desarrollo (COFIDE) and Director of Peruvian and foreign companies. Mr. Viton holds an Economic Engineer degree by Universidad Nacional de Ingeniería (UNI), a master degree from Escuela de Administración de Negocios para Graduados

(ESAN), MSM from Arthur D. Little, Finance Diploma by INSEAD, PAD (Programa de Alta Dirección) degree by Universidad de Piura and a AMP (Advance Management Program) by Harvard Business School.

Juan Carlos Camogliano. Besides being Director of Cerro del Águila and Kallpa, Mr. Camogliano has served as IC Power Chief Investment Officer since 2011 and has served as the Vice President of Business Development at Inkia since 2008. Previously, Mr. Camogliano worked at Suez Energy Peru, now Engie Peru, a member of the Engie Group, as Planning, Project and Business Development Vice President from 2006 to 2007, Planning and Project Vice President from 2004 to 2005, and Commercial Vice President and Chief Financial Officer from 2001 to 2004. He worked in the trading department of Morgan Stanley from 2000 to 2001 and in the commercial and development department of Edegel from 1997 to 2000. Mr. Camogliano has close to 20 years of experience in the power industry. Mr. Camogliano holds a Bachelor's Degree in Mechanical Engineering from the Peruvian Navy School and a Master's of Business Administration from Escuela de Administración de Negocios para Graduados (ESAN) in Peru.

Alberto Triulzi. Besides being Director of Cerro del Águila and Kallpa, Mr. Triulzi has served as IC Power Chief Financial Officer since 2013. Previously, Mr. Triulzi served as Chief Executive Officer of Nejapa and Cenérgica from 2008 to 2013, Chief Finance and Administration Officer of EGE Haina from 2001 to 2008, Chief Financial Officer of Edegel from 1995 to 2001, Vice President and Controller of Edesur S.A. from 1992 to 1995, Project Development Manager for Entergy Corporation from 1988 to 1992, and executive consultant for Stone and Webster Management Consultants from 1983 to 1988. Mr. Triulzi holds a Bachelor's Degree in Economics and a Master's of Business Administration in Finance, both from Loyola University.

Roberto Cornejo. Besides being Director of Cerro del Águila and Kallpa, Mr. Cornejo has served as IC Power Chief Operating Officer-Generation since 2011. Previously, Mr. Cornejo served as the Chief Operating Officer at Inkia since 2007, as a Commercial Vice President for Edegel from 2000 to 2007 and as Commercial Manager for Edegel from 1997 to 2000. Mr. Cornejo has over 20 years of experience in the energy industry in Latin America. He holds a Bachelor's Degree in Industrial Engineering from the Pontificia Universidad Católica del Peru and a Master's Degree in Business Administration from the Universidad del Pacífico in Peru.

Francisco Sagrañes. Besides being Director of Cerro del Águila and Kallpa, Mr. Sagrañes has served as Chief Technical Officer of IC Power since 2011 and has also served as the Vice President of Production at Inkia since 2009. Previously, he was Senior Director of Operations for Ashmore Energy International ("AEI"), responsible for operations worldwide and reporting to the Vice President of Operations, from 2004 to 2009. Additionally, Mr. Sagrañes was assigned to different positions during his tenure at AEI such as General Manager of Pantanal Energia Power Plant in Cuiaba, Brazil from 2002 to 2004 and General Manager of Jamaica Private Power Co. in Kingston, Jamaica from 2008 to 2009. Mr. Sagrañes has close to 25 years of experience in the energy industry. He holds a Bachelor's Degree in Civil Engineering and a Master's of Construction Management from Texas A&M University.

Giora Almogy. Besides being member of the board of Cerro del Águila and Kallpa, Mr. Almogy has served as Chief Executive Officer of OPC Rotem Ltd. since 2011. Mr. Almogy has 18 years of experience in economics and business development in the energy industry. Mr. Almogy previously headed the economics department at a leading energy company from 1997 to 2001, and has held various executive positions in the Ofer Group and at Israel Corporation Ltd. Mr. Almogy holds a Bachelor's Degree in Economics and a Master's in Business Administration, both from Tel Aviv University.

Rosa María Flores-Araoz. Ms. Flores-Araoz has been the Chief Executive Officer of Cerro del Águila and Kallpa since July 2015. She has over 18 years of experience in the electricity sector, and was previously Deputy CEO of Kallpa from 2011 to 2015, Commercial Manager of Edegel S.A. from 2007 to 2010 and Regulation Director of Endesa Peru S.A. during the same period. She worked at the National Association of Mining, Oil, and Energy as Electricity Sector Manager from 2002 to 2006. Ms. Flores-Araoz has a degree in economics from Universidad de Lima (Peru) and a master's degree in applied economic sciences, with a minor in business economics, from the Pontificia Universidad Católica in Chile.

Arturo Silva-Santisteban has been Chief Financial Officer of Cerro del Águila and Kallpa, since June, 2016. Mr. Silva-Santisteban has over six years of experience in the power industry plus over 12 years' experience in the financial industry. He was previously Finance Vice President in Engie Energía Peru from 2013 to 2016 and

Senior Manager of Acquisitions, Investments & Financial Advisory at Engie Latin America from 2011 to 2013. He also worked in mergers & acquisitions, strategy and business development at Barclays Bank from 2008 to 2011 and held different management positions at Scotiabank from 2003 to 2007 and Citibank from 1999 to 2003. Mr. Silva-Santisteban holds a bachelor's degree in economics from Universidad del Pacífico and a master in business administration from London Business School.

Irwin Frisancho. Mr. Frisancho has been the Commercial Officer of Cerro del Águila and Kallpa since March 2010. He has over 17 years of experience in the Peruvian electricity sector and has held positions in different companies in the sector such as Engie Energía Peru, where he was the Head of Energy Studies and Markets; COES SUR; and EGEMSA. Mr. Frisancho has a degree in electrical engineering from Universidad Nacional San Antonio Abad in Cusco (Peru), with a specialization in regulatory and energy market matters.

Victor Tejada. Mr. Tejada has been the Operations Officer of Cerro del Águila since February 2017. He has over 33 years of experience in the industry; 25 years in the electricity sector. He previously worked at Engie Energía Peru, where he was Head of Operations. Mr. Tejada has a degree in mechanical engineering from Universidad de Ingeniería (Peru) and a master's degree in business administration from Universidad Privada de Tacna (Peru).

Hugo Alvear. Mr. Alvear has been the Operations Officer of Kallpa since May 2013. He has over 17 years of experience in the electricity sector. He previously worked at TEBSA, the largest thermal power plant in Colombia, where he was Head of Operations. Mr. Alvear holds a Bachelor's Degree in Mechanical Engineering from Universidad del Norte (Colombia) as well as specialization studies in Industrial Plants Management and a Master's Degree in Engineering Administration. All studies were completed at the Universidad del Norte (Colombia).

Daniel Urbina. Mr. Urbina has been the General Counsel of Cerro del Águila and Kallpa since October 2008. He was previously Vice President—Legal Advisor for the Americas at Standard Chartered Bank (New York), Head of Legal & Compliance at Standard Chartered Bank (Peru), and Legal Director of the Prime Minister's Office (Peru). Mr. Urbina has a degree in law from Universidad de Lima (Peru) and a master's degree in law from Columbia University. He is a member of the bar in Peru and in New York.

Board Practices

The members of each of Cerro del Águila's and Kallpa's Board of Directors are elected by the general meeting of shareholders for three-year and one-year terms, respectively, with the possibility of reelection. Each of Cerro del Águila's and Kallpa's Board of Directors is currently comprised of eight members.

Each of Cerro del Águila's and Kallpa's Board of Directors conducts monthly ordinary meetings and extraordinary meetings whenever considered convenient or necessary, as called by the president of each of Cerro del Águila's and Kallpa's Board of Directors. Resolutions of the Board of Directors are passed by a majority of its members, and in case of a deadlock, the chairman's vote determines the result.

Compensation of Directors

Pursuant to each of Cerro del Águila's and Kallpa's by-laws, each of Cerro del Águila's and Kallpa's Board of Directors does not receive compensation. During the year ended December 31, 2016, each of Cerro del Águila's and Kallpa's Board of Directors did not receive any remuneration or stipend for any additional duties or expenses.

Code of Ethics and Ethical Guidelines

Cerro del Águila and Kallpa have adopted a code of ethics that describes their respective commitment to, and requirements in connection with, ethical issues relevant to business practices and personal conduct.

PRINCIPAL SHAREHOLDERS

Cerro del Águila's only issued capital consists of 877,134,983 common shares, which are fully paid up and are held by two shareholders, IC Power Peru, a wholly owned subsidiary of Inkia, and Energía del Pacífico, a Peruvian company focused on the investments of the Quimpac group in the energy sector. Kallpa's only issued capital consists of 212,985,033 common shares, which are fully paid up and are held by the same two shareholders.

As of March 31, 2017, IC Power Peru held 74.9% of each of Cerro del Águila's and Kallpa's shares and Energía del Pacífico held the remaining 25.1% of each company.

The table below sets forth the principal shareholders of Cerro del Águila and the number and percentage of common shares held as of March 31, 2017:

Shareholder	Number of Common Shares	% of Common Shares
IC Power Peru	656,303,295	74.9%
Energía del Pacífico.....	220,831,688	25.1%
Total shareholders	877,134,983	100.0%

The table below sets forth the principal shareholders of Kallpa and the number and percentage of common shares held as of March 31, 2017:

Shareholder	Number of Common Shares	% of Common Shares
IC Power Peru	159,525,789	74.9%
Energía del Pacífico.....	53,459,244	25.1%
Total shareholders	212,985,033	100.0%

Kallpa paid a dividend of U.S.\$14 million on June 7, 2017. Kallpa has made the following dividend payments for the years ended December 31, 2016, 2015 and 2014 and the three months ended June 30, 2017 and March 31, 2017 and 2016:

Period	Dividend Payments ⁽¹⁾ (U.S.\$ millions)
Three Months Ended June 30, 2017	14
Three Months Ended March 31, 2017	25
Three Months Ended March 31, 2016.....	8
Year Ended December 31, 2016.....	68
Year Ended December 31, 2015.....	30
Year Ended December 31, 2014 ¹⁾	30

(1) The dividend payment amounts reflected in the table above are gross. Aggregate dividend payments net of withholding taxes were U.S.\$65 million in 2016 and U.S.\$29 million in 2015 and 2014.

Our Controlling Shareholder

Cerro del Águila's and Kallpa's controlling shareholder, IC Power Peru, is a wholly owned subsidiary of Inkia. Inkia is a leading owner, developer and operator of power facilities located in key power generation markets in Latin America and the Caribbean, utilizing a range of fuels, including natural gas, hydroelectric, HFO, diesel and wind. For the year ended December 31, 2016, we represented approximately 46.1% of Inkia's generating capacity and 46.8% of Inkia's EBITDA.

IC Power Peru Shareholders' Agreement

IC Power Peru holds a majority stake in each of Cerro del Águila and Kallpa and their operations are subject to the shareholders' agreement between IC Power Peru and Energía del Pacífico, their respective minority shareholder. The terms of the shareholders' agreement provides, in certain circumstances and subject to certain conditions, that: (1) each shareholder with the right to elect a specified number of directors; (2) for the distribution of dividends in proportion to each shareholder's equity interest; (3) veto rights of Energía del Pacífico with respect

to certain “restricted matters,” which include, among others, capital increases, amendments to by-laws, liquidation, amendments to dividend distribution policy, mergers, spin-offs and other forms of corporate reorganizations, as well as significant company acquisitions over U.S.\$5 million and dispositions of assets over U.S.\$7.5 million, as well as the incurrence of significant debt over U.S.\$20 million; (4) each party with a right of first refusal with respect to any potential sale of each of Cerro del Águila’s and Kallpa’s equity interests in the relevant company; and (5) specifications of additional equity contributions.

Additionally, IC Power Peru and Energía del Pacífico have agreed that each will submit projects related to generation or transmission of energy in Peru to Cerro del Águila and Kallpa and will not develop generation projects other than through Cerro del Águila or Kallpa, unless both parties agree to incorporate a new investment vehicle.

Moreover, on December 21, 2011, Energía del Pacífico and Banco de Crédito del Perú entered into the Share Pledge Agreement (as amended from time to time), pursuant to which 25.1% Kallpa’s outstanding shares (owned by Energía del Pacífico) were granted as security in favor of Banco de Crédito del Perú. Following the repayment of the CdA Credit Facility, 25.1% of Cerro del Águila’s outstanding shares (owned by Energía del Pacífico) will be granted as security in favor of Banco de Crédito del Perú. Among other matters, the Share Pledge Agreement, as amended, provides that Energía del Pacífico is obliged to vote against (and cause the directors it appoints in each of Cerro del Águila and Kallpa to vote against) the “restricted matters” mentioned above, if not previously authorized by Banco de Crédito del Perú to vote in favor of such matters.

RELATED PARTY TRANSACTIONS

Each of Cerro del Águila and Kallpa is a party to numerous related party transactions with certain of their affiliates. Each such related party transaction is approved by the board of directors of Cerro del Águila and/or Kallpa, as applicable.

IC Power, through its wholly owned subsidiary IC Power Peru, currently has the indirect power to review and approve each of Cerro del Águila's and Kallpa's related party transactions. IC Power's audit committee, pursuant to its charter, must review and approve all related party transactions. IC Power's audit committee has a written policy with respect to the approval of related party transactions and considers a number of factors when determining whether to approve a related party transaction, including considering whether the related party transaction is on terms and conditions no less favorable to each of Cerro del Águila and Kallpa than may reasonably be expected in arm's-length transactions with unrelated parties.

We believe that Cerro del Águila and Kallpa have complied and are in compliance in all material respects with the requirements of the relevant provisions of the Peruvian law governing related party transactions with respect to all of our transactions with related parties.

Cerro del Águila

Below is a summary of accounts payable with Cerro del Águila's affiliates as of March 31, 2017 and December 31, 2016 and 2015:

	As of March 31, 2017	As of December 31,	
		2016	2015
		(U.S.\$ millions)	
Kallpa Generación S.A.	2	-	-
Shareholder loan – Energía del Pacífico S.A.	8	7	-
Shareholder loan – IC Power Peru	22	22	-
Total	32	29	-

Cerro del Águila did not have any accounts receivable with its affiliates as of March 31, 2017 or December 31, 2016.

The table below presents the net effect on income of transactions with Cerro del Águila's affiliates for the three months ended March 31, 2017 and 2016 and the years ended December 31, 2016, 2015 and 2014:

	For the Three Months Ended		For the Year Ended December 31,	
	March 31, 2017	2016	2016	2015
	(U.S.\$ millions)			
Kallpa Generación S.A.	-	-	-	-
Total	-	-	-	-

Kallpa

Below is a summary of accounts receivables with Kallpa's affiliates as of March 31, 2017 and December 31, 2016, 2015 and 2014:

	As of March 31, 2017	As of December 31,		
		2016	2015	2014
		(U.S.\$ millions)		
IC Power Peru				
Energía del Pacífico.....	1	2	2	2
Cerro del Águila ⁽¹⁾	2	-	-	-
Samay I ⁽¹⁾	3	3	-	-

	As of March 31, 2017	As of December 31,		
		2016	2015	2014
		(U.S.\$ millions)		
Hidro Chilia ⁽²⁾	4	4	4	-
Total	10	9	6	2

- (1) Kallpa, Cerro del Águila and Samay are under common management and have the same shareholders. Pursuant to the terms of the IC Power Peru Shareholders' Agreement, Kallpa pays the salaries of this common management and Cerro del Águila and Samay in turn pay Kallpa fees for provisions of management services.
- (2) Hidro Chilia is developing a hydroelectric generation project located in the Ancash region in Peru. This project has a temporary concession, a completed feasibility study and is expected to have a generation capacity of 180 MW and an average annual capacity factor of 68%. Hidro Chilia is a related party because we share the same controlling shareholder.

Kallpa did not have any accounts payable with its affiliates as of March 31, 2017 or December 31, 2016.

The table below presents the net effect on income of transactions with Kallpa's affiliates for the three months ended March 31, 2017 and 2016 and the years ended December 31, 2016, 2015 and 2014:

	For the Three Months Ended March 31,		For the Year Ended December 31,		
	2017	2016	2016	2015	2014
			(U.S.\$ millions)		
IC Power Peru	-	-	-	-	-
Quimpac S.A.	3	3	13	14	7
Cerro del Águila	2	-	4	-	2
Samay I.	1	-	4	1	1
Hidro Chilia	-	-	-	-	-
Total	6	3	21	15	10

DESCRIPTION OF THE NOTES

The notes will be issued under an indenture to be entered into among Cerro del Águila S.A., as issuer, Kallpa Generación S.A., as guarantor, and Citibank, N.A., as trustee, registrar, transfer agent and paying agent. The following description of certain provisions of the notes and the indenture does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the terms and conditions of the notes and the indenture. Copies of the indenture are available at our principal executive offices, as well as at the offices of the trustee in The City of New York.

In this section of the offering memorandum, the term “Issuer” refers only to Cerro del Águila S.A., excluding any of its Subsidiaries (as defined below), and the term “Guarantor” refers only to Kallpa Generación S.A., excluding any of its Subsidiaries. As used herein, the term “Holder” or “Noteholder” means the person in whose name a note is registered in the register for the notes. You will find definitions of certain other capitalized terms used in this section under “— *Certain Definitions.*”

General

The notes will:

- be senior unsecured obligations of the Issuer;
- initially be limited to an aggregate principal amount of U.S.\$650 million;
- mature on August 16, 2027;
- not be redeemable by the Issuer or by the holders of the notes prior to maturity except as described under “—Optional Redemption”;
- be issued in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof; and
- be represented by registered notes in global form and may be exchanged for certificated notes only in certain limited circumstances.

Interest on the notes will:

- accrue on their outstanding principal amount at a rate of 4.125% per year;
- be payable semi-annually in arrears on February 16 and August 16 of each year, commencing on February 16, 2018; and
- be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The notes will be issued by the Issuer. The Guarantor, as primary obligor and not merely as a surety, will irrevocably and unconditionally guarantee (the “guarantee”), on an unsecured senior basis, the full and punctual payment when due, whether at maturity, by acceleration or otherwise, of all obligations of the Issuer under the indenture and the notes, whether for payment of principal of, premium, if any, or interest on or in respect of the notes, expenses, indemnification or otherwise, on the terms set forth in the indenture.

On June 26, 2017, the shareholders’ meeting and the board of directors of each of the Issuer and the Guarantor unanimously approved the Merger. For more information, see “*The Merger and Unaudited Pro Forma Combined Financial Information.*” The Merger will become effective upon the execution of the corresponding merger public deed, which is expected to occur on the date the notes are issued. The public deed will then be filed for registration in the corresponding Public Registry in Peru. Once the Merger becomes effective, the guarantee will automatically terminate and cease to have any force and effect.

The Issuer may, without notice to or the consent of the Holders, issue additional notes of the same series under the indenture on substantially the same terms and conditions (except for the issue date, issue price, date from which interest accrues and first payment date) as the notes being offered hereby in an unlimited aggregate principal amount. The notes and the additional notes, if any, will be treated as a single series for all purposes under the indenture, including waivers and amendments; *provided* that, if the additional notes are not fungible with the notes for U.S. federal income tax purposes, the additional notes will be issued with a separate CUSIP or other identifying number.

Ranking of the Notes and the Guarantee

The notes will be senior unsecured obligations of the Issuer and will, at all times, be *pari passu* in right of payment with all other existing and future unsecured and unsubordinated debt of the Issuer, except for those obligations preferred by operation of Peruvian law, including labor claims, pension and social security contributions, and tax claims. The notes will be effectively subordinated to the existing and future secured debt of the Issuer to the extent of the assets securing such debt. In addition, the notes will be structurally subordinated to future unsecured and unsubordinated debt and other liabilities (including trade payables) of the Subsidiaries of the Issuer, if any.

The guarantee will be a general, unsecured, senior obligation of the Guarantor and will, at all times, be *pari passu* in right of payment with all other existing and future unsecured and unsubordinated debt of the Guarantor, except for those obligations preferred by operation of Peruvian law, including labor claims, pension and social security contributions, and tax claims. The guarantee will be effectively subordinated to the existing and future secured debt of the Guarantor to the extent of the assets securing such debt. In addition, the guarantee will be structurally subordinated to future unsecured and unsubordinated debt and other liabilities (including trade payables) of the Subsidiaries of the Guarantor, if any.

As of March 31, 2017, our total outstanding indebtedness, on a pro forma basis, was U.S.\$1,032 million, U.S.\$661 million of which was secured. As of March 31, 2017, as adjusted for this offering and the use of proceeds therefrom, our total outstanding debt, on a pro forma basis, was U.S.\$1,077 million, of which U.S.\$86 million was secured debt.

Payments on the Notes

Payments on the certificated, non-global notes may be made at the corporate trust office of the trustee. Alternatively, the Issuer may choose to pay such amounts in respect of certificated, non-global notes by (i) check mailed or delivered to the address of the person entitled thereto at the address appearing in the register or (ii) wire transfer to an account located in the United States as specified by the person entitled thereto. All payments on global notes will be made to the relevant depository or its nominee by wire transfer.

At least one Business Day prior to each due date of principal or interest on a note, the Issuer will deposit with the trustee or a paying agent, as applicable, a sum sufficient to pay such principal or interest. If any payment in respect of the notes is due on a date that is not a Business Day, then such payment need not be made on such date but may be made on the next succeeding day that is a Business Day, with the same force and effect as if made on the date for such payment, and no interest will accrue for the period from and after such date. "Business Day" means a day other than a Saturday, Sunday or any day on which banking institutions are authorized or required by law to close in New York, New York or Lima, Peru.

Payments of interest will be made to the person in whose name a note is registered at the close of business on February 1 or August 1, as the case may be, immediately preceding an interest payment date (whether or not a Business Day). Notwithstanding the foregoing, any interest which is payable, but which is not punctually paid or duly provided for, on any interest payment date will cease to be payable to the Holder registered on such date, and will be payable to the person in whose name such note is registered at the close of business on a special record date to be fixed by the trustee not more than 15 nor less than 10 days prior to the date fixed by the Issuer for payment thereof.

Registrar, Paying Agent and Transfer Agent for the Notes

The trustee will initially act as registrar and New York paying agent and transfer agent. Upon any issuance of individual certificated notes in exchange for global notes the Issuer will appoint and maintain a paying agent in Singapore, for so long as the notes are listed on the SGX-ST and the rules of such exchange so require, where the notes may be presented or surrendered for payment or redemption. In such event, an announcement shall be made through the SGX-ST and will include all material information with respect to the delivery of the definitive notes, including details of the paying agent in Singapore. The Issuer may change the registrar, paying agents or transfer agents without prior notice to the Holders of the notes, and the Issuer or any of its Affiliates may act as registrar, paying agent or transfer agent.

Additional Amounts

All payments by the Issuer of principal, premium, if any, and interest in respect of the notes will be made free and clear of, and without any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (collectively, "Taxes") imposed, levied, collected, withheld or assessed by or within Peru or any other jurisdiction in which the Issuer or any successor of the Issuer under the indenture is organized or incorporated or any paying agent is located or, in each case, any political subdivision thereof or any authority therein or thereof having power to tax (each, a "Relevant Jurisdiction"), unless such withholding or deduction for such Taxes is required by law or by the interpretation or administration thereof. In the event of any such withholding or deduction of Taxes by a Relevant Jurisdiction, the Issuer will pay to Holders such additional amounts ("Additional Amounts") as will result in the payment to each Holder of the net amount that would otherwise have been receivable by such Holder in the absence of such withholding or deduction, except that no such Additional Amounts will be payable in respect of:

- (a) any Taxes that would not have been so withheld or deducted but for the existence of any present or former connection (including, without limitation, a permanent establishment) between the Holder, applicable recipient of payment or beneficial owner of the notes or any payment in respect of such notes (or, if the Holder, applicable recipient of payment or beneficial owner is an estate, nominee, trust, partnership, corporation or other business entity, between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over, the Holder, applicable recipient of payment or beneficial owner) and the Relevant Jurisdiction, other than the mere receipt of such payment or the mere holding or ownership of such notes or beneficial interest therein or the enforcement of rights thereunder;
- (b) any Taxes that would not have been so withheld or deducted if the notes had been presented for payment within 30 days after the Relevant Date (as defined below) to the extent presentation is required (except to the extent that the Holder would have been entitled to Additional Amounts had such notes been presented for payment on the last day of such 30-day period);
- (c) any Taxes that would not have been so withheld or deducted but for the failure by the Holder or the beneficial owner of the notes or any payment in respect of such notes to (i) make a declaration of non-residence, or any other claim or filing for exemption, to which it is entitled or (ii) comply with any certification, identification, information, documentation or other reporting requirement concerning its nationality, residence, identity or connection with the Relevant Jurisdiction; *provided* that such declaration or compliance is required as a precondition to exemption from all or part of such Taxes and the Issuer has given the Holders at least 30 days prior notice that they will be required to comply with such requirements;
- (d) any estate, inheritance, gift, value added, sales, use, excise, transfer, personal property or similar taxes, duties, assessments or other governmental charges;
- (e) any Taxes that are payable otherwise than by deduction or withholding from payments on the notes;
- (f) any Taxes that would not have been so imposed if the Holder had presented the notes for payment (where presentation is required) to another paying agent;

- (g) any payment to a Holder of the notes that is a fiduciary or partnership (including an entity or arrangement treated as a partnership for tax purposes) or any Person other than the sole beneficial owner of such payment or notes, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such partnership or the beneficial owner of such payment or notes would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual Holder of such notes;
- (h) any Taxes imposed under sections 1471-1474 of the Internal Revenue Code of 1986, as amended (the "Code"), any current or future regulations thereunder or interpretations thereof, any agreements entered into pursuant to section 1471(b) of the Code, any intergovernmental agreement entered into (or treated as being in effect) in connection with the implementation of such sections of the Code, and any fiscal or regulatory legislation, rules or official practices adopted present to any such intergovernmental agreement; or
- (i) any combination of clauses (a) through (h) above.

"Relevant Date" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in The City of New York by the trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect has been given to the Holders in accordance with the indenture.

All references to principal, premium, if any, and interest in respect of the notes will be deemed also to refer to any Additional Amounts which may be payable as set forth in the indenture or in the notes.

Notwithstanding the foregoing, the limitations on the Issuer's obligation to pay Additional Amounts set forth in clause (c) will not apply if compliance with any declaration, certification, identification, information, documentation or other reporting requirement described in such clause (c) would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a Holder or beneficial owner of notes than comparable information or other reporting requirements imposed under U.S. tax law, regulations and administrative practice (such as IRS Forms W-8 and W-9).

At least 10 Business Days prior to the first interest payment date (and at least 10 Business Days prior to each succeeding interest payment date if there has been any change with respect to the matters set forth in the below-mentioned officer's certificate), the Issuer will furnish to the trustee and each paying agent an officer's certificate instructing the trustee and the paying agents whether payments of principal, premium, if any, and interest in respect of the notes due on such interest payment date will be without deduction or withholding for or on account of any Taxes. If any such deduction or withholding will be required, the Issuer will furnish the trustee and the paying agents with an officer's certificate which specifies the amount, if any, required to be deducted or withheld on such payment to Holders and certifies that the Issuer will make such deduction or withholding and remit the full amount deducted or withheld to the applicable taxing authority.

Upon written request, the Issuer will furnish to the trustee documentation reasonably satisfactory to the trustee evidencing payment of any Taxes deducted or withheld from payments on the notes. Copies of such receipts will be made available to Holders upon written request.

The Issuer will promptly pay when due any present or future stamp, issue, registration, court or documentary taxes or any excise or property taxes, charges or similar levies (including any penalties, interest and other liabilities relating thereto) which arise in any jurisdiction in connection with the execution, delivery or registration of the notes or any other document or instrument referred to herein or therein, excluding any such taxes, charges or similar levies imposed by any jurisdiction other than a Relevant Jurisdiction, except those resulting from, or required to be paid in connection with, the enforcement of the notes after the occurrence and during the continuance of a default or Event of Default with respect to the notes.

Change of Control

Upon the occurrence of a Change of Control that results in a Ratings Decline, each Holder will have the right to require that the Issuer purchase all or a portion (in integral multiples of U.S.\$1,000; *provided* that the remaining principal amount of such Holder's note will not be less than U.S.\$200,000) of the Holder's notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon to, but excluding, the date of purchase.

Within 30 days following the date upon which a Change of Control that results in a Ratings Decline occurred, the Issuer must send, by first-class mail, a notice to each Holder, with a copy to the trustee, offering to purchase the notes as described above. The Change of Control offer shall state, among other things, the purchase date, which must be no earlier than 30 days nor later than 60 days from the date the notice is mailed, except as may be required by law.

If only a portion of a note is purchased pursuant to a Change of Control offer, a new note in a principal amount equal to the portion thereof not purchased will be issued in the name of the Holder thereof upon cancellation of the original note (or appropriate adjustments to the amount and beneficial interests in a global note will be made, as appropriate); *provided* that the remaining principal amount of such Holder's note will not be less than U.S.\$200,000 and will be in integral multiples of U.S.\$1,000 in excess thereof.

The Issuer is only required to make a Change of Control offer in the event that a Change of Control results in a Ratings Decline. Consequently, if a Change of Control were to occur which does not result in a Ratings Decline, the Issuer would not be required to offer to repurchase the notes. In addition, the Issuer will not be required to make a Change of Control offer if (1) a third party makes the Change of Control offer in a manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control offer made by the Issuer and purchases all notes validly tendered and not withdrawn under such Change of Control offer, or (2) notice of redemption for all outstanding notes has been given pursuant to the indenture as described above under the caption "*—Optional Redemption,*" unless and until there is a default in payment of the applicable redemption price.

Notwithstanding anything to the contrary contained herein, a Change of Control offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control and/or a Ratings Decline, if a definitive agreement is in place for the Change of Control at the time the Change of Control offer is made.

In the event that Holders of not less than 90% of the aggregate principal amount of the outstanding notes accept a Change of Control offer and the Issuer (or a third party making the Change of Control offer as provided above) purchases all of the Notes held by such Holders, the Issuer will have the right, upon not less than 10 nor more than 60 days' notice, given not more than 30 days following the purchase pursuant to the Change of Control offer described above, to redeem all of the Notes that remain outstanding following such purchase at a redemption price equal to the Change of Control payment plus, to the extent not included in the Change of Control payment, accrued and unpaid interest on the Notes that remain outstanding, to, but excluding, the date of redemption.

Other existing and future indebtedness of the Issuer may contain prohibitions on the occurrence of events that would constitute a Change of Control or require that such indebtedness be repurchased upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Issuer to repurchase the notes upon a Change of Control could cause a default under such indebtedness even if the Change of Control itself does not.

If a Change of Control occurs, the Issuer may not have available funds sufficient to make the Change of Control payment for all the notes that might be delivered by Holders seeking to accept a Change of Control offer. In the event the Issuer is required to purchase outstanding notes pursuant to a Change of Control offer, the Issuer expects that it would seek third-party financing to the extent it does not have available funds to meet its purchase obligations. However, the Issuer may not be able to obtain necessary financing.

Holders will not be entitled to require the Issuer to purchase their notes in the event of a takeover, recapitalization, leveraged buyout or similar transaction which is not a Change of Control that results in a Ratings Decline. One of the events that constitutes a Change of Control under the indenture is the disposition of “all or substantially all” of the Issuer’s or the Guarantor’s assets under certain circumstances. This term varies based upon the facts and circumstances of the subject transaction and has not been interpreted under New York State law (which is the governing law of the indenture) to represent a specific quantitative test. As a consequence, in certain circumstances there may be uncertainty in ascertaining whether a particular transaction involved a disposition of “all or substantially all” of the property or assets of a Person. In the event that Holders elect to require the Issuer to purchase the notes and the Issuer contests such election, we cannot assure you as to how a court interpreting New York law would interpret the phrase under certain circumstances.

The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations in connection with the purchase of notes in connection with a Change of Control offer. To the extent that the provisions of any securities laws or regulations conflict with the “Change of Control” provisions of the indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the indenture by doing so. If it would be unlawful in any jurisdiction to make a Change of Control offer, the Issuer will not be obligated to make such offer in such jurisdiction and will not be deemed to have breached its obligations under the indenture because of its failure to make such offer.

The obligation of the Issuer to make a Change of Control offer may be waived or modified at any time prior to the occurrence of such Change of Control with the written consent of Holders of a majority in principal amount of the notes.

Optional Redemption

Make-Whole Redemption

At any time prior to May 16, 2027, the Issuer may redeem the notes, in whole or in part, at its option, at a redemption price equal to the greater of (1) 100% of the outstanding principal amount of the notes to be redeemed, and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate plus 30 basis points, in each case plus accrued and unpaid interest to, but excluding, the date of redemption.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

“Comparable Treasury Price” means, with respect to any redemption date, (1) the average of five Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Independent Investment Banker obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers.

“Reference Treasury Dealer” means Credit Suisse Securities (USA) LLC, J.P. Morgan Securities LLC and Scotia Capital (USA) Inc. or their affiliates which are primary United States government securities dealers and not less than two other leading primary United States government securities dealers in The City of New York reasonably

designated by the Issuer; *provided* that, if any of the foregoing cease to be a primary United States government securities dealer in The City of New York (a “Primary Treasury Dealer”), the Issuer will substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at or about 3:30 p.m. (New York City time) on the third Business Day preceding such redemption date.

At Par Redemption

At any time on or after May 16, 2027, the Issuer may redeem the notes, in whole or in part, at its option, at a redemption price equal to a 100% of the outstanding principal amount of the notes to be redeemed, plus accrued and unpaid interest on the principal amount to, but excluding, the date of redemption.

Tax Redemption

The notes may be redeemed, in whole but not in part, at the Issuer’s option, at a redemption price equal to 100% of the outstanding principal amount of the notes, plus accrued and unpaid interest to, but excluding, the redemption date and any Additional Amounts, if, as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction, or any change in the official application, administration or interpretation of such laws, regulations or rulings (including a holding by a court of competent jurisdiction) in a Relevant Jurisdiction, the Issuer has or will become obligated to pay Additional Amounts in respect of interest received on the notes at a rate of withholding or deduction in excess of 4.99% (“Excess Additional Amounts”); *provided* such change or amendment occurs on or after the later of the Issue Date and the date such jurisdiction becomes a Relevant Jurisdiction and such obligation cannot be avoided by the Issuer taking reasonable measures available to it; and *provided, further*, that no notice of redemption pursuant to the foregoing may be given earlier than 60 days prior to the earliest date on which the Issuer would be obligated to pay such Excess Additional Amounts, were a payment in respect of the notes then due. Prior to the giving of notice of redemption of notes pursuant to the indenture, the Issuer will deliver to the trustee an officer’s certificate and a written opinion of recognized counsel in the Relevant Jurisdiction that is independent of the Issuer to the effect that the Issuer is or at the time of the redemption will be entitled to effect such a redemption pursuant to the indenture, and setting forth in reasonable detail the circumstances giving rise to such right of redemption.

General

Notice of a redemption must be given to each holder of notes and published in accordance with the provisions set out under “—*Notices*” not less than 30 days nor more than 60 days prior to the redemption date.

On and after any redemption date, interest will cease to accrue on the notes unless the Issuer defaults in the payment of the redemption price. The Issuer may at any time purchase the notes in the open market or otherwise at any price.

Covenants

Limitation on Liens

Each of the Issuer and the Guarantor covenants and agrees that it will not, and will not permit any of its respective Subsidiaries (other than a Project Finance Subsidiary) to, directly or indirectly, incur, assume or suffer to exist any Liens to secure any Indebtedness (except for Permitted Liens) against or upon any of their respective properties or assets, whether owned on the Issue Date or acquired after the Issue Date, or any proceeds therefrom, unless contemporaneously therewith effective provision is made to secure the notes (together with, if the Issuer or the Guarantor, as applicable, so determines, any other Indebtedness or obligation then existing or thereafter created ranking equally with the notes) and all other amounts due under the indenture in each case, equally and ratably with

such Indebtedness (or, in the event that such Indebtedness is subordinated in right of payment to the notes, as the case may be, prior to such Indebtedness) with a Lien on the same properties and assets securing such Indebtedness for so long as such Indebtedness is secured by such Lien.

Consolidation, Merger, Sale or Conveyance

The Issuer will not consolidate with or merge into any other Person or sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all, in one or more related transactions, of its properties and assets to any Person, unless (1)(a) the Issuer is the successor Person, or (b) the successor Person will be a Person existing under the laws of (i) Peru, (ii) the United States of America (or any state thereof or the District of Columbia), (iii) any member country of the European Union, or (iv) any other member country of the Organization for Economic Co-Operation and Development and will assume, by a supplemental indenture, the due and punctual payment of the principal, premium, if any, and interest (and Additional Amounts, if any) in respect of all the outstanding notes and the performance of every covenant in the indenture on the part of the Issuer to be performed or observed; (2) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, will have happened and be continuing; and (3) the Issuer will have delivered to the trustee an officer's certificate and opinion of counsel stating that such consolidation, merger, sale, assignment, conveyance, transfer, lease or disposition and such supplemental indenture, if any, comply with the foregoing provisions relating to such transaction. In case of any such consolidation, merger, sale, assignment, conveyance, transfer, lease or disposition (other than a lease), such successor entity will succeed to and be substituted for the Issuer as obligor on the notes, with the same effect as if it had been named in the indenture as such obligor.

On June 26, 2017, the shareholders' meeting and the board of directors of each of the Issuer and the Guarantor unanimously approved the Merger. For more information, see "*The Merger and Unaudited Pro Forma Combined Financial Information*." The Merger will become effective upon the execution of the corresponding merger public deed, which is expected to occur on the date the notes are issued. The public deed will then be filed for registration in the corresponding Public Registry in Peru. Once the Merger becomes effective, the guarantee will automatically terminate and cease to have any force and effect, and all references to the Guarantor in the indenture will also cease to have any force and effect.

Use of Proceeds

The Issuer will cause a portion of the net proceeds from the notes issued on the Issue Date to be used to repay on the Issue Date all amounts outstanding under the Existing Project Debt, breakage costs, accrued interest, shareholder loans and/or fees and expenses (if any) in respect of the Existing Project Debt, the related interest rate swaps and loans made to it by its shareholders, and the remainder, if any, for general corporate purposes.

Reporting Requirements

If at any time the Issuer is not subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act or is not exempt from such requirements pursuant to Rule 12g3-2(b) under the Exchange Act (as amended from time to time and including any successor provision), the Issuer will furnish to Holders and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

In addition, the Issuer will furnish (or in lieu of furnishing, make accessible electronically by written notice to the trustee, who will forward such notice to the Holders upon written request of the Issuer) to the trustee and Holders:

- (1) as soon as they are available, but in any event within 120 calendar days after the end of each fiscal year of the Issuer, copies of its audited financial statements (on a consolidated basis) in respect of such fiscal year (including a profit and loss account, balance sheet and cash flow statement), in English, prepared in accordance with IFRS and audited by a member firm of an internationally recognized firm of independent

accountants, together with a summary form management's discussion and analysis of the results of operations and financial condition for such fiscal year; and

- (2) as soon as they are available, but in any event within 60 calendar days after the end of each of the first, second and third fiscal quarters of the Issuer, copies of its unaudited financial statements (on a consolidated basis) in respect of the relevant period (including a profit and loss account, balance sheet and cash flow statement), in English, prepared on a basis consistent with the audited financial statements of the Issuer and in accordance with IFRS, together with a certificate signed by the chief financial officer or a person acting on his or her behalf to the effect that such financial statements are true in all material respects and present fairly the financial position of the Issuer as at the end of, and the results of its operations for, the relevant quarterly period.

Delivery of such reports, information and documents to the trustee shall be for informational purposes only and the trustee's receipt of such shall not constitute actual or constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of the covenants contained in the indenture (as to which the trustee will be entitled to conclusively rely upon an officer's certificate).

Events of Default

The indenture will provide that the following events constitute "Events of Default":

- (i) default in the payment when due of the principal or premium, if any, in respect of any note, at maturity, upon redemption or otherwise;
- (ii) default in the payment of interest or Additional Amounts in respect of the notes if such default continues for 30 days after any such interest or Additional Amount becomes due;
- (iii) failure by the Issuer to comply with its obligations under "*—Change of Control*" or "*—Covenants—Consolidation, Merger, Sale or Conveyance*";
- (iv) failure to observe or perform any covenant or agreement contained in the notes or the indenture (other than a default referred to in clause (i), (ii) or (iii) above), and such failure continues for 60 days after notice to the Issuer by the trustee or to the Issuer and the trustee by the Holders of at least 25% in aggregate principal amount of the outstanding notes, specifying such failure and requiring it to be remedied and stating that such notice constitutes a notice of default under the indenture;
- (v) the Issuer, the Guarantor or any of their respective Subsidiaries fails to pay when due (whether at maturity, upon redemption or acceleration or otherwise) the principal of any Indebtedness in excess, individually or in the aggregate, of U.S.\$40 million (or the equivalent thereof in other currencies), if such failure continues for more than the period of grace, if any, applicable thereto and the period for payment has not been expressly extended; *provided* that this clause (v) shall not apply to the Indebtedness of any Project Finance Subsidiary except to the extent that such Indebtedness also constitutes Indebtedness of the Issuer, the Guarantor or any of their respective Subsidiaries (other than a Project Finance Subsidiary);
- (vi) one or more final and non-appealable judgments or decrees for the payment of money in excess of U.S.\$40 million (or the equivalent thereof in other currencies) in the aggregate are rendered against the Issuer, the Guarantor or any of their respective Subsidiaries and are not paid (whether in full or in installments in accordance with the terms of the judgment) or otherwise discharged and, in the case of each such judgment or decree, either (a) an enforcement proceeding has been commenced by any creditor upon such judgment or decree and is not dismissed within 30 days following commencement of such enforcement proceedings or (b) there is a period of 90 days following such judgment during which such judgment or decree is not discharged, waived or the execution thereof stayed; *provided* that this clause (vi) shall not apply to judgments or decrees against any Project Finance Subsidiary except to the extent that the Issuer, the

Guarantor or any of their respective Subsidiaries (other than a Project Finance Subsidiary) is liable thereunder;

- (vii) any Peruvian government or governmental authority condemns, nationalizes, seizes, or otherwise expropriates all or substantially all of the Issuer's or the Guarantor's respective consolidated assets or property or the Issuer's or the Guarantor's respective Capital Stock or the Capital Stock of any of their respective Subsidiaries holding all or substantially all of the Issuer's or the Guarantor's respective consolidated assets or property, or assumes custody or control of such consolidated assets or property or of the Issuer's, the Guarantor's or any such Subsidiaries' business or operations or Capital Stock, as applicable, or takes any action that would prevent the Issuer, the Guarantor or any such Subsidiaries or their respective officers from carrying on a substantial portion of the Issuer's, the Guarantor's or such Subsidiaries' business or operations for a period longer than 90 days and the result of any such action materially prejudices the Issuer's ability to perform its obligations under the notes and the indenture;
- (viii) a decree or order by a court or competent governmental authority having jurisdiction has been entered adjudging the Issuer, the Guarantor or any of their respective Significant Subsidiaries as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization of or by the Issuer, the Guarantor or any of their respective Significant Subsidiaries and such decree or order continues undischarged or unstayed for a period of 90 days; or a decree or order of a court or competent governmental authority having jurisdiction for the appointment of a receiver or liquidator or for the liquidation or dissolution of the Issuer, the Guarantor or any of their respective Significant Subsidiaries, has been entered, and such decree or order continues undischarged and unstayed for a period of 90 days; provided that any Significant Subsidiary may be liquidated or dissolved if, pursuant to such liquidation or dissolution, all or substantially all of its assets are transferred to the Issuer or the Guarantor, or another Significant Subsidiary of the Issuer or the Guarantor, as applicable;
- (ix) the Issuer, the Guarantor or any of their respective Significant Subsidiaries institutes any proceeding to be adjudicated as voluntary bankrupt, or consents to the filing of a bankruptcy proceeding against it, or files a petition or answer or consent seeking reorganization, or consents to the filing of any such petition, or consents to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or its property; or
- (x) the guarantee ceases to be in full force and effect or the Guarantor denies or disaffirms its obligations under the guarantee.

If an Event of Default specified in clause (viii) or (ix) above occurs, the maturity of all outstanding notes will automatically be accelerated and the principal amount of the notes, together with accrued interest thereon, will be immediately due and payable. If any other Event of Default occurs and is continuing, the trustee or the Holders of not less than 25% of the aggregate principal amount of the notes then outstanding may, by written notice to the Issuer (and to the trustee if given by Holders), declare the principal amount of the notes, together with accrued interest thereon, immediately due and payable. The right of the trustee and the Holders to give such acceleration notice will terminate if the Event of Default giving rise to such right has been cured before such right is exercised. Any such declaration may be annulled and rescinded by written notice from the Holders of a majority of the aggregate principal amount of the notes then outstanding to the Issuer and the trustee if all amounts then due with respect to the applicable notes are paid (other than any amount due solely because of such declaration) and all other defaults with respect to the notes are cured and all amounts owed to the trustee are paid.

The trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the Holders, unless such Holders have offered to the trustee indemnity reasonably satisfactory to it. The Holders of a majority in aggregate principal amount of the outstanding notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee, to the extent such action does not conflict with the provisions of the indenture or applicable law.

No Holder of any note will have any right to institute any proceeding with respect to the indenture or the notes or for any remedy thereunder, unless such Holder has previously given to the trustee written notice of a

continuing Event of Default and unless also the Holders of at least 25% in aggregate principal amount of the outstanding notes have made a written request to the trustee to institute proceedings in respect of such Event of Default in its own name as trustee, such Holder or Holders have offered to the trustee indemnity reasonably satisfactory to it, the trustee for 60 days after receipt of such notice has failed to institute any such proceeding and no direction inconsistent with such request has been given to the trustee during such 60-day period by the Holders of a majority in principal amount of the outstanding notes. However, such limitations do not apply to a suit individually instituted by a Holder of notes for enforcement of payment of principal, premium, if any, and interest in respect of such notes on or after respective due dates expressed in such note.

So long as certain conditions are met, the Holders of a majority in aggregate principal amount of the notes then outstanding by notice to the trustee and the Issuer may waive an existing Event of Default and its consequences except (i) an Event of Default in the payment of the principal of or interest on the notes or (ii) an Event of Default in respect of a provision that cannot be amended without the consent of each Holder affected. When an Event of Default is waived, it is deemed cured, but no such waiver shall extend to any subsequent or other Event of Default or impair any consequent right.

Legal Defeasance and Covenant Defeasance

The Issuer may, at its option and at any time, elect to have certain of its obligations with respect to outstanding notes discharged (“Legal Defeasance”). If the Issuer exercises its Legal Defeasance option, payment of the notes may not be accelerated because of the occurrence of an Event of Default. Such Legal Defeasance means that the Issuer will be deemed to have paid and discharged the entire indebtedness represented by the outstanding notes after the deposit specified in clause (1) of the second following paragraph, except for:

- (i) the rights of Holders to receive payments of the principal, premium, if any, and interest in respect of the notes when such payments are due;
- (ii) the Issuer’s obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payments;
- (iii) the rights, powers, trusts, duties and immunities of the trustee and the Issuer’s obligations in connection therewith; and
- (iv) the Legal Defeasance provisions of the indenture.

In addition, the Issuer may, at its option and at any time, elect to have its obligations released with respect to the covenants described under “—*Covenants—Limitation on Liens*” and “—*Covenants—Reporting Requirements*” and the covenant default and cross-default events described in clauses (iii) and (iv) under “*Events of Default*” shall no longer constitute Events of Default (“Covenant Defeasance”) and thereafter any omission to comply with such obligations will not constitute a default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, expropriation, bankruptcy, receivership, reorganization and insolvency events) described under “*Events of Default*” will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Issuer must irrevocably deposit with the trustee, in trust, for the benefit of the Holders cash in U.S. dollars, certain direct non-callable obligations of, or guaranteed by, the United States, or a combination thereof, in such amounts as will be sufficient without reinvestment, in the opinion of an internationally recognized investment bank, appraisal firm or firm of independent public accountants expressed in a written opinion delivered to the trustee, to pay the principal, premium, if any, and interest (including Additional Amounts) in respect of the notes on the stated date for payment thereof;

- (2) in the case of Legal Defeasance, the Issuer will have delivered to the trustee an opinion of counsel from counsel in the United States reasonably acceptable to the trustee and independent of the Issuer (subject to customary exceptions and exclusions) to the effect that:
 - (a) the Issuer has received from, or there has been published by, the U.S. Internal Revenue Service a ruling; or
 - (b) since the date of issuance of the notes, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will state that, the Holders and beneficial owners of the notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, the Issuer will have delivered to the trustee an opinion of counsel from counsel in the United States reasonably acceptable to the trustee and independent of the Issuer (subject to customary exceptions and exclusions) to the effect that the Holders and beneficial owners of the notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) in the case of Legal Defeasance or Covenant Defeasance, the Issuer will have delivered to the trustee an opinion of counsel from counsel in Peru reasonably acceptable to the trustee and independent of the Issuer (subject to customary exceptions and exclusions) to the effect that, based upon Peruvian law then in effect, Holders and beneficial owners of the notes will not recognize income, gain or loss for Peruvian tax purposes, including withholding tax except for withholding tax then payable on interest payments due, as a result of such Legal Defeasance or Covenant Defeasance, as the case may be, and will be subject to Peruvian taxes on the same amounts and in the same manner and at the same time as would have been the case if such Legal Defeasance or Covenant Defeasance, as the case may be, had not occurred;
- (5) no default or Event of Default has occurred and be continuing on the date of the deposit pursuant to clause (1) of this paragraph (other than a default or Event of Default arising in connection with the grant of any Lien securing a borrowing of funds to be applicable to such deposit);
- (6) the Issuer has delivered to the trustee an officer's certificate stating that the deposit was not made by the Issuer with the intent of preferring the Holders over any other creditors of the Issuer or any Subsidiary of the Issuer or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Issuer or others;
- (7) the Issuer has delivered to the trustee an officer's certificate and an opinion of counsel from counsel reasonably acceptable to the trustee and independent of the Issuer (subject to customary exceptions and exclusions), each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with; and
- (8) the Issuer has delivered to the trustee opinions of counsel from U.S. and Peruvian counsel reasonably acceptable to the trustee and independent of the Issuer (subject to customary exceptions and exclusions and to assumptions as to factual matters, including the absence of an intervening bankruptcy, insolvency or reorganization during the applicable preference period following the date of such deposit and that no Holder or the trustee is deemed to be an "insider" of the Issuer under the U.S. Bankruptcy Code and any equivalent law of Peru) to the effect that the transfer of trust funds pursuant to such deposit will not be subject to avoidance as a preferential transfer pursuant to the applicable provisions of the U.S. Bankruptcy Code or any successor statute and any equivalent law of Peru.

Satisfaction and Discharge

The indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the notes and the indemnities of the trustee and the Issuer's obligations in connection therewith, as expressly provided for in the indenture) as to all outstanding notes when:

- (1) either:
 - (a) all the notes theretofore authenticated and delivered (except lost, stolen or destroyed notes which have been replaced or paid and notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust) have been delivered to the trustee for cancellation; or
 - (b) all notes not theretofore delivered to the trustee for cancellation have become due and payable, and the Issuer has irrevocably deposited or caused to be deposited with the trustee funds or certain direct, non-callable obligations of, or guaranteed by, the United States, or a combination thereof, in such amounts as will be sufficient without reinvestment, in the opinion of internationally recognized investment bank, appraisal firm or firm of independent accountants expressed in a written certificate delivered to the trustee to pay and discharge the entire indebtedness on the notes not theretofore delivered to the trustee for cancellation, for principal, premium, if any, and interest in respect of the notes to the date of payment, together with irrevocable instructions from the Issuer directing the trustee to apply such funds to the payment;
- (2) the Issuer has paid all other sums payable under the indenture and the notes by it; and
- (3) the Issuer has delivered to the trustee an officer's certificate and an opinion of counsel stating that all conditions precedent under the indenture relating to the satisfaction and discharge of the indenture have been complied with.

Notices

All notices will be deemed to have been given (i) if to Holders of non-global certificated notes, upon the mailing by first class mail, postage prepaid, of such notices to Holders of the notes at their registered addresses as recorded in the register and (ii) if to Holders of Global Notes, upon delivery of such notices to the relevant depository in accordance with its applicable procedures.

Amendments and Waivers

The indenture and the notes may be amended by the trustee and the Issuer without the consent of any Holder for the following purposes:

- (1) to cure any ambiguity, omission, defect or inconsistency (including, without limitation, any inconsistency between the text of the notes, or the indenture and the description of the indenture and the notes contained in this offering memorandum);
- (2) to comply with the covenant described under “—*Covenants—Limitation on Consolidation, Merger or Transfer of Assets*”;
- (3) add guarantors with respect to the notes;
- (4) to add collateral with respect to the notes;
- (5) to add to the covenants of the Issuer for the benefit of Holders of the notes;
- (6) to surrender any right conferred by the indenture upon the Issuer;

- (7) to evidence and provide for the acceptance of an appointment by a successor trustee;
- (8) to provide for the issuance of additional notes; or
- (9) to make any other change that does not materially and adversely affect the rights of any holder of the notes.

Modification and amendments to the indenture or to the terms and conditions of the notes may also be made, and future compliance therewith or past default by the Issuer (other than a default in the payment of any amount, including in connection with a redemption, due on the notes or in respect of covenant or provision which cannot be modified and amended without the consent of the Holders of all notes so affected) may be waived, either:

- with the written consent (including consents obtained in connection with a tender offer or exchange offer for the notes) of the Holders of at least a majority in aggregate principal amount of outstanding notes; or
- by the adoption of resolutions at a meeting of Holders of the notes by the Holders of at least a majority in aggregate principal amount of the outstanding notes;

provided that, no such modification or amendment to the indenture or to the terms and conditions of the notes may, without the consent or the affirmative vote of each Holder of each note so affected:

- (1) change the interest rate with respect to any note or reduce the principal amount of any notes, or change the time for such payments;
- (2) modify the obligation to pay Additional Amounts;
- (3) change the prices at which the notes may be redeemed or must be repurchased by the Issuer, or change the time at which any notes may be redeemed or must be repurchased;
- (4) change the currency in which, or change the required place at which, payment on principal, premium, if any, and interest with respect to the notes is payable;
- (5) impair the right to institute suit for the enforcement of any payment obligation on or with respect to any notes;
- (6) amend or modify any provision of the guarantee in a manner that would materially and adversely affect the Holder; or
- (7) reduce the above-stated percentages of principal amount of outstanding notes whose Holders are required to consent to modify or amend the indenture or the terms or conditions of the notes or to waive any future compliance or past default;

provided, further, that, in connection with any modification, amendment or supplement, the Issuer has delivered to the trustee an opinion of counsel and an officer's certificate, each stating, that such modification, amendment or supplement is authorized or permitted by the indenture and complies with the applicable provisions of the indenture.

Prescription

Claims for the payment of principal, interest, if any, or other amounts due on the notes will be prescribed unless made within five years from the date on which such payment first became due, unless a shorter period is required by applicable law.

Certain Definitions

The following is a summary of certain defined terms used in the indenture. Reference is made to the indenture for the complete definition of all such terms as well as other capitalized terms used herein for which no definition is provided.

“Affiliate” means, with respect to any specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, “control,” when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

“Board of Directors” means, as to any Person, the board of directors or equivalent governing body of such Person serving a similar function, or any duly authorized committee thereof.

“Capital Stock” means: (1) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of common stock and preferred stock of such Person; (2) with respect to any Person that is not a corporation, any and all partnership or other equity or ownership interests of such Person; and (3) any warrants, rights or options to purchase or acquire any of the instruments or interests referred to in clause (1) or (2) above, but excluding indebtedness convertible into equity.

“Capitalized Lease Obligations” means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with IFRS. The amount of indebtedness represented by such obligation will be the capitalized amount of such obligation at the time any determination thereof is to be made as determined in accordance with IFRS, and the stated maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty.

“Change of Control” means the occurrence of one or more of the following events:

(1) the Permitted Holders cease to be the beneficial owners (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that the Permitted Holders shall be deemed to have beneficial ownership of all shares that they have the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of a majority of the total voting power of the Voting Stock of the Issuer or the Guarantor;

(2) the Issuer or the Guarantor consolidates with or merges into any Person, or sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its respective properties and assets to any Person (excluding, for the avoidance of doubt, the Merger) other than the Permitted Holders, whether or not otherwise in compliance with the provisions of the indenture; or

(3) the approval by the holders of Capital Stock of the Issuer or the Guarantor of any plan or proposal for the liquidation or dissolution of the Issuer or the Guarantor, respectively, whether or not otherwise in compliance with the provisions of the indenture.

“Consolidated Net Tangible Assets” means the total of all assets appearing on a consolidated balance sheets of the Issuer, the Guarantor and their respective Subsidiaries, net of all applicable reserves and deductions, less (i) goodwill, trade names, trademarks, patents, unamortized debt discount and all other like intangible assets and (ii) the aggregate of the current liabilities of the Issuer, the Guarantor and their respective Subsidiaries, appearing on such balance sheets (excluding the current portion of long-term Indebtedness and any intercompany Indebtedness among the Issuer, the Guarantor and their respective Subsidiaries), as determined in accordance with IFRS.

“Existing Project Debt” means the Issuer’s U.S.\$595,000,000 Credit Agreement, dated as of August 17, 2012, among the Issuer, as borrower, Sumitomo Mitsui Banking Corporation, as administrative agent, the lenders from time to time parties thereto and the other parties thereto.

“Fitch” means Fitch Ratings Ltd. and its successors.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person, direct or indirect, contingent or otherwise, or entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term “Guarantee” will not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a correlative meaning. The term “Guarantor” shall mean any Person Guaranteeing any obligation.

“IFRS” means International Financial Reporting Standards as issued by the International Accounting Standards Board, as in effect from time to time.

“Indebtedness” means, with respect to any Person, without duplication, any obligation of such Person (1) for borrowed money, (2) evidenced by bonds, debentures, notes or other similar instruments, (3) under any reimbursement obligation relating to a letter of credit or similar credit transactions (other than letters of credit or similar credit transactions arising in the ordinary course of business to the extent not drawn upon or, if drawn upon, to the extent repaid within 20 Business Days), (4) for the payment of money relating to Capitalized Lease Obligations, (5) under any agreement or instrument in respect of an interest rate or currency swap, exchange or hedging transaction or other financial derivatives transaction, (6) to pay the deferred and unpaid purchase price of property or services (other than trade accounts payable arising in the ordinary course of business), which purchase price is due more than 180 days after the date of placing such property in service or taking delivery and title thereto or the completion of such services), (7) a Guarantee of such Person of Indebtedness of any other Person, or (8) all Indebtedness of any other Person which is secured by any Lien on any property or asset of such Person, the amount of such indebtedness being deemed to be the lesser of the fair market value of such property or asset, as determined in good faith by the Board of Directors of the Issuer, or the amount of the indebtedness so secured.

“Investment Grade Rating” means BBB- or higher by S&P, Baa3 or higher by Moody’s or BBB- or higher by Fitch, or the equivalent of such global ratings by S&P, Moody’s or Fitch.

“Issue Date” means the first date of issuance of notes under the indenture.

“Lien” means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest); *provided* that the lessee in respect of a Capitalized Lease Obligation or Sale and Leaseback Transaction will be deemed to have incurred a Lien on the property leased thereunder.

“Merger” means the merger of the Guarantor with and into the Issuer with the Issuer as the surviving entity, as approved on June 26, 2017, pursuant to resolutions unanimously approved by the shareholders’ meeting and the board of directors of each of the Issuer and the Guarantor, as more fully described under “*The Merger and Unaudited Pro Forma Combined Financial Information.*”

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Permitted Holders” means Kenon Holdings Ltd., IC Power Ltd. or any Affiliate thereof.

“Permitted Liens” means any of the following:

(1) Liens imposed by law, including Liens of carriers, warehousemen, mechanics, suppliers, materialmen and repairmen incurred in the ordinary course of business;

(2) Liens Incurred or deposits made in the ordinary course of business (i) in connection with workers' compensation laws, unemployment insurance laws and other types of social security and pension contribution (including private pension funds) laws (including any Lien securing letters of credit issued in the ordinary course of business) or (ii) to secure the performance of tenders, statutory, regulatory, contractual or warranty obligations, performance, surety and appeal bonds, commercial letters of credit, bids, leases, government performance or other process for the award of a power purchase agreement and other similar obligations, exclusive of obligations for the payment of borrowed money;

(3) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property relating to such letters of credit and products and proceeds thereof;

(4) Liens securing obligations under any agreement or instrument in respect of an interest rate or currency swap, exchange or hedging transaction or other financial derivatives transaction; *provided* that such Indebtedness was entered into in the ordinary course of business and not for speculative purposes;

(5) Liens existing on the Issue Date or granted pursuant to an agreement existing on the Issue Date, *provided* that any Liens securing the Existing Project Debt to be repaid with the proceeds of the notes issued on the Issue Date shall be terminated and released within 75 business days following the Issue Date;

(6) Liens on (i) any property or assets (including Capital Stock of any Person) securing Indebtedness incurred solely for purposes of financing or refinancing the acquisition, construction, development or improvement of such property or assets (including related transaction fees and expenses) by the Issuer or any Subsidiary (individually or together with other Persons) after the Issue Date; *provided* that no such Lien shall extend to or cover any property or assets other than the property or assets so acquired, constructed, developed or improved, (ii) any revenues or profits derived from such property or assets, and (iii) any property reasonably incidental to the use or operation of such property or assets, including real property on which such property or assets are located;

(7) any Lien existing on any property or assets of any Person before that Person's acquisition (in whole or in part), by merger into or consolidation with the Issuer or any Subsidiary or otherwise after the Issue Date; *provided* that the Lien is not created in contemplation of or in connection with such acquisition, merger or consolidation; and *provided, further*, that such Lien may not extend to any other property or assets owned by the Issuer or any Subsidiary;

(8) Liens required by any contract or statute in order to permit the Issuer or a Subsidiary to perform any contract or subcontract made by it with, or at the request of, a governmental entity or any department, agency or instrumentality thereof, or to secure performance or any payments by the Issuer or any Subsidiary under any such contract or subcontract to a governmental entity or any department, agency or instrumentality thereof pursuant to the provisions of any contract or statute;

(9) Liens for taxes, assessments or other governmental charges or levies not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings; *provided* that appropriate reserves required pursuant to IFRS have been made in respect thereof;

(10) judgment Liens not giving rise to an Event of Default so long as any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceeding may be initiated has not expired, and any Liens that are required to protect or enforce rights in any administrative, arbitration or other court proceeding in the ordinary course of business;

(11) Liens constituting any interest of title of a lessor, a licensor or either's creditors in the relevant property subject to any lease (other than a Capitalized Lease Obligation);

(12) Liens created for the sole purpose of securing Indebtedness that, when incurred, will be applied to repay all (but not only part) of the notes and all other amounts payable under the notes; *provided* that the notes and all other such amounts are fully satisfied promptly and in any event within 30 days after the incurrence of such Indebtedness;

(13) minor defects, easements, irregularities, rights-of-way restrictions (*servidumbre de paso*) and other similar encumbrances, rights and/or similar rights, whether under applicable laws or by contract and encumbrances consisting of zoning or planning restrictions licenses restrictions on the use of property or imperfections in title that in any such case do not materially interfere with operations of the Issuer or any such Subsidiary;

(14)(a) Liens that have been placed by any developer, landlord or other third party on property over which the Issuer or any Subsidiary has easement rights or on any real property leased by the Issuer or any Subsidiary or similar agreements relating thereto, and (b) any condemnation or eminent domain proceedings or compulsory purchase order affecting real property;

(15) Liens in favor of customs and revenue authorities to secure payments of custom duties in connection with the importation of goods or materials incurred in the ordinary course of business;

(16) Liens on goods (and the proceeds thereof) and documents of title and the property covered thereby securing Indebtedness in respect of commercial letters of credit issued to facilitate the purchase, shipment or storage of such goods;

(17) Liens which secure only Indebtedness owed by a Subsidiary to the Issuer and/or one or more Subsidiaries;

(18) Liens created over the shares or interests of Project Finance Subsidiaries;

(19) Liens on any escrow account used in connection with pre-funding a refinancing of secured Indebtedness;

(20) any provision for the retention of title to any property by the vendor or transferor of such property which property is acquired by the Issuer or a Subsidiary in a transaction entered into in the ordinary course of business and for which kind of transaction it is customary practice for such retention of title provision to be included;

(21) any extension, renewal, refinancing or replacement (or successive extensions, renewals, refinancing or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (1) through (20) or of any Indebtedness secured thereby; *provided* that (a) the principal amount of Indebtedness so secured thereby shall not exceed the principal amount of Indebtedness so secured at the time of such extension, renewal, refinancing or replacement (plus reasonable expenses incurred in connection therewith); and (b) that such extension, renewal, refinancing or replacement Lien shall be limited to all or part of the property which secured the Lien extended, renewed, refinanced or replaced (plus improvements on or additions to such property); and

(22) in addition to any Lien permitted pursuant to clauses (1) through (21) above, Liens securing an amount of indebtedness outstanding at any time not to exceed 15% of Consolidated Net Tangible Assets.

“Person” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

“Project Finance Subsidiary” means any Subsidiary designated as such by the Issuer’s Board of Directors, which is a Person that holds no material property or assets other than any generation, transmission, or distribution facility of the Issuer or any Subsidiary, in each case acquired, constructed or developed by the Issuer and its Subsidiaries after the Issue Date and property reasonably incidental to the use or operation thereof, including real property on which such facility is located. The Issuer’s Board of Directors may revoke the designation of a Project Finance Subsidiary at any time and give notice to the trustee in writing within 15 days following the adoption of a resolution by the Issuer’s Board of Directors approving such revocation.

“Rating Agency” means any of S&P, Fitch or Moody’s; or if, at the relevant time of determination, S&P, Fitch or Moody’s do not have a public rating in effect on the notes, an internationally recognized U.S. rating

agency or agencies, as the case may be, selected by the Issuer, which will be substituted for S&P, Fitch or Moody's, as the case may be.

"Ratings Decline" means that, at any time within 90 days (which period shall be extended so long as the rating of the notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) after the earlier of the date of public notice of a Change of Control and of the Issuer's intention or that of any Person to effect a Change of Control, (i) in the event the notes are assigned an Investment Grade Rating by at least two of the Rating Agencies prior to such public notice, the rating of the notes by two or more Rating Agencies shall be below an Investment Grade Rating; or (ii) in the event the notes are not assigned an Investment Grade Rating by at least two of the Rating Agencies prior to such public notice, the rating of the notes by two or more Rating Agencies shall be decreased by one or more categories (i.e., notches); *provided* that, in each case, any such Ratings Decline is in whole or in part in connection with, or arising as a result of, a Change of Control.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw Hill, Inc. and its successors.

"Sale and Leaseback Transaction" means any transaction or series of related transactions pursuant to which the Issuer or any Subsidiary sells or transfers any property to any Person with the intention of taking back a lease of such property pursuant to which the rental payments are calculated to amortize the purchase price of such property substantially over the useful life thereof and such property is in fact so leased.

"SEC" means the U.S. Securities and Exchange Commission.

"Significant Subsidiary" means a Subsidiary of the Issuer or the Guarantor (as applicable) which would be a "significant Subsidiary" within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC in effect on the Issue Date, assuming the Issuer or the Guarantor (as applicable) is the registrant referred to in such definition. Neither the Issuer nor the Guarantor has any Significant Subsidiaries as of the date of this offering memorandum.

"Subsidiary" means any Person of which the Issuer owns or controls, directly or indirectly, more than 50% of the Voting Stock of such Person. The Issuer does not have any Subsidiaries as of the date of this offering memorandum.

"Voting Stock" with respect to any Person, means securities of any class of Capital Stock of such Person entitling the holders thereof to vote in the election of members of the Board of Directors of such Person.

Listing

Application will be made for the listing and quotation of the notes on the SGX-ST. So long as the notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer will satisfy any reporting and/or continuing listing requirements of such exchange; *provided* that, if the Issuer deems such requirements to be unduly burdensome, it may delist from such exchange and seek to list the notes with an alternative exchange.

Governing Law, Consent to Jurisdiction and Service of Process

The indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York.

The Issuer will irrevocably consent to the non-exclusive jurisdiction of the New York State and U.S. federal courts located in the Borough of Manhattan, The City of New York, New York with respect to any action that may be brought in connection with the indenture or the notes and has irrevocably appointed Cogency Global Inc. as agent for service of process.

If for the purpose of obtaining judgment in any court it is necessary to convert a sum due under the indenture or any note from U.S. dollars into another currency, the Issuer has agreed, the trustee by executing the

indenture will be deemed to have agreed, and each Holder by holding such notes will be deemed to have agreed, to the fullest extent that the Issuer and they may effectively do so, that the rate of exchange used will be that at which in accordance with normal banking procedures such payee could purchase U.S. dollars with such other currency in The City of New York on the day two Business Days preceding the day on which final judgment is given.

The Issuer's obligation in respect of any sum payable by it under the indenture or any note to any payee will, notwithstanding any judgment in a currency (the "judgment currency") other than U.S. dollars, be discharged only to the extent that on the Business Day following receipt by such payee of any sum adjudged to be so due in the judgment currency, such payee may in accordance with normal banking procedures purchase U.S. dollars with the judgment currency; if the amount of the U.S. dollars so purchased is less than the sum originally due to such payee in the judgment currency (determined in the manner set forth in the preceding paragraph), the Issuer agrees, as a separate obligation and notwithstanding any such judgment, to indemnify such payee against such loss, and if the amount of the U.S. dollars so purchased exceeds the sum originally due to such payee, such payee agrees to remit to the Issuer such excess; *provided* that such payee will have no obligation to remit any such excess as long as the Issuer has failed to pay such payee any obligations due and payable under the indenture or any note, in which case such excess may be applied to the Issuer's obligations under the indenture or any note in accordance with the terms thereof.

Waiver of Immunity

To the extent that the Issuer or any of its properties, assets or revenues may have or may hereafter become entitled to, or have attributed to the Issuer, any right of immunity, on the grounds of sovereignty or otherwise, from any legal action, suit or proceeding, from the giving of any relief in any such legal action, suit or proceeding, from setoff or from counterclaim from the jurisdiction of any Peruvian, New York State or U.S. federal court, from service of process, from attachment upon or prior to judgment, from attachment in aid of execution of judgment, or from execution of judgment, or other legal process or proceeding for the giving of any relief or for the enforcement of any judgment, in any such court in which proceedings may at any time be commenced, with respect to the obligations and liabilities of the Issuer, or any other matter under or arising out of or in connection with, the notes or the indenture, the Issuer irrevocably and unconditionally waives or will waive such right, and agrees not to plead or claim any such immunity and consents to such relief and enforcement, in each case to the extent permissible by applicable law.

Trustee

Citibank N.A. is the trustee under the indenture. The Issuer may have normal banking relationships with Citibank N.A. and its affiliates in the ordinary course of business. The address of the trustee is 388 Greenwich Street, 23rd Floor, New York, New York 10013, Attention: Agency and Trust.

The indenture contains provisions for the indemnification of the trustee and for its relief from responsibility. The obligations of the trustee to any Holder of notes are subject to such immunities and rights as are set forth in the indenture.

The trustee and any of its affiliates may hold notes in their own respective names.

Form, Denomination and Title

The notes will be issued in registered form, without interest coupons, in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of notes, but the Issuer or trustee or other agent may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The notes will be represented by a Restricted Global Note (as defined below) and a Regulation S Global Note (as defined below) (each sometimes referred to herein as a "global note" and together sometimes referred to herein as the "global notes").

Notes sold in reliance on Rule 144A under the Securities Act initially will be represented by one or more global notes in definitive, fully registered form without interest coupons (the “Restricted Global Note”) and will be deposited with the trustee as custodian for DTC and registered in the name of DTC or its nominee, for credit to an account of a direct or indirect participant in DTC, including Euroclear Bank S.A./N.V. (“Euroclear”), and Clearstream Banking, *société anonyme* (“Clearstream”).

Notes sold outside the United States in reliance on Regulation S of the Securities Act initially will be represented by one or more global notes in definitive, fully registered form without interest coupons (the “Regulation S Global Note”) and will be deposited with the trustee as custodian for DTC, and registered in the name of DTC or its nominee, for credit to an account of a direct or indirect participant in DTC, including Euroclear and Clearstream. Each of the Restricted Global Note and the Regulation S Global Note will be subject to certain restrictions on transfer and will bear a legend to that effect as described under “—*Transfer Restrictions*.”

Transfers of a Regulation S Global Note or beneficial interest therein to a person who takes delivery in the form of a Restricted Global Note or beneficial interest therein may be made only upon receipt by the trustee of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made to a person that the transferor reasonably believes is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Transfers of a Restricted Global Note or beneficial interest therein to a person who takes delivery in the form of a Regulation S Global Note or beneficial interest therein may be made only upon receipt by the trustee of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Rules 903 and 904 of Regulation S.

Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in another global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global note for as long as it remains such an interest.

The Issuer will initially appoint the trustee at its office in The City of New York specified herein as registrar and New York paying agent and transfer agent for the notes. In such capacities, the trustee will be responsible for, among other things, (i) maintaining a record of the aggregate holdings of notes represented by the global notes and accepting notes for exchange and registration of transfer, (ii) ensuring that payments of principal, premium, if any, and interest in respect of the notes received by the trustee from the Issuer are duly paid to DTC or its nominee, and (iii) transmitting to the Issuer any notices from Noteholders addressed to the Issuer.

Global Notes

Upon the issuance of a Restricted Global Note and a Regulation S Global Note, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the initial purchasers. Ownership of beneficial interests in a global note will be limited to persons who have accounts with DTC (“DTC Participants”) or persons who hold interests through DTC Participants (including Euroclear and Clearstream). Ownership of beneficial interests in the global notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

Investors may hold their interests in a global note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream will hold interests in the global note on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositories, which in turn will hold such interests in the Regulation S Global Note in customers’ securities accounts in the depositories’ names on the books of DTC.

Payments of the principal, premium, if any, and interest in respect of notes represented by a global note registered in the name of DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner of the global note representing such notes. None of the Issuer, the trustee, any paying agent, the registrar or any transfer agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising, or reviewing any records relating to such beneficial ownership interests. The Issuer expects that DTC or its nominee, upon receipt of any payment of principal, premium, if any, and interest in respect of a global note representing any notes held by it or its nominee, will credit DTC Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note as shown on the records of DTC or its nominee. The Issuer also expects that payments by DTC Participants to owners of beneficial interests in such global note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

The laws of some jurisdictions require that certain persons take physical delivery of securities in certificated form. Consequently, the ability to transfer beneficial interests in a global note to such persons may be limited because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks. Accordingly, the ability of a person having a beneficial interest in a global note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of each interest, may be affected by the lack of a physical certificate for such interest.

Subject to compliance with the transfer restrictions applicable to the notes described above and under “*Transfer Restrictions*,” cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules and procedures on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; *provided* that such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in global notes in DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a global note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date, and the credit of any transactions in interests in a global note settled during such processing will be reported to the relevant Euroclear or Clearstream participant on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a global note by or through a Euroclear or Clearstream participant to a DTC Participant will be received with value on the settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC. Transfers between global notes will settle free of payment.

DTC has advised the Issuer that it will take any action permitted to be taken by a Holder of notes (including, without limitation, the presentation of notes for transfer, exchange or conversion as described below) only at the direction of one or more DTC Participants to whose account with DTC interests in the global notes are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such DTC Participant or DTC Participants has or have given such direction. However, in the limited circumstances described herein, DTC will exchange the global notes for notes in certificated form, which it will distribute to DTC Participants. See “— *Certificated Notes*.”

DTC has advised the Issuer as follows: DTC will act as the depository for the notes. The notes will be issued as global notes registered in the name of Cede & Co. (which is DTC's nominee) in the aggregate principal amount of the issue, and will be deposited with DTC or its custodian.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a

“clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, including transfers and pledges, in deposited securities through electronic computerized book-entry changes to participants’ accounts, thereby eliminating the need for physical movement of notes certificates. Direct participants of DTC include securities brokers and dealers, including the initial purchasers of the notes, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct participants and by The New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to DTC’s system is also available to indirect participants, which includes securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

To facilitate subsequent transfers, all global notes representing the notes which are deposited with, or on behalf of, DTC are registered in the name of DTC’s nominee, Cede & Co. The deposit of global notes with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the global notes representing the notes; DTC’s records reflect only the identity of the DTC Participants to whose accounts the notes are credited, which may or may not be the beneficial owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Participants, by DTC Participants to indirect participants, and by DTC Participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the global notes representing the notes. Under its usual procedure, DTC mails an omnibus proxy to the Issuer as soon as possible after the applicable record date. The omnibus proxy assigns Cede & Co.’s consenting or voting rights to those DTC Participants to whose accounts the notes are credited on the applicable record date (identified in a listing attached to the omnibus proxy).

DTC may discontinue providing its services as securities depository with respect to the notes at any time by giving reasonable notice to the Issuer or the trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificated notes are required to be printed and delivered. See “— *Certificated Notes.*”

Although DTC, Euroclear and Clearstream have agreed to the procedures described above in order to facilitate transfers of interests in the global notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. None of the trustee, the Issuer, any paying agent, the registrar or any transfer agent will have any liability or responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Notes

If DTC is at any time unwilling or unable to continue as a depository for the reasons set forth under “— *Global Notes*” and a successor depository is not appointed by the Issuer within 90 days, or an Event of Default has occurred and is continuing with respect to the notes and a request for such exchange is made by the Holders, the Issuer will issue individual definitive notes in certificated form, having the same terms and conditions as the global notes, in registered form in exchange for Regulation S Global Notes and Restricted Global Notes, as the case may be. Upon any exchange for certificated notes, the certificated notes will be registered in the names of the beneficial owners of the global notes representing the notes, which names will be provided by the relevant DTC Participants and issued in approved authorized denominations (as identified by DTC) to the trustee.

The Holder of a certificated note may transfer such note by surrendering it at the office or agency maintained by the Issuer for such purpose in the Borough of Manhattan, The City of New York, which initially will

be the office of the trustee. Upon the transfer, exchange or replacement of certificated notes bearing the legend, or upon specific request for removal of the legend on a certificated note, the Issuer will deliver only certificated notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Neither the trustee nor the registrar or any transfer agent will be required to register the transfer of or exchange certificated notes for a period from the record date to the due date for any payment of principal of, or interest on, the notes or register the transfer of or exchange any notes for 15 days prior to selection for redemption through the date of redemption. Prior to presentment of notes for registration of transfer (including a global note), the Issuer, the trustee and any agent of the Issuer or the trustee may treat the person in whose name such notes are registered as the owner or Holder of notes for the purpose of receiving payment of principal or interest on such note and for all other purposes whatsoever, whether or not such notes are overdue, and none of the Issuer, the trustee or any agent of the Issuer or the trustee will be affected by notice to the contrary.

Replacement of Notes

In the event that any note becomes mutilated, defaced, destroyed, lost or stolen, the Issuer will execute and, upon the Issuer's request, the trustee will authenticate and deliver a new note, of like tenor (including the same date of issuance) and equal principal amount, registered in the same manner, and bearing interest from the date to which interest has been paid on such note, in exchange and substitution for such note (upon surrender and cancellation thereof) or in lieu of and substitution for such note. In the event that such note is destroyed, lost or stolen, the applicant for a substitute note will furnish to the Issuer and the trustee such security or indemnity as may be required by them to hold each of them harmless, and, in every case of destruction, loss or theft of such note, the applicant will also furnish to the Issuer and the trustee satisfactory evidence of the destruction, loss or theft of such note and of the ownership thereof. Upon the issuance of any substituted note, the Issuer may require the payment by the registered holder thereof of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other fees and expenses (including the fees and expenses of the trustee) connected therewith.

TAXATION

General

This section summarizes certain Peruvian tax and U.S. federal income tax considerations relating to the purchase, ownership and disposition of the notes. This summary does not provide a comprehensive description of all tax considerations that may be relevant to a decision to purchase the notes. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the United States and Peru.

This summary is based on the tax laws of Peru and the United States as in effect on the date of this offering memorandum, as well as regulations, rulings and decisions of Peru and the United States available on or before that date and now in effect. Those laws, regulations, rulings and decisions are subject to change and changes could apply retroactively, which could affect the continued accuracy of this summary.

Prospective purchasers of the notes should consult their own tax advisors as to the Peruvian, U.S. or other tax consequences of the purchase, ownership and disposition of the notes. They should especially consider how the tax considerations discussed below, as well as the application of state, local, foreign or other tax laws, could apply to them in their particular circumstances.

Peruvian Tax Considerations

The following is a general summary of the principal Peruvian tax consequences that may be relevant with respect to the ownership or disposition of the notes by non-Peruvian holders. This summary is not intended to be a comprehensive description of all of the Peruvian tax considerations that may be relevant to a decision by non-Peruvian holders to make an investment in the notes. In addition, this summary does not describe any tax consequences: (i) arising under the laws of any taxing jurisdiction other than Peru or (ii) applicable to a person or entity domiciled in Peru or a foreign entity with a permanent establishment in Peru.

For purposes of this section, “non-Peruvian holder” means (i) any individual beneficial owner of the notes who is not domiciled in Peru and (ii) any legal entity incorporated outside of Peru that is a beneficial owner of the notes, provided that it does not conduct any trade or business through a permanent establishment in Peru or beneficially own the notes through a Peruvian branch. A non-Peruvian holder who is an individual will be deemed domiciled in Peru for tax purposes if such individual resides or remains in Peru for more than 183 calendar days during any twelve-month period.

Income Tax

Payment of Interest

Interest paid on the notes to non-Peruvian holders will be treated as Peruvian-source income and will be subject to Peruvian withholding income tax at a rate of 4.99%. However, if the non-Peruvian holder is considered to be related to us under Peruvian tax law or if the non-Peruvian holder is an individual and the interest is derived from or through a tax haven, the withholding income tax rate will be 30%.

We are required to act as withholding agent for income tax payable in connection with interest paid on the notes to non-Peruvian holders.

Sale of the Notes

Proceeds received by a non-Peruvian holder on a sale, exchange or other disposition of a beneficial interest in the global notes held through a clearing system will not be subject to any Peruvian withholding or capital gains tax. In the event that the beneficial interests in the global notes are exchanged for definitive notes, any capital gain arising from the sale, exchange or other disposition of the definitive notes by non-Peruvian holders would be subject to Peruvian income tax at a preferential rate of 5% if the following requirements are satisfied: (i) the definitive notes are registered with the Peruvian Securities Public Registry and (ii) the definitive notes are negotiated in the Peruvian stock market. Otherwise, capital gains will be subject to tax at a 30% rate.

A capital gain on a sale, exchange or other disposition will be equal to the difference between (i) the amount realized on the sale, exchange or other disposition of the definitive notes and (ii) the purchase price paid for the notes, which must be certified by the Peruvian tax administration by the seller submitting a form with documentation evidencing, among others, that the purchase price was paid with funds from a Peruvian bank account, unless the sale, exchange or other disposition is made through the Peruvian stock market.

Redemption of the Notes

Any premium received upon an early redemption of the notes will be subject to a withholding tax at a rate of either 4.99% or 30%, depending on whether the premium is characterized as interest or capital gain. However, a 30% withholding tax rate will apply to any premium received if the non-Peruvian holder is considered to be related to us.

Non-Peruvian holders should consult an independent tax advisor regarding the specific Peruvian income tax considerations of acquiring, owning or disposing of the notes.

Peru has executed treaties to avoid double taxation with the Andean Community (Bolivia, Colombia and Ecuador), Brazil, Canada, Chile, Switzerland, South Korea, Mexico and Portugal, all of which are currently in effect. Non-Peruvian holders that are residents of any of these countries should consult an independent tax advisor regarding the application of the treaties.

Value Added Tax

Interest paid on the notes is not subject to Peruvian VAT (*Impuesto General a las Ventas*).

Gain on the sale, exchange or other disposition of the notes is not subject to Peruvian VAT.

Financial Transaction Tax

In Peru, there is a Financial Transactions Tax (“FTT”), which imposes tax at a rate of 0.005% on any debit or credit made in an account opened with a Peruvian bank or any other financial institution, either in Peruvian soles or foreign currency. If the issue price paid for the notes is deposited in a Peruvian Financial System (“PFS”) bank account, such credit will also be levied at the corresponding FTT rate. The taxpayer of the FTT is the holder of the PFS bank account.

Certain U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax consequences of the purchase, ownership and disposition of notes as of the date hereof. Except where noted, this summary deals only with notes that are held as capital assets by a U.S. holder (as defined below) who acquired the notes upon original issuance at their initial offering price.

A “U.S. holder” means a beneficial owner of the notes that is for U.S. federal income tax purposes any of the following:

- an individual citizen or resident of the United States;
- a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions as of the date of this offering memorandum. Those authorities may be

changed, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those summarized below. This summary does not address all aspects of U.S. federal income taxes and does not address the effects of the Medicare contribution tax on net investment income or non-U.S., state, local or other tax considerations (such as estate and gift tax laws) that may be relevant to U.S. holders in light of their particular circumstances. In addition, it does not represent a detailed description of the U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws. For example, this summary does not address:

- tax consequences to holders who may be subject to special tax treatment, such as dealers in securities or currencies, traders in securities that elect to use the mark-to-market method of accounting for their securities, financial institutions, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities for U.S. federal income tax purposes, individual retirement amounts and other tax-deferred accounts, tax-exempt entities or insurance companies;
- tax consequences to persons holding the notes as part of a hedging, integrated, constructive sale or conversion transaction or a straddle;
- tax consequences to persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, U.S. citizens or lawful permanent residents living abroad, or holders of the notes whose “functional currency” is not the U.S. dollar; or
- alternative minimum tax consequences, if any.

If a partnership (or any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds the notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership (or any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holding our notes, you should consult your tax advisors.

If you are considering the purchase of notes, you should consult your own tax advisors concerning the particular U.S. federal income tax consequences to you of the purchase, ownership and disposition of the notes, as well as the consequences to you arising under other U.S. federal tax laws and the laws of any other taxing jurisdiction.

Payments of Interest

Interest on a note will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for U.S. federal income tax purposes. For these purposes, interest on the notes includes any Peruvian tax withheld from the interest payments you receive and Additional Amounts paid in respect of any such Peruvian withholding tax. You may be entitled to deduct or credit any such tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of your foreign taxes for a particular tax year). Interest income (including any Additional Amounts) on a note generally will be considered foreign source income and, for purposes of the U.S. foreign tax credit, generally will be considered passive category income. You will generally be denied a foreign tax credit for foreign taxes imposed with respect to the notes where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Sale, Exchange, Retirement or other Disposition of Notes

Your adjusted tax basis in a note will, in general, be your cost for that note. Upon the sale, exchange, retirement or other disposition of a note, you generally will recognize gain or loss equal to the difference between the amount you realize upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the adjusted tax basis of the note. Such gain or loss will be capital gain or loss and will generally be treated as U.S. source gain or loss. Consequently, because any such gain generally would be U.S. source income, you may not be able to claim a credit for any Peruvian tax imposed upon a disposition of a note unless such credit can be applied (subject to applicable limitation) against tax due on other income treated as derived from foreign sources. Capital

gains of non-corporate U.S. holders (including individuals) derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Backup Withholding and Information Reporting

Generally, information reporting requirements will apply to all payments we make to you and the proceeds from a sale of a note paid to you, unless you are an exempt recipient. Additionally, if you fail to provide your taxpayer identification number or, in the case of interest payments, fail either to report in full dividend and interest income or to make certain certifications, you may be subject to backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is timely furnished to the U.S. Internal Revenue Service.

Certain U.S. holders are required to report information relating to an interest in the notes, subject to certain exceptions (including an exception for notes held in accounts maintained by certain financial institutions), by attaching a complete IRS Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold an interest in the notes. You are urged to consult your own tax advisors regarding information reporting requirements relating to your ownership of the notes.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the ownership of notes. Prospective purchasers of notes should consult their own tax advisors concerning the tax consequences of their particular situations.

PLAN OF DISTRIBUTION

Credit Suisse Securities (USA) LLC, J.P. Morgan Securities, LLC, Scotia Capital (USA) Inc. and Credicorp Capital Sociedad Agente de Bolsa S.A. are acting as joint book-running managers of the offering and as representatives of the initial purchasers named below. Subject to the terms and conditions contained in a purchase agreement dated the date of this offering memorandum, we have agreed to sell to the initial purchasers, and each of the initial purchasers has, severally and not jointly, agreed to purchase from us, the principal amount of the notes offered hereby that appears opposite its name in the table below.

Initial Purchasers	Principal Amount
Credit Suisse Securities (USA) LLC	U.S.\$195,000,000
J.P. Morgan Securities LLC.....	U.S.\$195,000,000
Scotia Capital (USA) Inc.	U.S.\$195,000,000
Credicorp Capital Sociedad Agente de Bolsa S.A.	U.S.\$ 65,000,000
Total	U.S.\$650,000,000

The purchase agreement provides that the obligation of the initial purchasers to purchase the notes is subject to certain conditions precedent and that the initial purchasers will purchase all of the notes offered hereby if any of such notes offered hereby are purchased.

We have been advised that the initial purchasers propose to resell the notes at the offering price set forth on the cover page of this offering memorandum. The price at which the notes are offered may be changed at any time without notice. The initial purchasers may offer and sell the notes through certain of their respective affiliates.

We have agreed to indemnify the initial purchasers against certain liabilities, including liabilities under U.S. securities laws, and to contribute to payments that the initial purchasers may be required to make in respect of any of these liabilities.

The notes offered hereby have not been, and will not be, registered under the Securities Act. The initial purchasers have agreed that they will offer or sell the notes in the United States only to qualified institutional buyers pursuant to Rule 144A under the Securities Act and outside the United States pursuant to Regulation S under the Securities Act. In addition, until 40 days after the commencement of this offering, an offer or sale of notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A. See “*Transfer Restrictions.*”

Credicorp Capital is not a broker-dealer registered with the Commission, and therefore may not make sales of any securities in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. Credicorp Capital will not make offers or effect sales of the notes in the United States or to U.S. persons. Credicorp Capital will only make offers and sales of the notes outside of the United States to non-U.S. persons.

Listing of Securities

The Issuer will apply to the SGX-ST for permission for the listing and quotation of the notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering memorandum. Approval in-principle received for the listing and quotation of the notes on the SGX-ST is not to be taken as an indication of our merits or the merits of the notes.

No Sales of Similar Securities

We have agreed that we will not, for a period of 60 days after the date of this offering memorandum, without the prior written consent of Credit Suisse Securities (USA) LLC, J.P. Morgan Securities LLC, Scotia Capital (USA) Inc. and Credicorp Capital Sociedad Agente de Bolsa S.A., offer, sell, contract to sell or otherwise dispose of, or announce the offering of, any debt securities in the international capital markets, except for the notes sold to the initial purchasers pursuant to the purchase agreement.

Stabilization Transactions

In connection with the offering of the notes, the initial purchasers (or persons acting on their behalf) may over-allot notes or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, there is no assurance that the initial purchasers (or persons acting on their behalf) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the notes is made, and, if begun may be ended at any time, but it must end no later than 30 days after the date on which the issuer received the proceeds of the issue, or no later than 60 days after the date of allotment of the relevant securities, whichever is the earlier.

Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers. Stabilizing transactions involve bids to purchase the notes in the open market for the purpose of pegging, fixing or maintaining the price of the notes. Stabilizing transactions may cause the price of the notes to be higher than it would otherwise be in the absence of those transactions.

Settlement

We expect that delivery of the notes will be made against payment therefor on or about August 16, 2017, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as “T+5”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes prior to the third business day prior to the date of delivery hereunder will be required by virtue of the fact that such notes initially will settle in T+5 to specify an alternate settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of notes who wish to trade notes prior to their delivery hereunder should consult with their own advisor.

Relationships with the Initial Purchasers

In the ordinary course of business, the initial purchasers and their affiliates have provided, and may in the future provide, investment banking, commercial banking, cash management, foreign exchange or other financial services to us and our affiliates for which they have received customary compensation and may receive compensation in the future. Affiliates of Credicorp Capital Sociedad Agente de Bolsa S.A. and Scotia Capital (USA) Inc. are lenders under the CdA Credit Facility and an affiliate of Credicorp Capital Sociedad Agente de Bolsa S.A. is lender of the short term facility in Cerro del Águila and the lessor for Las Flores in Kallpa. We intend to repay the CdA Credit Facility with proceeds from this offering.

In addition, in the ordinary course of their business activities, the initial purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. If any of the initial purchasers or their affiliates has a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Sales Outside the United States

Neither we nor the initial purchasers are making an offer to sell, or seeking offers to buy, the notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of

the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers will have any responsibility therefor.

Peru

The notes will not be subject to a public offering in Peru. The notes and the information contained in this offering memorandum have not been and will not be registered with or approved by the SMV or the BVL. Accordingly, the notes cannot be offered or sold in Peru, except if (i) such notes were previously registered with the SMV, or (ii) such offering is considered a private offering under the securities laws and regulations of Peru. The Peruvian securities laws establish, among other things, that an offer directed exclusively at Peruvian institutional investors qualifies as a private offering. In making an investment decision, institutional investors (as defined by Peruvian law) must rely on their own examination of the terms of the offering of the notes to determine their ability to invest in the notes.

No offer or invitation to subscribe for or sell the notes or beneficial interests therein can be made in the Republic of Peru except in compliance with the Peruvian securities laws.

Canada

Resale Restrictions

The distribution of the notes in Canada is being made only in the provinces of Ontario, Quebec, Alberta and British Columbia on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of the notes are made. Any resale of the notes in Canada must be made under applicable securities laws which may vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the securities.

Representations of Canadian Purchasers

By purchasing the notes in Canada and accepting delivery of a purchase confirmation, a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the notes without the benefit of a prospectus qualified under those securities laws as it is an “accredited investor” as defined under National Instrument 45-106 – *Prospectus Exemptions*,
- the purchaser is a “permitted client” as defined in National Instrument 31-103 - *Registration Requirements, Exemptions and Ongoing Registrant Obligations*,
- where required by law, the purchaser is purchasing as principal and not as agent, and
- the purchaser has reviewed the text above under Resale Restrictions.

Conflicts of Interest

Canadian purchasers are hereby notified that certain of the initial purchasers are relying on the exemption set out in section 3A.3 or 3A.4, if applicable, of National Instrument 33-105 – *Underwriting Conflicts* from having to provide certain conflict of interest disclosure in this document.

Statutory Rights of Action

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if the offering memorandum (including any amendment thereto) such as this document contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser

of these securities in Canada should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of the notes should consult their own legal and tax advisors with respect to the tax consequences of an investment in the notes in their particular circumstances and about the eligibility of the notes for investment by the purchaser under relevant Canadian legislation.

European Economic Area

In relation to each Member State of the European Economic Area (each, a "Relevant Member State"), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State it has not made and will not make an offer of notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant dealer or dealers nominated by the Issuer for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes shall require us or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC, as amended, and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each initial purchaser has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the United Kingdom Financial Services and Markets Act 2000 ("FSMA") received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

Switzerland

The notes may not be and will not be publicly offered, distributed or redistributed on a professional basis in or from Switzerland, and neither this offering memorandum nor any other solicitation for investments in the notes may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of Articles 1156 or 652a of the Swiss Code of Obligations or of Article 2 of the Federal Act on Investment Funds of March 18, 1994. This offering memorandum may not be copied, reproduced, distributed or passed on to others without the initial purchasers' prior written consent. This offering memorandum is not a prospectus within the meaning of Articles 1156 and 652a of the Swiss Code of Obligations or a listing prospectus according to article 32 of the Listing Rules of the Swiss exchange and may not comply with the information standards required thereunder. We will not apply for a listing of the notes on any Swiss stock exchange or other Swiss regulated market, and this offering circular may not comply with the information required under the relevant listing rules. The notes have not been and will not be registered with the Swiss Federal Banking Commission and have not been and will not be authorized under the Federal Act on Investment Funds of March 18, 1994. The investor protection afforded to acquirers of investment fund certificates by the Federal Act on Investment Funds of March 18, 1994 does not extend to acquirers of the notes.

France

The notes are being issued and sold outside the Republic of France and, in connection with their initial distribution, the notes have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in the Republic of France, and this offering memorandum or any other offering material relating to the notes have not been distributed and will not be distributed or caused to be distributed to the public in the Republic of France, and such offers, sales and distributions have been and will be made in the Republic of France only to qualified investors (*investisseurs qualifiés*) in accordance with Article L.411-2 of the Monetary and Financial Code and décret no. 98 880 dated 1st October, 1998.

Republic of Italy

The offering of the notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("CONSOB") pursuant to Italian securities legislation and, accordingly, no notes may be offered, sold or delivered, nor copies of this offering memorandum or any other documents relating to the notes may not be distributed in Italy except:

- (a) to "qualified investors," as referred to in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "Decree No. 58") and defined in Article 26, paragraph 1, letter d) of CONSOB Regulation No. 16190 of 29 October 2007, as amended ("Regulation No. 16190") pursuant to Article 34-ter, paragraph 1, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended ("Regulation No. 11971"); or
- (b) in any other circumstances where an express exemption from compliance with the offer restrictions applies, as provided under Decree No. 58 or Regulation No. 11971.

Any offer, sale or delivery of the notes or distribution of copies of this offering memorandum or any other documents relating to the notes in the Republic of Italy must be:

- (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993, as amended (the "Banking Law"), Decree No. 58 and Regulation No. 16190 and any other applicable laws and regulations;
- (b) in compliance with Article 129 of the Banking Law, and the implementing guidelines of the Bank of Italy, as amended; and
- (c) in compliance with any other applicable notification requirement or limitation which may be imposed, from time to time, by CONSOB or the Bank of Italy or other competent authority.

Please note that, in accordance with Article 100-bis of Decree No. 58, where no exemption from the rules on public offering applies, the subsequent distribution of the notes on the secondary market in Italy must be made in

compliance with the public offer and the prospectus requirement rules provided under Decree No. 58 and Regulation No. 11971.

Furthermore, securities which are initially offered and placed in Italy or abroad to qualified investors only but in the following year are regularly (“*sistematicamente*”) distributed on the secondary market in Italy to non-qualified investors become subject to the public offer and the prospectus requirement rules provided under Decree No. 58 and Regulation No. 11971. Failure to comply with such rules may result in the sale of the notes being declared null and void and in the liability of the intermediary transferring the notes for any damages suffered by such non-qualified investors.

The Netherlands

Each initial purchaser will acknowledge and agree that it will not make an offer of the notes to the public in the Netherlands in reliance on Article 3(2) of the Prospectus Directive unless (i) such offer is made exclusively to persons or entities which are (a) qualified investors as defined in the Prospectus Directive or (b) represented by eligible discretionary asset managers in accordance with Article 55 of the Exemption Regulation DFSA (*Vrijstellingsregeling Wft*), or (ii) a standard warning is used as required by Article 5:5(2) or 5:20(5) of the Dutch Financial Supervision Act (*Wet op het financieel toezicht* or DFSA), provided that no such offer of securities shall require the issuer or any underwriter or agent to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive. For the purposes of this paragraph the expression “Prospectus Directive” means Directive 2003/71/EC as amended and implemented in Dutch law.

Each initial purchaser will furthermore acknowledge and agree that it will not make an offer of securities with a maturity of less than 12 months until the competent authority publishes its interpretation of the term “public” (as referred to in Article 4.1(1) of Regulation (EU) No 575/2013), unless such securities either (a) have a minimum denomination of EUR 100,000, or (b) are offered solely to professional market prices (*professionele marktpartij*) within the meaning of the DFSA and the rules promulgated thereunder and, as soon as the competent authority publishes the interpretation of the term “public” as referred to in Article 4.1(1) of Regulation EU No. 575/2013, to persons or legal entities that are part of the public within the meaning of Regulation (EU) No. 575/2013 and the DFSA and the rules promulgated thereunder.

Spain

Each initial purchaser has represented and agreed that it has not offered, sold or distributed the notes, nor will it carry out any subsequent resale of the notes in Spain except in circumstances which do not constitute a public offer of securities in Spain within the meaning of Article 35 of the restated text of the Securities Market Act approved by Royal Legislative Decree 4/2015, dated October 23 (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto de la Ley del Mercado de Valore*), Royal Decree 1310/2005 of 4 November (*Real Decreto 1310/2005 de 4 de noviembre*), and supplemental rules enacted thereunder.

Ireland

The notes will not and may not be offered, sold, transferred or delivered, whether directly or indirectly, otherwise than in circumstances which do not constitute an offer to the public within the meaning of the Irish Companies Act, 1963-2006, and the notes will not and may not be the subject of an offer in Ireland which would require the publication of a prospectus pursuant to Article 3 of Directive 2003/71/EC.

Cayman Islands

No invitation is made by or on behalf of the Company to the public in the Cayman Islands to subscribe for the notes.

Hong Kong

The notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong),

(ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Japan

The notes offered in this offering memorandum have not been, and will not be, registered under the Financial Instruments and Exchange Law of Japan.

Each Initial Purchaser has represented and agreed that the notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (which term, as used in this paragraph means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferable within six months after that corporation or that trust has acquired the notes under Section 275 except (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA, (2) where no consideration is or will be given for the transfer, (3) by operation of law, (4) as specified in Section 276(7) of the SFA or (5) as specified in Regulation 32 of the Securities and Futures (Offers and Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Guatemala

The notes have not been, and will not be, registered for public offering in Guatemala with the Securities Market Registry under the Stock Exchange Act, Decree 34-96 of Congress of Guatemala, amended by Decree 49-2008 (the “Guatemalan Securities and Commodities Act”). Accordingly, the notes may not be offered or sold in Guatemala, except in certain limited transactions exempted from the registration requirements of the Guatemalan Securities and Commodities Act. The notes do not benefit from tax incentives accorded by the Guatemalan Securities and Commodities Act and are not subject to regulation or supervision by the Securities Market Registry.

Chile

The offering of the notes will begin on August 1, 2017 and is subject to General Rule No. 336 of the Chilean Securities Commission (*Superintendencia de Valores y Seguros de Chile*, or the “SVS”). The notes being offered are not registered in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the notes are not subject to the supervision of the SVS. As with all unregistered securities, the issuer of the notes is not required to disclose public information about the notes in Chile. The notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

La oferta de los valores comienza el 1 de agosto de 2017 y está acogida a la NCG 336 de la superintendencia de Valores y Seguros de Chile (la “SVS”). La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que los valores no están sujetos a la fiscalización de dicho organismo. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de los valores. Estos valores no pueden ser objeto de oferta pública a menos que sean inscritos en el registro de valores correspondiente.

Colombia

The notes will not be authorized by the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*) and will not be registered under the Colombian National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*) and, accordingly, the notes will not be offered or sold to persons in Colombia except in circumstances which do not result in a public offering under Colombian law.

Panama

The notes have not been, and will not be, registered for public offering in Panama with the National Securities Commission of Panama under Decree-Law 1 of July 8, 1999 (the “Panamanian Securities Act”). Accordingly, the notes may not be offered or sold in Panama, except in certain limited transactions exempted from the registration requirements of the Panamanian Securities Act. The notes do not benefit from tax incentives accorded by the Panamanian Securities Act and are not subject to regulation or supervision by the National Securities Commission of Panama.

Jamaica

The notes have not been, and are not being, publicly offered in Jamaica. This offering memorandum does not and is not intended to constitute a public offer of securities in Jamaica.

Pursuant to guidelines (“Guidelines”) numbered SR-GUID-08/05-0016 published by the Financial Services Commission of Jamaica (“FSCJ”), securities may be offered in Jamaica by way of an exempt distribution. Exempt distributions are exempt from the requirement to register a prospectus or other offering document. The registration requirement under the provisions of the Securities Act of Jamaica in respect of a trade in a security, where the security is offered by way of an exempt distribution, is satisfied by compliance with the provisions of the Guidelines.

We expect to file the required Notice of Exempt Distribution (Form XDF-1) with the FSCJ. If the FSCJ approves the filing, we expect that it will provide to us a notice in writing that the notes have been granted exemption from registration of an offering document. If the exemption from registration with respect to the notes is granted, the notes will be subject to transfer restrictions pursuant to the Guidelines.

TRANSFER RESTRICTIONS

The notes (and the related guarantees) have not been registered and will not be registered under the Securities Act, any U.S. state securities laws or the laws of any other jurisdiction, and may not be offered or sold except pursuant to an effective registration statement or pursuant transactions exempt from, or not subject to, registration under the Securities Act and the securities laws of any other jurisdiction. Accordingly, the notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 in reliance on Regulation S under the Securities Act.

Purchasers' Representations and Restrictions on Resale and Transfer

Each purchaser of notes (other than the initial purchasers in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- (1) it is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;
- (2) it acknowledges that the notes have not been registered under the Securities Act or with any securities regulatory authority of any U.S. state or any other jurisdiction (other than Peru) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (3) it understands and agrees that the notes offered in the United States to qualified institutional buyers will each be represented by one or more global notes and that the notes offered outside the United States pursuant to Regulation S will also be represented by one or more global notes;
- (4) it will not resell or otherwise transfer any of such notes except (a) to the Issuer, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to another exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;
- (5) it agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes;
- (6) it acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement or in respect of notes sold or transferred either pursuant to (a) Rule 144A or (b) Regulation S) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;
- (7) it acknowledges that the trustee, registrar or transfer agent for the notes will not be required to accept for registration the transfer of any notes acquired by it, except upon presentation of evidence satisfactory to us that the restrictions set forth herein have been complied with;
- (8) if it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account; and

- (9) it acknowledges that we, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it will promptly notify us and the initial purchasers.

Legends

The following is the form of restrictive legend which will appear on the face of the Rule 144A global note, and which will be used to notify transferees of the foregoing restrictions on transfer:

“This note (and the related guarantee) has not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any U.S. state securities laws. The holder hereof, by purchasing this note, agrees for the benefit of the issuer that this note or any interest or participation herein may be offered, resold, pledged or otherwise transferred only (1) to the issuer, (2) so long as this note is eligible for resale pursuant to Rule 144A under the Securities Act (“Rule 144A”), to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) in accordance with Rule 144A, (3) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (4) pursuant to an exemption from registration under the Securities Act (if available) or (5) pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities laws of any state of the United States or other applicable jurisdiction. The holder hereof, by purchasing this note, represents and agrees that it shall notify any purchaser of this note from it of the resale restrictions referred to above.

This legend may be removed solely at the discretion and at the direction of the issuer.”

The following is the form of restrictive legend which will appear on the face of the Regulation S global note and which will be used to notify transferees of the foregoing restrictions on transfer:

“This note (and the related guarantee) has not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any U.S. state securities laws. Prior to expiration of the 40-day distribution compliance period (as defined in Regulation S under the Securities Act (“Regulation S”)), this note may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account of benefit of, a U.S. person, except to a Qualified Institutional Buyer in compliance with Rule 144A under the Securities Act. The terms “United States” and “U.S. person” have the respective meanings given to them by Regulation S.”

The resale restriction periods may be extended, in our discretion, in the event of one or more issuances of additional notes, as described under “*Description of the Notes.*” The above legends (including the restrictions on resale specified thereon) may be removed solely in the discretion and direction of the Issuer.

VALIDITY OF THE NOTES

The validity of the notes will be passed upon for us by Simpson Thacher & Bartlett LLP, New York, New York, as to certain matters of New York law. The validity of the notes will be passed upon for initial purchasers by Milbank, Tweed, Hadley & McCloy LLP, New York, New York. The validity of the notes will be passed upon for us by Miranda & Amado Abogados as to certain matters of Peruvian law, and for the initial purchasers by J&A Garrigues Perú S. Civil de R.L. as to certain matters of Peruvian law.

INDEPENDENT AUDITORS

The financial statements of Cerro del Águila as of and for the years ended December 31, 2016 and 2015 included in this offering memorandum have been audited by KPMG Auditores Independientes, independent auditors, as stated in their report appearing herein.

With respect to the unaudited interim financial information of Cerro del Águila for the period ended March 31, 2017, included herein, the independent auditors have reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The financial statements of Kallpa as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 included in this offering memorandum, have been audited by KPMG Auditores Independientes, independent auditors, as stated in their report appearing herein.

With respect to the unaudited interim financial information of Kallpa for the period ended March 31, 2017, included herein, the independent auditors have reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

GENERAL INFORMATION

The creation and issuance of the notes and the guarantee have been authorized by the resolutions of each of the shareholders of Cerro del Águila and Kallpa dated July 21, 2017.

Except as disclosed in this offering memorandum, there are no litigation or arbitration proceedings against or affecting us or any of our respective assets, nor are we aware of any pending or threatened proceedings, which are or might reasonably be expected to be material in the context of the issuance of the notes.

To the best of our knowledge, the information contained in this offering memorandum is in accordance with the facts and does not omit anything likely to affect the significance of such information. Accordingly, we accept responsibility.

Except as disclosed in this offering memorandum, there has been no material adverse change or any development reasonably likely to involve a material adverse change, in our condition (financial or otherwise) or general affairs since December 31, 2016 that is material in the context of the issuance of the notes.

For so long as any of the notes remain outstanding, copies of the following documents will be obtainable and available during normal business hours at our principal office, located at Av. Santo Toribio No. 115, Of. 701, San Isidro, Lima, Peru,

- the indenture relating to the notes and our by-laws (*estatutos*);
- the financial statements included in this offering memorandum; and
- all our future annual and quarterly interim financial statements.

The Issuer will apply for the listing and quotation of the notes on the SGX-ST. The notes will be traded on the SGX-ST in a minimum board lot size of U.S.\$200,000 so long as the notes are listed on the SGX-ST and the rules of the SGX-ST so require.

The notes have been accepted for clearance through DTC. The CUSIP numbers and ISINs for the notes are as follows:

	<u>CUSIP Number</u>	<u>ISIN</u>
Restricted Global Note	156830 AA9	US156830AA95
Regulation S Global Note	P2400P AA7	USP2400PAA77

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CERRO DEL ÁGUILA S.A.

Unaudited Condensed Interim Financial Statements

March 31, 2017

**(Including Independent Auditors' Report on Review of
Condensed Interim Financial Statements)**



INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

**To the Shareholders and Board of Directors
Cerro del Águila S.A.**

Introduction

We have reviewed the accompanying condensed statement of financial position of Cerro del Águila S.A. as at March 31, 2017, the condensed statements of profit or loss and other comprehensive income (loss), changes in equity and cash flows for the three-month period then ended, and notes to the interim financial statements. Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements as at March 31, 2017 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Lima, Peru

July 24, 2017

Countersigned by:

Juan José Córdova V. (Partner)
Peruvian Certified Public Accountant
Registration Number 01 - 18869



CERRO DEL ÁGUILA S.A.

Unaudited Condensed Interim Financial Statements

March 31, 2017

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CERRO DEL AGUILA S.A.

Unaudited Condensed Statement of Financial Position

As at March 31, 2017 and December 31, 2016

<i>In thousands of U.S. dollars</i>	<i>Note</i>	March 31, 2017	December 31, 2016
Assets			
Current assets			
Cash	3	32,460	36,677
Trade receivables	4	10,648	11,384
Other receivables	5	5,047	5,693
Prepaid expenses		276	39
Inventories	6	88	50
Total current assets		48,519	53,843
Non-current assets			
Property, plant and equipment	7	947,654	923,658
Intangible assets	8	25,692	25,781
Total non-current assets		973,346	949,439
Total assets		1,021,865	1,003,282

<i>In thousands of U.S. dollars</i>	<i>Note</i>	March 31, 2017	December 31, 2016
Liabilities and Equity			
Current liabilities			
Trade payables	9	57,013	40,372
Other payables	10	7,257	6,573
Loans from banks and others	11		
Short term loan		14,000	14,000
Current portion of long term syndicated loan		27,935	17,104
Derivative financial instruments	12.C	6,137	6,965
Total current liabilities		112,342	85,014
Non-current liabilities			
Loans from banks and others – Long term portion of syndicated loan	11	547,251	561,989
Derivative financial instruments	12.C	9,371	10,544
Shareholders loan	13	29,516	28,920
Deferred income tax liabilities		15,361	15,724
Provisions		2,213	1,962
Total non-current liabilities		603,712	619,139
Total liabilities		716,054	704,153
Equity			
Share capital	14	328,184	328,184
Hedging reserve		(10,343)	(11,374)
Other reserves		1	1
Accumulated deficit		(12,031)	(17,682)
Total equity		305,811	299,129
Total liabilities and equity		1,021,865	1,003,282

The accompanying notes on pages 5 to 18 are an integral part of these unaudited condensed interim financial statements.

CERRO DEL ÁGUILA S.A.

Unaudited Condensed Statement of Profit or Loss and Other Comprehensive Income (Loss)
For the three-month periods ended March 31, 2017 and 2016

<i>In thousands of US dollars</i>	<i>Note</i>	Three-months periods ended	
		March 31	
		2017	2016
Revenues		30,794	-
Cost of Sales (excluding depreciation)		(10,705)	-
Depreciation	7	(4,021)	-
Administrative expenses		(1,515)	(4)
Other income		19	-
Other expenses		-	-
Profit (loss) from operating activities		14,572	(4)
Finance income		49	13
Finance costs		(10,639)	(4)
Net foreign exchange		468	352
Finance (cost) income, net		(10,122)	361
Profit before income tax		4,450	357
Income tax benefit		1,201	1,054
Profit for the period		5,651	1,411
Other comprehensive income or loss:			
Items that are or can be reclassified to profit or loss:			
Cash flow hedges – effective portion of changes in fair value	12.C	2,001	(6,789)
Cash flow hedges – reclassified to profit or loss		(133)	-
Income tax related to cash flow hedge		(837)	2,037
Other comprehensive income (loss) for the period, net of tax		1,031	(4,752)
Total comprehensive income (loss) for the period		6,682	(3,341)

The accompanying notes on pages 5 to 18 are an integral part of these unaudited condensed interim financial statements.

CERRO DEL ÁGUILA S.A.

Unaudited Condensed Statement of Changes in Equity
For the three-month ended March 31, 2017 and 2016

<i>In thousands of U.S. dollars</i>	Share capital (note 14)	Accumulated deficit	Other reserves	Hedging reserve	Total
Balance as of January 1, 2016	328,184	(17,692)	-	(21,823)	288,669
Comprehensive income (loss) of the period:					
Profit for the period	-	1,411	-	-	1,411
Other comprehensive loss	-	-	-	(4,752)	(4,752)
Total comprehensive income (loss)	-	1,411	-	(4,752)	(3,341)
Balance as of March 31, 2016	328,184	(16,281)	-	(26,575)	285,328
Balances as of January 1, 2017	328,184	(17,682)	1	(11,374)	299,129
Comprehensive income of the period:					
Profit for the period	-	5,651	-	-	5,651
Other comprehensive income	-	-	-	1,031	1,031
Total comprehensive income	-	5,651	-	1,031	6,682
Balance as of March 31, 2017	328,184	(12,031)	1	(10,343)	305,811

The accompanying notes on pages 5 to 18 are an integral part of these unaudited condensed interim financial statements.

CERRO DEL ÁGUILA S.A.

Unaudited Condensed Statement of Cash Flows
For the three-month ended March 31, 2017 and 2016

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2017	2016
Cash flows from operating activities:			
Collections from clients		37,132	-
Payment to suppliers		(15,651)	-
Payment of contributions and others		(69)	-
Payment of employees		(119)	-
Cash generated from operating activities		21,293	-
Payment of income tax		(735)	-
Net cash provided by operating activities		20,558	-
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(11,248)	(19,448)
Acquisition of intangibles		8	(478)
Advance reimbursement of value added tax		-	6,131
Net cash used in investing activities		(11,240)	(13,795)
Cash flows from financing activities:			
Proceeds of long term debt	11	-	43,913
Payment of long term debt		(4,157)	-
Transaction cost of the syndicated credit		-	(155)
Payments of interest		(9,449)	(8,994)
Net cash provided by (used in) financing activities		(13,606)	34,764
Net increase (decrease) in cash			
Cash as of January 1		36,677	17,228
Effects of variations on exchange difference on held cash		71	(284)
Cash as of March 31		32,460	37,913

The accompanying notes on pages 5 to 18 are an integral part of these unaudited condensed interim financial statements.

CERRO DEL ÁGUILA S.A.

Notes to the Unaudited Condensed Interim Financial Statements

1. Background and Business Activity

Cerro del Águila S.A., (hereinafter the "Company" or "CDA"), is a subsidiary of IC Power Holdings (Kallpa) Limited (hereinafter "IC Power Holdings"). Since January 7, 2015 the Company is an indirect subsidiary of Kenon Holding Ltd., a publicly listed Company in the New York and Tel Aviv Stock exchanges, incorporated in Singapore. The legal domicile of the Company is Avenue Santo Toribio N° 115, 7th floor, San Isidro, Lima, Peru.

The Company was incorporated on July 14, 2010 for engaging in the power generation and transmission as well as operations related there to, directly or through companies, including acquiring, maintaining, exploiting and selling investments in assets of other companies dedicated to activities in the electricity sector.

The Company's main asset is the "Cerro del Águila" hydropower plant, located in Huancavelica, Peru with an installed capacity of approximately 545 MW, consisting of a six kilometer headrace tunnel and a 17 kilometer transmission line. The Company's concession rights have been granted for an unlimited term and consist of the right to construct and operate a run-of-the river hydroelectric project on the Mantaro River in central Peru.

On August 3, 2016, two out of the three units of CDA, were declared operational, and on August 25, 2016, the third generating unit of CDA was declared operational, reaching the commercial operation ("COD") of the power plant. In March 2017, COES approved the effective capacity tests, increasing the capacity to 545 MW. CDA is the largest privately owned hydroelectric power plant in Peru.

The Company appointed Kallpa Generación S.A. (hereinafter "Kallpa") as Manager, through its Legal Representatives (see note 16).

The Company could be affected by seasonal patterns throughout the year and, therefore, operating margin could vary by month during the year. Additionally, weather variations, including hydrological conditions, could also have an impact on generation output.

2. Basis for the Preparation of Financial Statements

A. Basis of accounting

Compliance with IFRS

These condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Company's last annual financial statements as at and for the year ended December 31, 2016 (last annual financial statements). The condensed statement of financial position as of December 31, 2016 has been derived from the Company's December 31, 2016 audited annual financial statements. These condensed interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards. However, selected explanatory notes have been included to explain events and transactions that are significant to an understanding of the changes in the financial position and the performance of the Company since the last annual financial statements.

These condensed interim financial statements were approved by the Company's Management on July 20, 2017.

B. Negative working capital

Although as of December 31, 2016 and March 31, 2017, the Company has a negative working capital, the Company started operations in August 2016 and management expects cash flow to increase during the following years, in line with the start of the power purchase agreements already signed. Therefore, operating cash flow is stable over short, intermediate and long term and more than ample to cover all operational, financial, tax and capital expenditures.

CERRO DEL ÁGUILA S.A.

Notes to the Unaudited Condensed Interim Financial Statements

The trade payables are mostly related to EPC Contract with Rio Mantaro Consortium and financial obligations are related to the current project finance debt. The Company expects to reduce those trade payables over the next year with cash flows from operating activities. Also, financial obligations are expected to be refinanced during 2017 with transactions in the international capital markets.

C. Use of estimates and judgments

The preparation of these condensed interim financial statements requires Management to make judgments, estimates and assumptions that affect the application of Company's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgments made by Management in applying the Company accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended December 31, 2016.

D. Measurement of fair values

Some of the Company's accounting policies and disclosures require the measurement of fair value of financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of their fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the measurement in total.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in note 12 – Financial Instruments.

CERRO DEL ÁGUILA S.A.

Notes to the Unaudited Condensed Interim Financial Statements

3. Cash

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Checking accounts (a)	32,451	36,669
Petty cash	9	8
	32,460	36,677

- (a) As of March 31, 2017 and December 31, 2016, this account balance mainly includes foreign exchange deposits in a local bank. Cerro del Águila Onshore Construction accounts belong to a Trustee and are part of the Guarantees of the syndicated loan.

The credit quality that safeguard the Company's bank deposits has the same evaluation as compared to December 31, 2016.

4. Trade Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
COES	1,197	1,630
Regulated customers	8,921	9,312
Power generation companies	530	442
	10,648	11,384

Accounts receivables mainly are denominated in soles. They have current maturity and not generate interest, except in the case of payment delays.

The Committee of Economic Operation of the National Interconnected System (COES) as the system operator acts as a clearing-house and settles the payments for power generation companies.

The aging of trade receivable is the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Unexpired	10,305	10,694
Less than 30 days	(40)	496
31 to 60 days	378	87
61 to 180 days	5	107
More than 181 days	-	-
	10,648	11,384

CERRO DEL ÁGUILA S.A.

Notes to the Unaudited Condensed Interim Financial Statements

5. Other Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Value Added Tax (VAT) (a)	3,060	4,566
Income tax	1,734	956
Guarantee deposits	4	4
Loans to employees	34	31
Other	215	136
	5,047	5,693

- (a) As of March 31, 2017, the VAT credit corresponds to the disbursements made in the development of the Cerro del Águila Hydropower plant. Management expects to recover these VAT credits in the short term.

6. Inventories

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Mechanical spare parts	4	-
Electrical spare parts	21	18
Lubricants	40	14
Other supplies	23	18
	88	50

There were no inventory write-downs recognized during the periods.

CERRO DEL ÁGUILA S.A.

Notes to the Unaudited Condensed Interim Financial Statements

7. Property, Plant and Equipment

Comprises the following:

<i>In thousands of US dollars</i>	March 31, 2017	December 31, 2016
Cost:		
Beginning balance	930,913	816,256
Additions:		
Buildings and other constructions	187	1,535
Plant and equipment	49	465
Work in progress	27,701	112,359
Vehicles	-	113
Computer and other equipment	82	218
Furniture and fixtures	11	7
Total additions	28,030	114,697
Disposals:		
Vehicles	-	(38)
Computer and other equipment	-	(2)
Total disposals	-	(40)
Transfers		
Buildings and other constructions	19,653	642,644
Plant and equipment	8,048	266,686
Spare Parts	-	7,292
Work in progress	(27,701)	(916,622)
Total transfers	-	-
Ending balance	958,943	930,913
Accumulated depreciation:		
Beginning balance	(7,255)	(585)
Additions:		
Buildings and other constructions	(2,017)	(3,360)
Plant and equipment	(1,951)	(3,115)
Vehicles	(41)	(166)
Computer and other equipment	(24)	(58)
Furniture and fixtures	(1)	(4)
Total additions	(4,034)	(6,703)
Disposals:		
Vehicles	-	32
Computer and other equipment	-	1
Total disposals	-	33
Ending balance	(11,289)	(7,255)
Net cost at the beginning of the period	923,658	815,671
Net cost at the end of the period	947,654	923,658

- A. The increase in the balance of property, plant and equipment, after comparing December 31, 2016 and March 31, 2017 is mainly due to Installed Capacity Bonus according to Rio Mantaro Consortium contract for the execution of the project Hydroelectric Power Plant Cerro del Águila. See note 1.

CERRO DEL ÁGUILA S.A.

Notes to the Unaudited Condensed Interim Financial Statements

- B. As of March 31, 2017 in Company's Management opinion there were no impairment indicators on the value of property, plant and equipment.
- C. Distribution of depreciation was as follow:

<i>In thousands of U.S. dollars</i>	March 31, 2017	March 31, 2016
Depreciation	4,021	-
Administrative expenses	13	-
Works in-progress	-	51
	4,034	51

- D. As of March 31, 2017 and December 31, 2016, the Company has insured its main assets for property damage under its Construction All Risk (CAR) policy. Management's opinion is this insurance policy is consistent with the international industry practice and that the risk of possible losses for claims considered in the insurance policies is reasonable, taking into consideration the Company's types of assets.

8. Intangibles

Comprises the following:

<i>In thousands of US dollars</i>	March 31, 2017	December 31, 2016
Public access roads	25,284	25,365
Easement	408	416
	25,692	25,781

As of March 31, 2017, the intangible balance mainly comprises the disbursements made by the Company in easements and public access roads to access the site. The construction of these roads is included in the contract signed with Rio Mantaro Consortium.

During this quarter there are not important transactions related with intangibles assets.

9. Trade Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Related EPC Contract with Rio Mantaro Consortium (a)	54,310	37,760
Transmission tolls (b)	2,441	2,089
Other	262	523
	57,013	40,372

- (a) These obligations have current maturities and accrue interest in the case of arrears in the payment date. At March 31, 2017 and December 31, 2016 interest due to arrears has not been generated. Likewise, no specific guarantees have been granted for these obligations. The trade payables increase compared to December 31, 2016, relates mainly for Installed Capacity Bonus according to Rio Mantaro Consortium contract. See note 1.
- (b) These accounts payable are related to transmission tolls paid for the use of principal transmission lines in the Peruvian interconnected electricity system. Most of these costs are pass-through to Cerro del Águila's clients.

CERRO DEL ÁGUILA S.A.

Notes to the Unaudited Condensed Interim Financial Statements

10. Other Payables

Comprises the following:

<i>In thousands of US dollars</i>	March 31, 2017	December 31, 2016
Interest payable (a)	3,597	3,634
Various accruals and other accounts payable	1,441	2,423
Related entities transactions (b)	2,105	344
Sales tax payable	29	31
Self-employment and regular employment income tax payable	9	69
Contributions payable	17	8
Vacations and compensations payable	59	64
Total	7,257	6,573

- (a) Corresponds mainly to the interests of the syndicated loans (note 12).
- (b) Corresponds to the debts owed to Kallpa as part of the Management Services and Operation and Maintenance Agreements (note 16).

11. Loans from Banks and Others

Comprises the following:

<i>In thousands of US dollars</i>	March 31, 2017	December 31, 2016
Short term debt	14,000	14,000
Current portion of long term debt	27,935	17,104
Current portion of debt	41,935	31,104
Non-current portion of long term debt	547,251	561,989
Total	589,186	593,093

The decrease in the quarter is due syndicated loans payment in February 2017 US\$ 4,157 thousands and the amortization of transaction costs US\$ 250 thousands.

CERRO DEL ÁGUILA S.A.

Notes to the Unaudited Condensed Interim Financial Statements

A. Terms and debt repayment schedule

The terms and conditions of outstanding loans are as follows:

<i>In thousands of US dollars</i>	Nominal interest rate	Maturity	Face value		Carrying amount	
			March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
Banco de Crédito del Perú	0.83%	Jun-17	14,000	14,000	14,000	14,000
Syndicated loan (Tranches A, B and D)						
Banco de Crédito del Perú	3M Libor + From 4.25% to 6.25%	Aug-24	66,007	66,477	65,132	65,573
Banco Internacional del Perú	3M Libor + From 4.25% to 6.25%	Aug-24	59,188	59,610	58,403	58,800
Banco Continental	3M Libor + From 4.25% to 6.25%	Aug-24	59,188	59,610	58,403	58,800
Deutsche Investition und Entwicklungsgesellschaft (DEG)	3M Libor + From 4.25% to 6.25%	Aug-24	29,594	29,805	29,202	29,400
Financierings – Maatschappij voor Ontwikkelingsgeselschaft (FMO)	3M Libor + From 4.25% to 6.25%	Aug-24	69,053	69,545	68,137	68,600
HSBC Bank USA	3M Libor + From 4.25% to 6.25%	Aug-24	38,472	38,965	37,962	38,436
Banco de Sabadell, S.A.	3M Libor + From 4.25% to 6.25%	Aug-24	34,526	34,554	34,069	34,084
Intesa Sanpaolo	3M Libor + From 4.25% to 6.25%	Aug-24	44,391	44,708	43,802	44,100
The Bank of Nova Scotia	3M Libor + From 4.25% to 6.25%	Aug-24	69,053	69,545	68,137	68,600
Societe Generale Américas (SG Américas)	3M Libor + From 4.25% to 6.25%	Aug-24	49,323	49,675	48,669	49,000
Sumitomo Mitsui Banking Corporation	3M Libor + From 4.25% to 6.25%	Feb-27	64,120	64,578	63,270	63,700
			596,915	601,072	589,186	593,093

The Syndicate Loan was disbursed under Tranches A, B and D. The project finance loans secured and guaranteed within a typical project finance structure, such as mortgages and pledges over Cerro del Águila's property, rights and concessions, including those over the power plant and transmission lines.

Additionally, Tranche D is secured by a credit insurance policy provided by SACE S.p.A.—Servizi Assicurativi del Commercio Estero, or SACE.

CERRO DEL ÁGUILA S.A.

Notes to the Unaudited Condensed Interim Financial Statements

The following table presents the repayment schedule of non-current portion of long-term debt at March 31, 2017:

<i>In thousands of U.S. dollars</i>	
2018	32,661
2019	67,804
2020	54,206
2021	57,549
2022 and thereafter	335,031
	547,251

The conditions of the borrowing agreements as of March 31, 2017 are the same disclosed in the annual financial statements of the Company as of December 31, 2016. In the Company's Management opinion, the covenant of the financial obligation have been complied as of March 31, 2017.

CERRO DEL ÁGUILA S.A.

Notes to the Unaudited Condensed Interim Financial Statements

12. Financial Instruments
A. Carrying amount and fair value accounting

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy.

	Carrying amount							
	Current				Non-current			Fair Value
	Cash	Loans and receivables	Other financial liabilities	Fair value - including hedging instruments	Other financial liabilities	Fair value - including hedging instruments	Total	Level 2
<i>In thousands of US dollars</i>								
As at 31 March, 2017								
Financial assets not measured at fair value								
Cash (note 3)	32,460	-	-	-	-	-	32,460	-
Trade receivables (note 4)	-	10,648	-	-	-	-	10,648	-
Other receivables (*)	-	112	-	-	-	-	112	-
Financial liabilities measured at fair value								
Swap interest rate used for hedging (note 12. C)	-	-	-	(6,137)	-	(9,371)	(15,508)	(15,508)
Financial liabilities not measured at fair value								
Trade payables (note 9)	-	-	(57,013)	-	-	-	(57,013)	-
Other payables (note 10) (*)	-	-	(7,143)	-	-	-	(7,143)	-
Shareholders Loan (note 13)	-	-	-	-	(29,516)	-	(29,516)	-
Loans from banks and others (note 11)	-	-	(41,935)	-	(547,251)	-	(589,186)	(628,108)
	32,460	10,760	(106,091)	(6,137)	(576,767)	(9,371)	(655,146)	(643,616)
As at 31 December 2016								
Financial assets not measured at fair value								
Cash (note 3)	36,677	-	-	-	-	-	36,677	-
Trade receivables (note 4)	-	11,384	-	-	-	-	11,384	-
Other receivables (*)	-	107	-	-	-	-	107	-
Financial liabilities measured at fair value								
Swap interest rate used for hedging (note 12.C)	-	-	-	(6,965)	-	(10,544)	(17,509)	(17,509)
Financial liabilities not measured at fair value								
Trade payable (note 9)	-	-	(40,372)	-	-	-	(40,372)	-
Other payable (note 10) (*)	-	-	(6,401)	-	-	-	(6,401)	-
Shareholders Loan (note 13)	-	-	-	-	(28,920)	-	(28,920)	-
Loans from banks and others (note 11)	-	-	(31,104)	-	(561,989)	-	(593,093)	(689,292)
	36,677	11,491	(77,877)	(6,965)	(590,909)	(10,544)	(638,127)	(706,801)

(*) It does not include tax assets, tax liabilities, employee benefits and advances.

CERRO DEL ÁGUILA S.A.

Notes to the Unaudited Condensed Interim Financial Statements

B. Fair value measurement**i. Valuation techniques and significant unobservable inputs**

The following table shows the valuations techniques used in the determination of fair values of financial instruments - Level 2 at March 31, 2017 and December 31, 2016:

Financial instruments measured at fair value

Type	Valuation techniques	Key unobservable inputs	Interrelationship between key unobservable inputs and fair value
Interest rate swap	The Company applies standard valuation techniques such as: discounted cash flows for fixed and variables coupons (estimated using forward curves) applying as discounted rates as the projected LIBOR zero coupon curve. The observable inputs are obtained through market information providers.	Not applicable	Not applicable

Financial instruments not measured at fair value

Type	Valuation techniques	Key unobservable inputs
Obligations for long-term syndicated loan	Cash flows discounted at market interest rates	None

C. Derivatives

On July 25, 2013 the Company contracted interest rate swaps with financial institutions to cover the risk of fluctuations in the LIBOR rate associated with tranches A, B, D1 and D2 of the international syndicated loan obtained by the Company, destined to the estimated budget of the Cerro del Aguila Hydroelectric Power Plant Project.

At March 31, 2017 the derivative maintained by the Company is as follow:

<i>In thousands of U.S. dollars</i>	Notional amount US\$	Fair value (US\$ thousands)	
		Current	Non-current
Interest Rate Swap Tranch A	384,000	6,137	9,371

CERRO DEL ÁGUILA S.A.

Notes to the Unaudited Condensed Interim Financial Statements

Reconciliation of cash flow hedges derivatives:

The following table shows reconciliation from the opening balances to the closing balances for cash flow hedges derivatives:

<i>In thousands of U.S. dollars</i>	
Balance at January 1, 2016	32,025
Gain included in OCI	6,789
Settlement	(850)
Balance at March 31, 2016	37,964
Balance at January 1, 2017	17,509
Loss included in OCI	(2,001)
Balance at March 31, 2017	15,508

The condensed interim statement of financial position includes the income tax of derivative in the account deferred income tax.

13. Subordinated Shareholders Loan

A subordinated shareholders loan of US\$ 28 million was received in August 2016. The subordinated loan has a 10 year bullet repayment without penalty for pre-payment and bear interests payable at maturity at an annual rate of 8.5% with a 0.5% step up every two years.

<i>In thousands of US dollars</i>	March 31, 2017	December 31, 2016
<i>Shareholder</i>		
Energía del Pacífico S.A.	7,028	7,028
IC Power Holdings (Kallpa) Limited	20,972	20,972
	28,000	28,000
Accrued interest	1,516	920
	29,516	28,920

14. Equity**Share capital**

Comprises the following:

<i>In thousands of US dollars</i>	March 31, 2017	December 31, 2016
IC Power Holdings (Kallpa) Limited	245,810	245,810
Energía del Pacífico S.A.	82,374	82,374
	328,184	328,184

At March 31, 2017 and December 31, 2016 the shareholders capital is represented by 877,134,983 common shares, totally signed and paid-up, with a nominal value of one Sol each (equivalent to approximately US\$ 0.374).

Shareholders	Number of shares	%
IC Power Holdings (Kallpa) Limited	656,303,295	74.90%
Energía del Pacífico S.A.	220,831,688	25.10%
	877,134,983	100.00%

CERRO DEL ÁGUILA S.A.

Notes to the Unaudited Condensed Interim Financial Statements

15. Income Taxes

Under current tax law, the income tax of legal persons is calculated for the year 2017 with a rate of 29.5% on net taxable income. However, the Company use a rate of 30%, in accordance with the Legal Stability Agreement signed with the Government. The estimated average effective annual tax rate used for the three month period ended March 31, 2017 is 27%.

16. Related Party Transactions**A. Controlling Company and main controlling Company**

There are no changes in the parent and ultimate parent companies during the three-month period ended March 31, 2017 (no changes during the three-month period ended March 31, 2016).

The Company has signed a Management Services Agreement and an Operation and Maintenance Agreement with Kallpa Generación, related to the services that Kallpa provides for managing the Company's operations.

		Transaction value		Outstanding balances	
		March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
<i>In thousands of US dollars</i>					
Kallpa Generación	Management Service	2,106	89	2,067	11
Kallpa Generación	Reimbursement of expenses	38	20	38	24
Total		2,144	109	2,105	35

These transactions have current maturity and do not accrue interest. None of these balances have guarantees.

Transactions with key management personnel:

i. Loans to directors

At March 31, 2017, there are no loans to directors (no loans to directors as of December 31, 2016).

ii. Compensation received by key management personnel

At March 31, 2017, there are no compensation to key management personnel (no compensation to key management as of December 31, 2016)

CERRO DEL ÁGUILA S.A.

Notes to the Unaudited Condensed Interim Financial Statements

17. Standards Issued but not yet Effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Company's Management has not early adopted the following new or amended standards in preparing these condensed interim financial statements.

New IFRS	Date of mandatory application
IFRS 9 <i>Financial Instruments</i> .	Annual periods beginning on or after January 1, 2018. Early application is permitted.
IFRS 15 <i>Revenue from Contracts with Customers</i>	Annual periods beginning on or after January 1, 2018. Early application is permitted.
IFRS 16: <i>Leases</i>	Annual periods beginning on or after January 1, 2019. Early application is permitted.
Amendments to IFRS	
IAS 7: <i>Disclosure Initiative</i> , amendments to IAS 7.	Annual periods beginning on or after January 1, 2017. Early adoption is permitted.
IAS 12 <i>Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses</i> (amendments to IAS 12).	Annual periods beginning on or after January 1, 2017. Early adoption is permitted.
IFRS 15 <i>Revenue from Contracts with Customers</i> : Amendment clarifying requirements and providing additional transitional relief for companies that are implementing the new standard.	Annual periods beginning on or after January 1, 2018. Early application is permitted.

The Company's Management is evaluating the impact, if any, of the adoption of these amendments and new International Financial Reporting Standards (IFRS) issued but not yet effective as of the date of the condensed financial statements.

18. Subsequent Events

- A. On June 27, 2017, the shareholder and the board of directors of each of Cerro del Águila, S.A. and Kallpa Generación, S.A. unanimously approved the merger of the companies, with Cerro del Águila becoming the surviving entity, subject to the merger's registration in the Peruvian Public Registry. Upon effectiveness of the merger, the combined entity will be renamed Kallpa Generación S.A. Management expect the merger to be consummated prior to the end of the calendar year.
- B. On June 2, 2017, Cerro del Águila executed a settlement agreement with the EPC Contractors by which both companies settled all existing disputes between the parties in connection to the EPC Contract. As per the settlement agreement, the EPC Contractors paid to Cerro del Águila an aggregate amount of US\$ 40 million that included liquidated damages for delayed completion for US\$ 32 million and liquidated damages for unscheduled unavailability for US\$ 8 million. Additionally, Cerro del Águila paid the retained amount to US\$ 27 million and paid to the EPC Contractors a total amount of US\$ 27 million as a bonus for additional installed capacity, cancelling all obligations with Rio Mantaro Consortium. In June 2017, Cerro del Águila paid to the EPC Contractors an aggregate amount of US\$ 14 million, which was amount remaining after the deduction of such US\$ 40 million, in order to completely settle such accounts. As a result of the amounts paid by Cerro del Águila to the EPC Contractors under the referenced settlement agreement, the total Cerro del Águila project costs were increased to US\$ 975 million.



CERRO DEL ÁGUILA S.A.

Financial Statements

December 31, 2016 and 2015

(including Independent Auditors' Report)



KPMG en Perú
Torre KPMG. Av. Javier Prado Oeste 203
San Isidro. Lima 27, Perú

Teléfono 51 (1) 611 3000
Fax 51 (1) 421 6943
Internet www.kpmg.com/pe

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors Cerro del Águila S.A.

We have audited the accompanying financial statements of Cerro del Águila S.A. (the Company), which comprise the statements of financial position as of December 31, 2016 and 2015, the statements of profit and loss and other comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes 1 to 25, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing approved for its application in Peru by the Dean's Council of the Peruvian Professional Association of Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

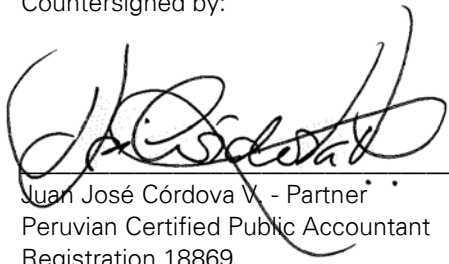
In our opinion, the financial statements present fairly, in all material respects, the financial position of Cerro del Águila S.A. as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Lima, Peru

July 24, 2017

Caipo y Asociados

Countersigned by:


Juan José Córdova V. - Partner
Peruvian Certified Public Accountant
Registration 18869



CERRO DEL ÁGUILA S.A.

Financial Statements

December 31, 2016 and 2015

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CERRO DEL ÁGUILA S.A.
 Statements of Financial Position
 As of December 31, 2016 and 2015

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2016	2015
Assets			
Current assets			
Cash	6	36,677	17,228
Trade receivables	7	11,384	-
Other receivables	8	5,693	6,581
Prepaid expenses		39	32
Inventories		50	-
Total current assets		53,843	23,841
Non-current assets			
Property, plant and equipment	9	923,658	815,671
Intangible assets	10	25,781	25,397
Other receivables	8	-	5,947
Total non-current assets		949,439	847,015
Total assets		1,003,282	870,856

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2016	2015
Liabilities			
Current liabilities			
Trade payables	11	40,372	4,184
Other payables	12	6,573	4,958
Loans from Banks and others:	13		
Short term loan		14,000	-
Current portion of long term syndicated loan		17,104	7,259
Derivative financial instruments	5	6,965	9,508
Total current liabilities		85,014	25,909
Non-current liabilities			
Loans from Banks and others - Long term portion of syndicated loan	13	561,989	529,064
Derivative financial instruments	5	10,544	22,518
Shareholders loan	16	28,920	-
Deferred income tax liabilities	14	15,724	4,696
Provisions	15	1,962	-
Total non-current liabilities		619,139	556,278
Total liabilities		704,153	582,187
Equity			
Share capital	17	328,184	328,184
Hedging reserves		(11,374)	(21,823)
Other reserves		1	-
Accumulated deficit		(17,682)	(17,692)
Total equity		299,129	288,669
Total liabilities and equity		1,003,282	870,856

The accompanying notes on pages 5 to 43 are an integral part of these financial statements.

CERRO DEL ÁGUILA S.A.

Statements of Profit or Loss and other Comprehensive Income (Loss)

For the years ended December 31, 2016 and 2015

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2016	2015
Revenue	20	49,647	-
Cost of sales (excluding depreciation)	21.B	(15,662)	-
Depreciation	9	(6,561)	-
Administrative expenses	21.B	(3,194)	(17)
Other income	21.A	25	-
Other expenses		(7)	-
Profit (loss) from operating activities		24,248	(17)
Finance income		52	12
Finance costs	22	(17,797)	(18)
Net foreign exchange difference	5.B	349	(2,929)
Finance cost, net		(17,396)	(2,935)
Profit (loss) before income tax		6,852	(2,952)
Income tax expense	14.B	(6,841)	(5,626)
Profit or loss for the year		11	(8,578)
Other comprehensive income or loss:			
items that are or may be reclassified to profit or loss			
Cash flow hedge - effective portion of changes in fair value		13,667	(2,393)
Cash flow hedge - reclassified to profit or loss		969	852
Income tax relating to cash flow hedge		(4,187)	462
Other comprehensive income (loss), net of tax		10,449	(1,079)
Total comprehensive income (loss)		10,460	(9,657)

The accompanying notes on pages 5 to 43 are an integral part of these financial statements.

CERRO DEL ÁGUILA S.A.

Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

<i>In thousands of U.S. dollars</i>	Number of shares	Share capital (note 17.A)	Hedging reserve (note 17.B)	Other reserves (note 17.B)	Accumulated deficit	Total
Balance as of January 1, 2015	845,562,473	318,184	(20,744)	-	(9,114)	288,326
Comprehensive loss for the year:						
Net Loss for the year	-	-	-	-	(8,578)	(8,578)
Other comprehensive loss	-	-	(1,079)	-	-	(1,079)
Total comprehensive loss	-	-	(1,079)	-	(8,578)	(9,657)
Transactions with owners:						
Capital contributions	31,572,510	10,000	-	-	-	10,000
Total transactions with owners	31,572,510	10,000	-	-	-	10,000
Balance as of December 31, 2015	877,134,983	328,184	(21,823)	-	(17,692)	288,669
Balance as of January 1, 2016	877,134,983	328,184	(21,823)	-	(17,692)	288,669
Comprehensive income for the year:						
Profit	-	-	-	-	11	11
Other comprehensive income	-	-	10,449	-	-	10,449
Total comprehensive income	-	-	10,449	-	11	10,460
Legal reserves	-	-	-	1	(1)	-
Balance as of December 31, 2016	877,134,983	328,184	(11,374)	1	(17,682)	299,129

The accompanying notes on pages 5 to 43 are an integral part of these financial statements.

CERRO DEL ÁGUILA S.A.
Statements of Cash Flows
December 31, 2016 and 2015

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2016	2015
Cash flows from operating activities:			
Cash receipts from customers		47,621	-
Cash paid to suppliers and third parties		(22,731)	-
Payment to employees		(483)	-
Cash generated from operating activities		24,407	-
Income tax paid		(948)	-
Net cash provided by operating activities		23,459	-
Cash flows from investing activities:			
Acquisition of property, plant, and equipment		(77,964)	(216,971)
Acquisition of intangible assets		(600)	(7,149)
Advance reimbursement of value added tax		12,202	41,156
Net cash used in investing activities		(66,362)	(182,964)
Cash flows from financing activities:			
Capital contributions		-	10,000
Loans from shareholders		28,000	-
Proceeds of short term debt		28,000	-
Proceeds of long term debt		43,913	85,000
Payment of long-term debts		(3,841)	-
Payment of short-term loans		(14,000)	-
Transaction cost of the syndicated credit		(525)	(1,515)
Payment of interest		(19,066)	-
Net cash provided by financing activities		62,481	93,485
Net increase (decrease) in cash		19,578	(89,479)
Cash as of January 1		17,228	105,928
Effects of variations on exchange difference on cash held		(129)	779
Cash as of December 31		36,677	17,228
Transactions that do not generate cash flows:			
Provisions (dismantling plan)		1,937	-

The accompanying notes on pages 5 to 43 are an integral part of these financial statements.

CERRO DEL ÁGUILA S.A.

Notes to the Financial Statements

December 31, 2016 and 2015

1. Background and Business Activity

A. Background

Cerro del Águila S.A., (hereinafter the "Company"), is a subsidiary of IC Power Holdings (Kallpa) Limited (hereinafter "IC Power Holdings"). Since January 7, 2015 the Company is an indirect subsidiary of Kenon Holding Ltd., a publicly listed Company in both, the New York and Tel Aviv Stock exchanges, incorporated in Singapore. The legal domicile of the Company is Avenue Santo Toribio N° 115, 7th floor, San Isidro, Lima, Peru.

The Company was incorporated on July 14, 2010 for engaging in the power generation and transmission as well as operations related there to, directly or through companies, including acquiring, maintaining, exploiting and selling investments in assets of other companies dedicated to activities in the electricity sector.

In June 2011, Kallpa Generación S.A. (hereinafter Kallpa an affiliated company subsidiary of IC Power Holdings) transferred the Definitive Concession to Cerro del Águila S.A. to develop electric generation activities in the hydropower plant under Supreme Resolution N°059-2011-EM.

In August 2012, the Company subscribed an international syndicated loan with Banco de Crédito del Perú, Banco Internacional del Perú, BBVA Banco Continental, DEG – Deutsche Investitions – und Entwicklungsgesellschaft mbH, FMO – Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., HSBC Bank USA, National Association, Intesa Sanpaolo, S.p.A., New York Branch, Sumitomo Mitsui Banking Corporation, The Bank of Nova Scotia y Société Générale for US\$ 590,912 thousand equivalent to 65% of total estimated project cost. The remaining 35% was a shareholder contribution by IC Power Holdings (Kallpa) Limited and Energia del Pacífico S.A. In November 2016, Banco Sabadell bought 47% of HSBC's share of the syndicated loan amounting to approximately US\$ 35,000 thousand. The amount disbursed from the syndicated loan was US\$ 590,912 thousand. As of December 31, 2016, the amount outstanding is US\$ 579,093 thousand.

B. Business activity

The Company is involved in the generation and commercialization of electrical energy.

The Company's main asset is the "Cerro del Águila" hydropower plant, located in Huancavelica, Peru with an installed capacity of approximately 510 MW, consisting of a six kilometer headrace tunnel and a 17 kilometer transmission line. The Company's concession rights have been granted for an unlimited term and consist of the right to construct and operate a run-of-the river hydroelectric project on the Mantaro River in central Peru.

On August 3, 2016, two out of the three units of CDA were declared operational, and on August 25, 2016, the third generating unit of CDA was declared operational, reaching the Commercial Operation Date ("COD") of the power plant. With the completion of these units, CDA is now capable of generating 510 MW, becoming the largest privately owned hydroelectric power plant in Peru (note 25 (c)).

C. Corporate reorganization

- On May 23, 2011, the General Shareholders' Meeting of Kallpa approved the agreement on simple reorganization to transfer its net assets to the Company. By this agreement, Kallpa transferred an equity block as capital contribution to the Company, in exchange for 12,016,416 common voting shares of this last entity. As of December 31, 2011, this investment amounting to US\$ 4,246 thousand accounted for 28.01% in the capital stock of the Company. By the simple reorganization, Kallpa became a shareholder of the Company.

CERRO DEL ÁGUILA S.A.

Notes to the Financial Statements
December 31, 2016 and 2015

- On May 23, 2013, the General Shareholders' Meeting of Kallpa approved the Partial Spin-off Project, for which Kallpa spin-off an equity block, which was composed solely of the Kallpa's own shares in the Company that was transferred.
- Due to the partial spin-off, Kallpa reduced its capital stock by S/ 12,016,416 (equivalent to US\$ 4,246 thousand) through the amortization of the same number of shares without affecting the shareholding structure.
- The spin-off became effective on August 15, 2013 and was registered in the Public Registry on November 9, 2013.

2. Operations Regulation and Legal Standards Affecting the Electricity Sector

The Company is within the scope of various rules governing its activities. Failure to comply with these rules may result in the imposition of sanctions on the Company affecting it both financially and operationally. The Company's Management monitors and assesses compliance with regulations and claims filed.

Main regulations affecting the Company's activities are:

A. Electricity concessions law

In Peru, the electricity sector is regulated under the Electricity Concessions Law, Decree Law 25844, enacted on November 19, 1992; its Regulation, Executive Order 009-93-EM, enacted on February 25, 1993; and its supplementary standards and amendments, one among them being Law 28832, the Law to Guarantee the Efficient Development of Electricity Generation.

According to the Law of Electricity Concessions, the National Interconnected System (Sistema Interconectado Nacional – SEIN, for its Spanish acronym) is divided into three main segments: power generation, transmission, and distribution.

In addition, according to the Law to Guarantee the Efficient Development of Electricity Generation, the operations of the power generation plants and transmission systems are subject to the provisions of the Committee of Economic Operation of the National Interconnected System (Comité de Operación Económica del Sistema Interconectado Nacional - COES-SINAC; for its Spanish acronym). The COES-SINAC coordinates their operation at minimum cost, guaranteeing the security of the supply of electricity and the best use of energy resources, and planning the development of the SEIN and the administration of the Short-term Market. The COES-SINAC establishes the values of the capacity and energy transfers between the generators.

B. Law to guarantee the efficient development of electricity generation

In July 2006, the Peruvian Government issued Law 28832, the Law to Guarantee the Efficient Development of Electricity Generation, with one of its main objectives to: (1) maintain the economic principles used in Law 25844 and add new measures to facilitate competition in the wholesale market; (2) reduce government intervention in establishing power generation tariffs; (3) allow power generation tariffs for regulated power consumers to reflect a competitive market, facilitating the construction of new generation plants when required; and (4) ensure a sufficient supply of power by reducing the power system's exposure to the risks of high prices and rationing inherent to situations of undersupply of natural gas or transportation congestion.

One of the main changes introduced by the Law is in the mechanism of tender offers for the electricity distribution companies to enter into power supply contracts with power generation companies to supply the public electricity service. This rule established a mechanism that promotes investments in new power generation capacity through long-term contracting at fixed prices with distribution companies.

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C. Environmental preservation regulations

According to the Law of Electricity Concessions (Decree Law 25844) and the General Law of the Environment (Law 28611), the Government designs and applies the policies and standards necessary for the adequate conservation of the environment and of the nation's cultural heritage. Additionally, it ensures the rational use of natural resources in the development of activities relating to the generation, transmission, and distribution of electricity and hydrocarbon activities. In this sense, the Ministry of Energy and Mines approved the Regulation of Environmental Protection in Electricity Activities (Executive Order 29-94-EM) and the Regulation of Environmental Protection in Hydrocarbon Activities (Executive Order 015-2006-EM).

In compliance with the above-mentioned norms, the Company carried out an Environmental and Social Impact Study during 2005, which was approved by the Ministry of Energy and Mines in February 2006 by Official Document Resolución Directoral 051-2006-MEM/AEE.

As of December 31, 2016 and 2015, the Company's Management estimates that, in the event that a contingency arises related to environmental management, it would not be material.

D. Technical standards

Technical quality standards of electricity services

Executive Order 020-97-EM approved the Technical Quality Standard of the Electricity Services (Norma Técnica de Calidad de los Servicios Eléctricos – NTCSE, for its Spanish acronym), which established the minimum quality levels of the electricity services and those related to the power generation, transmission, and distribution subject to the regulation of prices, applicable to power supply subject to a free price regime, in all that both counterparties have not stated within their agreement.

The NTCSE uses measurement and tolerance procedures to establish quality standards for the electricity service and public lighting service, assigning the responsibility for its supervision to OSINERGMIN and ordering its compliance by the electricity companies, as well as the clients of the sector. Likewise, it regulates the application of penalties and compensations in cases of non-compliance to parameters established by the NTCSE. The Law 28832 grants COES-SINAC authority to assign responsibilities in case of breach of the NTCSE, as well as calculate the corresponding compensations.

Technical standard for the coordination of the real time operation of the interconnected systems

Official Document "Resolución Directoral" 025-2008-EM/DGE, dated August 8, 2008, modified subsection 7.1.3 of the "Technical Standard for the Coordination of the Real Time Operation of the Interconnected Systems", which basically establishes that the rationing of electricity will be carried out by prioritizing the electricity supply for the public electricity service.

Technical standard for the real time exchange of information for the operation of the national interconnected electrical system

Official Document "Resolución Directoral" 243-2013-EM/DGE, dated November 27, 2013, approved the Technical Standard for the Real Time Exchange of Information for the Operation of the National Interconnected Electrical System, which established the technical responsibilities and the procedures related to the operation of the ICCP Network of the SEIN (RIS) for the real time exchange of information between the Control Center of the COES and the Control Centers of the members of the SEIN.

E. Anti-monopoly and Anti-oligopoly Law in the Electricity Sector

The Anti-monopoly and Anti-oligopoly Law in the Electricity Sector, Law 26876, was issued in November 1997, which establishes that vertical integration over 5% or horizontal integration over 15% that occur in companies that develop activities of generation, transmission, and distribution of electricity, will be subject to a prior authorization procedure in order to avoid concentrations that could affect competition in the electricity market.

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Resolution 012-99/INDECOPI/CLC established conditions in defense of free competition and transparency in the sector. In Management's opinion, this standard does not affect the Company's operations.

F. Emergency decree assuring continuity in the provision of electricity services

Due to short-term constraints in the gas supply and power transmission systems, which were generating distorting price signals in the spot market, the Government of Peru issued Emergency Decree 049-2008, dated December 17, 2008, extended by Emergency Decree 079-2010, Law 30115 and Law 30513. Pursuant to this decree, COES is required to simulate energy spot prices without accounting for limitations due to shortage in supply and transportation of natural gas and for limitations on the transmission system. The latter scheme caps spot prices at a maximum amount per megawatt hour. Power generation companies with units that are called to dispatch and have a variable cost higher than the spot price determined pursuant to the referenced emergency decree are compensated for the difference in their cost by transmission surcharges imposed on all end consumers of the SEIN (i.e., regulated and non-regulated customers) and collected by distribution companies.

Additionally, such decree regulates the allocation to power generators of mandatory energy supplies without a contract. Such mandatory supplies are allocated to power generators based on their annual efficient firm energy less their energy sales per contract. The allocation of mandatory supplies without a contract will not generate economic losses to power generators since the demand shall pay an additional fee for the energy of these mandatory supplies when their supplying costs exceed Busbar tariffs.

As of the date of these financial statements, the aforementioned government decree will be in force until October 1, 2017. Emergency decrees are legislative statutes that are exceptionally issued by the Executive branch of the Government of Peru, which can only be issued on circumstances and in areas specified in the Peruvian Constitution and are effective for a limited time.

G. Standard "Procedure for additional variable cost compensations and mandatory supplies without agreements"

Published on January 9, 2009 by OSINERGMIN through Resolution 001-2009-OS/CD to establish the manner, responsibilities, sequence, and estimates that shall be followed in order to transfer compensations to users referred to in Articles 1 and 2 of Emergency Decree N° 049-2008. This Resolution will continue to apply for the duration of Emergency Decree N° 049-2008.

H. Standard "Rates and compensations for secondary transmission systems (STS) and complementary transmission systems (CTS)"

OSINERGMIN through Resolution No. 164-2016 OS/CD, dated June 30, 2016, approved the new standard "procedure for allocation of responsibility payment of STS and CTS".

Under the previous methodology, only the "Relevant Power Generators" have assumed payment of STS and CTS; however, the new Resolution eliminates this concept and therefore all power generators would pay even transmission facilities that do not use.

Notwithstanding the above, the Resolution establishes a transitional period from May 2017 to April 2021 to reduce the impact of this measure established.

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I. Approves the addendum proposals (modification of the Producer Price Index - PPI Series) to the Electricity Supply Contracts, resulting from the long-term bidding processes

Resolution N° 265-2016-OS/CD, dated December 15, 2016, approved the addendums in the CDA contracts with distributors to modify the IPP series used for price indexation.

J. Law that creates the energy security system on hydrocarbons and the energy and social inclusion fund

On April 13, 2013, Law 29852, the Law that Creates the Energy Security System on Hydrocarbons and the Energy and Social Inclusion Fund (FISE, for its Spanish acronym), approved through Executive Order 021-2013-EM, was published, as a power compensation system that provides security for the system, as well as a social compensation scheme for the most vulnerable sectors of the population. The additional charge paid for electric generators is transferred to the toll of the main transmission electrical system through Law 29969, a law that lays down provisions in order to promote the massive use of natural gas.

In 2016, the Legislative Decree N° 1331 introduced provisions in order to promote the use of natural gas at the national level. The FISE also serves to promote mechanisms for universal access to energy. The funds can be used to finance connections, vehicular conversions and systems or means of distribution or transportation.

K. Wholesale electricity market

Supreme Decree N° 026-2016-EM, dated July 2, 2016: New regulation of the wholesale electricity market (MME, for its Spanish acronym). This new regulation granted 6 months for the presentation of the technical procedures to be approved by OSINERGMIN that are necessary to operate the MME. The MME is administrated by COES and it includes the Short Term Market (MCP, for its Spanish acronym), ancillary services and other collateral payments necessary for the operation of the Peruvian Interconnected System (SEIN).

Participants who are authorized to sell in the MCP are the power generators members of the COES through the dispatch of their respective power plants (dispatch decided by the COES based on a marginal cost merit order).

Participants who are authorized to buy in the MCP are:

- Power Generators to supply their respective PPAs,
- Power Distributors to meet the demand of its non regulated users (free clients), up to 10% of the maximum demand recorded by the total non regulated users in the last 12 months, and
- Large Users, to meet up to 10% of its maximum demand in the last 12 months.
- The above percentage may be modified by Supreme Decree.

The participants must have guarantees to ensure the payment of all of their obligations in the MME, according to the respective procedure. The procedures will define the types, amounts, frequency, period, conditions and terms of these guarantees.

L. Water Law, Law N° 29338 and its regulation by Supreme Decree N° 001-2010-AG, dated March 23, 2010.

The purpose of this Law is to regulate the use and integrated management of water, the performance of the Government and individuals in said management, as well as the assets associated with it.

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M. Regulation of Legislative Decree N° 1221

Approved by Supreme Decree N° 018-2016-EM: this regulation established some amendments to (i) the Regulation of the electricity concessions law and (ii) to the Regulation of the non-regulated users in electricity market

- i. In the case of use of water resources, the definitive concession request must include the study of the project feasibility level with an analysis of its optimal exploitation. The petitioner of a definitive power generation concession must prove that the requested area corresponds to the minimum required for power generation capacity provided in the application and does not affect the normal development of projects with definitive concessions granted through a feasibility study.
- ii. It establishes that Users whose maximum annual demand of each supply point is equal to or less than 200 kW, have the status of regulated user, and if it is greater than 200 kW to 2500 kW, are entitled to choose between the status of regulated user or non-regulated user.

It adds that the regulated users whose maximum monthly demand (from several supply points) exceeds 2500 kW, will maintain that status for a period of one (1) year from the month in which exceeded that ceiling, unless otherwise agreed between the parties. In the case of users whose maximum annual demand of each supply point is greater than 2500 kW have the status of non-regulated users, except as indicated previously.

N. Ministerial Resolution N° 467-2016-MEM/DM dated November 4, 2016 - This Resolution approved the Fourth Modification to Concession Contract N° 358-2010 requested by Cerro del Águila S.A.

Such addendum extends the commercial operation date of the project established in the Investment Contract until October 31, 2016 at the request of Cerro del Águila due to force majeure events.

O. Ministerial Resolution N° 572-2016-MEM/DM, dated December 29, 2016 - Second Amendment to Concession Contract N° 438-2014, requested by Cerro del Águila S.A.

Extends the Commercial Operation Date of the Transmission Line 220 kV S.E. Cerro del Águila - S.E. Campo Armiño until August 30, 2016, and in this way is compatible with the POC of the Cerro del Águila Hydroelectric Power Plant, which was affected by force majeure events.

3. Basis for the Preparation of Financial Statements

A. Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS require Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recorded prospectively.

Information about assumptions, estimation uncertainties and critical judgments that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Notes 9 and 10: Useful life of the property, plant and equipment and intangible assets;
Note 19: Utilization of tax losses.

i. Energy purchase provision

The Group records on a monthly basis the provision of energy purchased not yet billed by estimating the energy received since the last measurement from the supplier. This provision consists in estimating the energy received since the last invoice from the supplier in the frontier spots and valuing it at the prices that the different energy suppliers define in the contract of energy purchase with the Group.

ii. Energy supplied pending invoicing

In each month closing period, the Group records the amount of the accrued revenue not invoiced on the sale of electric energy. This amount consists in estimating the energy delivered since the last measurement date of the consumers and the accounting close period at the tariffs approved by the authorities.

4. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The Company has consistently applied the following accounting policies to all periods presented in these financial statements, unless otherwise stated.

A. Basis of preparation

i. Compliance with IFRS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements comply with IFRS as issued by International Accounting Standards Board (IASB).

The Board of Directors approved the financial statements as of December 31, 2016 on July 21, 2017. Financial Statements as of December 31, 2015 were approved by the General Stockholders Meeting on March 31, 2016.

ii. Historical cost basis

The financial statements have been prepared on the historical cost basis, except for assets and liabilities related to derivative financial instruments (note 4.K) which are reported at fair value.

iii. New standards and interpretations not yet adopted

The following standards and interpretations have been published for application to periods beginning after the date of these financial statements.

- IFRS 9 *Financial Instruments*, replaces guidelines to IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments. Under IFRS 9 (2009), financial assets are classified and measured based on the business model within which they are held and their contractual cash flow characteristics. IFRS 9 (2010) introduces additional considerations for financial liabilities. The IASB has an active project to make limited amendments to the classification and measurement requirements in IFRS 9 and incorporates new requirements to address the impairment of financial asset and hedge accounting. On November 19, 2013, the IASB issues a new document that expands and amends this Standard and other related standards, *Hedge Accounting* and amendments to IFRS 9, IFRS 7 and IAS 39. This document includes the new general hedge accounting model and allows early adoption of the requirement to present fair value changes due to own credit on liabilities designated as at fair value through profit or loss to be presented in other comprehensive income. On July 24, 2014, the IASB issued the fourth and final version of its new standard on financial instruments, IFRS 9 *Financial Instruments*. The new standard includes guidance on the classification and measurement of financial assets, including impairment and completes the new hedge accounting principles published in 2013. An entity shall apply this Standard for annual periods beginning on or after January 1, 2018. Early adoption is permitted.
- IFRS 15 *Revenue from Contracts with Customers*, issued on May 28, 2014. This Standard supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. An entity shall apply this Standard to all contracts with customers, except for insurance contracts, financial instruments and lease contracts, which are within the scope of other standards. The standard provides a single revenue recognition model applied to contracts with customers and two approaches to revenue recognition: at a point in time or over time. The model, based on control, considers a transaction analysis based on five steps to determine whether, how much and when revenue is recognized. 1.- Identify the contract with a customer. 2.- Identify the performance obligations in the contract. 3.- Determine the transaction price. 4.- Allocate the transaction price to the performance obligations in the

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contract. 5.- Recognize revenue when (or as) the entity satisfies a performance obligation. The Company shall apply this Standard for annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted.

- IFRS 16 *Leases*, issued on January 13, 2016. This standard requires entities to bring all leases in their financial statements (financial statements of lessee). The main impact on entities with operating leases is an increase in assets and the financial debt. The larger the entity's lease portfolio, the greater the impact on its reporting metrics. The standard is mandatory for reported annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has been also adopted.
- IAS 7 – Statement of Cash Flows: *Disclosure Initiative*. This amendment was issued on February 1, 2016 and instructs the disclosure of information that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. However, the objective could also be achieved in other ways, which might be a relief for financial institutions or other entities that already present enhanced disclosures in this area. Although disclosure of changes in other assets and liabilities is possible, such supplementary disclosure should be disclosed separately from changes in liabilities arising from financing activities. The amendments are effective for periods beginning on or after January 1, 2017. Early adoption is permitted.
- Amendments to IAS 12 *Income Taxes - Recognition of deferred tax assets for unrealized losses*, issued on January 19, 2016, clarify the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference. The next question is whether entities can recognize a deferred tax asset if the future bottom line of the tax return is expected to be a loss. The amendments show that the deferred tax assets can be recognized, if certain conditions are met. The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted, but the corresponding disclosures are required. The amendment is applied prospectively.
- Amendments to IFRS 15 *Revenue from Contracts with Customers*, clarify some requirements and provide additional transitional relief for companies that are adopting the new standard. Those amendments were issued on April 12, 2016 and do not change the underlying principles of the standard, just clarify how those principles should be applied. They arise as a result of discussions of the Transition Resource Group (TRG). The amendments give clarification on how to:
 - identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract;
 - determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
 - determine whether the revenue from granting a license should be recognized at a point in time or over time.

In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The amendments have the same effective date as the Standard, January 1, 2018.

The Company's management is evaluating the impact, if any, of the adoption of these amendments and new International Financial Reporting Standards (IFRS) issued but not yet effective as of the date of the financial statements.

B. Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in U.S. Dollars, which is the Company's functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

ii. Transactions and balances

Transactions in foreign currencies are translated into the functional currency of the Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency differences are generally recognized in profit and loss.

C. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue comprises the fair value for the sale of electricity, net of value-added-tax, rebates and discounts.

Revenues from the sale of energy are recognized in the period during which the sale occurs. The revenues from the generation business are recorded based upon output delivered and capacity provided at rates specified pursuant to our Power Purchase Agreements (PPAs), or at marginal costs determined on the spot market, if the sales are made on the spot market.

Revenues are determined substantially by long-term, U.S. dollar-linked PPAs. PPAs are usually entered into at prices that are equivalent to, or higher than, the prevailing spot market rates, the majority of which are indexed to the underlying fuel cost of the related long-term supply agreements. Under the terms of the majority of the Company's PPAs, the power purchaser is contractually obligated to purchase its energy requirements, and sometimes capacity and/or ancillary services, from the power generator based upon a base price (denominated either in U.S. dollars or in the local currency) that is generally adjusted for a combination of some of the following: (1) fluctuations in exchange rates, (2) the U.S. inflation index, (3) a local inflation index, (4) fluctuations in the cost of operating fuel, (5) supply costs of natural gas, and (6) transmission costs. Additionally, in Peru, PPAs include provisions that change the contractual unitary energy prices in the case of an interruption of the supply or transportation of natural gas through the use of a methodology based on spot prices existing on the dates in which the interruption event occurred. Many of the prices in the Company's PPAs differentiate between peak and off-peak periods. As of December 31, 2016, the weighted average remaining life of the Company's PPAs based on firm capacity was 12 years.

In the case of non-regulated prices, those are freely agreed between the Company and its clients (non-regulated users). On the other hand, regulated prices are determined by regulatory bodies of the sector: COES and OSINERGMIN. Operations that are subject to price regulation are as follows:

i. For energy and power

- Transfers of power and energy between generators - in this case, the costs will be determined by the COES.
- Withdrawals of power and energy in the COES incurred by distributors and non-regulated users.
- Sales to users of public electricity.
- Sales of electricity (energy and power) of generators to distribution companies destined to public electricity service. Prices shall not exceed the OSINERGMIN determined prices if they are not subject to bidding.

ii. For main and secondary transmission

- Fees and compensations of the transmission and distribution systems
- The income from the provision of energy and power services is recognized based on estimates of customer consumption in the corresponding month.

The transmission toll revenue is recognized since the Company acts as a main performer for its clients using the transmission system.

The revenue from transmission, energy, and power delivered but not invoiced that is generated between the last cyclical reading and the end of each month is included in the invoicing of the following month, but is recognized as revenue in the corresponding month based on estimates of energy and power consumption and transmission toll used by the service user during that period.

D. Employee benefits

i. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

The employee benefits are classified as short-term benefits or as other long-term benefits depending on when the Company expects the benefits to be wholly settled.

ii. Defined contribution plans

Obligations for contributions to defined contribution plans including the contributions made by the Company to the Pension Fund Administrators (AFPs, for its Spanish acronym) are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

iii. Termination benefits

Severance pay is charged to profit or loss when there is a clear obligation to pay termination of employees before they reach the customary age of retirement according to a formal, detailed plan, without any reasonable chance of cancellation. The benefits given to employees upon voluntary retirement are charged when the Company proposes a plan to the employees encouraging voluntary retirement, it is expected that the proposal will be accepted and the number of employee acceptances can be estimated reliably.

E. Finance income and finance costs

Finance income and finance costs of the Company are recognized on an accrual basis and include the following:

- Interest income.
- Interest expense.
- Foreign currency gain or losses on financial assets and financial liabilities.
- The net gain or loss on hedging instruments that are recognized in profit or loss.
- Interest income or expense is recognized using the effective interest method.

F. Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount to be paid or received that reflects uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

ii. Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for unused tax losses, unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans of the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profit improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

The Company regularly reviews its deferred tax assets for recoverability, taking into consideration all available evidence, both positive and negative, including historical pre-tax and taxable income, projected future pre-tax and taxable income and the expected timing of the reversals of existing temporary differences. In arriving at these judgments, the weight given to the potential effect of all positive and negative evidence is commensurate with the extent to which it can be objectively verified.

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The Company believes its tax positions are in compliance with applicable tax laws and regulations. Tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The Company believes that its liabilities for unrecognized tax benefits, including related interest, are adequate in relation to the potential for additional tax assessments. There is a risk, however, that the amounts ultimately paid upon resolution of tax audits could be materially different from the amounts previously included in our income tax expense and, therefore, could have a material impact on our tax provision, net income and cash flows.

G. Inventories

Inventories consist of spare parts, materials and supplies and are valued at the lower of cost or net realizable value. Cost is determined by using the average cost method.

H. Trade receivables

Trade receivables are amounts due from customers for the energy and capacity in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

I. Property, plant and equipment***i. Recognition and measurement***

Property, plant, and equipment includes a hydropower plant which is mainly composed by a dam and three hydropower generation units. The cost of an item of property, plant, and equipment comprises its acquisition cost, non-recoverable taxes, decommissioning costs, including disbursements directly attributable to the acquisition or manufacturing of these items and capitalized borrowing costs. Items of property, plant, and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant, and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant, and equipment.

Any gain or loss resulting from the disposal of an item of property, plant, and equipment is recognized in profit or loss.

ii. Subsequent costs

Subsequent cost is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company, and its cost can be measured reliably.

iii. Depreciation

Depreciation is calculated to write off the cost of items of property, plant, and equipment less their estimated residual values, using the straight-line method over its estimated useful lives and is generally recognized in profit or loss. Land is not depreciated.

The estimated useful lives of property, plant, and equipment are as follows:

	Years
Dam and other constructions	80
Plant and equipment	10 - 50
Vehicles	5
Furniture and fixture; plant and various equipment	10
IT Equipment	4

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

iv. Capitalization of borrowing costs

Specific and non-specific borrowing costs are capitalized to qualifying assets throughout the period required for completion and construction until they are ready for their intended use. Non-specific borrowing costs are capitalized in the same manner to the same investment in qualifying assets, or portion thereof, which was not financed with specific credit by means of a rate which is the weighted-average cost of the credit sources which were not specifically capitalized. Foreign currency differences from credit in foreign currency are capitalized if they are considered an adjustment of interest costs. Other borrowing costs are expensed as incurred. During 2016, the amount of capitalized loan costs was US\$ 35,113 thousand (US\$ 31,192 thousand in 2015).

Income earned on the temporary investment of specific credit received for investing in a qualifying asset is deducted from the borrowing costs eligible for capitalization.

J. Intangible assets

i. Recognition and measurement

The intangible assets comprise the disbursement made by the Company in easements and public road to access the site and are recognized and measured at cost less the accumulated amortization and any accumulated impairment loss.

ii. Subsequent cost

Subsequent cost is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including cost on internally generated goodwill is expensed as incurred.

iii. Amortization

Amortization is calculated to write-off the cost of intangible assets using the straight-line method over their useful lives, and is generally recognized in profit or loss.

The estimated useful lives for current period is as follows:

	Years
Public access road	80
Easement	80

Amortization methods and useful lives are reviewed at each reporting date and adjusted, if appropriate.

K. Financial instruments

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit and loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Company classifies non-derivatives financial liabilities into other financial liabilities category.

i. Non-derivative financial assets and financial liabilities - Recognition and derecognition

The Company initially recognizes loans and receivables and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are recognized initially on the trade date when the Company becomes party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership and does not retains control over the transferred asset. Any interest in such derecognized financial asset that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged, or cancelled or expire.

ii. Non-derivative financial assets – Measurement

Financial assets at fair value through profit and loss	A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Direct attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, including any interest or dividend income, are recognized in profit or loss.
Loans and receivables	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment losses.

iii. Non-derivative financial liabilities - Measurement

Non-derivative financial liabilities are initially recognized at fair value less any direct attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

iv. Derivative financial instruments and hedge accounting

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Derivatives are recognized initially at fair value; any direct attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in OCI and accumulated in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The amount accumulated in equity is reclassified to profit or loss in the same period or periods during which the hedged forecast cash flows affects profit or loss or the hedged item affects profit or loss.

If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

L. Share capital - Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognized as a deduction from equity. Income tax relating to transactions costs of an equity transaction is accounted for in accordance with IAS 12.

M. Impairment

i. Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-account investee, are assessed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes:

- Default or delinquency by a debtor;
- Restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers;
- The disappearance of an active market for a security because of financial difficulties; or
- Observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

ii. Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (property, plant, and equipment, and intangible assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or cash-generating units (CGU).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a discount rate before taxes that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the profit and loss. These losses are distributed to reduce the carrying amount of assets of the cash generating unit based on a prorata basis of carrying amounts.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

N. Energy purchase

Costs from energy purchases either acquired in the spot market or from contracts with suppliers are recorded on an accrual basis according to the energy actually received. Purchases of electric energy, including those which have not yet been billed as of the reporting date, are recorded based on estimates of the energy supplied at the prices prevailing in the spot market or agreed-upon in the respective purchase agreements, as the case may be.

O. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be reliably estimated.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost (note 15).

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P. Operating segments, geographic and revenue information

Operating segments are defined as business activities which generate revenue and expenses and whose operating results are regularly reviewed by the chief operating decision maker ("CODM") of the Company in order to make decisions about the allocation of resources to the segments and to evaluate its performance.

Management has determined that the senior management team is the CODM. The CODM receives and reviews information about operating results and assesses performance on a total Company basis only. Consequently, management has determined the Company has no operating segments as that term is defined in IFRS.

All of the Company's revenue is derived from external customers that are geographically located in Peru. Also, all non-current assets of the Company are located in Peru.

Revenues from one customer represented US\$ 41,937 thousand (84%) of the Company's total revenues in 2016.

Revenues by products and services are disclosed in Note 20.

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5. Financial Instruments - Fair Values and Risk Management
A. Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities including their levels in the fair value hierarchy:

	Carrying amount							Fair Value Level 2
	Current				Non-current		Total	
	Cash	Loans and receivables	Other financial liabilities	Fair value – hedging instruments	Other financial liabilities	Fair value – hedging instruments		
<i>In thousands of U.S. dollars</i>								
As at December 31, 2016								
Financial assets not measured at fair value	-	-	-	-	-	-	-	-
Cash (note 6)	36,677	-	-	-	-	-	36,677	-
Trade receivables (note 7)	-	11,384	-	-	-	-	11,384	-
Other receivables	-	107	-	-	-	-	107	-
Financial liabilities measured at fair value	-	-	-	-	-	-	-	-
Swap interest rate used for hedging	-	-	-	(6,965)	-	(10,544)	(17,509)	(17,509)
Financial liabilities not measured at fair value	-	-	-	-	-	-	-	-
Trade payables (note 11)	-	-	(40,372)	-	-	-	(40,372)	-
Other payables (note 12) (*)	-	-	(6,401)	-	-	-	(6,401)	-
Shareholders Loan (note 16)	-	-	-	-	(28,920)	-	(28,920)	(31,842)
Loans from banks and other (note 13)	-	-	(31,104)	-	(561,989)	-	(593,093)	(689,292)
	36,677	11,491	(77,877)	(6,965)	(590,909)	(10,544)	(638,127)	(738,643)
As at December 31, 2015								
Financial assets not measured at fair value	-	-	-	-	-	-	-	-
Cash (note 6)	17,228	-	-	-	-	-	17,228	-
Other receivables	-	96	-	-	-	-	96	-
Financial liabilities measured at fair value	-	-	-	-	-	-	-	-
Swap interest rate used for hedging	-	-	-	(8,657)	-	(22,518)	(31,175)	(31,175)
Forward exchange rate used for hedging	-	-	-	(851)	-	-	(851)	(851)
Financial liabilities not measured at fair value	-	-	-	-	-	-	-	-
Trade payable (note 11)	-	-	(4,184)	-	-	-	(4,184)	-
Other payable (note 12) (*)	-	-	(4,473)	-	-	-	(4,473)	-
Loans from banks and other (note 13)	-	-	(7,259)	-	(529,064)	-	(536,323)	(603,026)
	17,228	96	(15,916)	(9,508)	(529,064)	(22,518)	(559,682)	(635,052)

(*) Not considered tax liabilities or employee benefits.

B. Fair value measurement

i. Valuation techniques and significant unobservable inputs

The following table shows the valuations techniques used in the determination of fair values of financial instruments - Level 2, as of December 31, 2016 and 2015, as well as the significant unobservable inputs used.

Financial instruments measured at fair value

Type	Valuation techniques	Key unobservable data	Interrelationship between key unobservable inputs and fair value
Interest rate Swaps	The Company applies standard valuation techniques such as: discounted cash flows for fixed and variables coupons (estimated using forward curves) applying as discounted rates as the projected LIBOR zero coupon curve. The observable inputs are obtained through market information providers.	Not applicable	Not applicable
Foreign exchange Forwards	The Company applies standard valuation techniques which include market observable parameters such as the implicit exchange rate calculated with forward points. These variables are obtained through market information providers.	Not applicable	Not applicable
Loans from banks and others	Discounted cash flows using current market interest rate.	Not applicable	Not applicable

C. Financial risk management

The Company is exposure to the following risks arising from financial instruments:

- Credit risk (see C.i.);
- Liquidity risk (see C.ii.); and
- Market risk (see C.iii.).

Risk management structure

The Board of Directors of the Company is responsible for establishment and supervising the risk management structure. Management is responsible for the development and monitoring of risk management policies of the Company. Also, it informs regularly to the Board of Directors about its activities.

The Company's risk management policies are established to identify and analyze Company's risks, to set appropriate risk limits and controls and monitor risks and compliance within those limits. Risk management policies and systems are regularly reviewed in order to reflect the changes in market conditions and the Company's activities.

The Company, through its management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company is exposed to the following risks related to the use of financial instruments:

i. Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of financial assets represents the maximum credit exposure.

The Company's financial assets potentially exposed to significant credit risk concentrations are mainly deposits in banks and accounts receivable presented in the statement of financial position.

As of December 31, 2016 and 2015, the maximum risk credit exposure for the Company's financial assets was the following:

<i>In thousands of U.S. dollars</i>	Carrying amount	
	2016	2015
Cash (a)	36,677	17,228
Trade receivables	11,384	-
Other receivables (b)	107	96
Total	48,168	17,324

- (a) The Company holds bank accounts at a local financial entity that has an "A+" credit rating. As of December 31, 2016, the Company maintains guarantees with local financial entities, Banco de Crédito del Perú, Scotiabank, BBVA and Banbif.
- (b) As of December 31, 2016, the composition of trade receivables is 82% distributors with contract that has a "BBB+" credit rating (Peruvian sovereign rating as it is a state-owned company), 14% COES clients and 4% power generation companies.

Management concludes there are no indicators of impairment in its receivables as of December 31, 2016 and 2015.

ii. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

As of December 31, 2016, the Company has a negative working capital. As of December 31, 2016, the Company has cash of US\$ 37 million, while it has trade payables of US\$ 40 million and financial obligations of US\$ 31 million. Trade payables are mostly related to Engineering, Procurement and Construction (EPC) Contract with Rio Mantaro Consortium. The EPC Contract established the responsibilities of the Consortium to provide a hydroelectric power plant and provide all the goods and services necessary for the design, engineering, procurement, construction, commissioning and testing of the plant, on a turnkey basis. The Company expects to reduce those payables over the next year.

The principal sources of liquidity have traditionally consisted of cash flows from operating activities, short-term and long-term borrowings including bank loans. The Company does not have funds designated for, or subject to, permanent reinvestment.

The Company needs for liquidity generally consist of expenditures related to working capital requirements and capital expenditures (e.g., major maintenance that extend the useful life of the generation units).

The trade payables are mostly related to EPC Contract with Rio Mantaro Consortium and financial obligations are related to the current project finance debt. The Company expects to reduce those trade payables over the next year with cash flows from operating activities. Also, financial obligations are expected to be refinanced during 2017 with transactions in the international capital markets.

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Liquidity is controlled by the balancing of the maturities of assets and liabilities, keeping a proper number of financing sources, and obtaining credit lines that enable the normal development of its activities. Moreover, the Company believes that the cash generated by operations will be adequate to meet all capital expenditure requirements related to ongoing maintenance and environmental improvements and all working capital needs in the ordinary course of our business in the near term. Consequently, in Management's opinion, there is no significant liquidity risk as of December 31, 2016.

Although as of December 31, 2016 the Company has a negative working capital, the Company started operations in August 2016 and management expects cash flow to increase during the following years, in line with the start of the power purchase agreements already signed. Therefore, operating cash flow is stable over short, intermediate and long term and more than ample to cover all operational, financial, tax and capital expenditures.

The Company's financial liabilities are classified based on their maturity, considering their maturity from the date of the statement of financial position until contractual maturity. The disclosed amounts correspond to the contractual undiscounted cash flows and include contractual interest payments:

<i>In thousands of U.S. dollars</i>	Contractual cash flows						
	Carrying Amount	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
2016							
Non-derivative financial liabilities:							
Loans from banks and others	593,093	62,276	71,765	82,955	87,919	87,768	420,250
Subordinated shareholder loan	28,920	-	-	-	-	-	43,581
Trade payables	40,372	40,372	-	-	-	-	-
Other payables	6,573	6,573	-	-	-	-	-
Total	668,958	109,221	71,765	82,955	87,919	87,768	463,831
Financial liabilities:							
Derivatives	17,509	6,965	4,513	2,625	1,581	956	869
Total	17,509	6,965	4,513	2,625	1,581	956	869
	686,467	116,186	76,299	85,580	89,500	88,724	464,700
2015							
Non-derivative financial liabilities:							
Loans from banks and others	536,323	33,236	49,848	69,841	82,752	81,236	474,831
Trade payables	4,184	4,184	-	-	-	-	-
Other payables	4,958	4,958	-	-	-	-	-
Total	545,465	42,378	49,848	69,841	82,752	81,236	474,831
Financial liabilities:							
Derivatives	32,026	9,508	6,610	5,217	3,915	2,821	3,955
Total	32,026	9,508	6,610	5,217	3,915	2,821	3,955
	577,491	51,886	56,458	75,058	86,667	84,057	478,786

iii. Market risk**Currency risk**

As of December 31, 2016, the weighted average market exchange rates used were US\$ 0.2976 per S/ 1.00 for sell rate and US\$ 0.2983 per S/ 1.00 for purchase rate (US\$ 0.2930 per S/ 1.00 for sell rate and US\$ 0.2934 per S/ 1.00 for purchase rate as of December 31, 2015).

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Balances in thousands of soles (S/) as of December 31 are summarized as follows:

<i>In thousands of soles</i>	2016	2015
Assets		
Cash	3,145	5,053
Trade receivables	36,257	-
Other receivables	3,516	22,294
Other assets	15,307	20,266
	58,225	47,613
Liabilities		
Trade payables	(8,187)	(4,614)
Account payable to related parties	(11)	-
Others payables	(3,616)	(3,172)
	(11,814)	(7,786)
Net asset position	46,411	39,827

For the year ended December 31, 2016, net exchange gain amounted to US\$ 349 thousand (net exchange loss of US\$ 2,929 thousand in 2015).

As of December 31, 2016, if the US dollar had been revalued/devalued in relation to the Peruvian sol - with all its variables remaining constant - the profit before tax would have increased/decreased as shown in the following table:

Period	Increase/decrease in US\$ exchange rate	Effects in profit or loss before tax
2016		
Revaluation	5%	(463)
Devaluation	(5%)	463
2015		
Revaluation	5%	583
Devaluation	(5%)	(583)

An Fx Forward contract with six financial institutions was signed from June 2013 to January 2016 to hedge currency risk during construction related to EPC contract payments in local currency (Peruvian Soles) for a total of S/ 402,955 at a S/ 2.546 per US\$ 1.00 forward exchange rate.

The Company monthly paid/received the net between SPOT exchange rate and the forward exchange rate previously agreed. The flows paid/received by the Company accrued in the period profits/loss. In 2016, the Company paid a US\$ 870 thousand for this derivative financial instrument (US\$ 5,243 thousand in 2015) in the statement of profit and loss.

Interest rate risk

The Company's exposure to this risk is due to the change in the interest rate due to its financial obligations. On July 25, 2013, the Company contracted interest rate swaps with eight financial institutions to cover the risk of fluctuations in the LIBOR rate associated with tranches A and B of the international syndicated loan obtained by the Company, destined to finance the construction of Cerro del Águila Hydroelectric Power Plant. Tranche A is 100% hedged and Tranche B was 50% hedged (ended February, 2016).

The Company monthly pays/received (in each interest payment date) the net between the LIBOR rate in such period and the fixed interest rate. In 2016, the Company has paid a total of US\$ 9,446 thousands for this derivative financial instrument (US\$ 9,578 thousand in 2015). The variations in the derivatives assets (liabilities) fair value net of taxes accrued in Equity in Hedging Reserves. During 2016 amounted to US\$ 10,449 thousand (US\$ -1,079 thousand during 2015).

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Interest rate exposures for financial assets and liabilities are as follows:

<i>In thousands of U.S. dollars</i>	Fixed rate	Variable rate	Total	Weighted average interest rate (%)
2016				
Financial liabilities:				
Shareholder Loan	28,000	-	28,000	9.75%
Short term Loans	14,000	-	14,000	0.83%
Interest-bearing loans (*)	-	587,072	587,072	3M Libor + 4.15%
2015				
Financial liabilities:				
Interest-bearing loans (*)	-	547,000	547,000	3M Libor + 4.15%

(*) Not considering the effect of interest rate swaps.

Cash flow sensitivity analysis for variable-rate instruments

A change of 20 basis points in the LIBOR rate would increase/decrease future finance cost by US\$ 12,882 thousand. This analysis assumes that all other variables remain constant.

Cash flow sensitivity analysis for a fixed-rate instruments

The Company does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Derivatives

As December 31, 2016 the derivative maintained by the Company is as follow:

<i>In thousands of U.S. dollars</i>	Notional amount US\$	Fair value (US\$ thousands)	
		Current	Non-current
Interest Rate Swap Tranch A	US\$ 384 million	6,965	10,544

Reconciliation of cash flow hedges derivatives

The following table shows reconciliation from the opening balances to the closing balances for cash flow hedges derivatives:

<i>In thousands of U.S. dollars</i>	
Balance at January 1, 2015	29,633
Loss included in OCI	2,393
Balance at December 31, 2015	32,026
Balance at January 1, 2016	32,026
Gain included in OCI	(13,667)
Settlement	(850)
Balance at December 31, 2016	17,509

6. Cash

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015
Petty cash	8	7
Checking accounts (a)	36,669	17,221
	36,677	17,228

- (a) As of December 31, 2016 and 2015, this account balance mainly includes foreign exchange deposits in a local bank. Cerro del Águila Onshore Construction accounts belong to a Trustee and are part of the Guarantees of the syndicated loan.

Credit ranking

According to Apoyo & Asociados S.A.C., the credit quality that safeguard the Company's bank deposits was evaluate as follows:

	2016	2015
Banco del Crédito del Perú (BCP)	A+	A+

7. Trade Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015
COES	1,630	-
Regulated customers	9,312	-
Power generation companies	442	-
	11,384	-

Accounts receivables mainly are denominated in soles. They have current maturity and not generate interest, except in the case of payment delays.

The Committee of Economic Operation of the National Interconnected System (COES) as the system operator acts as a clearing-house and settles the payments for power generation companies.

There was no allowance recognized as of December 31, 2016 and the ageing of trade receivables is as follow:

<i>In thousands of U.S. dollars</i>	
Unexpired	10,694
Less than 30 days	496
31 to 60 days	87
61 to 90 days	107
Total	11,384

8. Other Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015
Value Added Tax (VAT) (a)	4,566	12,208
Income Tax	956	-
Guarantee deposits	4	11
Loans to employees	31	60
Other	136	249
Total	5,693	12,528
Less: non-current portion of VAT	-	5,947
Other receivables	5,693	6,581

- (a) At December 31, 2016, the VAT credit corresponds to the disbursements made during the construction of Cerro del Águila Hydropower plant. Management expects to recover these VAT credits in the short term.

9. Property, Plant, and Equipment

The balance reconciliation is as follows:

<i>In thousands of U.S. dollars</i>	Land	Dam and other constructions	Plant and equipment	Vehicles	Furniture and fixture	Other equipments and IT equipment	Replacement units	Works in-progress	Total
Cost:									
Balance as of January 1, 2015	9,940	704	-	788	17	205	-	609,447	621,101
Additions	16	-	-	-	21	302	-	194,816	195,155
Balance as of December 31, 2015	9,956	704	-	788	38	507	-	804,263	816,256
Balance as of January 1, 2016	9,956	704	-	788	38	507	-	804,263	816,256
Additions	-	1,535	465	113	7	218	-	112,359	114,697
Disposals and transfers	-	642,644	266,686	(38)	-	(2)	7,292	(916,622)	(40)
Balance as of December 31, 2016	9,956	644,883	267,151	863	45	723	7,292	-	930,913
Accumulated depreciation:									
Balance as of January 1, 2015	-	-	-	(321)	(4)	(58)	-	-	(383)
Depreciation for the year	-	-	-	(158)	(3)	(41)	-	-	(202)
Disposals	-	-	-	-	-	-	-	-	-
Balance as of December 31, 2015	-	-	-	(479)	(7)	(99)	-	-	(585)
Balance as of January 1, 2016	-	-	-	(479)	(7)	(99)	-	-	(585)
Depreciation for the year	-	(3,360)	(3,115)	(166)	(4)	(58)	-	-	(6,703)
Disposals	-	-	-	32	-	1	-	-	33
Balance as of December 31, 2016	-	(3,360)	(3,115)	(613)	(11)	(156)	-	-	(7,255)
Carrying amounts:									
As of January 1, 2015	9,940	704	-	467	13	147	-	609,447	620,718
As of December 31, 2015	9,956	704	-	309	31	408	-	804,263	815,671
As of December 31, 2016	9,956	641,523	264,036	250	34	567	7,292	-	923,658

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- A. In November 2011, the Company signed an EPC contract "Turnkey, Engineering, Procurement and Construction Contract for The Cerro del Águila Hydroelectric Power Plant" with Rio Mantaro Consortium (hereinafter "the Consortium"), formed by a Joint Venture between Astaldi S.p.A. and GyM S.A. Under that EPC contract, the Consortium agreed to provide all services for the design, engineering, procurement, construction testing and commissioning of the Hydroelectric Plant. The contracted amount was up to US\$ 683 million. At the inception of the EPC contract, the Consortium gave the Company a Performance Bond (bank letter of credit) equivalent to 15% of the total project cost. In August 2016, CDA reached the Commercial Operational Date (COD) of this power plant (note 1.B).
- B. As of December 2016, after Management's analysis there were no impairment indicators on the value of property, plant and equipment.
- C. Distribution of depreciation was as follows:

<i>In thousands of U.S. dollars</i>	2016	2015
Cost of sales	6,561	-
Administrative expenses	21	-
In-progress works	121	-
	6,703	-

- D. As of December 31, 2016, the Company has insured its main assets for property damage amounting to US\$ 678,966 thousand under its Construction All Risk (CAR) policy. It is the Management's opinion that its insurance policy is consistent with the international industry practice and that the risk of possible losses for claims considered in the insurance policies is reasonable, taking into consideration the Company's types of assets.

10. Intangibles

Comprises the following

<i>In thousands of U.S. dollars</i>	2016	2015
Public access roads	25,365	24,978
Easement	416	419
	25,781	25,397

As of December 31, 2016 the intangible balance mainly comprises the disbursements made by the Company in easements and public access roads to access the site. The construction of these roads is included in the contract signed with Rio Mantaro Consortium.

The balance reconciliation is as follows:

<i>In thousands of U.S. dollars</i>	Public access roads	Easement	Total
Cost:			
Balance as of January 1, 2015	17,998	399	18,397
Additions	6,980	20	7,000
Balance as of December 31, 2015	24,978	419	25,397
Balance as of January 1, 2016	24,978	419	25,397
Additions	519	-	519
Balance as of December 31, 2016	25,497	419	25,916
Accumulated amortization:			
Balance as of December 31, 2015 and January 1, 2015			
	-	-	-
Balance as of January 1, 2016	-	-	-
Amortization for the year	(132)	(3)	(135)
Balance as of December 31, 2016	(132)	(3)	(135)
Carrying amounts:			
As of December 31, 2015	24,978	419	25,397
As of December 31, 2016	25,365	416	25,781

The amortization of public access roads and easement is allocated to cost of sales.

11. Trade Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015
Related EPC Contract with Rio Mantaro Consortium (a)	37,760	3,747
Transmission tolls (b)	2,089	-
Other	523	437
	40,372	4,184

- (a) These accounts payable have current maturities and only generate interest in the case of arrears in the payment date. As of December 31, 2016 interest due to arrears has not been generated. Furthermore, no specific guarantees have been granted for these obligations. Trade payables increased compared to December 31, 2015, mainly due to Variation Order n° 5 of Rio Mantaro Consortium for the construction of Cerro del Águila Hydroelectric Power Plant.
- (b) These accounts payable are related to transmission tolls paid for the use of principal transmission lines in the Peruvian interconnected electricity system. Most of these costs are pass-through to the Cerro del Águila's clients.

12. Other Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015
Interest payable (a)	3,634	2,974
Various accruals and other accounts payable	2,423	1,499
Related entities transactions	344	-
Sales tax payable	31	1
Self-employment and regular employment income tax payable	69	201
Contributions payable	8	57
Vacations and compensations payable	64	226
Total	6,573	4,958

(a) Corresponds to the interests of the syndicated loans (note 13).

13. Loans from Banks and Others

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015
Syndicated loans	17,104	7,259
Short-term loans	14,000	-
Current Portion	31,104	7,259
Syndicated loan	561,989	529,064
Non-current portion	561,989	529,064
Total	593,093	536,323

A. Terms and debt repayment schedule

The terms and conditions of outstanding loans are as follows:

<i>In thousands of U.S. dollars</i>	Nominal interest rate	Maturity	Face value		Carrying amount	
			2016	2015	2016	2015
Banco de Crédito del Perú	0.83%	Jun-2017	14,000	-	14,000	-
Syndicated loan (Tranches A, B and D)						
Banco de Crédito del Perú	3M Libor + From 4.25% to 6.25%	Aug-2024	66,477	61,940	65,573	60,731
Banco Internacional del Perú	3M Libor + From 4.25% to 6.25%	Aug-2024	59,610	55,541	58,800	54,457
Banco Continental	3M Libor + From 4.25% to 6.25%	Aug-2024	59,610	55,541	58,800	54,457
Intesa Sanpaolo	3M Libor + From 4.25% to 6.25%	Aug-2024	44,708	41,656	44,100	40,843
Financierings – Maatschappij voor Ontwikkelingsgeselschaft (DEG)	3M Libor + From 4.25% to 6.25%	Aug-2024	69,545	64,798	68,600	63,533
Deutsche Investition und Entwicklungsgesellschaft (DEG)	3M Libor + From 4.25% to 6.25%	Aug-2024	29,805	27,771	29,400	27,229
Sumitomo Mitsui Banking Corporation	3M Libor + From 4.25% to 6.25%	Feb-2027	64,578	60,170	63,700	58,995
The Bank of Nova Scotia	3M Libor + From 4.25% to 6.25%	Aug-2024	69,545	64,798	68,600	63,533
HSBC Bank USA	3M Libor + From 4.25% to 6.25%	Aug-2024	38,965	68,501	38,436	67,164
Banco de Sabadell, S.A.	3M Libor + From 4.25% to 6.25%	Aug-2024	34,554	-	34,084	-
Societe Generale Américas (SG Américas)	3M Libor + From 4.25% to 6.25%	Aug-2024	49,675	46,284	49,000	45,381
			601,072	547,000	593,093	536,323

The syndicate loan was disbursed under Tranches A, B and D. The project finance loans secured and guaranteed within a typical project finance structure, such as mortgages and pledges over Cerro del Águila's property, rights and concessions, including those over the power plant and transmission lines.

Additionally, Tranche D is secured by a credit insurance policy provided by SACE S.p.A. - Servizi Assicurativi del Commercio Estero, or SACE.

The following table presents the repayment schedule of non-current portion of long-term debt at December 31, 2016:

<i>In thousands of U.S. dollars</i>	
2018	38,561
2019	50,981
2020	57,624
2021	60,046
2022 and thereafter	354,777
	561,989

B. Conditions of the borrowing agreements

The main obligations assumed by the Company by the Credit Agreement of the Syndicated Loan are to maintain the following obligations:

- Maintain a Debt to Equity Ratio no greater than 65:35 (required at the moment of each disbursement);
- Maintain a Debt Service to Coverage Ratio (DSCR) not less than 1.20 (applies once the principal amortization began).

All covenants have been fulfilled by the Company.

DSCR started to be binding since November 2016, date of the initial senior loan amortization. However, according to the Credit Agreement, DCSR covenant compliance and reporting requires to start after four consecutive quarterly periods to enable the ratio calculation.

- The Company's cash flows is managed through a trustee with Scotiabank S.A.A., according to Trust Agreement signed on August 17, 2012. (Note 6)
- Also, as part of the conditions, are the Compliance with Government Rules, Environmental and Social Compliance, Insurance, among others.

14. Current and Deferred Income

A. The recorded components of deferred income tax assets and liabilities are as follows:

<i>In thousands of U.S. dollars</i>	Additions/Recoveries				Final balance
	Opening balance	Profit or loss (P&L)	Increased (or reduction in tax rate) in P&L	Other comprehensive income	
2016					
Deferred assets					
Various accruals	32	72	-	-	104
Tax losses carry forward	1,960	8,536	(175)	-	10,321
Unrealized loss in swap	9,353	-	-	(4,187)	5,166
Pre-operating costs	-	20,822	-	-	20,822
Intangibles and pre-operating expenses	-	(1,252)	(150)	-	(1,402)
	11,345	28,178	(325)	(4,187)	35,011
Deferred liabilities					
Exchange difference	(16,041)	(35,539)	845	-	(50,735)
	(16,041)	(35,539)	845	-	(50,735)
Deferred tax liability, net	(4,696)	(7,361)	520	(4,187)	(15,724)

CERRO DEL ÁGUILA S.A.
Notes to the Financial Statements
December 31, 2016 and 2015

<i>In thousands of U.S. dollars</i>	Opening balance	Additions/Recoveries			Final balance
		Profit or loss (P&L)	Increased (or reduction in Tax Rate) in P&L	Other comprehensive loss	
2015					
Deferred assets					
Various accruals	26	6	-	-	32
Tax Losses carry forward	1,360	600	-	-	1,960
Unrealized loss in swap	7,269	-	-	2,084	9,353
Unrealized loss in forward	1,621	-	-	(1,621)	-
	10,276	606	-	463	11,345
Deferred liabilities					
Exchange difference	(9,969)	(6,072)	-	-	(16,041)
	(9,969)	(6,072)	-	-	(16,041)
Deferred tax liability, net	307	(5,466)	-	463	(4,696)

- B. Income tax expense shown in the statement of comprehensive income for years 2016 and 2015 is composed as follows:

<i>In thousands of U.S. dollars</i>	2016	2015
Current	-	160
Deferred	6,841	5,466
	6,841	5,626

- C. Reconciliation of effective tax rate

<i>In thousands of U.S. dollars</i>	2016		2015	
Profit or loss before income tax		6,852		(2,952)
Tax using the Company's tax rate	30.0%	2,056	30.0%	(886)
Non-deductible expenses	1.8%	123	-	-
Reduction in tax rate	(7.6%)	(520)	-	-
Change in exchange rate	77.4%	5,305	272.3%	8,037
Others	(1.8%)	(123)	(51.7%)	(1,525)
	99.8%	6,841	(190.6%)	(5,626)

15. Provisions

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015
Asset retirement obligation	1,962	-
Balance as of December 31, 2016	1,962	-

Asset retirement obligation corresponds to Cerro del Águila hydropower plant and has been determined in 2016 taking into consideration all costs necessary to dismantle and rehabilitate the land where the plant is currently located. The future estimated value of US\$ 20,080 thousand has been discounted using an annual risk-free rate of 2.966%. No amounts have been used nor reversed during 2016.

16. Subordinated Shareholders Loan

A subordinated shareholders loan of US\$ 28 million was received in August 2016. The subordinated loan has a 10-year bullet repayment without penalty for pre-payment and bear interests payable at maturity at an annual rate of 8.5% with a 0.5% step up every two years.

<i>Shareholder</i>	Amount
Energía del Pacífico S.A.	7,028
IC Power Holdings (Kallpa) Limited	20,972
Subordinated shareholders loan	28,000
Accrued interests	920
	28,920

17. Equity

A. Share capital

Comprises the following:

Common shares	2016	2015
Share issued on January 1	877,134,983	845,562,473
Shares issued in cash	-	31,572,510
Issued as of December 31 - fully paid-in	877,134,983	877,134,983

All the shares rank equally with regard to the Company's residual assets, with a par value of one sol each (equivalent to approximately US\$ 0.374).

i. Common shares

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. As of December 31, 2016 and December 31, 2015, the share capital structure of the Company is as follows:

Shareholders	Number of shares	%
IC Power Holdings (Kallpa) Limited	656,303,295	74.90
Energía del Pacífico S.A.	220,831,688	25.10
	877,134,983	100.00

B. Nature and purpose of reserves

i. Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges. The amounts accumulated in hedging reserve is reclassified to profit or loss as a reclassification adjustment in the same period as the hedge expected cash flows affect profit or loss.

ii. Other reserves

According to the Companies Act, the Company is required to allocate at least 10% of its profit to a legal reserve, after deducting accumulated losses. This allocation is required until the reserve equals 20% of paid-in capital. In the absence of non-distributed earnings or freely available reserves, the legal reserve must be applied to offset losses but it must be replaced with the earnings of the subsequent years. This reserve can also be capitalized but its subsequent replenishment is equally mandatory. The amount of this reserve meets the established limits.

C. Dividends

As of December 31, 2016 and December 31, 2015, no dividends were declared nor paid.

18. Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, as well as the level of dividends to ordinary Shareholders.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Company monitors capital using a ratio of 'adjusted net debt' to 'adjusted equity'. For this purpose, adjusted net debt is defined as main part of total loans and financial obligations. Adjusted equity comprises all components of equity other than amounts accumulated in the cash flow hedging reserve. The Company's adjusted net debt to equity ratio as of December 31, 2016 was as follows:

<i>In thousands of U.S. dollars</i>	2016	2015
Total liabilities	704,153	582,187
Less: Cash	(36,677)	(17,228)
Total adjusted net debts (A)	667,476	564,959
Total equity	299,129	288,669
Plus: Reserve for cash flow hedge	11,374	21,823
Total adjusted equity (B)	310,503	310,492
Gearing ratio (A/B) (times)	2.15	1.82

Used credit lines are basically long-term and include financial agreements that shall be complied in order to distribute the cash surplus to Shareholders.

19. Tax Issues

- A. All the periods are subject to review by the tax authorities. Any amount exceeding the provisions made to cover the tax obligations will be charged to the results of the year in which those are finally determined. In the opinion of the Company's Management, as a result of such assessment, no significant liabilities affecting the financial statements will arise as of December 31, 2016.

In accordance with current tax legislation, corporate income tax for 2016 is calculated on the basis of the net taxable profit at a rate of 28%. Nevertheless, the Company uses a 30% income tax rate, according to the Legal Stability Agreement signed by the Company and the Peruvian government in January 2012, with a duration of 10 years.

As of December 31, 2016, the Company has not incurred in any payable income tax.

- B. On December 10, 2016, the Government enacted Legislative Decree No. 1261 – Income Tax and Withholding Tax rate modification. The rate established by this Legislative Decree was 29.5% from 2017 onwards. This increase was compensated by the reduction on the withholding tax rate to 5% from 2017 onwards.
- C. On January 20, 2012, the Company and the Peruvian Government subscribed a Legal Stability Agreement for a 10-year period since the date of subscription; the income tax rate will not be modified throughout this period. Therefore the applicable rate will be define by the Tax Income Act, approved by Supreme Decree No. 179-2004-EF and other modifications in force at the time of signing the agreement.

CERRO DEL ÁGUILA S.A.

Notes to the Financial Statements

December 31, 2016 and 2015

- D. On February 2, 2013, the Company signed an Investment Contract to benefit from the anticipated recovery of the value added tax (VAT) related to the construction a hydroelectric power plant in Huancavelica. This investment contract was subscribe with the "Agencia de Promoción de la Inversión Privada – PROINVERSIÓN"; and the Ministry of Energy and Mines (MEM) with a compromise of US\$ 702.9 million investment. On July 05, 2013, the Government published the Supreme Resolution No. 071-2013-EM and the Company was defined as a beneficiary of the anticipated recovery of the VAT and established the list of goods, services and construction contracts that grant this benefit as long as they are used in the project execution and before the start of operations.
- E. Pursuant to Legislative Decree 774, Art. 50, domiciled legal entities may compensate for the net tax losses of Peruvian source recorded in a taxable year, adopting any of the following systems: (a) offsetting the net tax loss from the year its generated, by charging it, in a year by year basis until the amount is exhausted, to the taxable net income obtained in the four subsequent financial years; or (b) to offset the net loss by allocating it each year until the amount is exhausted, to the 50% of the net taxable income obtained in the subsequent years. The Company has determined that the losses will be offset under system (b). As of December 31, 2016 and 2015, the amount of the tax carryforward losses is US\$ 34,984 thousand and US\$ 6,530 thousand, respectively.
- F. Pursuant Legislative Decree 1058 published on June 28, 2008 provided for an accelerated depreciation regime not exceeding 20% per annum, for purposes of Income Tax for the activity of electricity generation based on water resources. Likewise, this tax benefit was extended until December 31, 2025 through Law 30327 published on May 21, 2015.

20. Revenue

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015
Energy sales	31,011	-
Capacity sales	11,207	-
Other operating income	7,429	-
	49,647	-

21. Income and Expense**A. Other income**

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015
Insurance compensation	25	-
	25	-

CERRO DEL ÁGUILA S.A.

Notes to the Financial Statements

December 31, 2016 and 2015

B. Expenses by nature

Comprises the following:

<i>In thousands of U.S. dollars</i>	Cost of sales		Administrative expenses		Total	
	2016	2015	2016	2015	2016	2015
Main and secondary transmission toll	10,129	-	-	-	10,129	-
Purchase of energy	1,160	-	-	-	1,160	-
Amortization	135	-	-	-	135	-
Depreciation	-	-	21	-	21	-
Maintenance	38	-	42	-	80	-
Transport of personnel	27	-	34	-	61	-
Consultancy	191	-	706	-	897	-
Leases	25	-	86	-	111	-
Contractors	2,469	-	1,550	-	4,019	-
Telephone	13	-	9	-	22	-
Advertising	-	-	189	-	189	-
Insurance	110	-	-	-	110	-
Donations	-	-	242	-	242	-
Licenses	-	-	1	-	1	-
Employee benefits	423	-	96	-	519	-
Consumption of various supplies	38	-	23	-	61	-
Contributions (COES, OSINERG, MEM, OEFA)	480	-	-	-	480	-
Taxes	260	-	20	-	280	-
Other	164	-	175	17	339	17
	15,662	-	3,194	17	18,856	17

22. Finance Costs

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015
Financial liabilities at amortized cost - interest expense	14,574	-
Expenses for hedging derivatives (note 5.C)	3,099	-
Other	124	18
Total	17,797	18

23. Commitments

As of December 31, 2016, the Company has the following commitments:

- A. On March 23, 2011, a Power Purchase Agreement (PPA) was signed between the Company and Electricidad del Perú S.A. (Electroperú), regarding the contracting of power and associated energy supplies for the long term. The contract was conducted by PROINVERSION. The power awarded was 200 MW for 15 years, and will be supplied with the existing capacity of the Company in the period from 2016 to 2030.
- B. On June 22, 2011, through Resolution No. 059-2011-EM, the Ministry of Energy and Mines approved the transfer of the definitive concession requested by Kallpa Generación S.A. in favor of the Company, to develop the electric power generation activity at the Cerro del Águila Hydroelectric Power Plant. From the date of this Resolution, the Company is the holder of these concessions assuming all the rights and obligations that appear in the concession contracts.
- C. On December 15, 2011, the LDS-01-2011-LP auction process conducted by Luz del Sur S.A.A., regarding the contracting of power and associated energy supplies for the long term, was awarded to the Company. The power awarded was 202 MW for 10 years and will be supplied with the existing capacity of the Company in the period 2018-2027.
- D. On May 22, 2013, the Ministry of Energy and Mines published the Supreme Resolution No. 023-2013-EM, which amended Concession Agreement No. 358-2010 between the Ministry of Energy and Mines and Cerro del Águila S.A. to increase the capacity of the plant up to 525 MW.
- E. On May 7, 2014, through Supreme Resolution No. 026-2014-EM, the Ministry of Energy and Mines granted the final concession to develop the electric power transmission activity in the 220 kV Transmission Line S.E. Cerro del Águila - S.E. Campo Armiño, located in the districts of Colcabamba and Surcubamba, province of Tayacaja, department of Huancavelica in favor of C.H. Cerro del Águila.
- F. On May 7, 2014, by Supreme Resolution No. 027-2014-MS, the Ministry of Energy and Mines approved the third modification to the contract of final concession of C.H. Cerro del Águila, which extends the project execution schedule until June 30, 2016.
- G. On December 21, 2015, the ED-01-2015-LP auction process conducted by Edelnor S.A.A., regarding the contracting of power and associated energy supplies for the long term, was awarded to the Company. The power awarded was 81 MW for 10 years and will be supplied with the existing capacity of the Company in the period 2022-2031.
- H. On July 6, 2016, through Ministerial Resolution No. 256-2016-MEM/DM, the Ministry of Energy and Mines approved the first modification to the Final Concession Agreement to develop the electric power transmission activity in the 220 kV Transmission Line S.E. Cerro del Águila - S.E. Campo Armiño in order to extend the period for the commercial start up until June 30, 2016.

CERRO DEL ÁGUILA S.A.

Notes to the Financial Statements

December 31, 2016 and 2015

- I. On November 13, 2016, the Ministry of Energy and Mines, through Ministerial Resolution No. 467-2016-MEM/DM, approved the fourth modification to the Final Concession Agreement to develop the electric power generation activity at the Cerro del Águila Hydroelectric Power Plant to extend the term for commercial operation Until October 31, 2016.

24. Related Entities**A. Controlling company and main controlling company:**

On January 2015, Israel Corporation transfer all common shares to Kenon Holding Ltd. maintaining itself as the ultimate parent company of Cerro del Águila S.A.

B. Transactions with key management personnel:**i. Loans to directors**

As of December 31, 2016 and December 31, 2015, there are no loans to directors.

ii. Key management personnel compensation

As of December 31, 2016, there is a Management Agreement between the Company and Kallpa related to the services that Kallpa provides for managing the Company's operations.

iii. Transactions with key management personnel

During year 2016 and 2015, there were no transactions between the Company and Key Management, other than those in point (ii).

C. Other related entities transactions

<i>In thousands of U.S. dollars</i>		Transaction value		Outstanding balances	
Transaction type		2016	2015	2016	2015
Kallpa Generación S.A.	Management service	6,232	203	337	(32)
Kallpa Generación S.A.	Reimbursement of expenses	122	75	7	15
		6,354	278	344	(17)

The outstanding balances with related parties have current maturity and do not accrue interest. None of these balances is secured or guaranteed.

CERRO DEL ÁGUILA S.A.

Notes to the Financial Statements
December 31, 2016 and 2015

25. Subsequent Events

- A. On January 5, 2017, through Ministerial Resolution N° 572-2016-MEM/DM, the Ministry of Energy and Mines approved the second modification to the Definitive Concession Contract to develop the electric power transmission activity in the 220 kV Transmission Line S.E. Cerro del Águila - S.E. Campo Armaño in order to extend the term for the commercial operation until August 30, 2016.
- B. Resolution N° 003-2017-OS/CD, dated January 17, 2017, approved contractual modifications to be subscribed between Empresa de Electricidad del Perú S.A. and Cerro del Águila S.A. to modify the power supply contracts resulting from the Energy Tender Offer for Hydroelectric Power Plants. The contractual modifications to be subscribed between Electroperú and CDA are going to change codification of the Series WPSSOP3500 by the Series WPSFD4131 in the formula of readjustment of the base prices in the Supply Contract resulting from the Bid "Energy for Hydroelectric Power Plants". Through this addendum, price indexation for the Electroperú contract will be included.
- C. In March 2017, COES approved the effective capacity tests, increasing the capacity to 545 MW.
- D. On June 2, 2017, Cerro del Águila executed a settlement agreement with the EPC Contractors by which both companies settled all existing disputes between the parties in connection to the EPC Contract. As per the settlement agreement, the EPC Contractors paid to Cerro del Águila an aggregate amount of US\$ 40 million that included liquidated damages for delayed completion for US\$ 32 million and liquidated damages for unscheduled unavailability for US\$ 8 million. Additionally, Cerro del Águila paid the retained amount to US\$ 27 million and paid to the EPC Contractors a total amount of US\$ 27 million as a bonus for additional installed capacity, cancelling all obligations with Rio Mantaro Consortium. In June 2017, Cerro del Águila paid to the EPC Contractors an aggregate amount of US\$ 14 million, which was amount remaining after the deduction of such US\$ 40 million, in order to completely settle such accounts. As a result of the amounts paid by Cerro del Águila to the EPC Contractors under the referenced settlement agreement, the total Cerro del Águila project costs were increased to US\$ 975 million.
- E. On June 27, 2017, the shareholder and the board of directors of each of Cerro del Águila, S.A. and Kallpa Generación, S.A. unanimously approved the merger of the companies, with Cerro del Águila becoming the surviving entity, subject to the merger's registration in the Peruvian Public Registry. Upon effectiveness of the merger, the combined entity will be renamed Kallpa Generación S.A. Management expect the merger to be consummated prior to the end of the calendar year.



KALLPA GENERACIÓN S.A.

Unaudited Condensed Interim Financial Statements

March 31, 2017

**(Including Independent Auditors' Report on Review of
Condensed Interim Financial Statements)**



INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

To the Shareholders and Board of Directors Kallpa Generación S.A.

Introduction

We have reviewed the accompanying condensed statement of financial position of Kallpa Generación S.A. as at March 31, 2017, the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and notes to the interim financial statements (the condensed interim financial statements). Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements as at March 31, 2017 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Lima, Peru

July 24, 2017

Countersigned by:

Juan José Córdova V. (Partner)
Peruvian Certified Public Accountant
Registration Number 01 - 18869



KALLPA GENERACIÓN S.A.

Unaudited Condensed Interim Financial Statements

March 31, 2017

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KALLPA GENERACIÓN S.A.

Unaudited Condensed Statement of Financial Position

As of March 31, 2017 and December 31, 2016

<i>In thousands of U.S. dollars</i>	<i>Note</i>	March 31, 2017	December 31, 2016
Assets			
Current assets			
Cash	3	30,891	21,034
Trade receivables	4	44,438	55,550
Other receivables	5	10,740	16,989
Prepaid expenses		143	68
Inventories	6	13,751	14,605
Total current assets		99,963	108,246
Non-current assets			
Property, plant and equipment	7	577,383	584,227
Intangible assets	8	18,064	17,991
Other assets		10,026	9,709
Total non-current assets		605,473	611,927
Total assets		705,436	720,173

<i>In thousands of U.S. dollars</i>	<i>Note</i>	March 31, 2017	December 31, 2016
Liabilities and Equity			
Current liabilities			
Trade payables	9	34,142	38,135
Other payables	10	21,437	11,615
Loans from banks, debentures and others	11	6,608	6,624
Advances from clients		815	933
Total current liabilities		63,002	57,307
Non-current liabilities			
Trade payables	9	41,527	44,057
Loans from banks, debentures and others	11	406,051	407,162
Advances from clients		416	531
Deferred income tax liabilities		44,484	49,509
Asset retirement obligation		8,362	8,033
Total non-current liabilities		500,840	509,292
Total liabilities		563,842	566,599
Equity			
	13		
Share capital		70,732	70,732
Share premium		54,141	54,141
Other reserves		14,146	14,146
Retained earnings		2,575	14,555
Total equity		141,594	153,574
Total liabilities and equity		705,436	720,173

The notes on pages 5 to 18 are an integral part of these unaudited condensed interim financial statements.

KALLPA GENERACIÓN S.A.

Unaudited Condensed Statement of Profit or Loss and Other Comprehensive Income
For the three-month periods ended March 31, 2017 and 2016

<i>In thousands of U.S. dollars</i>	Note	Three-month periods ended	
		March 31	
		2017	2016
Revenues		107,528	121,194
Cost of sales (excluding depreciation)		(70,596)	(78,547)
Depreciation	7	(9,894)	(11,656)
Administrative expenses		(6,012)	(5,340)
Other income		2,883	256
Other expenses		(6)	-
Profit from operating activities		23,903	25,907
Finance income		93	70
Finance costs		(6,359)	(6,879)
Net foreign exchange		1,339	531
Finance costs, net		(4,927)	(6,278)
Net profit before income tax		18,976	19,629
Income tax	14	(5,956)	(6,673)
Profit for the period		13,020	12,956
Other comprehensive income		-	-
Total comprehensive income for the period		13,020	12,956

The notes on pages 5 to 18 are an integral part of these unaudited condensed interim financial statements.

KALLPA GENERACIÓN S.A.

Unaudited Condensed Statement of Changes in Equity

For the three-month periods ended March 31, 2017 and 2016

<i>In thousands of U.S. dollars</i>	Share capital (note 13)	Share premium	Other reserves	Retained earnings	Total
Balance as of January 1, 2016	70,732	54,141	14,146	47,285	186,304
Comprehensive income for the period:					
Net profit for the period	-	-	-	12,956	12,956
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	12,956	12,956
Total transactions with owners of the Company - dividends distribution	-	-	-	(7,500)	(7,500)
Balance as of March 31, 2016	70,732	54,141	14,146	52,741	191,760
Balances as of 1 January 2017	70,732	54,141	14,146	14,555	153,574
Comprehensive income for the period:					
Net profit for the period	-	-	-	13,020	13,020
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	13,020	13,020
Total transactions with owners of the Company dividends distribution	-	-	-	(25,000)	(25,000)
Balance as of March 31, 2017	70,732	54,141	14,146	2,575	141,594

The notes on pages 5 to 18 are an integral part of these unaudited condensed interim financial statements.

KALLPA GENERACIÓN S.A.

Unaudited Condensed Statement of Cash Flows
For the three-month periods ended March 31, 2017 and 2016

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2017	2016
Cash flows from operating activities:			
Cash receipts from customers		144,579	143,380
Cash paid to suppliers and third parties		(97,894)	(108,633)
Payment to employees		(2,643)	(1,985)
Payment of contributions and related payments		(828)	(699)
Cash generated from operating activities		43,214	32,063
Income tax paid		(2,937)	(5,230)
Net cash provided by operating activities		40,277	26,833
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(3,494)	(2,449)
Acquisition of intangibles assets		(73)	(634)
Net cash used in investing activities		(3,567)	(3,083)
Cash flows from financing activities:			
Proceeds from short-term debt		-	75,000
Payment of short-term loans		-	(75,000)
Payment of long term debt		(1,613)	(15,197)
Payment of interest		(1,473)	(6,790)
Dividends paid, net of tax	13	(23,930)	(7,270)
Net cash used in financing activities		(27,016)	(29,257)
Net increase (decrease) in cash		9,694	(5,507)
Cash at January, 1		21,034	27,935
Effects of variations on exchange difference on held cash		163	(571)
Cash as of March 31		30,891	21,857

The notes on pages 5 to 18 are an integral part of these unaudited condensed interim financial statements.

KALLPA GENERACIÓN S.A.

Notes to the Condensed Interim Financial Statements

1. Background and Business Activity

Kallpa Generación S.A. (hereinafter "the Company" or "Kallpa") is a subsidiary of IC Power Holdings (Kallpa) Limited (hereinafter "IC Power Holdings") established in June 2005 in Peru. Since January 7, 2015, the Company is an indirect subsidiary of Kenon Holding Ltd., a publicly listed Company in the New York and Tel Aviv Stock exchanges, incorporated in Singapore. The legal domicile of the Company is Avenue Santo Toribio N° 115, 7th floor, San Isidro, Lima, Peru.

On October 19, 2009, IC Power Holdings signed a shareholders' agreement with Energía del Pacífico S.A. (formerly Quimpac Corp. S.A.C.) for which the latter acquires 25.1% of the Company's share capital. This agreement governs the relationship between shareholders.

The Company, up to May 2016, submitted information to the Peruvian Markets and Securities Regulator (SMV) and the Lima Stock Exchange, due to the private issuance of local bonds, addressed only to accredited investors. On May 24, 2016, Kallpa issued US\$ 350 million senior notes (international bonds) used to prepay all local bonds outstanding (among other debt) and released it from the previous reporting obligations. However, it is still required to quarterly submit information to the international bondholders.

The Company business activity is the generation and commercialization of electrical energy. The Company is the third largest power generation company in Peru in terms of installed capacity as of March 31, 2017. It currently owns and operates two power plants, both using natural gas for their operations. In 2012, the Company completed the conversion of the three natural gas-powered open-cycle generation turbines (Kallpa I, II, and III) into combined-cycle turbines through a 292 MW steam turbine (Kallpa IV). As of March 31, 2017 and December 31, 2016, Kallpa combined-cycle plant had a capacity of 870 MW.

Additionally, in April 2014, the Company acquired a 193 MW single turbine natural gas-fired plant (Las Flores) that is located in close proximity to the Kallpa plant, from a subsidiary of Duke Energy Corp. Las Flores plant increased the Company's total installed capacity to 1,063 MW as of March 31, 2017 and December 31, 2016.

Both thermal power stations are located in the city of Chilca, 62 kilometers to the south of Lima.

2. Basis for the Preparation of Financial Statements

A. Basis of Accounting

These condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Company's last annual financial statements as at and for the year ended December 31, 2016 (last annual financial statements). The condensed statement of financial position as of December 31, 2016 has been derived from the Company's annual financial statements as at and for the year ended December 31, 2016. These condensed interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards. However, selected explanatory notes have been included to explain events and transactions that are significant to an understanding of the changes in the financial position and the performance of the Company since the last annual financial statements.

These condensed interim financial statements were approved by the Company's Management on July 20, 2017.

KALLPA GENERACIÓN S.A.

Notes to the Condensed Interim Financial Statements

B. Use of estimates and judgments

The preparation of these condensed interim financial statements requires Management to make judgments, estimates and assumptions that affect the application of Company's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgments made by Management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended December 31, 2016.

C. Measurement of fair values

Some of the Company's accounting policies and disclosures require the measurement of fair value of financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of their fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the measurement in total.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values included in Note 12 – financial instruments.

KALLPA GENERACIÓN S.A.

Notes to the Condensed Interim Financial Statements

3. Cash

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Cash	4	3
Checking accounts (a)	30,887	21,031
	30,891	21,034

- (a) The Company holds checking accounts in different local financial entities and funds have free withdrawal option. As of March 31, 2017 and December 31, 2016 the balance of this account includes mainly current account deposit in foreign and local currency at local banks.

The credit quality that safeguard the Company's bank deposits has the same evaluation as compared to December 31, 2016.

4. Trade Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Non-regulated customers	22,875	25,278
Regulated Customers	20,877	28,801
COES (a)	223	986
Other	643	659
Subtotal (c)	44,618	55,724
Less-allowance for doubtful debts (b)	(180)	(174)
Total	44,438	55,550

Trade receivables are denominated in U.S. dollars (non-regulated customers) and soles (COES and regulated customers). They have current maturity and do not generate interest, except in the case of payment delays. Balance of trade receivables as of March 31, 2017, correspond to approximately 31 non-regulated and 6 regulated clients (31 non-regulated and 6 regulated clients as of December 31, 2016).

- (a) The Committee of Economic Operation of the National Interconnected System (COES) as the system operator, acts as a clearing house and settles the payments for power generation companies.
- (b) As of March 31, 2017 and December 31, 2016, past due trade receivable (over 360 days) represent less than 1% of the total balance of trade receivables, mainly correspond to trade receivables with non-regulated customers.
- (c) The aging of trade receivable is the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Unexpired	36,429	37,617
Less than 30 days	4,504	14,838
31 to 60 days	2,786	2,302
61 to 180 days	718	745
More than 181 days	181	222
Total	44,618	55,724

KALLPA GENERACIÓN S.A.

Notes to the Condensed Interim Financial Statements

5. Other Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Income tax	402	8,174
Receivables from related parties	9,278	6,903
IVA	-	1,054
Advances to suppliers	655	505
Receivables from personnel	28	25
Other receivables	377	328
Total	10,740	16,989

6. Inventories

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Mechanical spare parts	10,692	11,623
Electrical spare parts	2,061	2,049
Other suppliers	998	933
Total	13,751	14,605

Mechanical spare parts correspond to items used in programmed maintenance for Kallpa I, Kallpa II, Kallpa III, Kallpa IV and Las Flores enabling appropriate operations until major maintenance. There were no inventory write-downs recognized during the three-month periods ended March 31, 2017 and 2016.

KALLPA GENERACIÓN S.A.

Notes to the Condensed Interim Financial Statements

7. Property, Plant and Equipment

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Cost:		
Beginning balance	848,764	831,739
Additions:		
Spare parts	2,683	17,556
Buildings and other constructions	119	(1,336)
Plant and equipment	173	550
Vehicles	106	170
Office equipment	73	217
Furniture and fixtures	-	15
Additions of the period	3,154	17,172
Disposals:		
Vehicles	(1)	-
Buildings and other constructions	(172)	(138)
Office equipment		(9)
Disposals of the period	(173)	(147)
Transfers:		
Spare parts	(11,654)	(9,404)
Plant and equipment	11,654	9,404
Transfers of the period	-	-
Ending balance	851,745	848,764
Accumulated depreciation:		
Beginning balance:	(264,537)	(219,608)
Additions:		
Buildings and other constructions	(936)	(3,732)
Plant and equipment	(8,883)	(40,630)
Vehicles	(39)	(162)
Office equipment	(125)	(499)
Furniture and fixtures	(9)	(42)
Additions of the period	(9,992)	(45,065)
Disposals:		
Buildings and other constructions	1	-
Vehicles	166	127
Office equipment	-	9
Disposals of the period	167	136
Ending balance	(274,362)	(264,537)
Net cost at the beginning of the period	584,227	612,131
Net cost at the end of the period	577,383	584,227

- A. "Plant and equipment" includes significant components that correspond to parts that are replaced during major maintenance. Management depreciates those components in line with their estimated useful lives, which range from 1 year to 13 years.
- B. As of March 31, 2017 there were no impairment indicators on the value of property, plant and equipment (no impairment indicators as of December 31, 2016).

KALLPA GENERACIÓN S.A.

Notes to the Condensed Interim Financial Statements

C. Distribution of depreciation was as follows:

<i>In thousands of U.S. dollars</i>	March 31, 2017	March 31, 2016
Depreciation	9,894	11,656
Administrative expenses	98	106
Asset disposal	(167)	-
	9,825	11,762

D. As of March 31, 2017 and December 31, 2016, the Company has insured its main assets for property damage under its Property Damage Business Construction (PDBI) policy. Management's opinion is this insurance policy is consistent with the international industry practice and that the risk of possible losses for claims considered in the insurance policies is reasonable, taking into consideration the Company's types of assets.

8. Intangible Assets

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Proyecto RS	12,110	12,071
Chilia	5,849	5,815
Las Flores Ciclo Combinado	105	105
	18,064	17,991

As of March 31, 2017 the intangible balance mainly comprises projects made by the Company.

Management analysis indicated there were no impairment indicators on the value of the other intangibles as of March 31, 2017 (no impairment indicators as of December 31, 2016).

KALLPA GENERACIÓN S.A.

Notes to the Condensed Interim Financial Statements

9. Trade Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Energy purchases and transmission tolls (a)	11,965	12,224
Supplies and transport	11,736	12,859
Maintenance contract - short term (b)	8,866	8,725
Other	1,575	4,327
Sub-total	34,142	38,135
Non-current portion		
Maintenance contract - Long-term (b)	41,527	44,057
Sub-total	41,527	44,057
Total	75,669	82,192

- (a) These accounts payable are related to transmission tolls paid for the use of principal transmission lines in the Peruvian interconnected electricity system. Most of these costs are pass-through to Kallpa's customers.
- (b) These accounts have both current maturity and long term maturity. As of March 31, 2017 and December 31, 2016 interest due to arrears has not been generated. Furthermore, no specific guarantees have been granted for these obligations.

During 2016, the Company received additional information from Siemens and determined the amount payable should be re-scheduled in a longer period of time. Payables are escalated annually based on Consumer and Producer Price Index from the United States.

10. Other Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Interest payable-debentures (a)	7,490	3,253
Liability for rural electrification act and FISE	1,954	1,934
Vacations and compensations payables	1,268	1,017
Tax on dividends payables	1,067	840
Self-employment and regular employment income tax payables	129	222
Contributions payable	151	165
Sales tax payables (b)	1,965	95
Worker's profit sharing payables (c)	1,959	2
Other payables	5,454	4,087
Total	21,437	11,615

- (a) Increase due to "Las Flores" US\$ 1,518 thousands and International Bonds Issuance US\$ 5,972 thousands payable interests.
- (b) The tax credit issued by the prepaid of Kallpa financial leases was consumed as of January 2017.
- (c) .As of March 2017, no significant deductions were considered, however the financial profit of the period has generated a gain by exchange difference.

KALLPA GENERACIÓN S.A.

Notes to the Condensed Interim Financial Statements

11. Loans from Banks, Debentures and Others

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Current Portion		
Financial leases	6,608	6,624
Sub Total	6,608	6,624
Non-current portion		
Financial leases	79,595	81,192
International bond		
Proceeds from issue of international bond	350,000	350,000
Transaction costs	(23,544)	(24,030)
Net proceeds	326,456	325,970
Sub-total	406,051	407,162
Total	412,659	413,786

The decrease in the quarter is due "Las Flores" financial lease payment in January 2017 US\$ 1,613 thousands and the application of transaction costs from International Bonds US\$ 486 thousands.

A. Terms and debt repayment schedule

The terms and conditions of outstanding debentures and others are as follows:

<i>In thousands of U.S. dollars</i>	Nominal annual interest rate	Currency	Maturity	March 31, 2017		December 31, 2016	
				Face Value	Carrying Amount	Face Value	Carrying Amount
Financial Leases:							
Las Flores							
Banco de Crédito del Perú	7.15 %	US\$	Oct 23	86,203	86,203	87,816	87,816
Sub total				86,203	86,203	87,816	87,816
Debentures:							
International Bonds	4.8750%	US\$	May 26	350,000	326,456	350,000	325,970
Sub total				350,000	326,456	350,000	325,970
Total				436,203	412,659	437,816	413,786

The table below presents the payment schedule of the non-current portion of the long-term debt as of March 31, 2017:

<i>In thousands of U.S. dollars</i>	
2018	5,026
2019	6,624
2020	24,263
2021	14,561
2022 and thereafter	355,577
	406,051

KALLPA GENERACIÓN S.A.

Notes to the Condensed Interim Financial Statements

B. Financial obligations and covenants

- As at March 31, 2017, Las Flores' financial lease main covenant that the Company must comply during the term of its debt is to maintain a leverage ratio (debt divided by equity), 3.75 times for any quarterly period of 2017 and 2018; and 3.5 times from 2019. In the Company's Management opinion, the covenant of La Flores have been complied as of March 31, 2017.

Effective May 1, 2017, the Company signed an amendment to Las Flores financial lease, reducing the interest rate to 5.08% and eliminating the financial obligation (note 18).

- The conditions of the international bond as of March 31, 2017 are the same disclosed in the annual financial statements of the Company as of December 31, 2016.

In the Company's Management opinion, the covenant of the International Bonds have been complied as of March 31, 2017.

KALLPA GENERACIÓN S.A.

Notes to the Condensed Interim Financial Statements

12. Financial Instruments

A. Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

	Carrying amount					Fair Value Level 2
	Current			Non-current		
	Cash	Loans and receivables	Other financial liabilities	Other financial liabilities	Total	
<i>In thousands of U.S. dollars</i>						
As of March 31, 2017						
Financial assets not measured at fair value						
Cash (note 3)	30,891	-	-	-	30,891	-
Trade receivables (note 4)	-	44,438	-	-	44,438	-
Other receivables (note 5) (*)	-	9,683	-	-	9,683	-
Financial liabilities not measured at fair value						
Trade payables (note 9)	-	-	(34,142)	(41,527)	(75,669)	-
Other payables (note 10) (*)	-	-	(12,583)	-	(12,583)	-
Debentures (note 11)	-	-	-	(326,456)	(326,456)	(370,233)
Loans from banks, debentures and other (note 11)	-	-	(6,608)	(79,595)	(86,203)	(88,683)
	30,891	54,121	(53,333)	(447,578)	(415,899)	(458,916)
As at December 31, 2016						
Financial assets not measured at fair value						
Cash (note 3)	21,034	-	-	-	21,034	-
Trade receivables (note 4)	-	55,550	-	-	55,550	-
Other receivables (note 5) (*)	-	7,257	-	-	7,257	-
Financial liabilities not measured at fair value						
Trade payables (note 9)	-	-	(38,135)	(44,057)	(82,192)	-
Other payables (note 10) (*)	-	-	(7,752)	-	(7,752)	-
Debentures (note 11)	-	-	-	(325,970)	(325,970)	(371,639)
Loans from banks, debentures and other (note 11)	-	-	(6,624)	(81,192)	(87,816)	(90,071)
	21,034	62,807	(52,511)	(451,219)	(419,889)	(461,710)

(*) It does not include tax assets, tax liabilities, employee benefits and advances.

KALLPA GENERACIÓN S.A.

Notes to the Condensed Interim Financial Statements

B. Fair value measurements**i. Valuation techniques and significant unobservable inputs**

The following table shows the valuation techniques used in the determination of fair values of financial instruments – Level 2 at March 31, 2017 and December 31, 2016.

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Loans from banks, debentures and others	Discounted cash flows using current market interest rate	Not applicable	Not applicable

13. Equity**Share capital**

Comprises the following:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
IC Power Holdings (Kallpa) Limited	52,168	52,168
Energía del Pacífico S.A.	18,564	18,564
	70,732	70,732

As of March 31, 2017 and December 31, 2016 the shareholders capital is represented by 212,985,033 common shares, with a nominal value of one Sol each (equivalent to approximately US\$ 0.333).

Shareholders	Number of shares	%
IC Power Holdings (Kallpa) Limited	159,525,789	74.90%
Energía del Pacífico S.A.	53,459,244	25.10%
	212,985,033	100.00%

At March 31, 2017 and December 31, 2016 the dividends movements are as follows:

<i>In thousands of U.S. dollars</i>	March 31, 2017	December 31, 2016
Dividends declared	25,000	67,500
Dividends paid	25,000	67,500
Dividends pending of payment	-	-

14. Tax Issues

Under current tax law, the income tax of legal persons is calculated for the year 2017 with a rate of 29.5% on net taxable income. The estimated average effective annual tax rate used for the three month period ended March 31, 2017 is 31% (34% for the three month period ended on March 31, 2016).

KALLPA GENERACIÓN S.A.

Notes to the Unaudited Condensed Interim Financial Statements

15. Related Party Transactions**A. Controlling Company and main controlling Company**

There are no changes in the parent and ultimate parent companies during the three-month period ended March 31, 2017 (no changes during the three-month period ended March 31, 2016).

B. Transactions with key management**i. Loans to directors**

As of March 31, 2017, there are no loans to directors (no loans to directors as of December 31, 2016).

ii. Key management compensation

<i>In thousands of U.S. dollars</i>	Transaction value		Outstanding balances	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Short-term employee benefits	692	676	-	-
Benefits per defined contribution plan	55	61	18	12

iii. Transactions with key management personnel

During the three-month period ended March 31, 2017, there were no transactions between the Company and Key Management, other than those in point (ii) (no transactions between the Company and Key Management during the three-month period ended March 31, 2016).

C. Other related entities transactions:

<i>In thousands of U.S. dollars</i>		Transaction value		Outstanding balances	
<i>dollars</i>	Concept	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Cerro del Águila S.A.	Management service	2,106	89	2,067	11
Samay I	Management service	843	177	3,152	331
Cerro del Águila S.A.	Expenses reimbursement	38	20	38	24
Samay I	Expenses reimbursement	52	104	150	119
Hidrochilia	Expenses reimbursement	47	34	3,840	3,705
Other	Expenses reimbursement	-	59	31	106
	Total	3,086	483	9,278	4,296
Quimpac(a)	Power purchase agreement	3,338	3,294	825	1,828
	Total	3,338	3,294	825	1,828

- A. The Company signed a PPA ("Power Purchase Agreement") with Quimpac S.A., it began on August 1, 2013 with an out-of-peak contracted capacity of 30 MW and a peak contracted capacity of 18MW. On January 31, 2016, an addendum was signed which reduced peak contracted capacity to 12MW. This contract will end on September 30, 2028.

The outstanding balances with related parties have current maturity and do not accrue interest. None of these balances are guaranteed.

KALLPA GENERACIÓN S.A.

Notes to the Unaudited Condensed Interim Financial Statements

16. Contingencies

As of March 31, 2017 the main contingencies for the Company are described as follows:

Import Tax Assessment

Since 2010, SUNAT (Tax Authorities) has issued tax settlements to the Company and its creditors for payment of import taxes allegedly owed by the Company in connection with imported equipment for the installation and construction of Kallpa I, II, III, and IV. The assessments were made on the basis that the Company did not include the value of engineering services provided by the project contractor in the taxable amount of import taxes. The Company disagrees with this tax assessment on the basis that the engineering services provided include the design of the plant and not the design of imported equipment. The Company appealed the tax assessments before the SUNAT at first instance and before the Tax Court as a higher court. As of March 31, 2017 and December 31, 2016, the Tax Court decisions regarding this matter were pending.

In January 2015, the Company received notification rejecting the appeal concerning the Kallpa I assessment. In March 2015, the Company paid, under protest, the tax assessment associated with the Kallpa I case, which totaled S/ 37.9 million. After the use of the sales tax credit, the amount was reduced to S/ 32.5 million (US\$ 10.0 million) including interest and penalties. The corresponding actions were filed on April 25, 2015.

As of March 31, 2017, the total amount of import tax claimed by SUNAT in connection with the importation of equipment for the Kallpa, II, III and IV projects, was approximately S/ 45,659 thousand (US\$ 14,051 thousand), including interest, arrears and fines.

As of March 31, 2017, the total tax exposure (principal plus interests) related to these assessments is as follows:

		Amount	Amount
	Stage	(in thousand S/)	(in thousand US\$)
Kallpa I	Superior Court of Lima	32,546	10,027
Kallpa II	Peruvian Tax Court	22,728	6,994
Kallpa III	Peruvian Tax Court	21,996	6,770
Kallpa IV	SUNAT	935	287
		78,205	24,078

All of these procedures are still pending of resolution in the Tax Court.

Management and legal advisors are of the opinion that Kallpa's appeal should more likely than not be successful.

KALLPA GENERACIÓN S.A.

Notes to the Unaudited Condensed Interim Financial Statements

17. Standards Issued but not yet Effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Company's Management has not early adopted the following new or amended standards in preparing these condensed interim financial statements.

New IFRS	Date of mandatory application
IFRS 9 Financial Instruments.	Annual periods beginning on or after January 1, 2018. Early application is permitted.
IFRS 15 Revenue from Contracts with Customers	Annual periods beginning on or after January 1, 2018. Early application is permitted.
IFRS 16: Leases	Annual periods beginning on or after January 1, 2019. Early application is permitted.
Amendments to IFRS	
IAS 7: Disclosure Initiative, amendments to IAS 7.	Annual periods beginning on or after January 1, 2017. Early adoption is permitted.
IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses (amendments to IAS 12).	Annual periods beginning on or after January 1, 2017. Early adoption is permitted.
IFRS 15 Revenue from Contracts with Customers: Amendment clarifying requirements and providing additional transitional relief for companies that are implementing the new standard.	Annual periods beginning on or after January 1, 2018. Early application is permitted.

The Company's Management is evaluating the impact, if any, of the adoption of these amendments and new International Financial Reporting Standards (IFRS) issued but not yet effective as of the date of the condensed financial statements.

18. Subsequent Events

- A. Effective May 1, 2017, the Company signed an amendment to Las Flores financial lease, reducing the interest rate to 5.08% and eliminating the financial obligation (financial covenant).
- B. On June 02, 2017 the Company distributed and paid dividends for US\$ 14,000 thousand.
- C. On June 27, 2017, the shareholder and the board of directors of each of Cerro del Águila, S.A. and Kallpa Generación, S.A. unanimously approved the merger of the companies, with Cerro del Águila becoming the surviving entity, subject to the merger's registration in the Peruvian Public Registry. Upon effectiveness of the merger, the combined entity will be renamed Kallpa Generación S.A. Management expect the merger to be consummated prior to the end of the calendar year.



KALLPA GENERACIÓN S.A.
Financial Statements

December 31, 2016, 2015 and 2014

(including Independent Auditors' Report)



INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Kallpa Generación S.A.

We have audited the accompanying financial statements of Kallpa Generación S.A. (the Company), which comprise the statements of financial position as of December 31, 2016, 2015 and 2014, the statements of profit or loss and other comprehensive income (loss), changes in equity and cash flows for each of the years in the three-year period ended December 31, 2016, and notes 1 to 28, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by International Accounting Standards Board (IASB) and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing approved for its application in Peru by the Dean's Council of the Peruvian Professional Association of Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



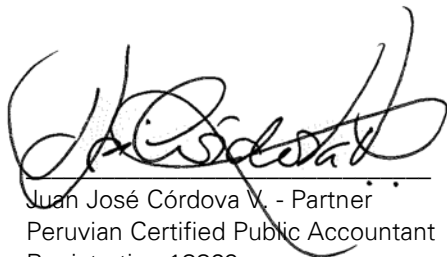
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kallpa Generación S.A. as of December 31, 2016, 2015 and 2014, and its financial performance and its cash flows for each of the years in the three-year period ended December 31, 2016, in accordance with International Financial Reporting Standards.

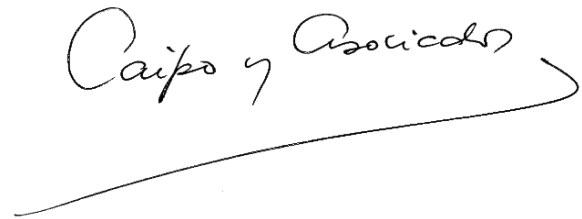
Lima, Peru

July 24, 2017

Countersigned by:



Juan José Córdova V. - Partner
Peruvian Certified Public Accountant
Registration 18869





KALLPA GENERACIÓN S.A.

Financial Statements

December 31, 2016, 2015 and 2014

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KALLPA GENERACIÓN S.A.

Statements of Financial Position

As of December 31, 2016, 2015 and 2014

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2016	2015	2014
Assets				
Current assets				
Cash and cash equivalents	6	21,034	27,935	25,034
Trade receivables	7	55,550	41,922	39,429
Other receivables	8	16,989	10,191	5,309
Prepaid expenses		68	148	1,099
Inventories	9	14,605	13,810	13,083
Total current assets		108,246	94,006	83,954
Non-current assets				
Property, plant and equipment	10	584,227	612,131	633,428
Intangible assets	11	17,991	16,644	12,499
Other receivables	27	9,709	9,550	-
Total non-current assets		611,927	638,325	645,927
Total assets		720,173	732,331	729,881

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2016	2015	2014
Liabilities				
Current liabilities				
Trade payables	12	38,135	73,971	49,598
Other payables	13	11,615	11,932	16,681
Current income tax		-	-	2,541
Loans from banks, debentures and others	14	6,624	101,302	82,348
Advances from clients		933	1,472	1,526
Derivative instruments		-	-	608
Total current liabilities		57,307	188,677	153,302
Non-current liabilities				
Trade payables	12	44,057	-	-
Loans from banks, debentures and others	14	407,162	314,663	370,965
Advances from clients		531	1,464	2,936
Deferred income tax liabilities	15	49,509	29,340	21,757
Asset retirement obligation	16	8,033	11,883	9,702
Total non-current liabilities		509,292	357,350	405,360
Total liabilities		566,599	546,027	558,662
Equity				
	17			
Share capital		70,732	70,732	70,732
Share premiums		54,141	54,141	54,141
Hedging reserves		-	-	53
Other reserves		14,146	14,146	14,146
Retained earnings		14,555	47,285	32,147
Total equity		153,574	186,304	171,219
Total liabilities and equity		720,173	732,331	729,881

The accompanying notes on pages 5 to 50 are an integral part of these financial statements.

KALLPA GENERACIÓN S.A.

Statements of Profit or Loss and Other Comprehensive Income (Loss)

For the years ended December 31, 2016, 2015 and 2014

<i>In thousands of U.S. dollars</i>	Note	2016	2015	2014
Revenues	20	438,475	447,679	436,673
Cost of sales (excluding depreciation)	21.B	(293,579)	(278,812)	(269,528)
Depreciation	10 B	(44,652)	(49,973)	(45,226)
Gross profit		100,244	118,894	121,919
Administrative expenses	21.B	(20,415)	(16,804)	(16,904)
Other income	21.A	17,203	2,098	6,210
Other expenses		(1,456)	(16)	(31)
Profit from operating activities		95,576	104,172	111,194
Finance income		375	246	308
Finance costs	22	(37,180)	(30,271)	(34,217)
Net foreign exchange difference	5.B (iii)	198	(5,333)	(853)
Finance cost, net		(36,607)	(35,358)	(34,762)
Profit before income tax		58,969	68,814	76,432
Income tax expense	15	(24,199)	(23,676)	(23,343)
Net profit for the year		34,770	45,138	53,089
Other comprehensive income or loss				
Items that are or may be reclassified to profit or loss:				
Cash flow hedge - effective portion of changes in value		-	(76)	1,643
Income tax relating to cash flow hedge		-	23	(493)
Other comprehensive income (loss), net of taxes		-	(53)	1,150
Total comprehensive income		34,770	45,085	54,239

The accompanying notes on pages 5 to 50 are an integral part of these financial statements.

KALLPA GENERACIÓN S.A.

Statements of Changes in Equity

For the years ended December 31, 2016, 2015 and 2014

<i>In thousands of U.S. dollars</i>	Number of shares	Share capital (note 17.A)	Share premium (note 17.A)	Hedging reserve (note 17.B)	Other reserves (note 17.B)	Retained earnings	Total
Balance as of January 1, 2014	212,985,033	70,732	54,141	(1,097)	11,725	11,479	146,980
Comprehensive income for the year:							
Net profit for the year	-	-	-	-	-	53,089	53,089
Other comprehensive income	-	-	-	1,150	-	-	1,150
Total comprehensive income	-	-	-	1,150	-	53,089	54,239
Transactions with owners:							
Dividends distribution (note 17.C)	-	-	-	-	-	(30,000)	(30,000)
Allocation to legal reserve	-	-	-	-	2,421	(2,421)	-
Total transactions with owners	-	-	-	-	2,421	(32,421)	(30,000)
Balance as of December 31, 2014	212,985,033	70,732	54,141	53	14,146	32,147	171,219
Balance as of January 1, 2015	212,985,033	70,732	54,141	53	14,146	32,147	171,219
Comprehensive income for the year:							
Net profit for the year	-	-	-	-	-	45,138	45,138
Other comprehensive loss	-	-	-	(53)	-	-	(53)
Total comprehensive income	-	-	-	(53)	-	45,138	45,085
Transactions with owners:							
Dividend distribution (note 17.C)	-	-	-	-	-	(30,000)	(30,000)
Allocation to legal reserve	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	(30,000)	(30,000)
Balance as of December 31, 2015	212,985,033	70,732	54,141	-	14,146	47,285	186,304
Balance as of January 1, 2016	212,985,033	70,732	54,141	-	14,146	47,285	186,304
Comprehensive income for the year:							
Net profit for the year	-	-	-	-	-	34,770	34,770
Total comprehensive income	-	-	-	-	-	34,770	34,770
Transactions with owners:							
Dividends distribution (note 17.C)	-	-	-	-	-	(67,500)	(67,500)
Total transactions with owners	-	-	-	-	-	(67,500)	(67,500)
Balance as of December 31, 2016	212,985,033	70,732	54,141	-	14,146	14,555	153,574

The accompanying notes on pages 5 to 50 are an integral part of these financial statements.

KALLPA GENERACIÓN S.A.

Statements of Cash Flows

For the years ended December 31, 2016, 2015 and 2014

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Cash flows from operating activities:			
Cash receipts from customers	541,383	544,072	532,740
Cash paid to suppliers and third parties	(404,843)	(394,595)	(369,274)
Payment to employees	(11,703)	(9,635)	(4,721)
Payment of contributions and related payments	(4,640)	(3,965)	(12,662)
Cash generated from operating activities	120,197	135,877	146,083
Income tax paid	(7,967)	(21,661)	(29,168)
Net cash provided by operating activities	112,230	114,216	116,915
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(15,068)	(8,519)	(19,055)
Acquisition of intangible assets	(1,434)	(4,092)	(7,204)
Net cash used in investing activities	(16,502)	(12,611)	(26,259)
Cash flows from financing activities:			
Proceeds from short term debt	185,000	209,910	104,790
Proceeds from international bond issuance	350,000	-	-
Payment of short-term loans	(230,000)	(194,818)	(74,883)
Payment of long-term debts	(284,655)	(54,053)	(49,804)
Payment of interest	(24,546)	(29,559)	(30,006)
Payment of transaction costs	(34,169)	-	-
Dividends paid, net of tax	(64,645)	(29,079)	(29,079)
Net cash used in financing activities	(103,015)	(97,599)	(78,982)
Net increase (decrease) in cash	(7,287)	4,006	11,674
Cash and cash equivalent as of January 1	27,935	25,034	14,184
Effects of variations on exchange difference on held cash	386	(1,105)	(824)
Cash as of December 31	21,034	27,935	25,034
Transactions that do not generate cash flows:			
Acquisition of property, plant and equipment	2,095	20,610	107,688

The accompanying notes on pages 5 to 50 are an integral part of these financial statements.

KALLPA GENERACIÓN S.A.

Notes to the Financial Statements
December 31, 2016, 2015 and 2014

1. Background and Business Activity

A. Background

Kallpa Generación S.A. (hereinafter “the Company” or “Kallpa”) is a subsidiary of IC Power Holdings (Kallpa) Limited (hereinafter “IC Power Holdings”) established in June 2005 in Peru. Since January 7, 2015, the Company is an indirect subsidiary of Kenon Holding Ltd., a publicly listed Company in both, the New York and Tel Aviv Stock exchanges, incorporated in Singapore. The legal domicile of the Company is Santo Toribio avenue N° 115, 7th floor, San Isidro, Lima, Peru.

On October 19, 2009, IC Power Holdings signed a shareholders’ agreement with the company Energía del Pacífico S.A. (formerly Quimpac Corp. S.A.C.) for which the latter acquires 25.1% of the Company’s capital share. This agreement governs the relationship between shareholders (note 17).

The Company, up to May 2016, submitted information to the Peruvian Markets and Securities Regulator (SMV) and the Lima Stock Exchange, due to the private issuance of local bonds (note 14.C), addressed only to accredited investors. On May 24, 2016, Kallpa issued US\$ 350 million senior notes (international bond) funds used to prepay all local bonds outstanding (among other debt) and released it from the previous reporting obligations. However, it is still required to quarterly submit information to the international bondholders (note 14.D).

B. Business activity

The Company is involved in the generation and commercialization of electrical energy.

The Company is the third largest power generation company in Peru in terms of installed capacity as of December 31, 2016. It currently owns and operates two power plants, both using natural gas for their operations. In 2012, the Company completed the conversion of our three natural gas-powered open-cycle generation turbines (Kallpa I, II, and III) into combined-cycle turbines through a 292 MW steam turbine (Kallpa IV). As of December 31, 2016, Kallpa combined-cycle plant had a capacity of 870 MW.

Additionally, in April 2014, the Company acquired a 193 MW single turbine natural gas-fired plant (Las Flores) that is located in close proximity to the Kallpa plant, from a subsidiary of Duke Energy Corp. Las Flores plant increased the Company’s total installed capacity from 870 MW to 1,063 MW as of December 31, 2016.

Both thermal power stations are located in the city of Chilca, 62 kilometers to the south of Lima.

KALLPA GENERACIÓN S.A.

Notes to the Financial Statements
December 31, 2016, 2015 and 2014

2. Operations Regulation and Legal Standards Affecting the Electric Sector

The Company is within the scope of various rules governing its activities. Failure to comply with these rules may result in the imposition of sanctions on the Company affecting it both financially and operationally. The Company's Management, through its commercial management and legal management, monitors and assesses compliance with regulations and claims filed.

Main regulations affecting the Company's activities are:

A. Electricity Concessions Law

In Peru, the electricity sector is regulated under the Electricity Concessions Law, Decree Law 25844, enacted on November 19, 1992; its regulation, Executive Order 009-93-EM, enacted on February 25, 1993; and its supplementary standards and amendments, one among them being Law 28832, the Law to Guarantee the Efficient Development of Electricity Generation.

According to the Law of Electricity Concessions, the National Interconnected System (Sistema Interconectado Nacional – SEIN, for its Spanish acronym) is divided into three main segments: power generation, transmission, and distribution.

In addition, according to the Law to Guarantee the Efficient Development of Electricity Generation, the operations of the power generation plants and transmission systems are subject to the provisions of the Committee of Economic Operation of the National Interconnected System (Comité de Operación Económica del Sistema Interconectado Nacional - COES-SINAC; for its Spanish acronym). The COES-SINAC coordinates their operation at minimum cost, guaranteeing the security of the supply of electricity and the best use of energy resources, and planning the development of the SEIN and the administration of the Short-term Market. The COES-SINAC establishes the values of the capacity and energy transfers between the generators.

B. Law to guarantee the efficient development of electricity generation

In July 2006, the Peruvian Government issued Law 28832, the Law to guarantee the efficient development of electricity generation, with one of its main objectives to: (1) maintain the economic principles used in Law 25844 and add new measures to facilitate competition in the wholesale market; (2) reduce government intervention in establishing power generation tariffs; (3) allow power generation tariffs for regulated power consumers to reflect a competitive market, facilitating the construction of new generation plants when required; and (4) ensure a sufficient supply of power by reducing the power system's exposure to the risks of high prices and rationing inherent to situations of undersupply of natural gas or transportation congestion.

One of the main changes introduced by the Law is in the mechanism of tender offers for the electricity distribution companies to enter into power supply contracts with power generation companies to supply the public electricity service. This rule established a mechanism that promotes investments in new power generation capacity through long-term contracting at fixed prices with distribution companies.

C. Environmental preservation regulations

According to the Law of Electricity Concessions (Decree Law 25844) and the General Law of the Environment (Law 28611), the Government designs and applies the policies and standards necessary for the adequate conservation of the environment and of the nation's cultural heritage. Additionally, it ensures the rational use of natural resources in the development of activities relating to the generation, transmission, and distribution of electricity and hydrocarbon activities. In this sense, the Ministry of Energy and Mines approved the Regulation of Environmental Protection in Electricity Activities (Executive Order 29-94-EM) and the Regulation of Environmental Protection in Hydrocarbon Activities (Executive Order 015-2006-EM).

KALLPA GENERACIÓN S.A.

Notes to the Financial Statements
December 31, 2016, 2015 and 2014

In compliance with the above-mentioned norms, the Company carried out an Environmental and Social Impact Study during 2005, which was approved by the Ministry of Energy and Mines in February 2006 by Official Document Resolución Directoral 051-2006-MEM/AAE.

As of December 31, 2016, the Company's Management estimates that, in the event that a contingency arises related to environmental management, it would not be material.

D. Technical standards

Technical Quality Standards of Electricity Services

Executive Order 020-97-EM approved the Technical Quality Standard of the Electricity Services (Norma Técnica de Calidad de los Servicios Eléctricos – NTCSE, for its Spanish acronym), which established the minimum quality levels of the electricity services and those related to the power generation, transmission, and distribution subject to the regulation of prices, applicable to power supply subject to a free price regime, in all that both counterparties have not stated within their agreement.

The NTCSE uses measurement and tolerance procedures to establish quality standards for the electricity service and public lighting service, assigning the responsibility for its supervision to OSINERGMIN and ordering its compliance by the electricity companies, as well as the clients of the sector. Likewise, it regulates the application of penalties and compensations in cases of non-compliance to parameters established by the NTCSE. The Law 28832 grants COES-SINAC authority to assign responsibilities in case of breach of the NTCSE, as well as calculate the corresponding compensations.

Technical standard for the coordination of the real time operation of the interconnected systems

Official Document "Resolución Directoral" 025-2008-EM/DGE, dated August 8, 2008, modified subsection 7.1.3 of the "Technical Standard for the Coordination of the Real Time Operation of the Interconnected Systems", which basically establishes that the rationing of electricity will be carried out by prioritizing the electricity supply for the public electricity service.

Technical standard for the real time exchange of information for the operation of the national interconnected electrical system

Official Document "Resolución Directoral" 243-2013-EM/DGE, dated November 27, 2013, approved the Technical Standard for the Real Time Exchange of Information for the Operation of the National Interconnected Electrical System, which established the technical responsibilities and the procedures related to the operation of the ICCP Network of the SEIN (RIS) for the real time exchange of information between the Control Center of the COES and the Control Centers of the members of the SEIN.

E. Anti-monopoly and anti-oligopoly law in the electricity sector

The Anti-monopoly and Anti-oligopoly Law in the Electricity Sector, Law 26876, was issued in November 1997, which establishes that vertical integration over 5% or horizontal integration over 15% that occur in companies that develop activities of generation, transmission, and distribution of electricity, will be subject to a prior authorization procedure in order to avoid concentrations that could affect competition in the electricity market.

Resolution 012-99/INDECOPI/CLC established conditions in defense of free competition and transparency in the sector. In Management's opinion, this standard does not affect the Company's operations.

KALLPA GENERACIÓN S.A.

Notes to the Financial Statements
December 31, 2016, 2015 and 2014

F. Emergency Decree Assuring Continuity in the Provision of Electricity Services

Due to short-term constraints in the gas supply and power transmission systems, which were generating distorting price signals in the spot market, the Government of Peru issued Emergency Decree 049-2008, dated December 17, 2008, extended by Emergency Decree 079-2010, Law 30115 and Law 30513. Pursuant to this decree, COES is required to simulate energy spot prices without accounting for limitations due to shortage in supply and transportation of natural gas and for limitations on the transmission system. The latter scheme caps spot prices at a maximum amount per megawatt hour. Power generation companies with units that are called to dispatch and have a variable cost higher than the spot price determined pursuant to the referenced emergency decree are compensated for the difference in their cost by transmission surcharges imposed on all end consumers of the SEIN (i.e., regulated and non-regulated customers) and collected by distribution companies.

Additionally, such decree regulates the allocation to power generators of mandatory energy supplies without a contract. Such mandatory supplies are allocated to power generators based on their annual efficient firm energy less their energy sales per contract. The allocation of mandatory supplies without a contract will not generate economic losses to power generators since the demand shall pay an additional fee for the energy of these mandatory supplies when their supplying costs exceed Busbar tariffs.

As of the date of these financial statements, the aforementioned government decree will be in force until October 1, 2017. Emergency decrees are legislative statutes that are exceptionally issued by the Executive branch of the Government of Peru, which can only be issued on circumstances and in areas specified in the Peruvian Constitution and are effective for a limited time.

G. Standard "Procedure for Additional Variable Cost Compensations and Mandatory Supplies without Agreements"

Published on January 9, 2009 by OSINERGMIN through Resolution 001-2009-OS/CD to establish the manner, responsibilities, sequence, and estimates that shall be followed in order to transfer compensations to users referred to in Articles 1 and 2 of Emergency Decree N° 049-2008. This Resolution will continue to apply for the duration of Emergency Decree N° 049-2008.

H. Standard "Rates and compensations for secondary transmission systems (STS) and complementary transmission systems (CTS)"

OSINERGMIN through Resolution No. 164-2016 OS/CD, dated June 30, 2016, approved the new standard "procedure for allocation of Responsibility Payment of STS and CTS".

Under the previous methodology, only the "Relevant Power Generators" have assumed payment of STS and CTS; however, the new Resolution eliminates this concept and therefore all power generators would pay even transmission facilities that do not use.

Notwithstanding the above, the Resolution establishes a transitional period from May 2017 to April 2021 to reduce the impact of this measure established.

I. Single Distribution Rate, Supreme Decree 082-2009-EM

Supreme Decree 082-2009-EM, modified by Article 4 of Supreme Decree 048-2008-EM, introduced a mechanism to apply the Single Distribution Rate of Natural Gas applicable to power generators located in the concession area of the natural gas supplier of Lima and Callao. It establishes compensation mechanism for natural gas concessionaires through a single rate instead of individual distribution rates.

KALLPA GENERACIÓN S.A.

Notes to the Financial Statements
December 31, 2016, 2015 and 2014

J. Resolution that sets busbar prices applicable to the period from May 1, 2016 to April 30, 2017

Published on April 15, 2016, by means of Resolution OSINERGMIN 074-2016-OS/CD, thereby establishing Busbar prices and their corresponding Nodal Electricity Factors and associated Power Loss Factors, which are effective from May 1, 2016 to April 30, 2017.

K. Value of the Applicable Discount Factor (FDA)

Published on April 28, 2016, by means of Resolution OSINERGMIN 095-2016-OS-CD. It established the value of the Applicable Discount Factor (FDA) from May 1, 2016 to April 30, 2017; such a factor is applicable to the natural gas transport rate.

L. Regulation of the Secondary Natural Gas Market

Published on August 5, 2010 by means of Supreme Decree 046-2010-EM, through which it was approved, among others, the Regulation of the Secondary Natural Gas Market establishing mechanisms to make transfers of production and/or firm transport capacity of natural gas among offering and demanding consumers, modified through Supreme Decree 022-2011-EM, 029-2012-EM and 025-2014-EM. The last legal provision extends for three additional years the term established in the Second Transitory Provision of Supreme Decree 046-2010-EM.

M. Law that creates the energy security system on hydrocarbons and the energy and social inclusion fund

On April 13, 2013, Law 29852, the Law that Creates the Energy Security System on Hydrocarbons and the Energy and Social Inclusion Fund (FISE, for its Spanish acronym), approved through Executive Order 021-2013-EM, was published, as a power compensation system that provides security for the system, as well as a social compensation scheme for the most vulnerable sectors of the population.. The additional charge paid for electric generators is transferred to the toll of the main transmission electrical system through Law 29969, a law that lays down provisions in order to promote the massive use of natural gas.

In 2016, the Legislative Decree N° 1331 introduced provisions in order to promote the use of natural gas at the national level. The FISE also serves to promote mechanisms for universal access to energy. The funds can be used to finance connections, vehicular conversions and systems or means of distribution or transportation.

N. Wholesale electricity market

Supreme Decree N° 026-2016-EM, dated July 2, 2016: New regulation of the wholesale electricity market (MME, for its Spanish acronym). This new regulation granted 6 months for the presentation of the technical procedures to be approved by OSINERGMIN that are necessary to operate the MME. The MME is administrated by COES and it includes the Short Term Market (MCP, for its Spanish acronym), ancillary services and other collateral payments necessary for the operation of the Peruvian Interconnected System (SEIN).

Participants who are authorized to sell in the MCP are the power generators members of the COES through the dispatch of their respective power plants (dispatch decided by the COES based on a marginal cost merit order).

Participants who are authorized to buy in the MCP are:

- Power Generators to supply their respective PPAs,
- Power Distributors to meet the demand of its non regulated users (free clients), up to 10% of the maximum demand recorded by the total non regulated users in the last 12 months, and
- Large Users, to meet up to 10% of its maximum demand in the last 12 months.
- The above percentage may be modified by Supreme Decree.

KALLPA GENERACIÓN S.A.

Notes to the Financial Statements
December 31, 2016, 2015 and 2014

The participants must have guarantees to ensure the payment of all of their obligations in the MME, according to the respective procedure. The procedures will define the types, amounts, frequency, period, conditions and terms of these guarantees.

O. Emergency mechanisms established for natural gas supply

On December 31, 2013, the Government published Executive Order 050-2013 to establish emergency response mechanisms for natural gas supply in the country and its implications on different business activities.

The following priorities are considered for the allocation of natural gas:

- Regulated residential and commercial customers
- Retail stores to the user of natural gas vehicles
- Electric generators
- Industrial customers
- Compression and liquefaction stations of natural gas
- Initial and independent consumers other than electric generators

P. Regulation of Legislative Decree N° 1221

Approved by Supreme Decree N° 018-2016-EM: this regulation established some amendments to (i) the Regulation of the electricity concessions law and (ii) to the Regulation of the Non-regulated Users in electricity market

- i. In the case of use of water resources, the definitive concession request must include the study of the project feasibility level with an analysis of its optimal exploitation. The petitioner of a definitive power generation concession must prove that the requested area corresponds to the minimum required for power generation capacity provided in the application and does not affect the normal development of projects with definitive concessions granted through a Feasibility Study.
- ii. It establishes that Users whose maximum annual demand of each supply point is equal to or less than 200 kW, have the status of Regulated User, and if it is greater than 200 kW to 2500 kW, are entitled to choose between the status of Regulated User or Non-Regulated User.

It adds that the Regulated Users whose maximum monthly demand (from several supply points) exceeds 2500 kW, will maintain that status for a period of one (1) year from the month in which exceeded that ceiling, unless otherwise agreed between the parties. In the case of users whose maximum annual demand of each supply point is greater than 2500 kW have the status of non-regulated users, except as indicated previously.

Q. Approves the addendum proposals (modification of the IPP Series) to the Electricity Supply Contracts, resulting from the long-term bidding processes

Through Resolution N° 265-2016-OS/CD, the addendums in the Kallpa contracts with distributors were approved to modify the IPP series in the price update. It changes codification of the Series WPSOP3500 by the Series WPSFD4131 in the formula of readjustment of the base prices in the Supply Contracts.

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3. Basis for the Preparation of Financial Statements

A. Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS require Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recorded prospectively.

Information about assumptions, estimation uncertainties and critical judgments that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Notes 10 and 11	Useful life of the property, plant and equipment and intangible assets;
Note 25	Utilization of tax losses.

i. Energy purchase provision

The Company records on a monthly basis the provision of energy purchased not yet billed by estimating the energy received since the last measurement from the supplier. This provision consists in estimating the energy received since the last invoice from the supplier in the frontier spots and valuing it at the prices that the different energy suppliers define in the contract of energy purchase with the Company.

ii. Energy supplied pending invoicing

In each month closing period, the Company records the amount of the accrued revenue not invoiced on the sale of electric energy. This amount consists in estimating the energy delivered since the last measurement date of the consumers and the accounting close period at the tariffs approved by the authorities.

4. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The Company has consistently applied the following accounting policies to all periods presented in these financial statements, unless otherwise stated.

A. Basis of preparation

i. Compliance with IFRS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements comply with IFRS as issued by International Accounting Standards Board (IASB).

These financial statements as of December 31, 2016, 2015 and 2014 were approved on July 21, 2017 by the Board of Directors.

ii. Historical cost basis

The financial statements have been prepared on the historical cost basis, except for assets and liabilities related to derivative financial instruments (note 4.K).

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iii. ***New standards and interpretations not yet adopted***

The following standards and interpretations have been published for application to periods beginning after the date of these financial statements.

- IFRS 9 *Financial Instruments*, replaces guidelines to IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments. Under IFRS 9 (2009), financial assets are classified and measured based on the business model within which they are held and their contractual cash flow characteristics. IFRS 9 (2010) introduces additional considerations for financial liabilities. The IASB has an active project to make limited amendments to the classification and measurement requirements in IFRS 9 and incorporates new requirements to address the impairment of financial asset and hedge accounting. On November 19, 2013, the IASB issues a new document that expands and amends this Standard and other related standards, *Hedge Accounting* and amendments to IFRS 9, IFRS 7 and IAS 39. This document includes the new general hedge accounting model and allows early adoption of the requirement to present fair value changes due to own credit on liabilities designated as at fair value through profit or loss to be presented in other comprehensive income. On July 24, 2014, the IASB issued the fourth and final version of its new standard on financial instruments, IFRS 9 *Financial Instruments*. The new standard includes guidance on the classification and measurement of financial assets, including impairment and completes the new hedge accounting principles published in 2013. An entity shall apply this Standard for annual periods beginning on or after January 1, 2018. Early adoption is permitted.
- IFRS 15 *Revenue from Contracts with Customers*, issued on May 28, 2014. This Standard supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. An entity shall apply this Standard to all contracts with customers, except for insurance contracts, financial instruments and lease contracts, which are within the scope of other standards. The standard provides a single revenue recognition model applied to contracts with customers and two approaches to revenue recognition: at a point in time or over time. The model based on control, considers a transaction analysis based on five steps to determine whether, how much and when revenue is recognized. 1.- Identify the contract with a customer. 2.- Identify the performance obligations in the contract. 3.- Determine the transaction price. 4.- Allocate the transaction price to the performance obligations in the contract. 5.- Recognize revenue when (or as) the entity satisfies a performance obligation. The Company shall apply this Standard for annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted.
- IFRS 16 *Leases*, issued on January 13, 2016. This standard requires entities to bring all leases in their financial statements (financial statements of lessee). The main impact on entities with operating leases is an increase in assets and the financial debt. The larger the entity's lease portfolio, the greater the impact on its reporting metrics. The standard is mandatory for reported annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has been also adopted.
- IAS 7 – Statement of Cash Flows: *Disclosure Initiative*. This amendment was issued on February 1, 2016 and instructs the disclosure of information that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. However, the objective could also be achieved in other ways, which might be a relief for financial institutions or other entities that already present enhanced disclosures in this area. Although disclosure of changes in other assets and

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liabilities is possible, such supplementary disclosure should be disclosed separately from changes in liabilities arising from financing activities. The amendments are effective for periods beginning on or after January 1, 2017. Early adoption is permitted.

- Amendments to IAS 12 *Income Taxes - Recognition of deferred tax assets for unrealized losses*, issued on January 19, 2016, clarify the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference. The next question is whether entities can recognize a deferred tax asset if the future bottom line of the tax return is expected to be a loss. The amendments show that the deferred tax assets can be recognized, if certain conditions are met. The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted, but the corresponding disclosures are required. The amendment is applied prospectively.
- Amendments to IFRS 15 *Revenue from Contracts with Customers*, clarify some requirements and provide additional transitional relief for companies that are adopting the new standard. Those amendments were issued on April 12, 2016 and do not change the underlying principles of the standard, just clarify how those principles should be applied. They arise as a result of discussions of the Transition Resource Group (TRG). The amendments give clarification on how to:
 - identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract;
 - determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
 - determine whether the revenue from granting a license should be recognized at a point in time or over time.

In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The amendments have the same effective date as the Standard, January 1, 2018.

The Company's management is evaluating the impact, if any, of the adoption of these amendments and new International Financial Reporting Standards (IFRS) issued but not yet effective as of the date of the financial statements.

B. Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in U.S. Dollars, which is the Company's functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

ii. Transactions and balances

Transactions in foreign currencies are translated into the functional currency of the Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency differences are generally recognized in profit and loss.

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C. Revenues

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue comprises the fair value for the sale of electricity, net of value-added-tax, rebates and discounts. Revenues from the sale of energy are recognized in the period during which the sale occurs. The revenues from the generation business are recorded based upon output delivered and capacity provided at rates specified pursuant to our Power Purchase Agreements (PPAs), or at marginal costs determined on the spot market, if the sales are made on the spot market.

Revenues are determined substantially by long-term, U.S. dollar-linked PPAs. PPAs are usually entered into at prices that are equivalent to, or higher than, the prevailing spot market rates, the majority of which are indexed to the underlying fuel cost of the related long-term supply agreements. Under the terms of the majority of the Company's PPAs, the power purchaser is contractually obligated to purchase its energy requirements, and sometimes capacity and/or ancillary services, from the power generator based upon a base price (denominated either in U.S. Dollars or in the local currency) that is generally adjusted for a combination of some of the following:

(1) fluctuations in exchange rates, (2) the U.S. inflation index, (3) a local inflation index, (4) fluctuations in the cost of operating fuel, (5) supply costs of natural gas, and (6) transmission costs. Additionally, in Peru, PPAs include provisions that change the contractual unitary energy prices in the case of an interruption of the supply or transportation of natural gas through the use of a methodology based on spot prices existing on the dates in which the interruption event occurred. Many of the prices in the Company's PPAs differentiate between peak and off-peak periods. As of December 31, 2016, the weighted average remaining life of the Company's PPAs based on firm capacity was 12 years.

In the case of non-regulated prices, those are freely agreed between the Company and its clients (non-regulated users). On the other hand, regulated prices are determined by regulatory bodies of the sector: COES and OSINERGMIN. Operations that are subject to price regulation are as follows:

For energy and power

- Transfers of power and energy between generators - in this case, the costs will be determined by the COES.
- Withdrawals of power and energy in the COES incurred by distributors and non-regulated users.
- Sales to users of public electricity.
- Sales of electricity (energy and power) of generators to distribution companies destined to public electricity service. Prices shall not exceed the prices determined by OSINERGMIN if they are not subject to bidding.

For main and secondary transmission

- Fees and compensations of the transmission and distribution systems
- The revenue from the provision of energy and power services is recognized based on estimates of customer consumption in the corresponding month.

The transmission toll revenue is recognized since the Company acts as a main performer for its clients using the Transmission System.

The revenue from transmission, energy, and power delivered but not invoiced that is generated between the last cyclical reading and the end of each month is included in the invoicing of the following month, but is recognized as revenue in the corresponding month based on estimates of energy and power consumption and transmission toll used by the service user during that period.

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D. Employee benefits

i. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

The employee benefits are classified as short-term benefits or as other long-term benefits depending on when the Company expects the benefits to be wholly settled.

ii. Defined contribution plans

Obligations for contributions to defined contribution plans including the contributions made by the Company to the Pension Fund Administrators (AFPs for its Spanish acronym) are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

iii. Termination benefits

Severance pay is charged to the profit or loss when there is a clear obligation to pay termination of employees before they reach the customary age of retirement according to a formal, detailed plan, without any reasonable chance of cancellation, the benefits given to employees upon voluntary retirement are charged when the Company proposes a plan to the employees encouraging voluntary retirement, it is expected that the proposal will be accepted and the number of employee acceptances can be estimated reliably.

E. Finance income and finance costs

Finance income and finance costs of the Company are recognized on an accrual basis and include the following:

- Interest income.
- Interest expense.
- Foreign currency gain or losses on financial assets and financial liabilities.
- The realized or loss on hedging instruments that are recognized in profit or loss.
- Interest income or expense is recognized using the effective interest method.

F. Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount to be paid or received that reflects uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current Tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

ii. Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for unused tax losses, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans of the Company. Deferred tax

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assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profit improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

The Company regularly reviews its deferred tax assets for recoverability, taking into consideration all available evidence, both positive and negative, including historical pre-tax and taxable income, projected future pre-tax and taxable income and the expected timing of the reversals of existing temporary differences. In arriving at these judgments, the weight given to the potential effect of all positive and negative evidence is commensurate with the extent to which it can be objectively verified.

The Company believes its tax positions are in compliance with applicable tax laws and regulations. Tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The Company believes that its liabilities for unrecognized tax benefits, including related interest, are adequate in relation to the potential for additional tax assessments. There is a risk, however, that the amounts ultimately paid upon resolution of tax audits could be materially different from the amounts previously included in our income tax expense and, therefore, could have a material impact on our tax provision, net income and cash flows.

G. Inventories

Inventories consist of spare parts, materials and supplies and are valued at the lower of cost or net realizable value. Cost is determined by using the average cost method.

H. Trade receivables

Trade receivables are amounts due from customers for the energy and capacity in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

I. Property, plant and equipment

i. Recognition and measurement

Property, plant, and equipment includes thermal power which are composed of four turbines for Kallpa and one turbine for Las Flores. The cost of an item of property, plant, and equipment comprises its acquisition cost, non-recoverable taxes, decommissioning costs, including disbursements directly attributable to the acquisition or manufacturing of these items and capitalized borrowing costs. Items of property, plant, and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant, and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant, and equipment. Any gain or loss resulting from the disposal of an item of property, plant, and equipment is recognized in profit or loss.

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ii. Subsequent costs

Subsequent cost is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company, and its cost can be measured reliably.

iii. Depreciation

Depreciation is calculated to write off the cost of items of property, plant, and equipment less their estimated residual values, using the straight-line method over its estimated useful lives and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant, and equipment are as follows:

Years

Buildings	30 - 40
Plant and equipment	25
Plant and equipment (Replacement units)	1 - 17
Vehicles	5
Furniture and fixture; plant and various equipment	10
IT equipment	4

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

J. Intangible assets**i. Recognition and measurement**

Research and development	Expenditure on research activities is recognized in profit or loss as incurred. Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.
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ii. Subsequent cost

Subsequent cost is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including cost on internally generated goodwill is expensed as incurred.

iii. Amortization

Amortization is calculated to write-off the cost of intangible assets using the straight-line method over their useful lives, and is generally recognized in profit or loss.

K. Financial instruments

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit and loss, held-to-maturity financial assets, loans, debentures and receivables and available-for-sale financial assets.

The Company classifies non-derivatives financial liabilities into other financial liabilities category.

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i. Non-derivative financial assets and financial liabilities – Recognition and de-recognition

The Company initially recognizes loans and receivables and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are recognized initially on the trade date when the Company becomes party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial asset that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged, or cancelled or expire.

ii. Non-derivative financial assets – Measurement

Financial assets at fair value through profit and loss	A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Direct attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, including any interest or dividend income, are recognized in profit or loss.
Loans and receivables	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment losses

iii. Non-derivative financial liabilities - Measurement

Non-derivative financial liabilities are initially recognized at fair value less any direct attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

L. Share capital - ordinary shares

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognized as a deduction from equity. Income tax relating to transactions costs of an equity transaction is accounted for in accordance with IAS 12.

M. Impairment

i. Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-account investee, are assessed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes:

- Default or delinquency by a debtor;
- Restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers;
- The disappearance of an active market for a security because of financial difficulties; or
- Observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

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ii. Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (property, plant, and equipment, and intangible assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or cash-generating units (CGU).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a discount rate before taxes that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the profit and loss. These losses are distributed to reduce the carrying amount of assets of the cash generating unit based on a prorate basis of carrying amounts.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

N. Energy purchase

Costs from energy purchases either acquired in the spot market or from contracts with suppliers are recorded on an accrual basis according to the energy actually received. Purchases of electric energy, including those which have not yet been billed as of the reporting date, are recorded based on estimates of the energy supplied at the prices prevailing in the spot market or agreed-upon in the respective purchase agreements, as the case may be.

O. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be reliably estimated.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

P. Leases

i. Determining whether an arrangement contains a lease

At the inception of an arrangement, the Company determines whether the arrangement is or contains a lease. At the inception or on reassessment of an arrangement that contains a lease, the Company separates payments and other considerations required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values.

If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Company's incremental borrowing rate.

ii. Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

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Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. In the case of contingent payments, they are recognized in profit or loss and are shown in administrative expenses.

Q. Operating segments, geographic and revenue information

Operating segments are defined as business activities which generate revenue and expenses and whose operating results are regularly reviewed by the chief operating decision maker ("CODM") of the Company in order to make decisions about the allocation of resources to the segments and to evaluate its performance.

Management has determined that the senior management team is the CODM. The CODM receives and reviews information about operating results and assesses performance on a total Company basis only. Consequently, management has determined the Company has no operating segments as that term is defined in IFRS.

All of the Company's revenue is derived from external customers that are geographically located in Peru. Also, all non-current assets of the Company are located in Peru.

During 2016, customers that account for 10% or more of the Company's total revenues were: Luz del Sur S.A. with US\$ 80 million, 18% of total revenues, (US\$ 78 million, 18% in 2015 and US\$ 81 million, 19% in 2014), Enel Distribución S.A. with US\$ 77 million, 17% of the total revenues (US\$ 94 million, 21% in 2015 and US\$ 89 million, 20% in 2014) and Sociedad Minera Cerro Verde with US\$ 64 million, 14% of total revenues, (US\$ 73 million, 16% in 2015 and US\$ 69 million, 16% in 2014).

Revenues by products and services are disclosed in Note 20.

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5. Financial Instruments - Fair Value and Risk Management
A. Accounting classification and fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities including their fair value hierarchy levels:

	Carrying amount						Fair value Level 2
	Current			Fair Value Hedging	Non-current		
	Cash	Loans and receivables	Other financial liabilities		Other financial liabilities	Total	
<i>In thousands of U.S. dollars</i>							
As at December 31, 2016							
Financial assets not measured at fair value							
Cash and cash equivalents (note 6)	21,034	-	-	-	-	21,034	-
Trade receivables (note 7)	-	55,550	-	-	-	55,550	-
Other receivables	-	6,903	-	-	-	6,903	-
Financial liabilities not measured at fair value							
Trade payables (note 12)	-	-	(38,135)	-	(44,057)	(82,192)	-
Other payables	-	-	(4,500)	-	-	(4,500)	-
Debentures (note 14)	-	-	-	-	(325,970)	(325,970)	(371,639)
Loans from banks, debentures and others (note 14)	-	-	(6,624)	-	(81,192)	(87,816)	(90,071)
	21,034	62,453	(49,259)	-	(451,219)	(416,991)	(461,710)
As at December 31, 2015							
Financial assets not measured at fair value							
Cash and equivalents (note 6)	27,935	-	-	-	-	27,935	-
Trade receivables (note 7)	-	41,922	-	-	-	41,992	-
Other receivables	-	6,657	-	-	-	6,657	-
Financial liabilities not measured at fair value							
Trade payables (note 12)	-	-	(73,971)	-	-	(73,971)	-
Other payables	-	-	(3,146)	-	-	(3,146)	-
Debentures (note 14)	-	-	(13,650)	-	(135,455)	(149,105)	(169,459)
Loans from banks, debentures and others (note 14)	-	-	(87,652)	-	(179,208)	(266,860)	(281,790)
	27,935	48,579	(178,419)	-	(314,663)	(416,498)	(451,249)
As at December 31, 2014							
Financial assets not measured at fair value							
Cash and equivalents (note 6)	25,034	-	-	-	-	25,034	-
Trade receivables (note 7)	-	39,429	-	-	-	39,429	-
Other receivables	-	4,768	-	-	-	4,768	-
Financial liabilities measured at fair value							
Interest rate financial swap used for hedging	-	-	-	(608)	-	(608)	-
Financial liabilities not measured at fair value							
Trade payables (note 12)	-	-	(49,598)	-	-	(49,598)	-
Other payables	-	-	(6,816)	-	-	(6,816)	-
Debentures (note 14)	-	-	(10,207)	-	(149,105)	(159,312)	(185,772)
Loans from banks and other (note 14)	-	-	(72,141)	-	(221,860)	(294,001)	(314,208)
	25,034	44,197	(138,762)	(608)	(370,965)	(441,104)	(499,980)

(*) It does not include statutory liabilities and advances.

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B. Fair value measurement**i. Valuation techniques and significant unobservable inputs**

The following table shows the valuations techniques used in the determination of fair values of financial instruments - Level 2, as well as the significant unobservable inputs used.

Financial instruments not measured at fair value

Type	Valuation techniques	Key unobservable data	Interrelationship between key unobservable inputs and fair value
Loans from banks, debentures and others	Discounted cash flows using current market interest rate	Not applicable	Not applicable

C. Financial risk management

The Company exposure to the following risks related to the use of financial instruments:

- Credit risk (see C. i.)
- Liquidity risk (see C. ii.); and
- Market risk (see C. iii.)

Risk management structure

The Board of Directors of the Company is responsible for establishment and supervising the risk management structure. Management is responsible for the development and monitoring of risk management policies of the Company. Also, it informs regularly the Board of Directors about its activities.

The Company's risk management policies are established to identify and analyze Company risks, set appropriate risk limits and controls, and monitor risks and compliance with limits. Risk policies and management systems are regularly reviewed in order to reflect the changes in market conditions and the Company's activities.

The Company, through its management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company is exposed to the following risks related to the use of financial instruments:

i. Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of financial assets represents the maximum credit exposure.

The Company's financial assets potentially exposed to significant credit risk concentrations are mainly deposits in banks and accounts receivable presented in the statement of financial position.

As of December 31, 2016, 2015, and 2014 the maximum exposure to credit risk for the Company's financial assets was the following:

<i>In thousands of U.S. dollars</i>	Carrying amount		
	2016	2015	2014
Cash and cash equivalents (note 6) (a)	21,034	27,935	25,034
Trade receivables (note 7) (b)	55,550	41,922	39,429
Other receivables	6,903	6,657	4,768
Net asset position	83,487	76,514	69,231

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- (a) The Company holds bank accounts at different local financial entities, which have an “A+” and “A” credit rating. As of December 31, 2016, the Company maintains guarantees with local financial entities, Banco de Crédito del Perú. It does not include statutory liabilities and advances.
- (b) The Company has six clients, which are regulated and has a “BBB+” credit rating. For energy clients, the credit risk is evaluated before signing the contract for power supply and throughout its effective term.

ii. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

As of December 31, 2016, the Company has cash of US\$ 21 million, while it has short-term trade payables of US\$ 38 million and financial obligations of US\$ 7 million. Our trade payables mostly related to the long-term service agreements with Siemens, which for the purchase of spare parts, technical services and labor for the maintenance of our Kallpa generating units. The Company expects to reduce the trade payables outstanding with Siemens based on a scheduled maintenance over the next few years.

The principal sources of liquidity have traditionally consisted of cash flows from operating activities, short-term and long-term borrowings including bank loans. The Company does not have funds designated for, or subject to, permanent reinvestment.

The Company needs for liquidity generally consist of expenditures related to working capital requirements and capital expenditures (e.g., major maintenance that extend the useful life of the generation units).

Liquidity is controlled by the balancing of the maturities of assets and liabilities, keeping a proper number of financing sources, and obtaining credit lines that enable the normal development of its activities. The Company has an appropriate level of resources and continues financing lines with banking entities. Moreover, the Company believes that the cash generated by operations will be adequate to meet all capital expenditure requirements related to ongoing maintenance and environmental improvements and all working capital needs in the ordinary course of our business in the near term. Consequently, in Management’s opinion, there is no significant liquidity risk as of December 31, 2016.

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The Company's financial liabilities are classified based on their maturity, considering their maturity from the date of the statement of financial position until contractual maturity. The disclosed amounts correspond to the contractual undiscounted cash flows and include contractual interest payments:

<i>In thousands of U.S. dollars</i>	Carrying amount	Less than 1 year and not at sight	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
2016							
Non-derivative financial liabilities:							
Loans from banks, debentures and others (note 14)	413,786	29,700	25,148	26,555	43,147	31,836	445,371
Trade payables (note 12)	82,192	38,135	10,121	7,076	5,216	9,426	12,218
Other payables (note 13)	11,615	11,615	-	-	-	-	-
Total	507,593	79,450	35,269	33,631	48,363	41,262	457,589
2015							
Non-derivative financial liabilities:							
Loans from banks, debentures and others (note 14)	415,965	126,503	75,444	68,923	71,390	68,989	104,123
Trade payables (note 12)	73,971	73,971	-	-	-	-	-
Other payables (note 13)	11,932	11,932	-	-	-	-	-
Total	501,868	212,406	75,444	68,923	71,390	68,989	104,123
2014							
Non-derivative financial liabilities:							
Loans from banks, debentures and others (note 14)	453,313	111,009	81,503	75,444	68,923	71,390	173,112
Trade payables (note 12)	-	49,598	-	-	-	-	-
Other payables (note 13)	-	-	-	-	-	-	-
Swaps	-	608	-	-	-	-	-
Total	453,313	161,215	81,503	75,444	68,923	71,390	173,112

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iii. Market risk**Currency risk**

As of December 31, 2016, 2015 and 2014 the Company has an insignificant portion of assets and liabilities stated in soles; therefore, its exposure to fluctuations in exchange rate is not significant.

As of December 31, 2016, the weighted average market exchange rates used were US\$ 0.2976 per S/ 1.00 for sell rate and US\$ 0.2983 per S/ 1.00 for purchase rate (US\$ 0.2930 per S/ 1.00 for sell rate and US\$ 0.2934 per S/ 1.00 for purchase rate as of December 31, 2015, and US\$ 0.3346 for S/ 1.00 for sale rate and US\$ 0.3355 for S/ 1.00 for purchase rate as of December 31, 2014).

Balances in thousands of soles (S/) as of December 31 are summarized as follows:

<i>In thousands of soles</i>	2016	2015	2014
Asset:			
Cash and cash equivalents	4,791	64,444	18,613
Trade receivables	134,559	90,106	68,210
Accounts receivable from related parties	4,569	4,540	61
Other receivables	31,518	17,327	7,424
Other assets	32,546	32,546	-
	207,983	208,963	94,308
Liabilities:			
Trade payables	(48,115)	(43,422)	(28,275)
Other payables	(22,030)	(25,889)	(39,066)
	(70,145)	(69,311)	(67,341)
Net asset position	137,838	139,652	26,967

For the year, ended December 31, 2016, net foreign exchange profit amounts US\$ 198 thousand (net foreign exchange loss of US\$ 5,333 thousand in 2015 and net foreign exchange loss of US\$ 853 thousand in 2014).

As of December 31, 2016, if the US dollar had been revalued/devalued in relation to the Peruvian sol - with all its variables remaining constant - the profit before tax would have increased/decreased as shown in the following table:

Period	Increase/decrease in US\$ exchange rate	Effects in profit or loss before tax
2016		
Revaluation	5%	2,051
Devaluation	(5%)	(2,051)
2015		
Revaluation	5%	2,046
Devaluation	(5%)	(2,046)
2014		
Revaluation	5%	451
Devaluation	(5%)	(451)

Management considers that the foreign exchange risk will not originate a significant unfavorable impact on the profit or loss of the Company; therefore, its policy is to assume the risk of any fluctuation in the foreign exchange rates of the sol with the results of its operations. In this regard, Management does not consider it necessary to cover the Company for currency risk with derivative financial instruments.

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Interest rate risk

The Company's exposure to this risk is due to the change in the interest rate, due to its borrowings. The Company minimizes this risk by maintaining its borrowings mainly at fixed interest rates.

Interest rate exposures for financial assets and liabilities are as follows:

<i>In thousands of U.S. dollars</i>	Fixed rate	Variable rate	Total	Weighted average interest rate (%)
2016				
Financial liabilities:				
Interest-bearing loans	325,970	87,816	413,786	5.36%
2015				
Financial liabilities:				
Interest-bearing loans	281,300	89,665	370,965	7.19%
2014				
Financial liabilities:				
Interest-bearing loans (*)	305,271	118,936	424,207	7.33%

(*) Considering the effect of interest rate swaps. Kallpa II swap was due in May 2015.

Other market price risks

The price of natural gas, the main source for power generation, is regulated and the Company's Management has decided to accept the price risk; therefore, it has not conducted hedging transactions.

6. Cash and Cash Equivalents

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Petty cash	3	3	3
Checking accounts (a)	21,031	15,890	5,954
Trust accounts (b)	-	12,042	5,675
Time deposits (c)	-	-	13,402
	21,034	27,935	25,034

- (a) The Company holds checking accounts in different local financial entities and the funds have free withdrawal option. As of December 31, 2016, checking accounts at Citibank del Perú bear interest at current market rates of 0.30% in US dollars and 3.00% in soles (0.30% in US dollars and 3.00% in soles as of December 31, 2015 and 0.40% in US dollars and 3.00% in soles as of December 31, 2014) and Banco de Crédito del Perú bear interest at current market rates of 0.53% in US dollars and 2.60% in soles (1.80% in soles as of December 31, 2015).
- (b) The Company held a trust account with Citibank, in order to guarantee payment of financial obligations; these are released on a current term.
- (c) Corresponds to two time deposits of US\$ 6,701 thousand each and accrue interest of 0.17% and 0.14%; respectively, maturing in January 2015.

Credit ranking

According to Apoyo & Asociados S.A.C., the credit quality that safeguard the Company's bank deposits was evaluate as follows:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Citibank del Perú	A	A	A
Banco de Crédito del Perú (BCP)	A+	A+	A+

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7. Trade Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Invoices receivable:			
COES (a)	986	508	247
Regulated customers	28,801	21,073	18,200
Non-regulated customers	25,278	19,539	20,152
Other	659	802	830
	55,724	41,922	39,429
Less – allowance for doubtful debts (b)	(174)	-	-
	55,550	41,922	39,429

Trade receivables are denominated in US dollars (non-regulated customers) and soles (COES and regulated customers). They have current maturity and do not generate interest, except in the case of payment delays. Balance of trade receivables as of December 31, 2016, correspond to approximately 31 non-regulated and 6 regulated clients (24 non-regulated and 7 regulated clients as of December 31, 2015, and 28 non-regulated and 8 regulated as of December 31, 2014).

- (a) The Committee of Economic Operation of the National Interconnected System (COES) as the system operator acts as a clearing-house and settles the payments for power generation companies.
- (b) As of December 31, 2016, 2015 and 2014, past due trade receivables (over 360 days) represent less than 1% of the total balance of trade receivables and mainly correspond to trade receivables with non-regulated customers.
- (c) The aging of trade receivables is the following:

<i>In thousands of U.S. dollars</i>	
Unexpired	37,617
Less than 30 days	14,838
31 to 60 days	2,302
61 to 90 days	718
91 to 180 days	27
More than 181 days	222
Total	55,724

8. Other Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Income tax	8,174	2,671	-
Receivables from related parties (note 26)	6,903	4,005	232
IVA	1,054	-	-
Advances to suppliers	505	862	541
Receivables from personnel	25	1,885	1,638
Other receivables	328	768	2,898
Total	16,989	10,191	5,309

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9. Inventories

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Mechanical spare parts	11,623	10,863	10,129
Electrical spare parts	2,049	1,967	1,878
Other supplies	933	980	1,076
Total	14,605	13,810	13,083

Mechanical spare parts correspond to items used in programmed maintenance for Kallpa I, Kallpa II, Kallpa III, Kallpa IV and Las Flores enabling appropriate operations until major maintenance. In Management's opinion, it is not necessary to recognize an impairment of spare parts as of December 31, 2016, 2015 and 2014.

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10. Property, Plant and Equipment

As of December 31, the balance is as follows:

<i>In thousands of U.S. dollars</i>	Land	Buildings and other constructions	Plant and equipment	Vehicles	Furniture and fixture	Various and IT equipment	Replacement units	Total
Cost:								
Balance as of January 1, 2014	621	128,503	519,888	958	302	2,510	6,507	659,289
Additions	5,702	14,685	99,557	233	78	1,326	22,066	143,647
Disposals	-	-	-	(202)	(1)	(6)	-	(209)
Transfers	-	-	18,973	-	-	-	(18,973)	-
Balance as of December 31, 2014	6,323	143,188	638,418	989	379	3,830	9,600	802,727
Additions	-	816	1,256	99	4	232	26,722	29,129
Disposals	-	-	-	(47)	-	(70)	-	(117)
Transfers	-	-	27,064	-	-	-	(27,064)	-
Balance as of December 31, 2015	6,323	144,004	666,738	1,041	383	3,992	9,258	831,739
Additions	-	(1,336)	550	170	15	217	17,556	17,172
Disposals	-	-	-	(138)	-	(9)	-	(147)
Transfers	-	-	9,404	-	-	-	(9,404)	-
Balance as of December 31, 2016	6,323	142,668	676,692	1,073	398	4,200	17,410	848,764
Accumulated depreciation:								
Balance as of January 1, 2014	-	(7,970)	(114,321)	(571)	(135)	(849)	-	(123,846)
Depreciation for the year	-	(3,591)	(41,430)	(152)	(37)	(422)	-	(45,632)
Disposals	-	-	-	176	1	2	-	179
Balance as of December 31, 2014	-	(11,561)	(155,751)	(547)	(171)	(1,269)	-	(169,299)
Depreciation for the year	-	(3,764)	(45,924)	(155)	(42)	(525)	-	(50,410)
Disposals	-	-	-	47	-	54	-	101
Balance as of December 31, 2015	-	(15,325)	(201,675)	(655)	(213)	(1,740)	-	(219,608)
Depreciation for the year	-	(3,732)	(40,630)	(162)	(42)	(499)	-	(45,065)
Disposals	-	-	-	127	-	9	-	136
Balance as of December 31, 2016	-	(19,057)	(242,305)	(690)	(255)	(2,230)	-	(264,537)
Carrying amount								
As of December 31, 2014	6,323	131,627	482,667	442	208	2,561	9,600	633,428
As of December 31, 2015	6,323	128,679	465,063	386	170	2,252	9,258	612,131
As of December 31, 2016	6,323	123,611	434,387	383	143	1,970	17,410	584,227

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- A. 'Plant and equipment' includes significant components that correspond to parts that are replaced during major maintenance. Management depreciates those components in line with their estimated useful lives, which range from 1 year to 13 years.
- B. Distribution of depreciation was as follows:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Generation costs	44,652	49,973	45,226
Administrative expenses (note 21.B)	410	433	404
Project cost	3	4	2
	45,065	50,410	45,632

- C. 'Property, plant, and equipment' includes the following fixed assets acquired through finance lease contracts, net of accumulated depreciation:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Plant and equipment	157,091	169,756	37,792
Buildings and other constructions	35,686	36,736	185,465
	192,777	206,492	223,257

- D. As of December 31, 2016, the Company has insured its main assets for property damage amounting to US\$ 734,000 thousand (US\$ 734,000 thousand as of December 31, 2015 and 2014). It is the Management's opinion that its insurance policy is consistent with the international industry practice and that the risk of possible losses for claims considered in the insurance policies is reasonable, taking into consideration the Company's types of assets.
- E. As of December 31, 2016, after Management's analysis there were no impairment indicators on the value of property, plant and equipment.
- F. As of December 31, 2014, the Company acquired Las Flores plant for US\$ 113,856 thousand, of which US\$ 107,688 thousand were financed through a financial lease with Banco de Crédito del Perú (note 14), which comprises US\$ 12,401 thousand as buildings and other constructions, and US\$ 95,287 thousand as plant and equipment. The balance US\$ 6,168 thousand was used for the acquisition of land and other assets and financed with cash of the Company. The Company incurred in leasehold improvements for the financial lease amounting to US\$ 1,939 thousand comprising US\$ 223 thousand as part of the buildings and other constructions item, and US\$ 1,716 thousand as plant and equipment.
- G. During 2016, all other financial leases were prepaid (note 14).

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11. Intangible Assets

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Proyecto RS	12,071	10,877	7,107
Chilia	5,815	5,576	5,306
Las Flores Ciclo Combinado	105	105	86
Quillabamba	-	86	-
	17,991	16,644	12,499

As of December 31, 2016, the intangible balance mainly comprises projects made by the Company.

As of December 2016, Management decided to write off the Quillabamba project, as the Peruvian Government cancelled the auction for that project. Additionally, Management analysis indicated there were no impairment indicators on the value of the other intangibles.

The balance reconciliation is as follows:

<i>In thousands of U.S. dollars</i>	Las Flores					Total
	Chilia	Proyecto RS	Ciclo Combinado	Proyecto Quillabamba	Reserva Fría	
Cost:						
Balance as of January 1, 2014	2,814	2,678	93	-	49	5,634
Additions	2,492	4,429	(7)	-	(49)	6,865
Balance as of December 31, 2014	5,306	7,107	86	-	-	12,811
Balance as of January 1, 2015	5,306	7,107	86	-	-	12,499
Additions	270	3,770	19	86	-	4,145
Balance as of December 31, 2015	5,576	10,877	105	86	-	16,644
Balance as of January 1, 2016	5,576	10,877	105	86	-	16,644
Additions	239	1,194	-	1	-	1,434
Balance as of December 31, 2016	5,815	12,071	105	87	-	18,078
Accumulated depreciation:						
Balance as of January 1, 2014	-	-	-	-	-	-
Balance as of December 31, 2014	-	-	-	-	-	-
Balance as of January 1, 2015	-	-	-	-	-	-
Balance as of December 31, 2015	-	-	-	-	-	-
Balance as of January 1, 2016	-	-	-	-	-	-
Disposals	-	-	-	(87)	-	(87)
Balance as of December 31, 2016	-	-	-	(87)	-	(87)
Carrying amount						
As of December 31, 2014	5,306	7,107	86	-	-	12,811
As of December 31, 2015	5,576	10,877	105	86	-	16,644
As of December 31, 2016	5,815	12,071	105	-	-	17,991

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12. Trade Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Current portion			
Purchase of energy and transmission toll (a)	12,224	11,073	8,526
Supplies and transport	12,859	11,479	9,900
Maintenance contract - short term (b)	8,725	48,734	29,548
Other	4,327	2,685	1,624
Sub-total	38,135	73,971	49,598
Non-current portion			
Maintenance contract – long term (b)	44,057	-	-
Sub-total	44,057	-	-
Total	82,192	73,971	49,598

- (a) These accounts payable are related to transmission tolls paid for the use of principal transmission lines in the Peruvian interconnected electricity system. Most of these costs are pass-through to Kallpa's customers.
- (b) These accounts have both current and long term maturities. Furthermore, no specific guarantees have been granted for these obligations. The amounts increased compared to December 31, 2015 and 2014, mainly due to the spare parts received for major maintenance of turbine 2 and turbine 3 according to contract signed with Siemens. Additionally, during 2016, the Company received additional information from Siemens and determined the amount should be re-scheduled in a longer period of time. Payables are escalated annually based on Consumer and Producer Price Index from the United States.

13. Other Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Interest payables – debentures	3,253	3,327	3,519
Liability for rural electrification act and FISE	1,934	1,491	1,411
Vacations and compensations payables	1,017	911	801
Tax on dividends payables	840	305	306
Self-employment and regular employment income tax payables	222	550	499
Contributions payables	165	139	106
Sales tax payables	95	1,350	1,643
Workers' profit sharing payables (note 23(a))	2	2,186	2,954
Other payables	4,087	1,673	5,442
Total	11,615	11,932	16,681

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14. Loans from Banks, Debentures and Others

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Current portion			
Short-term borrowings	-	45,000	29,107
Financial leases	6,624	25,268	29,138
Syndicated loan	-	17,384	13,896
Local Bonds	-	13,650	10,207
Sub total	6,624	101,302	82,348
Non-current portion			
Financial leases	81,192	137,929	163,197
Syndicated loan	-	41,279	58,663
Local Bonds	-	135,455	149,105
International Bond	350,000	-	-
Transaction Costs	(24,030)	-	-
Sub total	407,162	314,663	370,965
Total	413,786	415,965	453,313

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A. Terms and debt repayment schedule

The terms and conditions of outstanding loans are as follows:

Name of creditor	Currency	Annual interest rate	Maturity	2016		2015		2014	
				Face value	Carrying amount	Face value	Carrying amount	Face value	Carrying amount
<i>In thousands of U.S. dollars</i>									
Short-term Borrowings:									
Banco de Crédito del Perú	US\$	4.80%	Jan 14	-	-	-	-	29,107	29,107
Banco de Crédito del Perú	US\$	5.06%	Mar 16	-	-	30,000	30,000	-	-
Scotiabank Perú	US\$	5.10%	Jan 16	-	-	15,000	15,000	-	-
Sub total				-	-	45,000	45,000	29,107	29,107
Loans from Banks:									
Syndicated loan	US\$	LIBOR + 5.50%	Oct 19	-	-	59,634	58,663	74,229	72,559
Sub total				-	-	59,634	58,663	74,229	72,559
Financial Leases:									
Las Flores									
Banco de Crédito del Perú	<i>B (i)</i> US\$	7.15%	Oct 23	87,816	87,816	94,440	94,440	101,064	101,064
Kallpa III project									
Scotiabank Perú	US\$	7.57%	Jul 18	-	-	37,755	37,755	44,895	44,895
Kallpa II project									
Banco de Crédito del Perú	US\$	LIBOR + 2.05%	Dec 17	-	-	28,667	28,667	35,141	35,141
Kallpa I project									
Banco de Crédito del Perú	US\$	LIBOR + 3.00%	Mar 16	-	-	557	557	2,679	2,679
Citileasing	US\$	LIBOR + 3.00%	Mar 16	-	-	194	194	935	935
Citibank del Perú	US\$	LIBOR + 3.00%	Mar 16	-	-	1,195	1,195	5,751	5,751
Citibank del Perú: Financial leaseback	US\$	LIBOR + 3.00%	Mar 16	-	-	389	389	1,870	1,870
Sub total				87,816	87,816	163,197	163,197	192,335	192,335
Debentures:									
Local bonds	US\$	8.50%	May 22	-	-	149,640	149,105	159,960	159,312
International bonds	<i>C</i> US\$	4.8750%	May 26	350,000	325,970	-	-	-	-
Sub total				350,000	325,970	149,640	149,105	159,960	159,312
				437,816	413,786	417,471	415,965	455,631	453,313

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The following table presents the payment schedule of non-current portion of long-term debt at December 31, 2016:

<i>In thousands of U.S. dollars</i>	
2018	6,624
2019	6,624
2020	24,263
2021	14,560
2022 and thereafter	355,091
	407,162

B. Finance lease liabilities

- i. In April 2014, the Company entered into a financial lease agreement with Banco de Crédito del Perú under which the lessor granted financing for the acquisition of Las Flores plant for a total amount of US\$ 107,688 thousand. The Company shall make quarterly payments that began in July 2014 until the maturity of the lease in July 2024. This financial lease has as a guarantee Las Flores assets. The net carrying amount of these assets as of December 31, 2016 is US\$ 92,778 thousand.

As of December 31, 2016, the pending amount of the principal under this lease was US\$ 87,816 thousand. The lease accrues an annual interest rate of 7.15%.

On May 2016, as part of the Company's debt refinancing, Kallpa issued an international bond due in May 2026 and prepaid all the other financial leases, corresponding to Kallpa II and Kallpa III.

The finance lease liabilities are composed as follows:

<i>In thousands of U.S. dollars</i>	Future minimum lease payments	Interest	Present value of minimum lease payments
Up to one year	12,637	6,013	6,624
Between one and five years	101,056	19,864	81,192
Total	113,693	25,877	87,816

C. Debentures

On May 2016, Kallpa issued, under rule 144A, US\$ 350,000 thousand of International Bonds to refinance short and long-term obligations including short-term loans, local bonds, Syndicate Loan and Financial Leases for Kallpa II and III, except for the financial lease of Las Flores.

The international bond has a BBB- international rating (investment grade). It was issued below par (99.258%) and is payable on May 2026 (bullet) with a coupon rate of 4.875%.

The international bond do not have financial guarantees.

D. Financial obligations and covenants**i. Las Flores financial lease**

The main obligation assumed by the Company by virtue of the Las Flores financial lease is to maintain a leverage ratio, for any quarterly period of 2016, no higher than 4.00 times; 3.75 times for any quarterly period of 2017 and 2018; and 3.5 times from 2019 and over.

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ii. Conditions of the International Bond

The main obligations assumed by the Company in the International Bond are the following:

▪ Payment of securities

The Company shall promptly pay the principal of and interest on the securities on the dates and in the manner provided in the Securities and the related Indenture.

▪ Limitation on liens

The Company covenants and agrees that it will not, and will not permit any Subsidiary to, directly or indirectly, incur, assume or suffer to exist, any Liens to secure any Indebtedness (except for Permitted Liens) against or upon any of their properties or assets.

▪ Reporting requirements.

Audit Financial Statements, as soon as they are available, but in any event within 120 calendar days after the end of any fiscal year, together with a summary from management's discussion and analysis. *Unaudited Financial Statements*, as soon as they are available, but in any event within 60 calendar days after the end of each of the first, second and third quarter, together with a certificate signed by de CFO or representative to the effect the financial statements are true and fairly present the financial position of the Company and that as the best of his knowledge is in compliance with all conditions and covenants.

▪ Listing

The Company shall use its reasonable best efforts to maintain the listing on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market.

In the Company's Management opinion, the covenant of Las Flores have been fulfilled as of December 31, 2016, December 31, 2015 and December 31, 2014.

In the Company's Management opinion, the covenant of Debentures have been fulfilled as of December 31, 2015 and December 31, 2014.

In the Company's Management opinion, the covenant of local bonds have been fulfilled as of December 31, 2016.

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15. Current and Deferred Income Tax

The components of deferred income tax assets and liabilities are as follows:

<i>In thousands of U.S. dollars</i>	Opening balance	Additions/Recoveries			Final balance
		Profit or loss (P&L)	Increased (or reduction in tax rate) in P&L	Other comprehensive income in P&L	
2016					
Deferred assets					
Various provisions	918	563	(24)	-	1,457
	918	563	(24)	-	1,457
Deferred liabilities					
Exchange difference	(8,441)	7,116	22	-	(1,303)
Property, plant and equipment	(10,048)	(33,247)	722	-	(42,573)
Pre-operating interest and expenses	(11,769)	4,559	120	-	(7,090)
	(30,258)	(21,572)	864	-	(50,966)
Net effect	(29,340)	(21,009)	840	-	(49,509)
2015					
Deferred assets					
Various provisions	1,445	(511)	(16)	-	918
Unrealized loss in swap	(23)	-	-	23	-
Loss in swap	206	-	(206)	-	-
	1,628	(511)	(222)	23	918
Deferred liabilities					
Exchange difference	(2,211)	(8,396)	2,166	-	(8,441)
Property, plant and equipment	(9,074)	(3,556)	2,582	-	(10,048)
Pre-operating interest and expenses	(12,100)	864	(533)	-	(11,769)
	(23,385)	(11,088)	4,215	-	(30,258)
Net effect	(21,757)	(11,599)	3,993	23	(29,340)
2014					
Deferred assets					
Various provisions	1,427	50	(32)	-	1,445
Unrealized loss in swap	470	-	-	(493)	(23)
Loss in swap	206	-	-	-	206
	2,103	50	(32)	(493)	1,628
Deferred liabilities					
Exchange difference	1,147	(3,712)	354	-	(2,211)
Property, plant and equipment	(7,780)	(2,697)	1,403	-	(9,074)
Pre-operating interest and expenses	(14,258)	296	1,862	-	(12,100)
	(20,891)	(6,113)	3,619	-	(23,385)
Net effect	(18,788)	(6,063)	3,587	(493)	(21,757)

Income tax expense shown in the statement of comprehensive income for years 2016, 2015 and 2014 is composed as follows:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Current	(4,030)	(16,070)	(20,867)
Deferred	(20,169)	(7,606)	(2,476)
	(24,199)	(23,676)	(23,343)

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The table below presents the reconciliation of the effective income tax rate as of December 31, 2016 and 2015 to the tax rate:

<i>In thousands of U.S. dollars</i>	2016		2015		2014	
Profit before income tax	58,969	100.00%	68,814	100.00%	76,432	100.00%
Theoretical expense	16,511	28.00%	20,644	30.00%	22,930	30.00%
Effect of non-taxable income and non-deductible expenses	(839)	(1.42%)	-	-	-	-
Non-deductible donations	18	0.03%	228	0.33%	104	0.14%
Difference for effects of translating taxable base	6,812	11.55%	(3,194)	(4.64)%	(5,674)	(7.42)%
Permanent items, net	1,697	2.88%	5,998	8.72%	5,983	7.83%
Income tax expenses	24,199	41.04%	23,676	34.41%	23,343	30.54%

16. Asset Retirement Obligation

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Decommissioning			
Balance as of January 1, 2015	11,883	9,702	5,528
Provision related to Las Flores plant	-	-	3,970
Present value updated	(3,850)	2,181	204
Balance as of December 31, 2016	8,033	11,883	9,702

The asset retirement obligation corresponds to Kallpa I, II, III, IV (Combined Cycle), and V (Las Flores) and has been determined taking into consideration all costs necessary to dismantle and rehabilitate the land where the station is currently located. The future value, considering the effect of inflation, amounts to US\$ 16,071 thousand and has been discounted using an annual risk-free rate ranging from 2.915% to 2.813%.

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17. Equity**A. Share capital and share premiums**

Comprises the following:

	Number of common shares		
	2016	2015	2014
Shares issued on January 1	212,985,033	212,985,033	212,985,033
Issued as of December 31 - fully paid-in	212,985,033	212,985,033	212,985,033

All the shares rank equally with regard to the Company's residual assets, with a par value of one sol each (equivalent to approximately US\$ 0.333).

i. Common shares

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. As of December 31, 2016, the share capital structure of the Company is as follows:

Shareholders	Number of shares	%
IC Power Holdings (Kallpa) Limited	159,525,789	74.90
Energía del Pacífico S.A.	53,459,244	25.10
	212,985,033	100.00

ii. Share premiums

It mainly corresponds to the difference between the par value of the issuance of shares in favor of the minority stockholder Energía del Pacífico S.A. (former Quimpac) and the total value of capital contribution.

B. Nature and purpose of reserves**i. Hedging reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss (note 22).

ii. Other reserves

According to the Companies Act, the Company is required to allocate at least 10% of its net annual income to a legal reserve after deducting accumulated losses. This allocation is required until the reserve equals 20% of paid-in capital. In the absence of non-distributed earnings or freely available reserves, the legal reserve must be applied to offset losses but it must be replaced with the earnings of the subsequent years. This reserve can also be capitalized but its subsequent replenishment is equally mandatory. The amount of this reserve meets the established limits.

C. Dividends

As of December 31, 2016, dividends were declared and paid in the amount of US\$ 67,500 thousand (US\$ 30,000 thousand declared and paid in 2015 and US\$ 30,000 thousand in 2014).

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18. Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, as well as the level of dividends to ordinary Shareholders.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Company monitors capital using a ratio of 'adjusted net debt' to 'adjusted equity'. For this purpose, adjusted net debt is defined as main part of total loans and financial obligations. Adjusted equity comprises all components of equity other than amounts accumulated in the cash flow hedging reserve. The Company's adjusted net debt to equity ratio as of December 31, 2016 was as follows:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Total liabilities	566,599	546,027	558,662
Less: Cash	(21,034)	(27,935)	(25,034)
Total adjusted net debts (A)	545,565	518,092	533,628
Total equity	153,574	186,304	171,219
Plus: Hedging reserve	-	-	(53)
Total adjusted equity (B)	153,574	186,304	171,166
Gearing ratio (A/B) (times)	3.55	2.78	3.11

Used credit lines are basically long-term lines and include financial agreements that shall be complied in order to distribute the cash surplus to shareholders.

19. Tax Issues

- A. Tax returns for the years 2013, 2014, 2015 and 2016 are subject to review by the tax authorities. Any amount exceeding the provisions made to cover the tax obligations will be charged to the results of the year in which those are finally determined. It is the opinion of the Company's Management that, as a result of such an assessment, no significant liabilities affecting the financial statements as of December 31, 2016 will arise.

In accordance with current tax legislation, corporate income tax for 2016 is calculated on the basis of the net taxable profit at a rate of 28%

As of December 31, 2016, 2015, and 2014 the Company has recorded income tax for US\$ 4,030 thousand, US\$ 16,070 thousand, and US\$ 20,867 thousand respectively.

- B. On November 16, 2010, the Company signed with the Peruvian Government a new Legal Stability Agreement for a ten-year period from the signing date. Accordingly, during the term of this Agreement, the income tax regime shall not be modified, applying the provisions of Consolidated Text of the Income Tax Law, approved by Executive Order 179-2004-EF and amendments in force at the time of the signing of the Agreement, including the provisions of Law 27909 as from January 1, 2011. It should be noted that for the signing of this new Legal Stability Agreement, the Company waived its rights to which it was entitled under the Legal Stability Agreement signed on September 8, 2006.
- C. On December 27, 2016 the Company waived the Legal Stability Agreement that had been signed with the Peruvian Government since November 16, 2010. Accordingly, the general income tax law shall be maintained since 2016.

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- D. For income tax, sales tax, and excise tax purposes, the market value of the transactions between related parties must be determined based on transfer pricing standards. These standards define, among others, coverage, relationship criteria, as well as comparability analysis, methodology, adjustments, and information. The standards establish that under certain conditions, companies are required to have a Technical Study supporting the calculation of transfer pricing with related companies. Likewise, this obligation is required for all transactions made from, towards or through territories with low or zero taxation.

Company's Management considers that for income tax, sales tax and excise tax purposes, pricing regarding transactions such as those aforementioned has been made in accordance with tax legislation; consequently, no significant liabilities will arise as of December 31, 2016. This includes considering the obligation of preparing and filing the Annual Informative Sworn Declaration of Transfer Pricing of fiscal period 2016 within the term and format indicated by SUNAT (Peruvian Tax Authority).

- E. The total or partial distribution of dividends, or other types of distribution of profits made in favor of domiciled legal entities, for its profits obtained until December 31, 2016 is subject to a 6.8% income tax withholding. In the case of the Company, due to the resignation to the Legal Stability Agreement signed on November 16, 2010, the rate for the 2016 is 6.8% and 5.0% for 2017.
- F. On December 10, 2016, the Government enacted Legislative Decree No. 1261 – Income Tax and Withholding Tax rate modification. The rate established by this Legislative Decree was 29.5% from 2017 onwards. This increase was compensated by the reduction on the withholding tax rate to 5% from 2017 onwards

20. Revenues

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Sale of energy (a)	271,836	290,682	290,561
Capacity sales	68,740	68,359	73,079
Sale of reactive energy	229	280	222
Main and secondary transmission toll	88,894	81,100	66,764
Other operating income (b)	8,776	7,258	6,047
	438,475	447,679	436,673

- (a) The Company sold during 2016, an average of 903 MW and 6,466 GWH (913 MW and 6,328 GWH in 2015 and 929 MW and 6,324 GWH in 2014).
- (b) Other operating income is composed of: (i) Energy security fee for US\$ 3,163 thousand (US\$ 1,018 thousand in 2015); (ii) FISE Toll Compensation for US\$ 2,834 thousand (US\$ 1,983 thousand in 2015 and US\$ 1,975 thousand in 2,014); (iii) Compensation for Volume of Transferred Gas for US\$ 1,307 thousand (US\$ 2,613 thousand in 2015 and US\$ 2,313 thousand in 2014); and (iv) Distribution contract with Calidda – Non-transferable amounts for US\$ 1,472 thousand (US\$ 1,644 thousand in 2015 and US\$ 1,759 thousand in 2014)

As of December 31, 2016, there was estimated pending revenue to be invoiced for US\$ 37,617 thousand (US\$ 38,426 thousand in 2015 and US\$ 34,611 thousand in 2014). According to Management's evaluation, there would not be a significant variation between the amounts invoiced and those estimated.

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21. Income and Expense**A. Other income**

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Disposal of plant and equipment (a)	44	8	53
Various (b)	17,159	2,090	6,157
	17,203	2,098	6,210

- (a) Disposal of plant and equipment mainly includes sale of vehicles and various equipment.
- (b) Mainly include: (i) income from management services invoiced to Cerro del Águila S.A. and Samay I for US\$ 8,441 thousand (US\$ 1,055 thousand in 2015 and US\$ 2,323 thousand in 2014) (note 26.C); and (ii) Penalties in Contract with COELVISAC for US\$ 7,398 thousand and Others for US\$ 1,320 thousand (in 2015, Penalties for Contract Rescission with Compañía Minera Raura for US\$ 550 thousand and others for US\$ 485; thousand, and in 2014, penalties in KCC Project for US\$ 1,990 thousand and others for US\$ 1,844 thousand).

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B. Expenses by nature

This item comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	Cost of sales			Administrative expenses			Total		
		2016	2015	2014	2016	2015	2014	2016	2015	2014
Consumption of natural gas	25(b)	65,483	62,940	70,802	-	-	-	65,483	62,940	70,802
Other related of natural gas		-	388	1,028	-	-	-	-	388	1,028
Main and secondary transmission toll		94,957	86,427	76,762	-	-	-	94,957	86,427	76,762
Purchase of energy		13,237	23,775	22,189	-	-	-	13,237	23,775	22,189
Purchase of power		8,838	8,198	9,972	-	-	-	8,838	8,198	9,972
Transport of natural gas	25(c)	70,517	51,632	48,542	-	-	-	70,517	51,632	48,542
Distribution of natural gas		20,023	18,597	17,693	-	-	-	20,023	18,597	17,693
Amortization	11	-	-	-	87	-	-	87	-	-
Depreciation	10(b)	-	-	-	410	433	404	410	433	404
Maintenance		1,926	6,260	5,611	52	68	80	1,978	6,328	5,691
Transport of personnel		19	211	190	949	815	836	968	1,026	1,026
Consultancy		11	57	125	2,694	2,317	1,700	2,705	2,374	1,825
Leases	24	6	15	31	745	593	456	751	608	487
Contractors		448	414	472	376	213	248	824	627	720
Telephone		-	-	-	200	141	134	200	141	134
Advertising		1	2	3	112	222	91	113	224	94
Insurance		2,236	2,741	4,142	58	57	47	2,294	2,798	4,189
Donations		-	-	-	166	387	573	166	387	573
Licenses		-	-	-	157	231	88	157	231	88
Employee benefits	23	5,664	3,766	3,625	13,427	9,871	10,631	19,091	13,637	14,256
Consumption of various supplies		1,030	2,597	2,694	88	57	57	1,118	2,654	2,751
Contributions (COES, OSINERG, MEM, OEFA)		4,062	4,319	4,282	-	-	-	4,062	4,319	4,282
Taxes		21	9	10	282	288	237	303	297	247
Other		5,100	6,464	1,355	612	1,111	1,322	5,712	7,575	2,677
		293,579	278,812	269,528	20,415	16,804	16,904	313,994	295,616	286,432

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22. Finance Costs

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Financial liabilities at amortized cost - interest expense	36,623	29,032	31,964
Contingent installments of finance lease	-	-	102
Reversal of discount of provision for decommissioning	261	270	204
Expenses for hedging derivatives	-	610	1,700
Other	296	359	247
	37,180	30,271	34,217

23. Employee Benefits

Comprises the following:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Wages and salaries (a)	16,033	10,910	12,745
Contributions to defined contribution plans	1,180	991	787
Vacations	687	632	450
Other	1,191	1,104	274
	19,091	13,637	14,256

- (a) Workers' profit sharing: In line with current legislation, the Company's workers are entitled to a profit sharing plan to be computed at 5% of net income. This profit sharing is considered as a deductible expense for income tax calculation purposes.

In 2016, the Company determined workers' profit sharing of US\$ 720 thousand (US\$ 2,779 thousand in 2015 and US\$ 3,429 thousand in 2014).

Average number of workers in year 2016 was 273 (201 in 2015 and 157 in 2014), respectively.

24. Operating Leases

The Company leases one property under operating leases, with an option to renew the lease after that date.

A. Future minimum lease payments

As of December 31, the future minimum lease payments under non-cancellable leases were as follows:

<i>In thousands of U.S. dollars</i>	2016	2015	2014
Less than one year	646	491	319
Between one and five years	3,522	1,962	106

B. Amounts recognized in profit or loss

The amounts recognized in profit or loss for all operating leases amounted to US\$ 751 thousand (US\$ 608 thousand and US\$ 487 thousand as of December 31, 2015 and 2014, respectively).

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25. Commitments

As of December 31, 2016, the Company has the following commitments:

A. Electricity Supply Contracts

As of December 31, 2016, 2015 and 2014, the Company has 33, 27 and 23 contracts with non-regulated clients, respectively, whose maturities vary between year 2016 and 2028. The off-peak capacity agreed in these contracts amounts to 621 MW as of December 31, 2016 (521 MW and 510 MW as of December 31, 2015 and 2014 respectively). In relation to distribution companies, the Company has signed 27 contracts with 6 distribution companies for 590 MW effective as of December 31, 2016 (28 contracts with 8 distribution companies for 660 MW effective and 26 contracts with 7 distribution companies for 580 MW effective as of December 31, 2015 and 2014 respectively).

B. Natural Gas Supply Contract from Camisea Deposits

In 2006, the Company entered into a Natural Gas Supply Contract with the Camisea Consortium of Block 88, operated by Pluspetrol Perú Corporation S.A. (Pluspetrol), which expires in June 2022. The Contract has three addenda:

- The quantity of natural gas that producers are obliged to make available to the Company at the delivery point is the following:

First gas turbine	m ³ /day
Maximum daily quantity MDQ	1,200,000
Daily contract quantity DCQ	648,000
<i>Second gas turbine</i>	m ³ /day
Maximum daily quantity MDQ	1,300,000
Daily contract quantity DCQ	702,000
Third gas turbine	m ³ /day
Maximum daily quantity MDQ	1,300,000
Daily contract quantity DCQ	650,000
Combined cycle	m ³ /day
Maximum daily quantity MDQ	450,000
Daily contract quantity DCQ	225,000

- Being a Take or Pay contract, the minimum monthly obligatory quantity of natural gas that the Company is obliged to pay, even though it does not make any consumption is 2,225,000 m³/day.

In period 2016, the cost of natural gas supply purchased from Pluspetrol amounted to US\$ 65,483 thousand (US\$ 62,940 thousand in period 2015 and US\$ 70,802 thousand in period 2014), which is recorded as part of 'generation costs' in the statement of comprehensive income.

C. Natural Gas Transport Contracts***Interruptible Natural Gas Transportation Service***

The Company has a Contract for Interruptible Natural Gas Transportation Service with Transportadora de Gas del Perú S.A. (TGP), which was signed in 2005 and expires on December 31, 2033. As of December 31, 2016, the Company has the following quantities of Interruptible Transportation:

<i>Maximum Daily Interruptible Quantity</i>	m ³ /day
From 08.14.2010 through 12.31.2012	610,130
From 01.01.2013 through 03.31.2014	1,095,130
From 04.01.2014 until the 04.21.2016	1,329,593
From the 04.22.2016 until 01.01.2021	764,463
From 01.02.2021 through 03.31.2030	530,000
From 04.01.2030 through 12.31.2033	1,301,169

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Firm Natural Gas Transport Service

The Company has a Firm Natural Gas Transportation Contract with TGP, which was signed in 2007 and amended on April 1, 2014 following the conditional transfer of contractual position of the Firm Natural Gas Transportation Contract of the company Duke Energy Egenor S. en C. por A. in favor of the Company. The Contract expires on December 31, 2033 and comprises a fixed monthly payment that does not depend on the volume of transported gas.

As of December 31, 2016, the Company has the following quantities of Firm Transport:

<i>Daily Reservation Quantity (Firm Contract I)</i>	m³/day
From 08.14.2010 to 03.31.2014	3,154,870
From 04.01.2014 to 03.20.2020	3,354,182
From 03.21.2020 to 03.31.2030	3,154,870
From 04.01.2030 to 12.31.2033	2,948,831

The Company entered into a Firm Natural Gas Transport Contract with TGP, as part of the XV Public Offer for Procurement of Firm Service and Procurement of Interruptible Natural Gas Transport Service, signed in 2011 and which expires on December 31, 2030. It comprises a fixed monthly payment that does not depend on the volume of transported gas.

As of December 31, 2016, the Company has the following quantities of Firm Transport:

<i>Daily Reservation Quantity (Firm Contract I)</i>	m³/day
From 04.22.2016 until 03.31.2030	565,130

The Company entered into a Firm Natural Gas Transport Contract with TGP, as part of the XV Public Offer for Procurement of Firm Service and Procurement of Interruptible Natural Gas Transport Service, since TGP communicated the Company that the capacity of the natural gas transportation system had increased temporarily by 45 MMPCD (1 274 258 m³/day) until expansion works of the transportation infrastructure are concluded. Accordingly, the Company had the right to hire the Firm Natural Gas Transport Contract due to the temporary increase in capacity. The contract was signed on April 1, 2014 and will continue in force until the Service Start Date occurs. It comprises a fixed monthly payment that does not depend on the volume of transported gas.

As of December 31, 2016, the Company has the following quantities of Firm Transport:

<i>Daily Reservation Quantity (Firm Contract III)</i>	m³/day
From 04.22.2016 until 04.21.2016	120,679

The Company entered into a Firm Natural Gas Transport Contract with TGP, as part of the XVI Public Offer for Procurement of Firm Service, signed on October 9, 2014, which expires on April 1, 2033. It comprises a fixed monthly payment that does not depend on the volume of transported gas.

As of December 31, 2016, the Company has the following quantities of Firm Transport:

<i>Daily Reservation Quantity (Firm Contract II)</i>	m³/day
From 04.22.2016 until 03.31.2030	935,000

In 2016, the cost for these services of gas transport amounted to US\$ 70,517 thousand (US\$ 51,632 thousand as of December 31, 2015 and US\$ 48,542 thousand as of December 31, 2014) which is recorded under 'cost of sales' in the statement of comprehensive income.

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D. Natural Gas Distribution Contracts

The Company has a High-Pressure Natural Gas Distribution Contract with Gas Natural de Lima y Callao S.A. (Cálidda), which was signed in 2010 and expires on December 31, 2033. The terms of this contract are applicable to Kallpa thermal power station. As of December 31, 2016, the Company has the following contracted quantities:

Interruptible modality	m ³ /day
From 10.30.2010 until 12.31.2013	555,130
Interruptible modality	m ³ /day
From 10.30.2010 until 12.31.2013	3,154,870
From 01.01.2014 until 12.31.2033	3,710,000

The Company has a Natural Gas Distribution Service Contract with Gas Natural de Lima y Callao S.A. (Cálidda), which was signed in March 26, 2014 and expires on December 31, 2033. The terms of this Contract are applicable to Las Flores thermal power station. As of December 31, 2016, the Company has the following contracted quantities:

Interruptible modality	m ³ /day
From 04.01.2014 until 04.21.2016	950,00
From 04.22.2016 until 04.30.2018	125,688
From 05.01.2018 until 12.31.2033	950,000
Firm modality	m ³ /day
From 04.01.2014 until 04.21.2016	320,00
From 04.22.2016 until 04.30.2018	1,144,312
From 05.01.2018 until 12.31.2033	320,000

In fiscal period 2016, the cost for the gas distribution service was US\$ 19,774 thousand (US\$ 18,420 thousand as of December 31, 2015 and US\$ 17,692 thousand as of December 31, 2014). The costs are included in 'costs of sales' in the statement of profit or loss.

E. Long-term Contracts for the Acquisition of Replacement Units and Provision of Maintenance Services for Siemens - Westinghouse Thermoelectric Turbine

On March 21, 2006, the Company signed a long-term service contract with Siemens Power Generation Inc. and Siemens Power Generation Service Company Ltd., for the acquisition of spare parts and replacement units, as well as providing scheduled maintenance services (minor and major) for Turbine I of its thermal power station.

On December 4, 2007, the Company signed an addendum to the above-mentioned contract, also related to the acquisition of spare parts and replacement units, as well as providing scheduled and non-scheduled maintenance services (minor and major) for Turbine II of its thermal power station.

On June 27, 2008, the Company signed an addendum to the above-mentioned contract, also related to the acquisition of spare parts and replacement units, as well as providing scheduled and non-scheduled maintenance services (minor and major) for Turbine III of its thermal power station.

On April 15, 2014, the Company signed an addendum to the above-mentioned contract, also related to the acquisition of spare parts and replacement units, as well as providing scheduled and non-scheduled maintenance services (minor and major) for Las Flores Turbine of its thermal power station.

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The contract and its addenda establish various payment terms such as: initial payment for spare parts and equipment specified in the contract, monthly payments based on an accumulation diagram of equivalent start-ups or equivalent operating hours for the plant turbines, and payments according to the schedule specified by scheduled and not scheduled maintenance services (minor and major) of turbines.

F. Settlement Agreement, Transfer of Goods, Establishment of Easements, Land-use Rights, and Right of Way

On September 30, 2010, the Company signed with Gas Natural de Lima y Callao ("Cálidda") a Settlement Agreement, Transfer of Goods, Establishment of Easements, Land-use Rights, and Right of Way. Upon this agreement, Kallpa transferred to Cálidda ownership of its pipeline for own use; this pipeline connects the plant to the main pipeline for transportation of natural gas, so that Cálidda provides the distribution service to Kallpa. Also, Kallpa withdrew the judicial proceedings filed before the Justice Department that were related to the imposition of a fee to Kallpa for the distribution of natural gas. On the same date, Kallpa signed with Cálidda a High-Pressure Natural Gas Distribution Contract by virtue of which Kallpa will begin paying a fee for distribution services as from January 1, 2014.

26. Related Entities**A. Controlling Company and main controlling Company:**

As of December 31, 2016, there are no changes at the main company.

B. Transactions with key management personnel:**i. Loans to directors**

As of December 31, 2016, 2015 and 2014, there are no loans to directors.

ii. Key management personnel compensation

<i>In thousands of U.S. dollars</i>	Transaction value			Outstanding balances		
	2016	2015	2014	2016	2015	2014
Short-term employee benefits	4,629	4,098	3,827	-	-	-
Defined contribution plans	315	313	163	23	23	20

iii. Transactions with key management personnel

During years 2016, 2015 and 2014, there were no transactions between the Company and Key Management, other than those in point (II).

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C. Other related entities transactions

<i>In thousands of U.S. dollars</i>	Transaction type	Transaction Value			Outstanding Balances		
		2016	2015	2014	2016	2015	2014
Cerro del Aguila S.A.	Management Agreement	2,136	278	1,675	195	(17)	(15)
Cerro del Aguila S.A.	Operating /Maintenance Agreement	3,263	-	-	149	-	-
Cerro del Aguila S.A.	Capacity Agreement	(500)	-	-	(443)	-	-
Cerro del Aguila S.A.	COES Transaction	(930)	-	-	-	-	-
Samay I	Management Agreement	3,428	721	560	2,418	166	-
Samay I	Reimbursement of expenses	278	55	88	129	22	-
Hydrochilia	Reimbursement of expenses	122	1,014	-	3,793	3,671	-
Other related entities	Reimbursement of expenses	687	-	-	219	163	232
		8,484	2,068	2,323	6,460	4,005	217
Quimpac (a)	Power Purchase Agreement	12,780	14,321	6,732	2,132	2,238	2,081

(a) The company signed a PPA ("Power Purchase Agreement") with Quimpac SA, it began on August 1, 2013 with an out-of-peak contracted capacity of 30MW and a peak contracted capacity of 18MW. On January 31, 2016, an addendum was signed which reduced peak contracted capacity to 12MW. This contract will end on September 30, 2028.

The transactions carried out with related parties are at market value. The outstanding balances with related parties have current maturity and do not accrue interest. None of these balances has guarantees.

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27. Contingencies

Since 2010, SUNAT (Tax Authorities) has issued tax settlements to the Company and its creditors for payment of import taxes allegedly owed by the Company in connection with imported equipment for the installation and construction of Kallpa I, II, III, and IV. The assessments were made on the basis that the Company did not include the value of engineering services provided by the project contractor in the taxable amount of import taxes. The Company disagrees with this tax assessment on the basis that the engineering services provided include the design of the plant and not the design of imported equipment. The Company appealed the tax assessments before the SUNAT at first instance and before the Tax Court as a higher court. As of December 31, 2016, the Tax Court decisions regarding this matter were pending.

In January 2015, the Company received notification rejecting the appeal concerning the Kallpa I assessment. In March 2015, the Company paid, under protest, the tax assessment associated with the Kallpa I case, which totaled S/ 37.9 million. After application of the sales tax credit, the amount was reduced to S/ 32.5 million (US\$ 9.7 million) including interest and penalties. The corresponding contentious-administrative actions were filed on April 25, 2015.

As of December 31, 2016, the total amount of import tax claimed by SUNAT in connection with the importation of equipment for the Kallpa, II, III and IV projects, was approximately S/ 46.5 million, including interest, arrears and fines.

As of December 31, 2016, the total tax exposure (capital plus interests) related to these assessments is as follows:

		Amount	Amount
	Stage	(In million S/)	(In million US\$)
Kallpa I	Superior Court of Lima	32.5	9.7
Kallpa II	Peruvian Tax Court	23.0	6.9
Kallpa III	Peruvian Tax Court	22.2	6.6
Kallpa IV	SUNAT	1.3	0.4
		79.0	23.6

It is the opinion of the Company's Management and legal advisors that there are legal and evidence-based arguments that lead to consider that the contentious-administrative actions are more likely to succeed; for this reason, the Company has not recorded a provision in the financial statements.

28. Subsequent Events

- A. On June 02, 2017 the Company distributed and paid dividends for US\$ 14,000 thousand.
- B. On June 27, 2017, the shareholder and the board of directors of each of Cerro del Águila, S.A. and Kallpa Generación, S.A. unanimously approved the merger of the companies, with Cerro del Águila becoming the surviving entity, subject to the merger's registration in the Peruvian Public Registry. Upon effectiveness of the merger, the combined entity will be renamed Kallpa Generación S.A. Management expect the merger to be consummated prior to the end of the calendar year.

ISSUER

Cerro del Águila S.A.
Av. Santo Toribio No. 115 Of. 701
San Isidro, Lima
Peru

GUARANTOR

Kallpa Generación S.A.
Av. Santo Toribio No. 115 Of. 701
San Isidro, Lima
Peru

TRUSTEE

Citibank, N.A.
388 Greenwich Street, 23rd Floor
New York, New York 10013
United States of America

LEGAL ADVISORS

To Issuer and the Guarantor as to U.S. law

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017
United States of America

To the Initial Purchasers as to U.S. law

Milbank, Tweed, Hadley & McCloy LLP
28 Liberty Street
New York, New York 10005
United States of America

To Issuer and the Guarantor as to Peruvian law

Miranda & Amado Abogados
Avenida Larco 1301, 20th Floor
Torre Parque Mar, Miraflores, Lima 18
Peru

To the Initial Purchasers as to Peruvian law

J&A Garrigues Perú S. Civil de R.L.
Avenida Victor Belaúnde No. 332, Oficina 701
San Isidro, Lima
Peru

AUDITORS

KPMG Auditores Independientes
Av. Javier Prado Oeste 203
San Isidro, Lima
Perú

